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Insights from Norwegian Maritime Companies who have been Successful in Entering China

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Abstract

Given China's emerging presence in the maritime industry, specifically in shipbuilding and increasingly also in offshore shipping, there is a growing interest within the Norwegian maritime industry in opportunities in the Far East. As China is relatively young as a modern shipping nation, there are opportunities to be found in the Chinese maritime market. Hence, this thesis aims to provide insights for Norwegian maritime companies who would like to explore these opportunities.

Case studies were carried out on three Norwegian maritime companies who have already succeeded in entering the market. To facilitate the analysis, background research was done on the case companies, theories such as the eclectic paradigm and foreign direct investment strategies, as well as academic literature was used. Interviews were then conducted.

Through finding out *how* and *why* the case companies entered the market, and *what* they have been doing to ensure the continued success of the firm, the analysis reveals that there are many similarities to be drawn from the case companies that could be helpful to doing business in China. These similarities include: having a global strategy; entering through partnerships and joint ventures; hiring good leaders and focusing on recruitment and training; and instilling a strong company culture towards ethics with an emphasis on corruption. They serve as valuable lessons for Norwegian maritime companies contemplating entering China.

This thesis also introduces and analyses future developments and trends such as the China (Shanghai) Free Trade Zone, which has freed up regulations within the maritime industry. The most progressive development is allowing foreign companies to be the majority shareholder (up to 51%) of the joint ventures within the zone. The findings further reveal that potential sectors for Norwegian maritime companies to consider are niche and high-technology ones such as deep-sea offshore shipping, cruise shipping as well as ship management.

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All our interviewees for their precious time taken to help us with our thesis. These include Michael Elwert from Thome, Captain Wang Jixuan from Sinocrew, and the Norwegian Director and the Chinese Manager from DNV GL who have expressed their wishes to remain anonymous. The completion of the thesis would not have been possible without their contribution and support.

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1. Introduction

The primary motivation behind this thesis is to gain insights from Norwegian maritime[1] companies who have succeeded in entering the Chinese market. The Chinese market has long been an interest in the international business arena since the opening up of the economy in 1978; and China overtook the US as the world's largest economy in 2014 according to the International Monetary Fund's[2] estimates. Many Norwegian companies have set up offices in the country, such as Havyard Group, Grieg Shipping, Kongsberg Maritime, Höegh Autoliners, among others. With China's emerging presence in the maritime industry, specifically in shipbuilding and increasingly also in niche sectors such as offshore shipping, there is a growing interest within the Norwegian maritime industry in opportunities in the Far East.

1.1. Research question

Through a case study of three Norwegian companies in different sectors of the maritime industry, this thesis aims to find out *why* they entered the market, *how* they managed to enter the market, and *what* they have been doing to ensure the continued success of the firm. The research question is thus formulated as such:

What characterises Norwegian maritime companies that have been successful in entering and maintaining their market presence in the Chinese market?

In order to give a full understanding of the research question, *success* is defined as a company that has a well-established presence in China.

Through the research question, the thesis ultimately aims to provide insights for future Norwegian maritime companies considering entering China through topics: *entering China; management practices; China's business environment; future developments; importance of*

[1] The maritime industry includes all enterprises engaged in the business of designing, constructing, manufacturing, acquiring, operating, supplying, repairing and/or maintaining vessels, or component parts thereof: of managing and/or operating shipping lines, and customs brokerage services, shipyards, dry docks, marine railways, marine repair shops, shipping and freight forwarding services, classification services and similar enterprises (PwC, 2013b).
[2] China is expected to have a purchasing-power adjusted Gross Domestic Product (GDP) of $17.6 trillion in comparison to $17.4 trillion for the US for 2014. This is based on the estimates published in the World Economic Outlook Database by the International Monetary Fund in April 2015 (International Monetary Fund, 2015).

the Chinese market; business relations in China (guanxi)[3]*; management of the local entities;* and *potential sectors for growth in the maritime industry in China.*

The three Norwegian companies that the case study is based on are Det Norske Veritas Germanischer Lloyd (DNV GL), Thome Group (Thome) and Odfjell SE (Odfjell). As Thome's main entry method into the Chinese market was through their partner, Sinocrew Maritime Services (Sinocrew), Sinocrew is also included in the thesis.

The main criteria for the selection of the three Norwegian companies are: i) the company is founded in Norway and/or have Norwegian owners and ii) the company has a well-established presence in China. The criterion of well-established presence was considered separately for the three candidates: DNV GL has a solid presence as they have offices in 20 Chinese cities with 1,200 employees and have been present in China in some manner since 1888; Thome has a partnership/ joint venture with Sinocrew, which employs more than 5,000 employees in China; and Odfjell currently operates three tank terminals along the eastern coast with one more under construction.

Furthermore, in order to have a wide representation of the maritime industry, the three Norwegian companies were selected from different sectors: DNV GL being a classification society, Thome being a ship management and crewing firm, and Odfjell being a company dealing primarily in tankers and terminals.

1.2. Structure of the thesis

The thesis begins with an introduction to the maritime industry in China in Section Two, providing an insight on the trends, reformations as well as regulatory issues specific to the industry. A major development presented in this section is the recently established China (Shanghai) Free Trade Zone[4], which has freed up regulations within the maritime industry. A comparison between the general rules and the newer rules in the free trade zone is also done.

Next, a detailed overview of the three Norwegian case companies is presented in Section Three, including the business segments of the firm, geographical presence, and management

[3] *Guanxi* (关系) is a Chinese term for business relations. This will be elaborated on in Section 4.5.

[4] The China (Shanghai) Free Trade Zone is the official name of the free trade zone and will be referred to as the Shanghai FTZ hereafter.

team in current times. The histories of the companies are also presented. A short introduction to the local Chinese partner of Thome, Sinocrew, is given to inform the readers on the background of the company as well as the relationship between the two partners.

Section Four reviews the theory and literature that have been identified to supplement the analysis of the research question. The theory and literature reviewed includes the eclectic paradigm (OLI), foreign direct investment (FDI) strategies, expatriation, corruption and corporate social responsibility, and business relations in China (*guanxi*). The reason for choosing the eclectic paradigm (OLI) was to understand the motivation behind the case companies' decisions to enter China. FDI strategies were selected to support the analysis of the choice of strategy and mode of entry of the case companies. In addition, the literature on expatriation was reviewed to cover the incentives behind hiring expatriates and the use of expatriates in local entities. For corporate social responsibility and corruption as well as business relations, the literature reviewed was used to analyse the data collected on these topics from the interviews.

In Section Five follows the documentation of the methodology employed. This section explains the definition and the motivation behind using a case study as a research method and documents the steps taken in conducting the research and interviews.

The authors then aim to answer the research question through Sections Six and Seven. Section Six examines the information gathered, draws on similarities and identifies differences between the three Norwegian case companies. The broad topics covered are entering China, management practices, China's business environment and future developments.

Section Seven highlights the challenges that the companies might face and presents recommendations based on lessons drawn from the case companies. These are presented through the themes: importance of the Chinese market, business relations in China (*guanxi*), management of the local entities, and potential sectors for growth in the maritime industry in China.

Section Eight concludes with final remarks on the general trends as well as insights and advice for Norwegian maritime companies who are contemplating entering China.

2. The maritime industry in China

This section presents a brief overview of the maritime industry in China, providing an insight on the trends, reformations as well as regulatory issues specific to the industry. The motivation for this section is to inform Norwegian maritime companies on the environment of the maritime industry in China, how it works, and how it can be expected to develop.

The section starts out by arguing for the emergence of the phenomenon of China as a shipping nation. It then moves on to China's plan for reforming the industry, before going into the current regulations and their developments. The major development in recent years is the launching of the Shanghai FTZ. The breakthroughs made within the zone and its impact on the maritime industry will conclude this section.

2.1. The emergence of China as a shipping nation

Since the restructuring of the country's foreign trade policy in 1999 and the ascension of World Trade Organisation membership in 2001, China has become one of the world's leading traders[5]. Following the surge in trading activity was the increase in port traffic and port calls, since seaborne trade accounts for more than 80% of the volume of global trade (The United Nations, 2012). This is one of the main factors that have contributed to China's emergence as a shipping nation.

Since China is now the largest exporter in the world, accounting for 12% of the world's total exports in 2013 (World Trade Organisation, 2014), port traffic in the country has increased tremendously. As can be seen in Table 1, in 2003, three of the top ten busiest ports globally[6] were Chinese ports (American Association of Port Authorities, 2004); while in 2013, seven out of the top ten were Chinese (Rapoza, 2014).

[5] China ranked 1st in world merchandise exports and 2nd in world merchandise imports in 2013 according to the World Trade Organisation (World Trade Organisation, 2014).
[6] Measured in container traffic.

Table 1: Top 10 ports around the world in 2003 and 2013

	Ports	
	2003	2013
1	Hong Kong, China	Shanghai, China
2	Singapore, Singapore	Singapore, Singapore
3	Shanghai, China	Shenzhen, China
4	Shenzhen, China	Hong Kong, China
5	Busan, South Korea	Busan, South Korea
6	Kaohsiung, Taiwan	Ningbo-Zhoushan Port, China
7	Los Angeles, USA	Qingdao, China
8	Rotterdam, Netherlands	Guangzhou Harbor, China
9	Hamburg, Germany	Jebel Ali Port in Dubai, U.A.E.
10	Antwerp, Belgium	Tianjin, China

Source: Rapoza (2014) and American Association of Port Authorities (2004)

Hence, it can be argued that the increase in port traffic is one of the factors contributing to the development of the Chinese maritime industry. A recent example that also exemplifies this development is the increase in size of Chinese cargo vessels. In November 2014, the world's largest container ship was delivered to China Shipping Container Lines. The vessel can carry up to 19,000 twenty-foot equivalent unit (TEU)[7] containers and surpasses Maersk's Triple-E class container ships that have capacities of 18,000 TEUs (Ship-technology.com, 2015).

Another factor that has contributed to China's emergence as a shipping nation is the dominance of the Chinese shipbuilding sector. According to Clarksons[8], China ranks number one in shipbuilding, accounting for 38%[9] of the global orderbook[10] measured by compensated gross tonnage[11]. The advantage of being a low-cost shipbuilder has increased China's competitiveness in the global market, especially in the building of standard and less value-added ships (Jiang & Strandenes, 2011). China's orderbook consists predominantly of bulk carriers, which accounts for 51% of the total. Containerships come in a distant second with 15% of the total share.

[7] The unit of measurement of a standard twenty-foot long container.
[8] Clarksons is a provider of data and market intelligence for the global shipping and offshore oil and gas industries.
[9] As per the monthly World Shipyard Monitor published by Clarksons in May 2015 (Clarksons, 2015b).
[10] An orderbook is the backlog of vessel newbuild orders that have been placed with the shipyards.
[11] This unit of measurement was developed for measuring the level of shipbuilding output and is calculated by applying a conversion factor, which reflects the amount of work required to build a ship, to a vessel's gross registered tonnage (Clarksons, 2015a).

The two factors mentioned above have shown that the Chinese maritime industry has evolved over the last decade. As the Chinese economy continues to grow, it is expected that the maritime industry will follow; with more shipowners utilising the Chinese shipyards and auxiliary services such as ship management services and shipping finance to develop. This is also supported by a report published by Menon in June 2015, which ranks two Chinese cities, Hong Kong and Shanghai, as the fourth and fifth leading maritime capitals of the world respectively. The report was based on five factors: shipping centres, maritime finance and law, ports and logistics, maritime technology as well as attractiveness and competitiveness (Menon Business Economics, 2015).

2.2. Reformation of the Chinese maritime industry

How the Chinese maritime industry develops will have an impact on Norwegian maritime companies entering China, as this is the environment they will be operating in. In September 2014, the State Council[12] issued 'guidelines on promoting a healthy development of the maritime industry' (the guidelines) to reform the maritime industry. The shipping sector had been long overlooked by policymakers, and this was the first time the State Council issued guidance dedicated to this industry. Currently, the Chinese-owned fleet only carry about a quarter of total import and export, thus there is room for an increase in market share for the local shipowners. Hence, the guidelines call for an optimisation of the structure of these fleets and also for increased competitiveness of Chinese shipping companies. The plan is to encourage the early retirement of vessels to reduce supply and to develop shipping centres like Shanghai and Dalian to compete with cities such as London on maritime services (Reuters, 2014). The guidelines set 2020 as the target year to build a safe, convenient, economical, green, efficient and modern maritime system with international competitiveness (Yang & Chan, 2014).

Another recent development is the Shanghai FTZ, which was officially launched in September 2013 with the objective of further developing the Chinese economy with regards to foreign investment and international trade. The shipping industry was targeted as one of the main focus areas, with plans to 'turn Shanghai into an international shipping centre' (J.P.

[12] The State Council is the chief administrative authority of the People's Republic of China. It is chaired by the Premier and includes the heads of each governmental department and agency.

Morgan, 2013) and to leverage on the success of the Yangshan deepwater port that is part of the Shanghai FTZ. The Shanghai FTZ will be covered in more detail in Section 2.3.

In March 2015, plans were approved for pilot free trade zones in three other cities - Tianjin, Guangdong and Fujian (China (Shanghai) Pilot Free Trade Zone, 2015).

2.3. Developments on regulations for foreign enterprises in the maritime industry

China has a history of doing pilot projects in smaller scales, before expanding and finally implementing them in the whole country. This practice goes back to the opening up in 1978, and the establishment of special economic zones along the coast. This is also how the country is approaching the reformation and relaxation of rules in the maritime industry with the Shanghai FTZ. Within the zone, there will be relaxed and favourable conditions for foreign enterprises, while the rest of China will continue to operate by the general rules.

The regulations on the companies established in the Shanghai FTZ and in the rest of Mainland China[13] are different, and foreign enterprises entering China should be aware of this issue. Knowing the market and plans for reform is important to be able to successfully enter and stay in China.

General regulations

Currently, foreign enterprises in the maritime industry in China are regulated by the guidelines within the 'Provisions on Administration of Foreign Investment in International Maritime Investment' (the Provision). The Provision outlines the rules that foreign investors have to comply with if they wish to undertake investments in the maritime industry in China, regardless of the geographical area in which they are operating. The main regulations are:

i) Joint ventures of up to 49% foreign ownership allowed;
ii) Vessels must be of Chinese nationality (fly the Chinese flag);
iii) The chairperson of the board of directors and the general manager has to be employed by the Chinese partner after consultation between both sides;

[13] Mainland China refers to the area under the direct jurisdiction of the People's Republic of China and excludes the Special Administrative Regions of Hong Kong and Macau.

iv) Mandatory employment of at least two senior executives who are Chinese citizens with more than three years' experience in international maritime transportation business operations;

The above regulations are applied to: international shipping services, international shipping agency services, international ship management services, loading and unloading of international shipments, international maritime container freight station and container yard services.

There are two sub-sectors where wholly foreign owned enterprises are allowed; international maritime cargo warehousing services or if the entity was set up to offer routine services for the vessels owned or operated by the investor (The Supreme People's Court of The People's Republic of China, 2004).

Special regulations and developments for the Shanghai FTZ

With the introduction of the Shanghai FTZ, several rules outlined in the Provision have been relaxed, allowing foreign maritime companies more room for development in the Chinese market. It should be noted that the changes in regulations apply only to companies registered and operating within the Shanghai FTZ and that the general provisions still apply to foreign entities outside the zone.

Foreign shareholding in joint ventures is increased from 49% to 51% (Ren, 2014) for investors engaged in international maritime transportation within the Shanghai FTZ. In the area of international ship management business, foreign investors are also allowed to establish wholly foreign owned enterprises within the zone while joint ventures are only allowed outside the zone. Furthermore, cabotage rules have been relaxed within the zone: vessels with international flags, including flags of convenience, which are owned or controlled by Chinese-funded shipping companies, are allowed to engage in international coastal trade between Shanghai (with Shanghai as a transit port) and domestic ports. The current regulation forbids foreign shipping operators from engaging in shipping between domestic Chinese ports (Chan & Groffman, 2013).

The ‘negative list’

A report titled ‘A New Business Opportunity: The Shanghai Free Trade Zone’ published by Accenture (2015) highlighted that a unique aspect of the Shanghai FTZ is its use of a ‘negative list’ approach for vetting the projects allowed to participate in the zone. This approach provides more opportunities for foreign companies to do business with Chinese industries compared to the traditional ‘positive list’ methodology, which excluded many industries. This new approach significantly expanded the boundaries for what is allowed; as instead of restricting the projects that are allowed in the zone, the rules now only specify the projects that are not allowed (Accenture, 2015).

The first negative list published in 2013 had 190 foreign investment projects and has since been reduced to 139 in 2014 and 122 in April 2015. The current list contains 122 types of foreign investment projects in 49 industries. An example of a project that is on the negative list is ‘Ships, ship engines and marine engineering equipment (requires Chinese controlling interest)’ (Dezan Shira & Associates, 2015). The list applies to all pilot free trade zones, including the three new ones announced in March 2015 (The State Council, 2015).

3. Introduction to the companies

This section presents an overview of the three Norwegian case companies, by going through business segments, geographical presence, management and employees, and company history. Gaining a deeper understanding of the background and current operations of the companies is essential for the preparation and execution of the interviews. It also forms an important basis for the analysis.

The case companies were chosen as they represent different sectors of the maritime industry: classification (DNV GL), chemical tankers and terminals (Odfjell) and ship management (Thome).

3.1. Det Norske Veritas Germanischer Lloyd (DNV GL)[14]

DNV is a company with a long history, and was established in Norway as early as 1864. 24 years later in 1888, DNV was represented in China. Since then, the division in China has grown to a total staff of more than 1,200 people (DNV GL, 2015b).

DNV and Germanischer Lloyd (GL) announced their intentions to merge in December 2012. Competition authorities in China, EU, South Korea and the USA approved the merger, and the merger contract was signed on September 12, 2013. The company was renamed DNV GL, where DNV holds 63.5% of the shares, and Mayfair SE (the former owner of GL) holds 36.5% (Almeida, 2012).

DNV GL operates in many different segments (see section on business segments below). The maritime sector is the biggest sector and accounts for 41% of the total revenues. As the focus of this thesis is on the maritime industry, this part of their operations will be highlighted. Within the maritime industry, DNV GL is one of the world's leading classification societies[15]. A classification society is a non-governmental organization, which establishes and maintains standards for the construction and operation of ships, and also offshore structures.

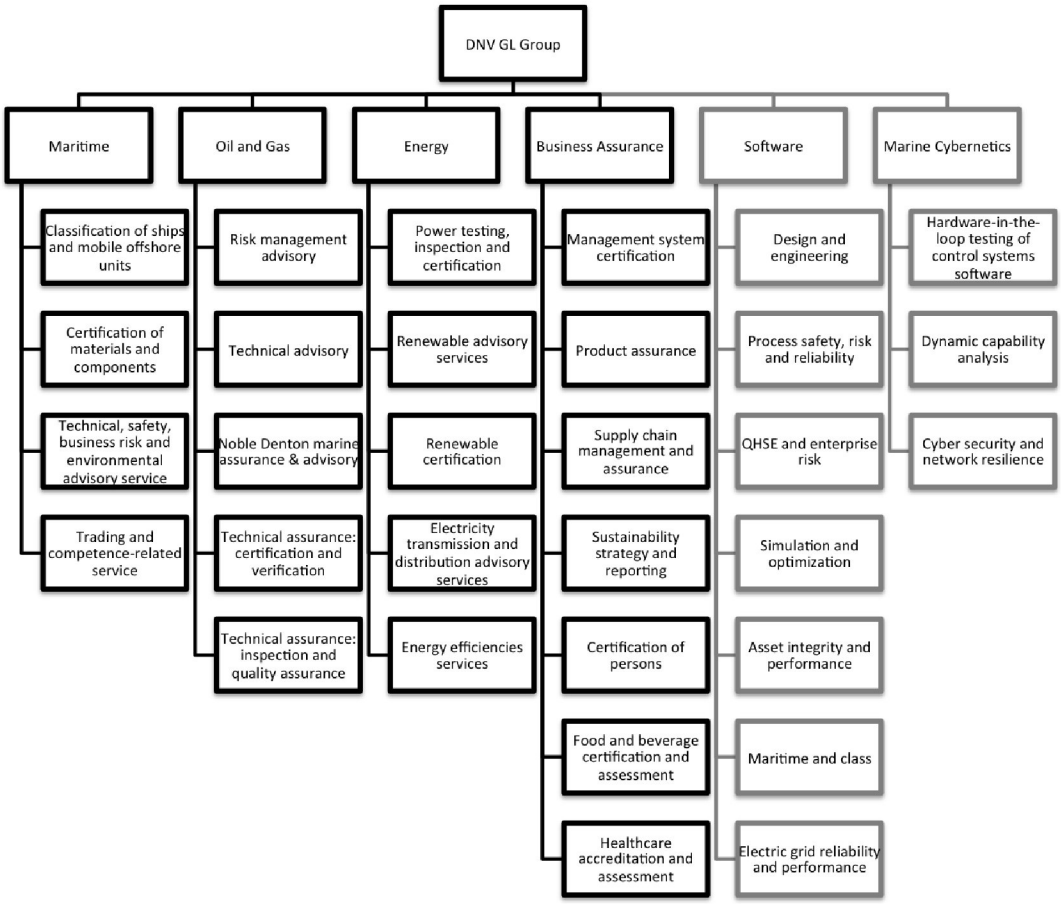
[14] As DNV and GL merged in 2013, the company will be referred to as DNV in the text regarding events prior to the merger, and as DNV GL for events after the merger as well as in the rest of the thesis.

[15] 21% of the world's classed fleet of ships and floating offshore structures (measured in gross tonnes) is classed by DNV GL. This totals 265.4 million gross tonnes. (DNV GL, 2015b)

Classification is a verification service, which assures that a set of requirements, established through rules and standards by the classification society, is met[16].

Business segments

Figure 1: Business segments of DNV GL[17]



Source: DNV GL Annual Report 2014

As shown in Figure 1 above, the business segments of DNV GL consists of four business areas and two independent business units: maritime (based in Hamburg, Germany), oil and gas (based in Oslo, Norway), energy (based in Arnhem, The Netherlands), business assurance (based in Milan, Italy), and the two independent business units software and marine cybernetics (based in Oslo, Norway).

In the maritime segment, DNV GL is an advisor and classification society for all types of vessels and offshore structures. For the global oil and gas segment, DNV GL provides

[16] These rules and standards are established to ensure safety against hazards to the ship, personnel and the environment. Compliance with the rules and standards is verified during design and construction, and then maintained throughout a ship's operations through regular surveys to ensure they continue to meet the rules.
[17] The independent business segments, Software and Marine Cybernetics, are presented in the grey boxes in the figure.

technical advisory, marine assurance and advisory, risk management and offshore classification. As for the energy segment, the company offers testing and advisory services for on- and offshore wind power, solar, smart grids, transmission and distribution etc. In the business assurance segment, certification is the main focus; and through certification, training services, verification and assessments, DNV GL work together with businesses towards quality assurance. In the independent business software unit, DNV GL provides software for managing risk in the energy, process and maritime industry; and offers solutions for various business activities such as risk assessment, design and engineering, and ship management. The other independent business unit, marine cybernetics, was added in 2014 and ensures the proper testing of control systems (DNV GL, 2015b).

Geographical presence

Figure 2: Map of DNV GL offices

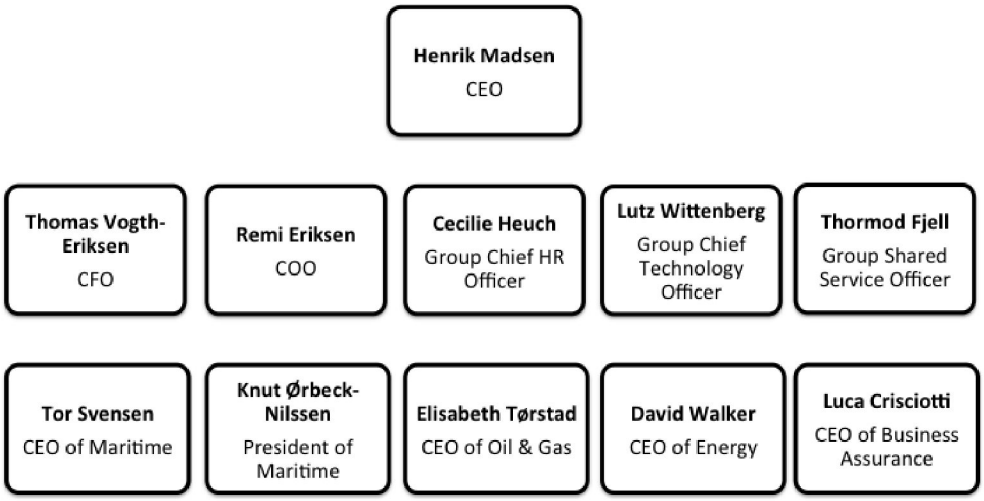
Source: DNV GL Annual Report 2013

DNV GL has 381 offices worldwide, and is represented in more than 100 countries. The regional headquarters in Asia is in Shanghai. The company also has offices in other Chinese cities such as Beijing, Chengdu, Chongqing, Dalian, Guangzhou, Hong Kong, Nanjing, Ningbo, Qingdao, Shanghai, Shenzhen, Tianjin, Wuhan, Xiamen and Zhoushan (DNV GL, 2015b).

Management and employees

Henrik O. Madsen[18] is the current Group President and CEO of DNV GL, and has had this position since the merger in 2013 (DNV, 2012). Figure 3 shows the executive committee of DNV GL.

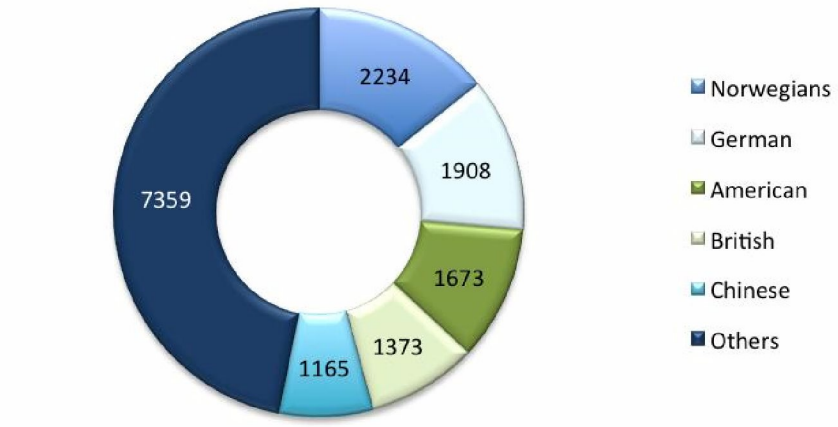
Figure 3: Organisational chart of DNV GL



Source: DNV GL company website (2015)

DNV GL has a total number of 15,712 employees. As can be seen from Figure 4 below, Chinese employees (7%) constitute the 5th biggest group in the company, reflecting DNV GL's strong presence in China (DNV GL, 2015b).

Figure 4: Employee split of DNV GL by nationalities



Source: DNV GL Annual Report 2014

[18] It was announced on May 28, 2015 that Henrik O. Madsen has stepped down as the CEO of DNV GL and Remi Eriksen will take over on the August 1, 2015. Thus, the organizational chart shown in Figure 3 is correct as of June 1, 2015.

History[19]

DNV's birth was a result of small Norwegian merchants finding it difficult to get reasonable terms on insurance abroad. There had been a decline in the large Norwegian merchant houses after the Napoleon war – and from the 1860s most Norwegian shipowners were coastal town skippers or small merchants (Andersen, 2008). Their size made it hard to negotiate favourable terms of insurance outside Norway, which resulted in the founding of several Norwegian mutual marine insurance clubs. These clubs banded together to establish a uniform set of rules and procedures, which were used in assessing the risk of underwriting individual vessels, and provide reliable and uniform classification and taxation of Norwegian ships (DNV GL, 2015c). As a result, DNV was established in 1864. The head office was located in Oslo (then Christiania), with ten surveyors[20] spread around Norway.

In the first decades after DNV was established, there was a steady increase in the number of surveyors and they were placed in the most important ports in Northern Europe to survey Norwegian ships that called to port. For the more remote ports with less DNV-classed ships calling to port, the company hired non-exclusive surveyors[21] instead of permanent surveyors[22], due to less services needed.

In 1869, the Suez Canal opened and considerably shortened the distance between Asia and Europe. This was a milestone in shipping which benefitted the Norwegian shipowners with the reduced travel time.

DNV's China journey begins

In 1878, 15 Norwegian ships called to port in Shanghai and in 1888, DNV made the decision to employ non-exclusive surveyors in Xiamen (China) along with Marseille (France), Buenos Aires (Argentina), Melbourne (Australia) and Cape Town (South Africa). The traffic of Norwegian ships to the Far East, such as China, India and Japan gradually increased. A permanent surveyor was hired in Hong Kong in 1910, thereby solidifying DNV's presence in

[19] The history of DNV is primarily based on information from the book *DNV's China Journey* by Knut A. Andersen (2008).
[20] A classification surveyor inspects ships to make sure that the ship and its components and machinery are built and maintained according to the standards required for their class.
[21] A non-exclusive surveyor is a person who enters into an agreement with a society to act on its behalf and who is also free to work on behalf of other organisations (IACS, 2009).
[22] A permanent surveyor is a person solely employed by a classification society, who is duly qualified, trained and authorized to execute all duties and activities incumbent upon his employer. A permanent surveyor is not permitted to undertake other employment (IACS, 2009).

China. In 1915, DNV further expanded their reach in China, hiring more non-exclusive surveyors in two other Chinese cities, Qingdao and Hangzhou.

As part of the expansion project, Per Damslet (then head of the department in Copenhagen, Denmark) was transferred from the Copenhagen office to Mainland China in 1934 and became the first permanent surveyor for DNV in China. However, the expansion in China did not happen as DNV had hoped, and they were back to being represented by a non-exclusive surveyor in 1936. The Second Sino-Japanese War[23], which started in 1937, further limited Norwegian shipping activity in China.

On October 1, 1949, former Chairman of the Communist Party of China, Mao Zedong, declared the creation of the People's Republic of China. This ended the long and costly war that had broken out in China after World War II, between the Chinese Communist Party and Kuomintang (The National Party). During the Mao-era from 1949 to 1976, private businesses were brought under state control and the state controlled a large part of the economy. There were also periods of social and political chaos; in the late 1960s, China was almost completely cut off from the outside world, remaining in diplomatic ties with only a few countries. These domestic events resulted in 30 years without a representative in the country for DNV.

It was not until 1974 that DNV should once again return to China. During a trip to Beijing and Tianjin, Egil Abrahamsen (former CEO) established contact with government bodies and industry representatives for shipping and oil. An agreement with China Classification Society (CCS)[24] was negotiated, and six Chinese bachelor graduates were invited to DNV's trainee program.

In 1977, the agreement between DNV and CCS was formalised. It was a mutually beneficial agreement where the two classification societies agreed that in areas where only one of the companies was represented, the other would assist with survey work. Thus, the Chinese partner's seven survey stations along the Chinese coast would be included in DNV's network of stations. For shipping as well as industrial and offshore deliveries, DNV's services outside China were available to CCS.

[23] The Second Sino-Japanese war was an invasion of China by Japan from 1937 to 1945. In 1941, China officially joined the Allies and the Sino-Japanese war was merged into World War II.
[24] CCS is a classification society of ships. The society started in 1956 as a non-profit making body in the People's Republic of China. It is the specialized organization of China to provide classification services for ships, offshore installations, containers and related industrial products. CCS also conducts statutory work on behalf of the Chinese Government and other flag administrations.

After DNV's visit to China in 1977, a Chinese delegation came to DNV's office in Høvik, Norway later the same year. Now that the relationship with the Chinese authorities had been established, DNV's operations in China could be started once again.

Nurturing relationships and guanxi

Thereafter, DNV's operations in China kept growing. In the 1980s, it was decided that the divisional management for Asia should move from Kobe, Japan to Hong Kong. A new agreement with CCS further extended the relationship between the two classification societies.

To build on the relationships and *guanxi* established, then CEO, Svein Ullring, visited China in 1987. The contact with the Chinese authorities continued, and in the fall of 1992 the relationship reached an even higher level – then China's vice premier, Zhu Rongji, and his delegation paid a visit to the Veritas Centre in Høvik. Later the same year, Ullring paid a return visit to Beijing where Zhu hosted them. In Beijing, DNV entered into important agreements with China, which would mean increased freedom for DNV in their classification work in China. The agreements also gave room for greater activity within the offshore field.

In 1995, then Prime Minister of Norway, Gro Harlem Brundtland, opened the new DNV office in Shanghai. During her visit to China, she had talks with then Chinese Premier Li Peng about DNV's aim to become a wholly owned foreign enterprise in China. DNV was later granted this status (Norwegian Director, 2015).

Moving to Shanghai provided DNV with even more attention from the Chinese leaders, and in 1996, then Chinese President Jiang Zemin paid a visit to DNV's head office in Høvik, along with then Foreign Minister Qian Qichen, among others.

Rapid growth

DNV continued expanding in China, with two new offices in 1994 in Tanggu and Qingdao. DNV now had seven offices all together and the Shanghai office had expanded from one employee in 1990 to having a staff of over 50 people by 1996. In total, there were more than 60 employees at the time in the whole of China. Among these, 15 were expats from nine different countries.

Eivind Grøstad (Regional Manager of Region Greater China 1992-2000) predicted a growth in the shipbuilding industry of Mainland China. He expressed at an interview that 'whether shipowners like going to China or not, if you want to be in shipping, you will have to go to Chinese shipyards' (Andersen, 2008, p. 48). True enough, the demand for classification services grew rapidly as European shipowners and investors started rushing to the Chinese second-tier yards that had low prices. This further strengthened the market and the business opportunities for DNV, and many of the vessels were built to DNV class. In 1999, DNV's Greater China[25] regional office moved from Hong Kong to Shanghai. By the end of that year, 50% of DNV's turnover came from certification, which was a huge increase as the main activity for DNV in China was related to classification. DNV had reached a market share of 30% in China and Taiwan.

DNV's rapid growth in China in the late 1990s resulted in a large increase in the number of employees, to a total of 240 in 1999. The large and fast increase in the work force came with a challenge – DNV's service and standards had to be ensured even though the company had many new employees. To make sure all employees were qualified, intensive training was arranged with several internal courses. 'Probably no other region has held more internal courses than Region China' (Andersen, 2008, p. 46).

By 2008, DNV had training academies in Shanghai, Dalian, Guangzhou, Taipei, Kaohsiung and Hong Kong. These training academies target operators, owners and shipyards in the region. Furthermore, the number of employees had almost reached 800, which made Greater China the biggest operational unit outside the DNV head office in Norway.

Expanding partnerships in the 21st century

The good cooperation and relationships with the authorities in China continued on in the 2000s. In 2006, DNV signed an agreement with the National Development Reform Commission Energy Research Institute on developing measurement and verification systems that could comply with both China's energy development characters and international practices.

Furthermore, DNV started working together with the State-owned Assets Supervision and Administration Commission (SASAC) in assisting the state-owned enterprises (SOEs) in applying Enterprise Risk Management. SASAC is responsible for managing the SOEs, and

[25] Greater China refers to the area that includes Mainland China, Hong Kong, Macau and Taiwan.

represents the state as a shareholder in those companies. It is directly under China's highest policy body, the State Council. The relationships with SASAC and the National Development and Reform Commission's Energy Research institute are two important relationships that DNV have with the Chinese government.

With regards to the partnership with CCS, Tor Svensen (CEO of Maritime today) has expressed that for DNV's return to China, CCS was the perfect partner, and that they have a mutual beneficial relationship today.

DNV GL after the merger

In September 2013, authorities approved the merger between DNV and GL of Germany. It was a union of two classification superpowers and together, they are responsible for classing a combined tonnage of 265 million gross tonnes of vessels and offshore rigs globally. The merger allowed the group to strengthen their market presence in the maritime sector as well as across the whole oil and gas value chain (Almeida, 2012).

Post merger, DNV GL continues to grow in China by working together with local partners and innovating new solutions. In 2014, DNV GL assisted with the first offshore platform installation in China for China National Offshore Oil Corporation using advanced dynamic positioning float-over technology. Further, DNV GL also became the first international certification body allowed to offer certifications in connection to wind power equipment in China in May 2015 (DNV GL, 2015a).

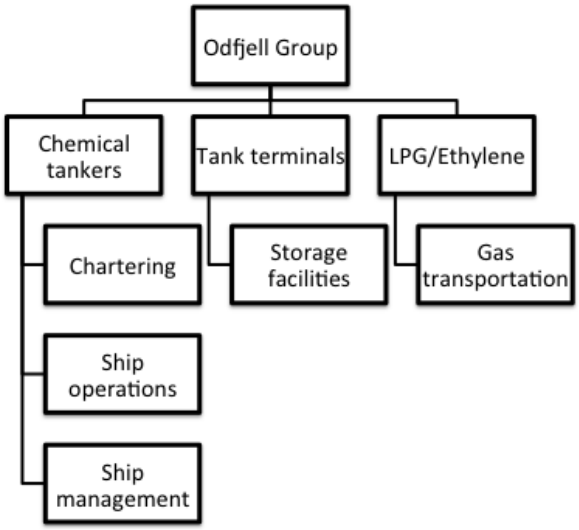
3.2. Odfjell SE (Odfjell)

Odfjell was established in 1914, when the three Odfjell brothers registered the first joint Odfjell shipowning company, AS DS Birk. In the past 100 years, the company has survived two world wars, numerous shipping booms and crises, as well as a family fall out. Today, Odfjell is a stock exchange listed company with gross revenues of $1.1 billion and a staff of 3,311 employees worldwide (Odfjell SE, 2015c).

Odfjell currently consists of three major business segments: chemical tankers, tank terminals and liquefied petroleum gas (LPG) [26]/ethylene gas vessels. The segment proportion by asset size is as follows: chemical tankers with 70%, tank terminals with 27% and gas carriers with 3%. Chemical tankers are tanker ships specially designed to carry chemicals in bulk, such as industrial chemicals, palm oil or methanol. The tank terminals are industrial facilities for storage and transhipment of various liquid products, while the LPG/Ethylene gas vessels are ships designed to transport LPG or ethylene in bulk.

Business segments

Figure 5: Business segments of Odfjell



Source: Odfjell 2014 Annual Report

Odfjell Tankers, the chemical tanker branch of the group, is a provider of ocean transportation of a wide range of liquids from highly corrosive acids to consumables such as edible oils and wines. As reported in Odfjell's 2014 annual report, the company holds 6% of the market share in the core deep-sea chemical tanker fleet (Odfjell SE, 2015c).

Odfjell Terminals compliments the main tanker business by providing synergies and improving efficiency of the value chain. The headquarters of Odfjell Terminals is located in Rotterdam, where the group's biggest terminal is located. The terminal business is under a joint venture with Lindsay Golberg, where Odfjell owns 51% and Lindsay Goldberg owns

[26] Liquefied petroleum gas (LPG) refers to hydrocarbon gases, namely propane and butane, which are used as fuel for heating.

49%. Odfjell currently operates 11 terminals in the Netherlands, Belgium, Oman, Iran[27], Singapore, Korea, China and the USA. The company also has co-operation agreements in South America and Canada where the terminals are partly owned by related parties (Odfjell SE, 2015c).

Odfjell Gas was established in 2012 and hence only takes up 3% of the group's assets, as reported in the 2014 annual report. The company is currently operating two LPG/Ethylene vessels in the market. There are eight newbuilds on order and they are expected to be ready in in the period between 2016 and 2017.

Geographical presence

Figure 6: Map of Odfjell offices and terminals around the world

Source: Odfjell's company website (2015)

The map in Figure 6 shows the geographical presence of Odfjell. Odfjell has 23 existing terminals and six expansion projects all over the world. Out of the existing terminals, 11 are situated in South America, three in North America, seven in Asia, two in Europe.

[27] Only the investment in Iran is not included in the joint venture.

Odfjell's business operations in China consist of one office in Shanghai, three operating terminals in Jiangyin, Dalian and Tianjin, and one terminal under construction in Fujian. Table 2 shows the details regarding the terminals.

Table 2: Overview of Odfjell terminals in China

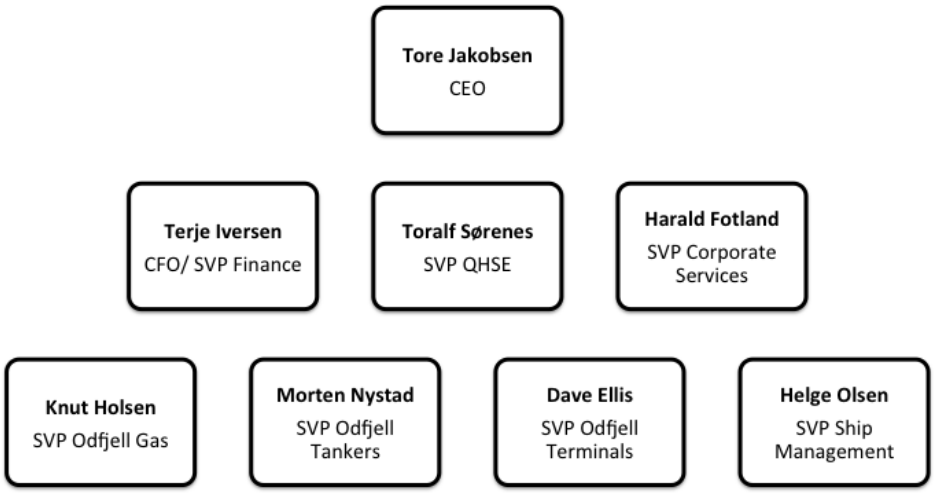
Tank terminals	Location	Ownership	CBM	Stainless steel (CBM)	Year of operation	Joint venture partner
Odfjell Terminals (Jiangyin) Co Ltd	Jiangyin	28,1 %	99 800	30 000	2007	Garson Group
Odfjell Terminals (Dalian) Co Ltd	Dalian	25,5 %	119 750	18 350	1998	PDA Company limited
Odfjell Nangang Terminals (Tianjin) Co Ltd	Tianjin	25,0 %	137 800	7 000	2015	Tianjin Economic-Technology Development Area (TEDA)
Construction in process	**Construction in process**					
Odfjell Terminals Quanzhou (Fujian)	Fujian	25,5 %	184 000	0	TBD	Founder Group China

Source: Odfjell 2014 Annual Report

Management team and employees

Figure 7 below outlines the management team of Odfjell group. Tore Jakobsen currently heads the management team of Odfjell.

Figure 7: Organisational chart of Odfjell



Source: Odfjell's company website

According to the 2014 annual report, the company employs 1,986 crew (of which 221 are Norwegian), 849 employees in tank terminals, and 476 in the offices in the headquarters in Bergen and abroad.

History[28]

The first Odfjell company, AS DS Birk, was registered as a single shipowning company by Fredrik, Abraham and Andreas Odfjell in 1914. A year later, Fredrik and Abraham Odfjell incorporated AS Rederiet Odfjell. The company quickly acquired several small single-ship companies and was on a fast expansion track. However, the two world wars broke out and Odfjell was hit badly both times. New vessels had to be constructed to replace the tonnage lost in the war.

In the 1950s, Odfjell's strategy was investing in general cargo vessels and started expanding into the specialized tanker[29] market at the same time. The decade also marked the transition of leadership from the founding fathers Fredrik and Abraham Odfjell to their sons, Bernt Daniel (B.D.) and Johan Odvar (J.O.) Odfjell after the passing on of the older generation.

The 1960s were a turning point for the company in terms of strategic positioning and technological breakthroughs. The world's first built stainless steel tanker, MT Lind, was delivered in 1960 to Odfjell, and it spearheaded their strategy of going into technologically advanced specialised vessels. The post-war industrial boom drove the development of the modern chemical tanker. The average distance between the areas of production and consumption also increased, with the Middle East gradually replacing the United States as the centre of oil production. The period from 1950 to 1973 was thus coined 'The Golden Age' for the international shipping industry. Driven by excess demand, world tonnage and ship sizes increased tremendously. However, unlike the rest of the Norwegian shipowners, Odfjell chose to concentrate on the smaller niche chemical tanker market rather than investing in large bulk vessels[30].

Therefore, 'For Anything Liquid' became Odfjell's slogan. After the first experiment of MT Lind took off, the company began investing in bigger vessels with centre tanks made of stainless steel. These vessels were sophisticated parcel tankers that were capable of transporting a variety of cargoes simultaneously on the same voyage, from conventional acids to milk and wine. This strategy proved to be advantageous to Odfjell as the higher premium commanded by the niche vessels could offset the disadvantage of high Norwegian labour costs.

[28] The history of Odfjell is primarily based on the book written by Atle Thowsen and Stig Tenold titled Odfjell (2006), information from the company annual reports and publications.
[29] Specialised tankers are vessels designed to carry specialised products such as petrochemical liquids, gases, lubricants, vegetable oils etc.
[30] Bulk vessels are carriers designed to transport unpackaged bulk cargo such as grains, coal and ore.

Diversifying into terminals in South America

In order to capture a larger share of the value chain, Odfjell started diversifying into other related ventures. The group expanded down the value chain and opened their first tank terminal in 1969, the Tagsa terminal in Argentina. The expansion was due to a number of factors. The strategic move behind the tank terminals were in part to offer a more integrated service to the customers, but also to enable more efficient onshore facilities to improve cost control and fleet performance. Storage capacity was a bottleneck in the distribution system for chemical products in some foreign ports, particularly in less developed countries. The lack of adequate infrastructure also meant higher safety risks regarding the safety of vessels as well as longer port delays for cargo loading and discharging. The strategic location also allowed Odfjell leverage in the routes along the eastern coastline of South America.

The internal struggles and going public

Family relations became increasingly strained as differences in opinions and strategies caused a drift between the two sides. In 1967, Odfjell was officially split into two: B.D. Odfjell and his son, Bernt Daniel Jr., took over the chemical tanker and terminal business while J.O. Odfjell and his son, Abraham, took over the small tankers and the offshore rigs business.

After the organisation restructuring, the group was downsized both in terms of size and financial capabilities. The difficult economic conditions and overcapacity in the market in the 1980s eventually resulted in a consolidation of the chemical tanker industry. This resulted in a timely opportunity for increased cooperation between Odfjell and Westfal-Larsen. Odfjell Westfal-Larsen Tankers was established and the operations of both companies were pooled. The joint ventures between the two companies include a new tank terminal in Houston and several new stainless steel tankers. However, the partnership proved to be unsuccessful and Odfjell eventually bought out Westfal-Larsen's shares and assets in the joint partnership in 1990.

In order to acquire more capital and ensure sustained growth of the business, the Odfjell family finally relinquished control of the company and listed it on the Oslo Stock Exchange in 1986[31]. The fresh injection of funds from the listing as well as a recovery of the chemical tanker market resulted in impressive growth in the last years of the 1980s. The fleet increased

[31] The company was listed as Skipsaksjeselskapet Storli. It was renamed Odfjell SE in 1998.

from five in 1988 to 25 in 1990 while gross freight revenues increased nearly four times in the same period.

In 1990, nine out of the 13 tankers acquired from Westfal-Larsen were sold to National Chemical Carriers (NCC) of Saudi Arabia for a profit of $19.5 million and a new partnership was sealed with the company at the same time. With the new capital-rich partner that shared Odfjell's growth ambitions, the group went into a newbuilding contract that surprised the industry: six newbuildings that eventually expanded to a total of 16. It was not just the number that was surprising, the size and quality of the ships – 37,500 dwt. stainless steel ships with 52 fully segregated tanks and engines fully controlled by computers– was a world first at that time.

Entering the Chinese market

Besides the ambitious newbuilding programme, Odfjell's management decided to revive the strategic focus on terminals. The group's first entrance into the Chinese market was through a 10% stake in a terminal in Ningbo, a city close to Shanghai, in 1992; two years later, the terminal became operational. Odfjell then increased their market presence by purchasing a 44% share in a new terminal in Dalian. Odfjell took responsibility for the terminal's development, technology and operations.

The core reasons for the investments in the terminals in China were similar to the rationale behind the early terminal investments in South America: inadequate infrastructure and strategic location. The expertise in the operations brought in by Odfjell improved the efficiency and profitability of port calls. In addition, the terminals were meant to serve as central hubs for the group's terminal and fleet expansion in the region. Odfjell also expanded into smaller feeder vessels that served interregional routes within Asia.

Stepping into the 21st century

In 2000, the world's largest parcel tanker operator was created with the merger of Odfjell, the world's second largest chemical tanker operator at that time, and Seachem, then the fourth largest (Thowsen & Tenold, 2006). The merger was a complementary marriage between Seachem's relatively simple tankers and Odfjell's more sophisticated ones. It also added 20 ships and eight newbuilds to the group's fleet. Shortly after, Odfjell also acquired Europe's

largest individual storage facility, the Botlek Tank Terminal in Rotterdam, and expanded the tank terminal business to cover Europe (Odfjell SE, 2014b).

Odfjell's expansion into the Far East continued with three deliveries of 9,000 dwt. stainless steel ships from China. A ship management group under Odfjell, Fleet Asia, was also established in Singapore to strengthen the group's shipping operations in the region. For the terminal side of the business, a series of terminals were set up or acquired in Asia: a joint venture for a terminal in Singapore in 2001; a 50% stake in a new terminal in Ulsan, South Korea; a new terminal in Jiangyin, China in 2005, another terminal in Tianjin, China in 2011 and yet another in Fujian, China in 2013 (Odfjell SE, 2014b).

In 2011, a risk and capital-sharing partnership was entered into with Lindsay Goldberg, where 49% of the shares in the Rotterdam, Houston and Charleston terminals were sold to the private equity firm. The main aim of the partnership was to further develop these terminals as well as to free up more capital for other Odfjell investments. The partnership was then extended in 2013 to include almost all of the tank terminals, except for the one in BIK (Iran) and Ningbo (China). With the inception of a new partnership also came the closure of another; after more than 20 years of cooperation, the joint partnership between NCC and Odfjell ceased operations due to differences in strategies. (Odfjell SE, 2014c).

Odfjell ventured into the gas market in 2012 with two second-hand LPG/Ethylene carriers. An order for four newbuildings of LPG/Ethylene carriers were made the year after with Nantong Sinopacific Offshore & Engineering with an option of up to four more new gas carriers. The delivery of these vessels is scheduled to be between 2016 and 2017 and is expected to contribute to Odfjell's long-term strategy of market leadership in the gas market. In May 2014, the company announced that it has entered into an agreement with Breakwater Capital and Oak Hill Advisors to form an LPG/Ethylene joint venture. Both parties have agreed to commit $50 million for further expansion of the business. The option for four more new gas vessels with Nantong Sinopacific was also exercised at the same time (Odfjell SE, 2014a).

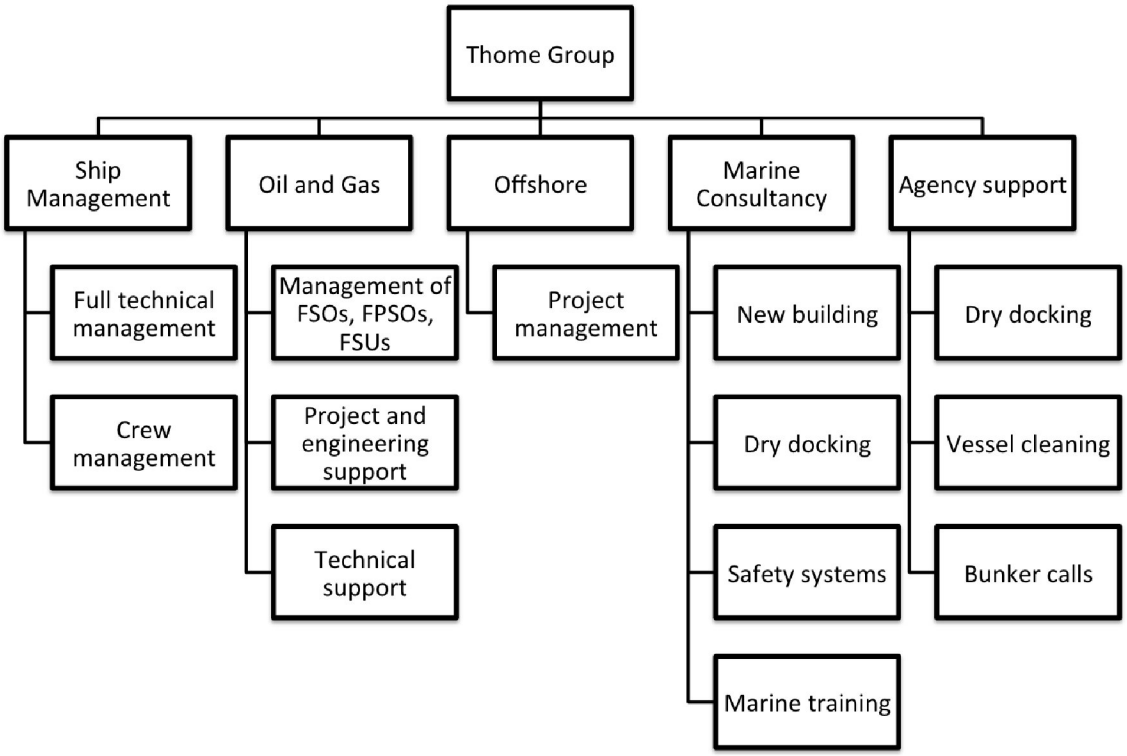
3.3. Thome Group (Thome)

Thome is a ship management firm that was founded by Norwegian seafarers in the 1960s and is now headquartered in Singapore. A ship manager maintains and operates vessels on behalf of the shipowners. Thome has 120 vessels under pure crew management engagements and also offers other services such as offshore structure management and port agency services. The company employs 650 onshore staff and 11,000 offshore crew (Thome, 2013).

The company has a presence in China through a partnership agreement with a local private crewing company, Sinocrew. Sinocrew was established in 2002 and employs 150 shore staff and nearly 5,000 seafarers. The company will be covered in more detail in Section 3.1.1 below.

Business segments

Figure 8: Business segments of Thome



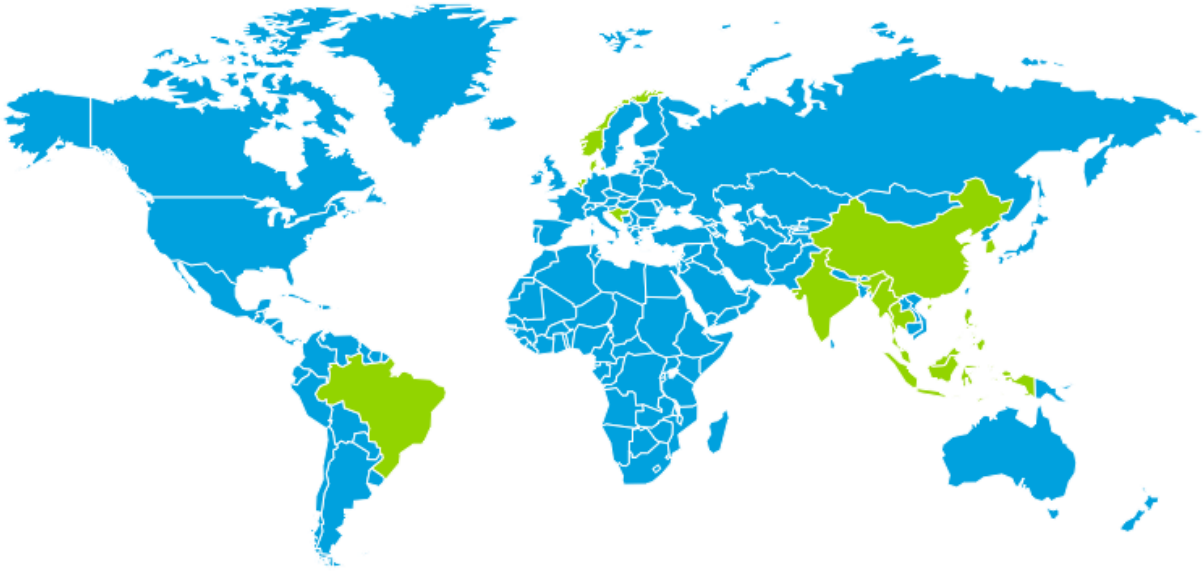
Source: Thome's company website (2015)

Thome's business operation is split into five segments, shown in Figure 8, namely ship management, oil and gas, offshore, marine consultancy and agency support. The main

segment is ship management. The percentage split between the business segments is unknown as the company is private and does not publish any financial information.

Geographical presence

Figure 9: Map of Thome offices around the world



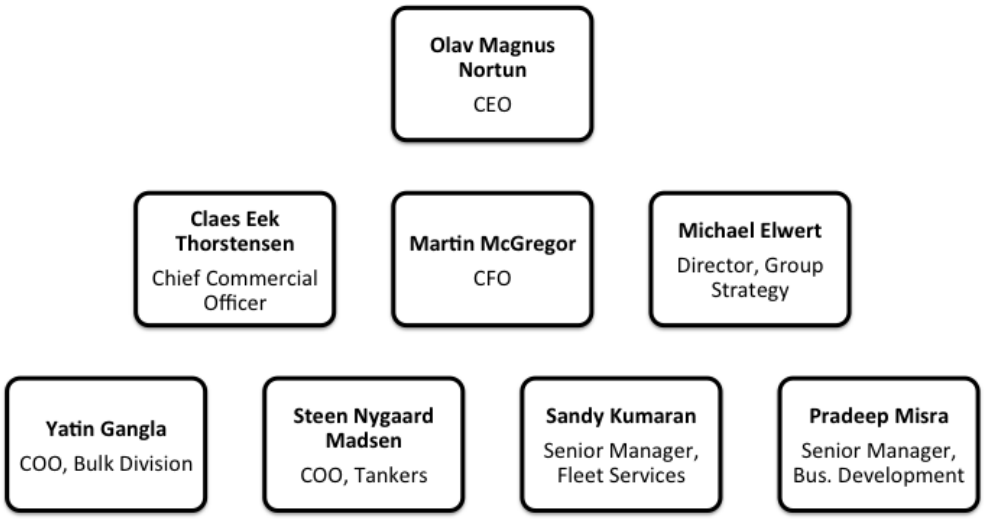
Source: Thome's company website (2015)

Thome is represented in 14 countries worldwide, either as wholly owned subsidiaries or representative offices. It is represented in China through Sinocrew, which has offices in Beijing, Shanghai, Tianjin and Wuhan.

Management team and employees

Figure 10 presents the management team of Thome. It is managed by Olav Magnus Nortun, who took over the position from Olav Thorstensen in April 2015.

Figure 10: Organisational chart of Thome



Source: Thome's company website (2015)

History[32]

Fridtjof Thome, a Norwegian who had worked in Mumbai and Hong Kong earlier, set up Thome in 1963. He went to Singapore in the 1950s to set up an office for the Norwegian ship manager Wallem. Thome was established in Singapore later. In the beginning, the company's main fields of activity were agency work (mainly for Scandinavian owners), shipbroking activities and chartering.

After Singapore's independence from the UK in 1963 and dissolution from Malaysia in 1965, the country quickly saw the benefits of developing the shipping industry and the port. This became vital in the country's economic development. The maritime industry grew quickly, and the shipping industry was cultivated. This was beneficial for the newly established Thome. Due to the strong governmental support for the industry in the mid 1970s, the company expanded quickly.

In 1976, Olav Eek Thorstensen (former CEO of Thome) agreed to join Thome. Before joining, he was working in Singapore for other Norwegian shipping companies. Thereafter, Thome set up a ship management division, in addition to the company's shipbroking and ship agency activities. At that time, there were few third party ship management companies in Singapore. As one of the first movers in the sector, Thome's operations grew rapidly. In 1981, Thorstensen became a partner and took over as managing director in 1985.

[32] The history of Thome is primarily based on information available on the company's website http://www.thome.com.sg from the 'About us' and 'Thome History' pages.

In the next ten years, Thome gradually increased their market presence in ship management in Southeast Asia. Ship management was a sector that was relatively new in the region but fast growing. Despite the rapid expansion, Thome kept a strong focus on safety and quality, and it was the first company in Singapore to receive the International Safety Management (ISM) Code certification[33] in the 1990s.

In 1994, Fridtjov Thome retired and sold his shares in Thome to Osprey Maritime, an Indonesian shipping company. In the following years, Thome grew as they increased the fleet managed for Osprey Maritime. In 1999, Osprey Maritime wound down their activities and asked Thorstensen to take over the shares they owned in Thome.

In 2004, Thome entered into a partnership with a private Chinese crewing company, Sinocrew, and this marked the company's first entrance into China. China was viewed as a potential low-cost recruiting hub and many ship management companies were eager to enter the market. Due to the strict regulations with regards to crewing services in China, Thome signed a Letter of Agreement (LOA)[34] instead of forming a joint venture directly (see Section 3.3.1 for more details). Through the partnership, Thome is able to provide Chinese crew to their customers with the help of Sinocrew. Recruitment and training of the Chinese crew are also undertaken by Sinocrew. The partnership proved to be a success and in 2015, a joint venture between Thome and Sinocrew to be established in the Shanghai FTZ was approved[35].

Today, Thome is fully owned by Olav Eek Thorstensen and family. Thorstensen formally retired from the position of Group CEO and Olav Magnus Nortun, also a Norwegian, took over the appointment in 2015. Thome has made sure to keep in touch with their Scandinavian heritage by hiring senior management with Norwegian backgrounds.

3.3.1. Sinocrew Maritime Services[36] (Sinocrew)

Sinocrew is the largest private crewing firm in China and is engaged in providing crew management services. Jixuan Wang established Sinocrew in 2002 together with a few

[33] The ISM code certification is to provide an international standard for the safe management and operation of ships and for pollution prevention.
[34] The LOA is a binding contract signed by both parties to formalise the partnership. The exact details of the LOA were not disclosed to the authors.
[35] From interviews with Michael Elwert and Jixuan Wang.
[36] The information obtained on Sinocrew is primarily based information obtained from the interview with Jixuan Wang as well as the company presentation slides provided by Sinocrew.

business partners. Crew management services include recruitment and selection, deployment, training and management of the officers and crew on vessels. As an independent crew management firm, Sinocrew performs these services on behalf of the shipowners.

At the time of incorporation, the company was operating under the umbrella of an SOE, as private licenses for crewing services were not allowed. Four years later, regulations were relaxed and Sinocrew became the first licensed private independent Chinese crew management firm. Today, the firm employs 150 shore staff and nearly 5,000 seafarers.

Aside from crewing services, Sinocrew also provides training services and facilities. It operates a training centre located in Wuhan that is partnered with other international maritime institutions such as the Singapore Maritime Officers' Union, a union for seafarers based in Singapore. It is equipped with modern training facilities and offers tailor-made courses for new maritime graduates.

Sinocrew's seafarers work mainly on drybulk vessels (56%), container vessels (29%), oil tankers (8%) and the remaining on chemical, gas and offshore ships. 53% of the crew pool work on fully Chinese manned vessels while 47% of them work on multinational crewed vessels.

As mentioned in the history of Thome, Sinocrew signed an LOA with Thome in 2004, signifying the start of the partnership between the two companies. As 'crewing is a very sensitive thing in China'[37], regulations with regards to this area are a lot stricter compared to the other sectors within the maritime industry. This was the main reason for the LOA arrangement instead of a joint venture.

The partnership proved to be mutually beneficial, with Thome providing expertise and training to Sinocrew in niche areas such as gas shipping, and Sinocrew providing Thome with a supply of competent and trained Chinese seafarers. In 2015, the paperwork for a joint venture in the Shanghai FTZ was approved.

[37] Quoted from interview with Jixuan Wang.

4. Theory and literature review

This section presents the theories and literature reviewed to support the analysis. The theories include the eclectic paradigm (OLI[38]) and FDI strategies. The literature on expatriation, corporate social responsibility and corruption as well as business relations in China (*guanxi*) was also reviewed.

The eclectic paradigm (OLI) was chosen to understand the motivation behind the case companies' decisions to enter China, while strategies on FDI were selected to support the analysis of the choice of strategy and mode of entry of the case companies.

The literature reviewed on expatriation covers the incentive behind hiring expatriates and the use of expatriates in local entities. For corporate social responsibility and corruption as well as business relations, the literature reviewed was used to analyse the data collected on these topics from the interviews.

4.1. The Eclectic Paradigm (OLI)

Although the eclectic paradigm's main focus is 'why companies engage in international production/activity' and our focus is 'what characterises the companies', the theory is useful in gaining insight into general international activity, and thus relevant for this study. It can be argued that it is essential to understand why an enterprise choose to enter the Chinese market, in order to fully comprehend the entry methods chosen and what characterised the companies being successful in their endeavours.

The definition of multinational enterprises (MNE) as put forward by John H. Dunning, is that any enterprise operating and controlling income-creating activities in more than one country is a MNE (Dunning, 2002). FDI is defined as a cross-border investment made by a resident in one economy with the objective of establishing a lasting interest in an enterprise in another economy (OECD, 2008).

The concept of the eclectic paradigm was first presented by Dunning to a Nobel Symposium in Stockholm in 1976. Dunning has stated that the purpose was to present a holistic

[38] Ownership, Location and Internalization.

framework that could be used in analysing the significance of the different factors affecting a company's decision of foreign production and the growth of this production (Dunning, 2002).

The OLI advantages

The original form of the eclectic paradigm put forward that there are three sets of advantages, as recognised by companies, which determines the pattern, extent and form of international production. First, the company must have a specific production or transactional advantage, which is the ownership advantage, known as the O advantage in OLI. This can be a trademark, production techniques, entrepreneurial skills or returns to scale. This is for them to be able to compete with companies in the host country[39] when producing abroad. The crucial point is for these advantages to be sufficiently able to compensate for the costs that arise from setting up and operating an operation abroad, as these costs are additional to the costs the local companies face (Dunning, 2002).

The second strand is the locational advantage (the L advantage) of the host country, such as existence of raw materials, low wages, special taxes or tariffs. Dunning argues that firms will engage in foreign activity if they reckon it to be in their best interest to combine some immobile intermediate products of factor endowments in the host country, with intermediate products produced in the home country that are spatially transferrable. He further states that the choice of location is influenced by spatial market failure such as trade barriers. Historically, trade barriers have resulted in many MNEs engaging in foreign production. Furthermore, the more immobile the resources of the host country prove to be, the more likely it is that the firm will engage in foreign activity (Dunning, 2000).

The third condition for international value-adding activities is that it must be more favourable for the companies possessing the above mentioned ownership advantages to produce themselves rather than producing through a partnership arrangement such as licensing or a joint venture. This is known as the internalisation advantage (the I advantage). This suggests that some MNEs are of the opinion that the international open market is not the best fit for the transaction of intermediate goods or services (Dunning, 2002).

The reason behind internalisation is some kind of market failure, such as those that stem from risk and uncertainty, or failure that arise when there are external costs and benefits to a transaction of a good or service, which is not incorporated in the terms decided by the

[39] The host country refers to the country where the MNE is engaging in FDI in.

transacting parties. Dunning argues that the decision of firms to integrate one or several stages of the value chain originates from these failures, such as to ensure end-product quality, guarantee markets, protection of property rights. The greater the perceived benefits of internalising cross-border intermediate product markets, the greater the possibility that an MNE will engage in foreign production. Comparatively, the higher the administrative costs of a large corporation, or the diseconomies of scale, the less likely that the company will engage in internalisation (Dunning, 2002).

Thus, the OLI paradigm explains that 'MNEs develop competitive O advantages at home and then transfer these abroad to specific countries (depending on the L advantages) through FDI, which allows the MNE to internalise the O advantages' (Rugman, 2010, p. 2).

Dunning's four motives of FDI

The eclectic paradigm states that the OLI combination affecting a particular firm will vary largely from case to case, reflecting the economic and political situation of the investing firm's home country and the situation in the host country. Other factors that have an impact are the nature of the operations of the firm, including their strategy and objectives. Depending on the combination of the OLI parameters, the firm will decide on their preferred type of FDI. Four motives of FDI are identified: market seeking, resource seeking, efficiency seeking and strategic asset seeking (Dunning, 1993).

Market seeking FDI is attracted by the market size, market growth and per capita income of the host country. This type of FDI aims at supplying the local market or markets in neighbouring countries. New markets can be a chance for firms to grow within the industry and to stay competitive. It can also be an opportunity to achieve scale and scope economies (Kudina & Jakubiak, 2008). Market seeking FDI can imply a deeper involvement in the host country, following a successful engagement in export, or with the firm expanding to a whole new market. Reasons behind market seeking FDI can be government regulations, transportation costs or even strategic reasons. For the latter, examples are when a firm follows their clients in their foreign expansion, reduction of transaction costs or the necessity of adapting a product to the local taste or conditions (Dunning, 1993).

For resource seeking FDI, natural resources (i.e. minerals, raw materials and agricultural products), cheap and unskilled or semi-skilled labour, creative assets and physical infrastructure promote this type of investment. Natural resources have been the most

important host country factor in determining FDI historically. However, the presence of natural resources by itself usually leads to trade rather than FDI. FDI takes place where there is a lack of capital required for the resource-extraction in the host country, or where the host country does not have the skills or technology needed to extract and sell the raw materials to the outside world. Also, infrastructure for export plays a part in determining whether it is trade or FDI that will occur (Kudina & Jakubiak, 2008). Labour seeking FDI is usually undertaken by MNEs from countries with high real labour costs within the service and manufacturing business. To supply labour intensive intermediate or final products, the MNE sets up or acquire subsidiaries in countries with low real labour costs (Dunning, 2002).

Efficiency seeking FDI is 'when firms take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures by concentrating production in a limited number of locations to supply multiple markets' (Dunning, 1993, p. 59). Cross-border markets must be open and well developed for this efficiency seeking FDI to take place (Dunning, 1993).

The use of factor endowments in the three motives mentioned above is illustrated in Table 3.

Table 3: Illustration of the use of factor endowments

Illustration of Use of Factor Endowment/ Market Failure Paradigm in Explaining Three Main Forms of International Production			
Main types of international production	**Factor Endowments (Affecting geographical distribution of L)**	**Market Failure Structural (Affecting L and Oa)**	**Market Failure Transactional (Affecting Ot, L and 1)**
1 Market Seeking (import substituting)	Home country for creation of Oa (= mobile endowments/intermediate products)	Firm specific = proprietary Oa (eg. Knowledge) privileged access to inputs	Search and negotiating costs
	Host country advantage in immobile endowments with which Oa have to be used eg. National resources, some kinds of labour	Restrictions on trade in goods a) natural (transportation costs) b) artificial (import controls)	Protection against misrepresentation or infringement of property rights
	Market size & character	Oligopolistic market structure	Economics of bulk purchasing
			Part of international portfolio to spread risks
			Protection against actions of competitors
2 Resource Seeking (supply oriented)	Home country – as above but also market size & character	As above, but also privileged access to markets	Avoidance of risks of breach of contract and interruption of supplies
	Host country. Availability of resources, natural, labour (export processing) technology (eg. Investment by ldcs in dcs)	Incentives offered by Government to fdi (also relevant for 1&3)	Absence of future markets
		Oligopolistic market structure	Economics of vertical integration
3 Efficiency Seeking (rationalised investment)	VERTICAL: Mainly as 1 & 2 above	As above but as investment influenced more by supply than market considerations.	As with 2 above
	HORIZONTAL: Usually distribution of factor endowments not very relevant, as international production in countries with similar resource structures	Government induced structural imperfections likely to be of considerable importance eg. Tax differentials, investment incentives, performance requirements etc.	Economies of scale and scope
	LATERAL: Of limited importance in effect	Note that as above regional integration and reduction of trade barrier aids rationalised investment	Risk reduction through product diversification
			As above, but in respect of ancillary activities eg. Various services – shipping, consultancy etc.
O = Ownership advantages	**L = Locational advantages**	**I = Internalisation advantages**	**Oa = asset advantages Ot = transaction advantages**

Source: Dunning, Theories and Paradigms of International Business Activity, 2002

The fourth investment motive, that was added later on and hence not presented in Table 3, is strategic asset seeking. It is also the fastest growing motive. FDI is used increasingly by firms to secure both tangible and intangible strategic assets. Usually, these assets are critical to the firm's long-term strategy but not available in the home country. As this type of motive does not involve existing ownership advantages being exploited, it differs from the former three motivations. The strategic asset seeking FDI is instead a tool to build ownership advantage to support their long-term expansion, both abroad but also at home. This type of FDI might also

be used to weaken the competitive position of competitors, rather than to strengthen the position of the firm (Dunning, 1993).

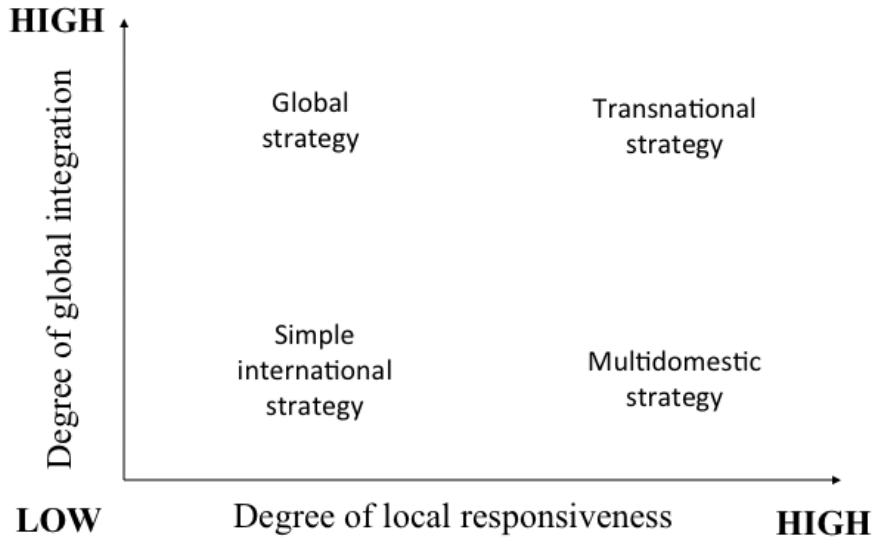
It is worth noting that ‘many of the larger MNEs are pursuing pluralistic objectives and most engage in FDI that combines the characteristics of each of the above categories’ (Dunning, 1993, p. 56).

4.2. Foreign direct investment (FDI) strategies

FDI strategies are presented here to support the analysis of the choice of strategies and modes of entry of the case companies.

Depending on the motivations and capabilities of the firm, there are four broad international FDI strategies that a firm can engage in that reflect varying degrees of global integration and local responsiveness. Figure 11 depicts the four strategies: simple international, multidomestic, global and transnational.

Figure 11: FDI strategies



Source: Gooderham, Grøgaard and Nordhaug (2013)

The earliest stage of FDI is the simple international strategy. Foreign subsidiaries are not integrated with the other business units of the firm and the transfer of knowledge is one-way (from parent company to subsidiary). Management is usually done by parent company staff

and expatriates. This is typically a transitional phase that firms go through before achieving a more globally integrated form of organisation (Gooderham, Grøgaard, & Nordhaug, 2013).

The multidomestic strategy is characterised by weak global integration and strong local responsiveness. Management of foreign subsidiaries is decentralised to enable local adaptation of products and brands. Knowledge and technology are developed locally with little integration between the parent and its foreign subsidiary. Firms operating with the multidomestic strategy are generally involved in consumer products, such as Nestlé (Gooderham, Grøgaard, & Nordhaug, 2013).

The global strategy involves centralising all activities of the subsidiaries and integrating functions along the value chain such as research and development, production and marketing. There is a high level of coordination and integration between the firm and the foreign subsidiaries as well as a high level of technology and knowledge transfers (Gooderham, Grøgaard, & Nordhaug, 2013).

Finally, the balancing of both global integration and local responsiveness results in the transnational strategy. Bartlett and Ghoshal (1995, p. 127) describes the transnational strategy as '*while some products and processes must still be developed centrally for worldwide use and others must be created locally in each environment to meet purely local demands, (MNEs) must increasingly use their access to multiple centres of technologies and familiarity with diverse customer preferences in different countries to create truly transnational innovations.'*

Entry method and ownership forms

There are two forms of entry methods: mergers and acquisitions (M&A) and greenfield investments. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of a stake in one company by another in which no new company is formed. Greenfield investment is a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up (Investopedia, 2015).

M&As allow firms to enter a market with almost no start-up time, as the acquisition of a target usually involves taking over established product lines, distribution channels and insider status. In China, foreign firms often seek to gain access to sourcing arrangements and access

to relationships by acquiring or merging with Chinese companies (PwC, 2013a). However, post-merger integration issues such as differences in corporate culture or mismanagement of synergies pose barriers to this entry method.

On the other hand, greenfield investments eliminate the integration problems and can be developed in a controlled manner by the parent firm more gradually. The downside is that they require investments in time and generally carry higher risks as firms are going into unchartered territory (Gooderham, Grøgaard, & Nordhaug, 2013). Greenfield investments are generally preferred in developing or transition economies as well as less competitive markets (Bertrand, 2004).

There are two broad forms of ownership that can be considered when a company decides to establish an office in a foreign country: full or partial ownership. Transaction costs have been widely used to explain international operation mode choices. Research has shown that the tendency for firms to collaborate with local partners is high when the transaction costs related to finding, negotiating, and monitoring a potential partner are low. However, as these transaction costs rise, firms prefer to adapt more hierarchical modes, such as wholly owned subsidiaries (Brouthers, 2002).

Wholly owned subsidiaries are usually preferred when firm-specific advantages such as intangible assets, cannot be easily transacted in the market. Efficiency and control over managerial and governance costs as well as access to intermediate inputs is also considered in the decision making process. Host country governments limiting the firm's options for establishing fully owned entities, might also impose local ownership restrictions (Gooderham, Grøgaard, & Nordhaug, 2013).

Joint ventures (JV) are defined as legally independent entities formed by two or more parent firms that share equity investments and consequent returns (Chen et al, 2009). They can be formed by firms from the same country or firms from different countries. In the case of FDI, a JV usually involves a foreign firm collaborating with a local partner in pooling their respective competitive advantages together. Investments usually flow from developed to emerging markets. In this context, firms from developed countries seeking to establish a JV in the emerging market will search for partners with local market knowledge and access, while contributing technology capabilities and expertise to the partnership (Hitt, Dacin, Levitas, Arregle, & Borza, 2000). The option of entering into a JV is especially crucial in

large emerging economies such as China and India, where full foreign ownership is still regulated in many industries. Barring the regulatory restrictions, JVs are also preferred in countries where there are significant language and cultural barriers, and having a local partner would allow the investing firm to better navigate the foreign waters (Gooderham, Grøgaard, & Nordhaug, 2013).

4.3. Expatriation

The literature reviewed on expatriation covers the incentive behind hiring expatriates and the use of expatriates in local entities.

Expatriation describes the event of a firm sending employees from the headquarters to a subsidiary overseas to work for a limited period, ranging from two to five years. When setting up a foreign subsidiary, firms have to make a decision between hiring local managers and sending managers from the home country to manage the business abroad. The decision is typically based on the reason for expatriation as well as the organisational structure of the subsidiary (Harzing, 2001).

There are varying reasons as to why expatriation occurs. Firstly, expatriate managers are preferred when there is a shortage of qualified trained personnel in the host country. This is often the case in developing countries where education systems are less established. The second reason is to develop the managers whom are being sent abroad. International experience has shown to be beneficial for individual management development. Finally, organisational development can also be a motivation for international transfers. In this case, expatriation is utilised as a coordination and control strategy. Expatriates are sent to improve internal coordination by facilitating the transfer of systems, processes and technologies between headquarter and the foreign subsidiary while at the same time, enhancing control through behavioural monitoring and cultivation of a shared corporate culture (Edstrom & Galbraith, 1977; Harzing, 2001).

Organisational structure can also be an influencing factor in the decision between the employment of expatriate or local managers. A study done by Jaussaaud and Schaaper (2007) shows a positive correlation between the number of expatriates and the share of capital held by the MNE in the subsidiary. The research was based on European and Japanese MNEs in

China and the positive correlation was found to be true for both European and Japanese firms. The study also looks into human resource management and training of the local employees, and how it affects organisational management. Training is viewed as an essential variable of control and cultivates not only standardised practices but also the culture of the firm in the local employees. The study shows that training is extremely useful for the correct functioning of the subsidiary and that the training requirements for the Chinese employees are considerable. The research showed that all firms did not find it difficult to train Chinese employees (Jaussauda & Schaaper, 2007).

4.4. Corporate social responsibility and corruption

This section first presents the theory behind a firm's corporate social responsibility (CSR), which can be argued to be essential for the understanding of the ethical challenges behind corruption, before presenting the literature on corruption.

There are many different definitions of CSR. McWilliams and Segel (2001, p. 117) define CSR as 'actions that appear to further some social good, beyond the interests of firms and that which is required by law', while Carroll (1979, p. 500) states that it encompasses 'the economic, legal, ethical, and discretionary expectations that society has of an organisation at a given point in time'. Despite the differences in the definitions, the underlying meaning behind the definitions suggests that firms ought to do the right thing as defined by social norms, regardless of whether it is required by law or not.

James Brusseau (2011) states that CSR is comprised of four obligations:

i) The *economic* responsibility – refers to the firm's obligation to make profits to keep the business going.
ii) The *legal* responsibility – is the firm's duty to adhere to the rules and regulations dictated by law. This obligation should be perceived as a proactive duty where firms accept the rules as a social good and obey them in good faith, rather than viewing them as boundaries that should not be crossed because of the negative consequences that might occur.
iii) The *ethical* responsibility – is to do what is right even when law does not require it. According to Brusseau (2011), this is the main obligation of the CSR theory; it

builds on the notion that the corporate firm views itself as a citizen in society, with the usual obligations that comes with citizenship.

iv) The *philanthropic* responsibility – promulgates contribution to society even when it is independent of the daily business operations (Brusseau, 2011).

Putting the academic literature into practical context, refraining from corruption and bribery would fall under the obligation of legal and ethical responsibility. The failure to meet any of the obligations could result in legal liabilities or reputation damages to a company.

Corruption

The global independent organisation against corruption, Transparency International, defined corruption as 'the abuse of entrusted power for personal gain'[40]. It can be categorised into three different types: grand, petty and political corruption. Grand corruption occurs at the top government levels, where the acts committed affect the policies and the central functioning of the country with leaders benefiting at the expense of the public. Petty corruption refers to the abuse of power by low and mid level officials, while political corruption includes the manipulative actions by policy makers in the allocation of resources and financing (Transparency International, 2015).

It has been well documented that the level of corruption is higher in poorer and developing countries as compared to richer and developed countries (Bjorvatn & Søreide, 2014). Hence, when engaging in FDI in developing countries, multinational firms are typically concerned with corruption and bribery and the extra costs involved.

China ranks 100 out of 175 countries in the Corruption Perceptions Index in 2014, with 1 being the least corrupt country and 175 being the most corrupt one (Transparency International, 2014). Corruption has thus been a long-standing challenge to foreign companies engaged in FDI in China.

In China, corruption tends to be perceived as 'virtually any form of 'improper' behaviour by either a state official or a member of the Communist Party' and includes anything from the traditional activities such as bribery, extortion, fraud, trafficking, embezzlement, nepotism and cryonism, to other forms of abuse of power, improper conduct and degeneracy (Wedeman, 2004, p. 896). According to PwC (2013), implementing global compliance

[40] Taken from the Transparency International webpage (Transparency International, 2015).

policies and procedures without taking into consideration the legal and cultural aspects of the Chinese business practices might put companies at risk of incompliance of anti-corruption laws in China and their home countries. This applies especially in cases where local business cultures and practices are in conflict with overseas laws. Some of the common local practices that might be considered as violations in other countries are the use of fake third-party documents (bank confirmations, tax and credit card receipts), the culturally accepted norm of giving and receiving gifts, and the lack of proper accounting practices (PwC, 2013a).

4.5. Business relations in China (*guanxi*)

This section will present the literature on business relations in China (*guanxi*) to facilitate the analysis on this topic in Section 7.2.

The Chinese word *guanxi* (关系) refers to 'the concept of drawing on connections in order to secure favours in personal relations [...] It contains implicit mutual obligations […] broadly, it means interpersonal linkages with the implication of continued exchange of favours' (Luo, 2000, p 2). Interpersonal relations exist to some extent in all societies. What is special with *guanxi* is that it plays an important part in everyday life in China. *Guanxi* has been turned into a 'carefully calculated science' (Luo, 2000, p. 2).

Guanxi can have an impact on strategic choices and affect decisions in a corporate environment. Further, with regards to market expansion and sales growth, *guanxi* can influence the progress and success rate by having an impact on resource sharing and inter-firm transactions in the social, political and economic context (PwC, 2013a).

PwC identifies *guanxi* as a 'double-edged sword' (PwC, 2013a, p. 63). This is the case as maintaining certain *guanxi* can be helpful for companies in ensuring efficient operations, while on the other hand, some *guanxi* can and may lead to corruption. An example is a case where a contract is awarded to someone from the *guanxi* network instead of the most qualified bidder. Taking the complexity of *guanxi* into account, it can be hard for multinationals in China to incorporate it into their business practice, and fully understand its concept. Nevertheless, it has a very important place in Chinese business culture (PwC, 2013a).

According to PwC (2013a), there are many examples where businesses have been affected

due to failure of the foreign company in understanding *guanxi*. Financial indicators or legitimate performance could be overridden by the *guanxi* underpinning business transactions. Further, as the nature of *guanxi* is reciprocal, there are informal obligations to return the favour. Hence, *guanxi* is one of the soft aspects multinationals in China will need to be aware of and take into account in different business aspects (PwC, 2013a).

5. Methodology

This chapter presents the methodology used in the research, and explains the background for the choice of research and how the research was conducted.

First, the case study as a research strategy is presented. Thereafter, methodological choices are argued for, covering research design, data collection and details on the interviews conducted. The details on the data analysis are then presented, before finally discussing validity of the thesis and access to the organisations.

5.1. The Case Study as a Research Strategy

In 'Case Study Research, Design and Methods', Yin (2003) put forward that a case study can be used to gain an understanding of complex social phenomena. It can be argued that successfully entering the Chinese market for Norwegian maritime companies is a phenomenon of certain complexity as it involves multiple stages and possible complications depending on the company in question. It would be hard to delve into the full details of the entry process with any other approach; thus, the case study approach is the ideal research strategy for answering the research question.

Three case companies were selected for the case study. These were chosen on the basis of their success in China (see Section 1.1). As the case companies operate in different sectors of the maritime industry, a broader understanding of the industry can be reached.

5.2. Methodological Choices

This study is exploratory and descriptive. It is exploratory, as it intends to ask open-ended questions in order to gain insight on the topic at hand, and to clarify the entry process of the companies in the study. Descriptive research is often used as a forerunner to exploratory studies, and is used to gain an accurate profile of the situation, in the context of this thesis – the company's background, before going into the exploratory study. It is necessary to have a clear understanding of the phenomenon under investigation, before collecting the relevant data (Saunders, Lewis, & Thornhill, 2012).

Research Design

According to Saunders et al. (2012), the research design is the general plan on how one intends to proceed in answering the research question. The most common designs put forward are quantitative and qualitative research designs. One way of distinguishing them is that quantitative consists of numeric data, while qualitative is non-numeric data. Thus, the quantitative research involves various data collection techniques, such as questionnaires and data analysis procedures that use or produce numerical data. On the other hand, the qualitative data collection techniques generate or use non-numerical data (Saunders, Lewis, & Thornhill, 2012). This research study has a qualitative approach, as it explores a small non-numeric data set from in-depth interviews.

Data Collection

Primary data was collected from four interviewees through in-depth interviews. The interviewees were chosen on the basis of their position and experience in the company. The criterion for the choice of interviewees was to choose someone from top management that had been in the company for some time as they would be more likely to know about the company's process of entering China and be familiar with the current operations in the country.

Interviews were conducted during the period February to March 2015 (see Table 4 for details). The interview with Thome was conducted in their headquarters in Singapore. The interviews with DNV GL and Sinocrew were conducted during a field trip to China, and took place in DNV GL and Sinocrew's headquarters in Shanghai and Beijing respectively.

Two interviewees were selected from DNV GL, a Norwegian and a Chinese, to obtain perspectives from both sides. Similar for Thome, perspectives from both the foreign and local Chinese side were obtained through interviewing a director from Thome as well as a director from the local partner, Sinocrew.

The interviewees from DNV GL have requested to remain anonymous. Recordings of the interviews were taken with the permission of the interviewees for the interviews. These recordings will be deleted upon the submission of this thesis.

Table 4: List of interviewees

Interviewee	**Company**	**Position**	**Time and place**
Michael Elwert	Thome	Group Director	24. February, Singapore
Jixuan Wang	Sinocrew	Managing Director	24. March, Beijing
Norwegian Director	DNV GL	Director, Asia	25. March, Shanghai
Chinese Manager	DNV GL	Production Manager	25. March, Shanghai

To give an insight on their background, here is a brief overview of the interviewees:

1. Michael Elwert is the Group Director for Strategy, HR and Support in Thome. He started his maritime career as a cadet and has obtained a Master Mariner license. He has been in Thome for six years and is based in the headquarters in Singapore overseeing group strategy, human resources and support.
2. Jixuan Wang is the founder and Managing Director of Sinocrew. He has 16 years of experience as a seafarer and worked in SOEs in China before setting up Sinocrew in 2002.
3. The Norwegian Director interviewed has worked in DNV GL for almost five years and is currently based in Shanghai.
4. The Chinese Manager has been in DNV GL for more than 20 years and is currently the Production Manager of one of the divisions based in Shanghai.

An interview with Odfjell was not conducted as they were going through restructuring at the time of the research study and did not have resources to participate directly in the study. Hence, only secondary sources were used for this company.

Secondary data for the other companies were also collected. These were collected from the companies directly, and consist of company newsletters, annual reports, company presentations, and books written on the companies.

Interview

Semi-structured interviews were the main source of data collection. The purpose of the interviews was to gain as much information as possible from the interviewees on the topic of research and gain in-depth knowledge about the company's entry into China, their strategy, their success factors and possible pitfalls.

The interviews were highly useful and informative. This is especially so for Thome and Sinocrew as they are private companies and there was not much information available publicly. The interviews proved essential for the understanding of the companies.

An interview matrix was constructed to make sure that all the information needed was collected. An example of the interview matrix used for the interview with the Norwegian Director of DNV GL is attached in the Appendix. The interview questions were structured to be easily understandable and open-ended. The questions were sent to the interviewees at least a week before the interview. Broad questions were used, and it was a conscious choice to limit the number of questions sent and asked to the most important ones. This was done to allow the interviewees to talk more freely and feel less restrained. The interview strategy was to ask follow-up questions for clarification if needed. Furthermore, the same questions were used for all companies where possible, including Sinocrew. This was done so that conclusions could be drawn easily, and common themes could be identified and grouped to better compare the different companies' experiences.

5.3. Data Analysis

The first step of the data analysis was to review the secondary data that was available through the Internet, the library and from the companies. Through this process, an overview of the topics that were not thoroughly covered or that were entirely missing from the secondary sources was obtained. On this basis, the interview questions were then developed to look for the missing information that was needed.

After the interviews were conducted, the recordings were partly transcribed and collated with the notes that were taken during and immediately after the interview. After structuring the data further, categories were identified and the data categorised accordingly. Each category was chosen on the basis of the data and its relevance to the research question. The categorising allowed the authors to develop the data into a coherent set that provided a well-structured analytical framework for the analysis.

A deductive approach was first used for the analysis of the primary data. Where existing relevant theory could be identified, this was used as a framework to organise and direct the data analysis. However, the framework adopted did not yield sufficient answers to the research question. It was thus decided to continue the analysis with an inductive approach.

An inductive approach explores the data, and then discovers themes and issues that have to be followed up and analysed. Thus, a combination of the two approaches has been used in this thesis.

5.4. Validity

Saunders et al. (2012) argue that a high level of validity in semi-structured and in-depth interviews can be achieved when they are conducted with care. Attention should be paid to approach to questioning; appropriate use of different kinds of questions; scope to summarize and test understanding; and ability to record data accurately and fully. Further, Saunders et al. (2012) argue that the use of open-ended questions should help to avoid bias.

In this thesis, a comprehensive three-part interview matrix was constructed to ensure a high level of validity in the interviews:

1. Questions to interviewee
2. Follow-up questions to clarify or develop the question further
3. Background information to help facilitate discussion and to avoid stagnation of the interview.

All questions were sent to the interviewees at least a week before the interviews to ensure that the participants had sufficient time for preparation.

5.5. Access to the organization

The research is highly dependent on the access to the organisations, and especially personal access, as interviews are an important part of the study. There were no difficulties in terms of communications with the companies as contact with the companies was made early, with most contacts established during September to November 2014. Interview requests were made clear to the contact persons in the companies and interview dates were communicated to be flexible and open for changes. All contacts were made through existing connections in the companies.

6. Analysis

The objective of this thesis is to find out *why* and *how* the case companies entered the Chinese shipping market and *what* they have been doing to ensure the continued success of the firm. Although each company is different, there are lessons to be learned by analysing the success stories of companies that are already established, which is the primary motivation behind this section.

By collating and analysing information gathered from secondary sources and academic literature, and the data collected from the interviews, the authors aim to answer the research question, '*What characterises Norwegian maritime companies that have been successful in entering and maintaining their market presence in the Chinese market*?'

6.1. Entering China

The first theme to be explored is entering China and aims to gain insights into *why* the case companies entered the market and *how* they managed to enter the market. A large part of whether the company succeeds hinges on the foundation that it builds from the beginning. Hence, this section will attempt to explore the intricacies surrounding entering China with the topics *motivation, FDI strategies, entry method and ownership forms* and *the importance of having a right partner*.

6.1.1. Motivation

It can be argued that it is essential to understand why an enterprise chose to enter the Chinese market, in order to fully comprehend the entry methods chosen and what characterised the companies' success in their endeavours. Understanding why a certain company decided to enter China can indicate something about their expectations, and also about some of the preconditions that have existed prior to entering. The eclectic paradigm (OLI) (see Section 4.1) will be used to analyse this.

Dunning (2002) argues that MNEs develop competitive O advantages at home, and that these are necessary for the firm to be able to compete with companies in the host country. For DNV GL, it can be argued that the O advantage consists of their global network of offices and

surveyors, good reputation, long experience and technical capabilities. For both Odfjell and Thome, their experience and technical capabilities are their main O advantages.

Dunning (2000) further argues that the MNE's choice of country depends on the L advantage. For DNV GL, they followed their customers to China, thus the large customer base in the host country is the main L advantage. For Odfjell, the strategic location of the Chinese ports was essential in choosing their location. As mentioned in Section 2.1, China is emerging as a strong economic player and a shipping nation, thus the terminals would be of strategic value for Odfjell. In the case of Thome, the L advantage was the large labour market as well as the potential customer base.

There is a close linkage between the O and the I advantages, as some O advantages would need to be internalised (Dunning, 2002). This is the case for DNV GL and their good reputation. Traditionally, the DNV GL notation represents safety and assurance; having the DNV GL notation provides shipowners and other stakeholders the security that the vessel is up to international standards. Not internalising this business might lead to a potential loss in this standing that DNV GL holds, should local partners not be up to par with DNV GL's regular standards.

As the need to internalise is not as strong for Odfjell and Thome as for DNV GL, they are present in the Chinese market through partnerships and JVs. For these two companies, the need for a local partner outweighs the need to protect their O advantages. This is due to the complexity of the Chinese business environment and the need for business relations (see Section 7.2). Furthermore, the law dictates that foreign maritime companies are only allowed to establish JVs in China (see Section 2.3 for exceptions). The priority of having a local partner to protecting the O advantages is exemplified by Thome. The company could have established a wholly owned foreign enterprise within the Shanghai FTZ but instead chose to set up a JV with their partner, Sinocrew.

The alternative to FDI for all three companies would be outsourcing their services to local companies. For DNV GL, this option is ruled out by the necessity to internalise. For Thome, the LOA arrangement they entered into with Sinocrew in the beginning was similar to outsourcing. This choice of arrangement was due to the strict regulations surrounding crewing. However, when the option of setting up a JV in the Shanghai FTZ was available, Thome went for this option. This suggests that Thome prefers a JV to outsourcing. For

Odfjell, one of the reasons for the terminal investments in China was to increase the efficiency of the operations. It can be argued that having an outsourcing agreement would not have given them this opportunity to take control of the operations and achieve the goal of increasing efficiency.

In the eclectic paradigm, Dunning (1993) further argues that the firm will decide on their preferred location and form of FDI depending on the combination of the OLI parameters. He identifies different motivations for FDI and categorises the companies engaging in FDI into market seeking, resource seeking, efficiency seeking and strategic asset seeking forms.

In terms of motivation for the Norwegian case companies, it was a natural step for DNV GL to go to China, according to the Chinese Manager from DNV GL, as a global network is important in their line of business to support the maritime industry.

The logic of going to China for class[ification] is very natural, for a classifications society a global network is very important to support the shipping sector.

- Chinese Manager, DNV GL

This is in accordance with Dunning's eclectic paradigm. It can be argued that DNV GL falls into the category of market seeking, which can be FDI by supplier companies following their customers overseas. This is also supported by the above-mentioned O and L advantage. The motivation reflects the fact that as a classification society, DNV GL's strength is in being where their customers are and being able to provide consistent service around the world.

For Thome, the characteristics of the company suggest it being both resource seeking and market seeking. Resource seeking can be either FDI seeking natural resources, or low-cost or specialized labour, while market seeking FDI is attracted by the market size, market growth and per capita income of the host country.

… Our entry point was the crewing part…

- Michael Elwert, Thome

Elwert stated that Thome's entry into China was through crewing, which supports the argument of the company being resource seeking. This also follows from the L advantage of a large labour market.

It is not logical for a seafarer to go to Singapore for training because it is too expensive. The Singapore Union were looking for a training partner in China for more than 10 years… we [Sinocrew] were the one partner they decided on...

- Jixuan Wang, Sinocrew

Wang confirmed that other players also enter China due to the country's labour resources. According to Wang, the cost of setting up training facilities for crew in Singapore, for example, is much higher than in China, which was the Singapore Union's reason and motivation for choosing China for their project.

Thome also showed market seeking motives as the company wants to expand their operations in China to include ship management. This is supported by the L advantage of potential customer base. Furthermore, Thome predicted early that China wanted to be more than a crew-supplying nation, and that the country would continue to expand as a shipowning nation (Elwert, 2015).

A lot of shipowners are new to this [ship management], and have little experience internationally – this is where Thome can come in and add value.

- Michael Elwert, Thome

As Elwert pointed out, Thome is planning to draw on the expected demand for ship management in China. Elwert recognised that there are larger Chinese companies present already, but argues that the majority of the Chinese companies does not have international exposure in shipping, thus leaving room for Thome to capture the market. Hence, this suggests that the company is market seeking in addition to resource seeking.

For Odfjell, the core reasons for the investments in the terminals in China were inadequate infrastructure and strategic location (see Section 3.2), an argument for the company being strategic asset seeking in entering China. This can be argued for, as these investments enhance Odfjell's competitive advantage – their O advantage, and can be viewed as an investment into assets important to the firm's long-term strategy in China. The terminals were also meant to serve as central hubs for Odfjell's terminal and fleet expansion in the region, further supporting the above.

The diversity in the motivation for entering China for the different companies is an indication of China's potential for foreign investment and attractiveness to a range of different FDI activities, as the three Norwegian case companies cover market seeking, resource seeking, and strategic asset seeking.

6.1.2. FDI strategies

The maritime industry can be debated to be one of the most international and border transcending due to the principle of transportation of goods worldwide. Hence, the industry can be said to exhibit standardised global practices. As a result, the need to satisfy local customer preferences or demands is not as strong as industries such as food or consumer goods, where local tastes have to be taken into consideration. This results in a high degree of global integration and relatively weak local responsiveness for most multinational maritime companies, putting them in the global strategy category within the FDI strategies. As mentioned in Section 4.2, the global strategy involves centralising all activities of the subsidiaries and integrating functions, and features a high level of transfer of technology and knowledge from the parent firm to the subsidiaries.

Placing the three Norwegian case companies into context, all of them can be reasoned to have a global strategy as main functions such as marketing, human resources, and finance are centralised in the headquarters in Norway (DNV GL and Odfjell) and Singapore (Thome). At the same time, there is a high level of coordination and integration between the parent company and the local entities, which is evidenced by the use of a global recruitment strategy and expatriation to facilitate the transfer of knowledge (see Section 6.2 for analysis on management practices).

Using Odfjell's global strategy as an example, the company's entry into China seems to be mirrored after the strategy employed in South America in the 1960s. The aim was to leverage on their technical capabilities in the areas with a lack of adequate infrastructure, to improve efficiency in the terminal facilities as well as to take advantage of the strategic locations. Thus, it can be concluded that having a global strategy facilitates maritime companies' engagements in FDI, as the same strategy can be applied throughout the world with little modifications.

6.1.3. Entry method and ownership forms

Having determined the motivations and FDI strategies of the Norwegian case companies, the next step would be to look into the different entry methods.

As mentioned in Section 4.2, the two types of entry methods are M&A or greenfield investments. With regards to the three Norwegian case companies, DNV GL and Thome have made greenfield investments while Odfjell's entry was through an acquisition. In the case of DNV GL, it can be argued that the only option was a greenfield investment as there was little competition and takeover targets, with CCS being the only local classification society. Moreover, an acquisition might not have been possible given CCS's part statutory status. For Thome, the JV with Sinocrew was through mutual cooperation and not an acquisition. Odfjell on the other hand, first entered the Chinese market through an acquisition of a 10% minority stake in a terminal in Ningbo.

Having established the entry method, the next thing to determine would be the form of ownership. There are two broad forms of ownership a company can consider when setting up a subsidiary in a foreign country: wholly owned foreign enterprise or JV. Wholly owned foreign enterprises are usually preferred as they allow the parent company full control over the subsidiary, while JVs are favoured in countries where i) full foreign ownership is regulated and ii) there are language and cultural barriers. As stated in the regulations outlined in the Provisions on Administration of Foreign Investment in International Maritime Investment (see Section 2.3), foreign companies are not allowed to establish wholly owned foreign enterprises in general, with the exception of the two subsectors where it is allowed[41]. Furthermore, the language and cultural barriers can differ greatly between Norway and China. Hence, for most companies, a JV with a local partner is the natural choice of entry into the Chinese market.

In the case of DNV GL, the situation is unique as the company is currently established as a wholly owned foreign enterprise. It started out as a representative office and was later granted status as a wholly owned foreign enterprise (Norwegian Director, 2015). The reason for this is the company's unique hybrid business position between a regulatory body and a commercial company. As a classification society, DNV GL's line of business requires more contact with government entities as well as approvals to carry out classification work. There

[41] International maritime cargo warehousing services and entities set up to offer routine services for the vessels owned or operated by the investor (see Section 2.3).

had been a lot of interaction and company visits between the top officials in both countries before DNV GL's re-entrance in China in the early 1990s (see Section 7.2). Hence, it was no surprise when DNV GL was granted approval to set up a wholly owned foreign enterprise. It should be noted that the situation for DNV GL is one-off and it is highly unlikely that other commercial businesses will be granted similar privileges.

For the other two more conventional businesses, Thome and Odfjell, both entered the Chinese market through JV/partnerships, albeit in different entry methods. As described in Section 3.3, Thome first entered into an LOA with Sinocrew, while Odfjell bought a minority stake of 10% of a terminal in Ningbo, China. Here, it is interesting to note that although both companies entered into a JV/partnership of some sort, they started with small steps instead of committing to a direct 49:51[42] JV arrangement, which is the highest form of control allowed to a foreign enterprise. For Thome, this was mainly due to the strict regulations surrounding maritime crewing services; it was not until the Shanghai FTZ was established that the rules were relaxed and a JV could be formed with Sinocrew. For Odfjell, the company's strategy in China was to find a partner, buy a minority stake and then increase the percentage of shareholdings thereafter. This strategy reflects the uncertainty of the business environment in China in the early 1990s and how the company attempted to lower its risks entering the new market.

The analysis indicates that although the rules on establishment of foreign enterprises in China are relatively strict compared to Norway, there are more ways of entering the market than just entering into a traditional JV as exhibited by the case companies. Different entry forms of JV/ partnerships can be used depending on the risk appetite and sector within the maritime industry that the company is operating in. Furthermore, companies with technical competencies, such as DNV GL, that are needed by the Chinese market can benefit from these to attract a local partner or to simply open up more opportunities within the business community.

Companies should also be aware that the regulations and forms of entry method discussed are applicable at the time of writing and might be subject to changes in the future, given the constant developments of Chinese policies.

[42] 49% foreign and 51% local Chinese ownership.

6.1.4.The importance of having a right partner

Choosing the right partner is essential – if not, the problems come '1, 2, 3'.

- Jixuan Wang, Sinocrew

As illustrated in the quote from Sinocrew above, the most important ingredient to a successful JV/partnership is the right partner.

The data collected reveals that this sentiment is shared amongst all interviewees. DNV GL formalised a cooperation agreement with CCS as early as in 1977. As mentioned in Section 3.1, Tor Svensen, the CEO of the Maritime business segment, expressed that CCS was the perfect partner and that they have a mutual beneficial relationship till today. His sentiments were echoed in the interview with the Chinese Manager from DNV GL, who also said that the partnership was and still is important today, as the relationship with CCS opens up the market for DNV GL to connect with the local Chinese shipowners. As can be seen, the relationship with CCS was an important factor contributing to DNV GL's success in China.

With regard to Thome and Sinocrew, the compatibility of the partnership was clear from the responses from Elwert and Wang. Both were positive when asked about the current partnership and emphasized the importance of finding a right partner. Wang shared that in his experience, Norwegian companies tend to look for the bigger companies (i.e. SOEs) but that might not necessarily be the best plan as the SOEs tend to have changes in the top management every three to five years and this might result in some volatility in the relationship. This goes to show that the right fit is more important than the size and strength of the partner.

Although the underlining message of finding a partner with the right fit is clear, the data gathered suggests that there is no secret formula to success. As advised by Elwert, a 'successful JV in the long term takes a lot of work. It is like a marriage, with good days and bad days'. He described further that the relationship with Sinocrew was 'built along the way (by) meeting people' and not by 'going in to select a partner'. For Odfjell, the company's partnership and dissolution history over the years with Westfal-Larsen and NCC also shows that maintaining a partnership in the long run is no easy feat. This concludes that the process of finding the right partner is not a straightforward matter of picking out the biggest and best company in the industry but more about the cultivation of relationships.

6.2. Management practices

When asked about the crucial factor to success in China, the keywords mentioned by the interviewees were ‘leadership’, ‘recruitment’ and ‘people’. Hence, it is important to look at the topics surrounding the management of the local entities as approaches to human resources could differ greatly between countries. This section presents the insights from the case companies on their experience on managing people in the local entities through the themes *recruitment, training* and *expatriation*.

6.2.1. Recruitment

The recruitment processes differ between the companies. Currently, recruitment for Thome in China is done through Sinocrew. The main recruitment base in China for seafarers is from the maritime schools, namely Shanghai Maritime University and Dalian Maritime University, and Sinocrew recruits fresh graduates from these maritime schools as well as high school graduates. According to Wang, the early recruitment process of recruiting graduates as cadets instead of experienced hires has been an important contributing factor to the high retention rates in the company. One of Sinocrew’s strategies is to recruit young high school graduates and pay for their education in the maritime universities in order to develop loyalty from the start. Sinocrew recruits around 400 Chinese cadets every year and the company views the scholarships provided to young high school graduates as investments into the future (Wang, 2015).

DNV GL has the same general recruiting principles and guidelines globally although adjustments are made to the recruitment processes according to the local needs in the different countries. Hiring is done at all levels from the recruitment of new graduates to experienced hires. As said by the Chinese Manager, it is important to recruit people with the right attitude and not only the ones with good English, which could be a factor that many foreign companies prioritise when doing recruitment in China.

6.2.2.Training

Training is viewed as an essential variable of control and cultivates not only standardised practices but also the culture of the firm in local employees (see Section 4.3). The data collected shows that all case companies place a large focus on employee training in China.

For DNV GL, the rapid growth in the late 1990s resulted in a large increase in the number of employees. To make sure all staff was qualified, intensive training was arranged with several internal courses. According to DNV GL's Chinese Manager, many of the people recruited in the 2000s have been through many rounds of training and are now team leaders. He points out that there is a high retention rate, which reflects DNV GL's focus on a thorough recruitment process in China and the company's belief that it is essential to have good people from the beginning. The Chinese Manager further elaborates on the extensive training program for employees in DNV GL's China offices, with classroom training, on-the-job training and a tutoring system, all of which they need to go through before they are qualified for the job. The training programs are the same setup as the rest of the DNV GL offices around the world.

Thome also pays great attention to the training of their employees. Similar to recruitment, their training in China is done by Sinocrew, which has tailor-made training programs for new maritime graduates and a variety of courses and training equipment.

A key to success on the crewing side in China is consistently recruiting young people, training them, building them up, and giving them a career path.

- Michael Elwert, Thome

Elwert states that a key success factor in crewing is training and slowly building up the new cadets. To help the Chinese crew get international exposure and improve their maritime English capabilities, Thome has made a point of never going 'full Chinese' on crewing of ships, meaning that there will always be a part of the crew that is from other countries. Elwert stated that this training strategy has proved to be a success. Today, they already have their first Chinese senior officers and a large pool of junior officers, indicating that their investments in training have paid off and have resulted in highly competent staff.

For Odfjell, they have a jointly established training academy for terminal operators together with Dalian Port Company for operations in China (Odfjell SE, 2015).

The analysis shows that all the case companies implement training in China and that most employees employed in the case companies have undergone some form of training. It can be argued that this reflects both the complexity and high safety standards of the maritime industry, and the different degree of knowledge and competence of new employees. This is supported by research (Jaussauda & Schaaper, 2007), which finds that considerable training is required for the Chinese employees and that training is extremely useful for the correct functioning of the various local entities.

6.2.3. Expatriation

When setting up a foreign subsidiary, firms have to make a decision between hiring local managers and sending managers from the home country to manage the business abroad. The decision is typically based on the reason for expatriation as well as the organisational structure of the subsidiary (see Section 4.3).

Expats still bring experience to China and help build up the local competence.

- Norwegian Director, DNV GL

DNV GL's Norwegian Director reckoned DNV GL has between 10-20% expats out of the 1,200 people they employ in region Greater China, which, he stated, is a very high number. The focus on expatriates has been consistent throughout the years; this can be seen from DNV GL's workforce in China in the 1990s where 15 out of 60 employees were expatriates. There are basically two reasons for expatriation within the DNV GL system: the first one being expatriates bringing technical and/or project competence to the offices in China, and the other being the governing of the system through monitoring of the local processes. According to the Norwegian Director, expatriation is an expensive but necessary solution, as it is a way of unifying the way of handling things. It can be argued that this is particularly the case in a classification society, as their business is built on keeping the same standards all over the world.

The extensive usage of expatriates is supported by literature (see Section 4.3), which states that expatriates are sent to improve internal coordination by facilitating the transfer of systems, processes and technologies between the headquarter and the foreign subsidiary

while at the same time, enhancing control through behavioural monitoring and cultivation of a shared corporate culture.

For Thome, as all human resources matters are handled through Sinocrew, there are no expatriates in China at the moment to the authors' knowledge.

6.3. China's business environment

When engaging in various FDI activities, host country knowledge is essential. Seeing that China and Norway vary largely in both cultural and social practices, it could be expected that the business environments would differ too. This section covers the topics *corruption*, *understanding the culture* and *Chinese's perception of Norway and Norwegian companies.* The main motivation is to inform Norwegian maritime companies in the early phase of entering China on possible pitfalls and perceptions they might encounter.

6.3.1. Corruption

Norway is ranked fifth amongst 175 countries in the world[43] on the Corruption Perception Index (Transparency International, 2014). With 95 places between Norway and China on the rank table, it was natural that corruption was mentioned as one of the main challenges to doing business in China by the Norwegian interviewees.

There is potential for corruption in any given society.

- Norwegian Director, DNV GL

The Norwegian Director stated that there is potential for corruption in any society and that the level of corruption depends on the trust level of the public for the country's institutions as well as the level of social welfare. Social welfare refers to the level of assistance from the government that is available to citizens in times of need. He further explained that if the trust in the two factors mentioned is low, the potential for corruptive behaviour will be much higher; money and personal relations will then be extremely important, since they create the predictability and security that social welfare is not creating. Putting this into China's

[43] Number one being the least corrupted.

context, as the social welfare available to ordinary citizens is low compared to the Scandinavian countries, there is a higher tendency to place more emphasis on money and personal relations, which might result in potential corruptive behaviour.

The Chinese Manager in DNV GL acknowledged that due to DNV GL's unique position as an approving body, there is potential for customers to put pressure on the surveyors in order for them to obtain the necessary approvals. Hence, DNV GL takes an extremely tough stance on corruption and the Norwegian Director indicated that the company's strategy is to 'influence our people so that they can handle this wherever they are'. The company published a Code of Conduct which states 'DNV GL must conduct its business in a fair and transparent manner. There is a zero tolerance policy against corruption and trading in influence' (DNV GL, 2013). The handbook goes further in detailing the scope of what is acceptable behaviour in the conduct of business and encourages employees to report possible violations. In 2014, DNV GL issued the first local guideline on the handling of gifts in the Greater China region and plans to implement further regional guidelines in 2015 (DNV GL, 2015).

Odfjell also has a similar Code of Conduct and dictates that all employees, directors and other representatives of the company must read, sign and adhere to the Code (Odfjell, 2013).

Elwert also mentioned corruption as a great concern for Thome, and that the company, coming from the Scandinavian/Singaporean background, has a strong stand against corruption. He asserted that the company's position is to be professional and have high business ethics, and mentions that one might 'lose out on a few things in the short term but you will gain in the long term'.

Since the current President of China, Xi Jinping, assumed office in 2013, he has led a strong anti-corruption campaign aimed to target both highly placed 'tigers' and lowly placed 'flies'[44] in a bid to clean up the Chinese public sector (Tao, 2015).

Now the Chinese government is hitting down on corruption, taking down the flies and the tigers.

- Norwegian Director, DNV GL

[44] 'Tigers' refers to high-ranking officials and 'flies' to lower ranking workers.

It has been widely reported in the media to have a real impact on the corruptive activities that were previously widespread, not only in the public sector but also the massive SOEs and private businesses. According to the Financial Times, 'all eat and travel less at public expense, and are more cautious in distributing and accepting bribes – large and small – that have long greased the wheels of China's economic and social progress' (Cohen, 2015).

Elwert and DNV GL's Norwegian Director both shared the sentiments on the impact of the crackdown on corruption and noted that it has brought about a change in the way people are doing business and influencing people's behaviour at the very basic level. DNV GL's Norwegian Director went further to say that he sees this as an opportunity for Norway as Norwegians are typically 'very down to earth' and 'not the best at wining and dining'. Hence, this harder push on corruption could be an advantage to the Norwegian companies.

The analysis indicates that although corruption has been and still is prevalent in the business world in China, the situation is gradually improving with the policies implemented at the top level. The Norwegian case companies have also shown that it is possible to conduct business in China without resorting to unethical means. They have generally taken a top-down approach by utilising codes of conduct and setting strict company policies to enforce strong ethical values throughout the organisation.

6.3.2. Understanding the culture

People see China as one, which is wrong. It is very different [whether you are] in Shanghai, Beijing, Wuhan or Qingdao.

- Michael Elwert, Thome

The quote from Elwert revealed the common misconception that foreign companies with little experience doing business in China have. There are 56 distinct ethnic groups and a total of 297 individual languages spoken amongst the population of over 1.3 billion (Lewis, 2009), which shows the large diversity within the country. Elwert stated that there is a big imbalance between the east and the west of China, and it is important not to see China as one. The reason for this is that China, since the 1980s, has established special economic zones (SEZ) along the coast (the east part of the country), where the Chinese government grants special economic policies and more flexible governmental measures. The number of open coastal

areas has been expanding, resulting in an open coastal belt in the east. As the favourable treatment has resulted in the SEZs growing at a much faster pace than the more inaccessible inland provinces, there is now a large economic gap between the east and the west.

The Norwegian Director from DNV GL highlighted the importance of foreigners understanding the business culture in China, stressing the significant role culture plays in business, regardless of the sector that the company is operating in. The analysis suggests that in order to be sustainable in China, foreign companies should keep in mind the cultural sensitivities when dealing with the locals, be it customers, suppliers or employees.

6.3.3. Chinese's perception of Norway and Norwegian companies

Having clarified the common misconception that some foreign companies have on China, it is beneficial to understand the Chinese's perception of Norway and Norwegian companies.

At the time of DNV GL's re-entrance into China in the 1970 to 1980s, the Chinese knew little about Norway, but there was a general 'good, positive feeling' of this small, Scandinavian country (Chinese Manager, 2015). The Norwegian Director from DNV GL added that being a small country like Norway might be advantageous when doing business in China. On the same note, Elwert mentioned that the Chinese respect the Scandinavians for their shipping experience and background.

The analysis reveals that the Chinese generally have good perceptions of Norway and Norwegian companies. However, after Liu Xiaobo[45] was given the Nobel Peace Price in 2010, China cut all political contact with Norway. This is still the case as of May 2015. Despite this, the authors got the impression that the impact on the case companies interviewed is limited today. As reported in Dagens Næringsliv, a financial newspaper in Norway, exports from Norway to China has increased 53% from 2010 to 2014. The increase was primarily due to the rise in the export of Norwegian marine equipment (Finstad, 2015).

[45] Liu Xiaobo is a Chinese literary critic who called for democratic reforms and the end of one-party rule in China (Ray, 2014).

6.4. Future developments

The Chinese economy has evolved tremendously since the opening up in 1978 and is expected to continue evolving in the future as the government moves towards developing a more global and accessible market. New policies are being implemented constantly to improve the way business is conducted now, which would have a large impact on the strategy adapted by companies considering entering China. This section attempts to explain how local Chinese companies are changing in *the development of the Chinese companies* and dives further into one of the main transitions *the Shanghai Free Trade Zone* that is happening in the country now.

6.4.1. The development of the Chinese companies

The analysis suggests that the local Chinese companies are developing at a rapid pace and are getting more experienced. Wang confirmed this point and stated that most of the training in Sinocrew is now done by local Chinese teachers after having previously been taught by Singaporeans. Elwert was also of the opinion that once the Chinese develop and learn 'how it's done', there might be less need for foreign companies and their expertise.

According to the Norwegian Director from DNV GL, CCS is also getting more experienced, and as they 'get stronger', the competition might get tougher for DNV GL. How CCS positions themselves in the near future, and how the government chooses to position CCS will have a large impact on DNV GL and their operations in China. Although, in the event that that happens, DNV GL would still have the relationships with the local shipowners that were established through CCS (Norwegian Director, 2015).

Hence, the analysis reveals that the general opinion among the case companies is that as the Chinese local companies get more experienced, it might be tougher for foreign companies to run their businesses in China. Furthermore, with regards to the maritime industry, the government authorities are placing a growing emphasis on increasing the competitiveness of Chinese shipping companies (see Section 2.2).

Relating this to the eclectic paradigm, the increased competence and experience of the Chinese local firms will alter the original O advantages of the Norwegian case companies. As mentioned in Section 6.1.1, the common O advantages that the three Norwegian case

companies have are experience and technical capabilities. As the local companies catch up, the effect of this O advantage will become weaker. This will mean tougher competition for the Norwegian case companies. The case companies could engage in innovation, differentiation and/or diversification to remain competitive and keep their market share. For example, DNV GL has gradually diversified their operations in China, going from only doing classification to now being present within all business segments.

To conclude, this suggests it will be beneficial for Norwegian companies contemplating going into China to find sectors in the industry where technical capabilities are lacking locally.

6.4.2.Shanghai Free Trade Zone

The free trade zone is not very concrete yet - it is a slow process. But it is a positive thing and if Shanghai wants to be a shipping centre then they need this [free trade zone].

- Jixuan Wang, Sinocrew

Details are not in place yet, but it is a positive trend.

- Norwegian Director, DNV GL

The data collected from the interviews on the Shanghai FTZ are unanimous on two main points: i) progress on it is slow, although ii) the zone itself reflects a positive trend towards the development of the business environment in China.

As mentioned in Section 2.3, the Chinese government is known to adopt a trial and error approach to policy implementation and this is also the case with their approach to the Shanghai FTZ. Since its establishment in September 2013, trial schemes are still being introduced periodically, more than one and a half years on. The situation of the case companies, Thome and Sinocrew, appropriately reflects the current situation within the Shanghai FTZ. Wang mentioned during the interview (which happened at the end of March 2015) that they (Thome and Sinocrew) had just gotten approvals for the establishment of a JV within the Shanghai FTZ. Elwert further disclosed that the approval for the licenses took a longer time than expected.

The slow pace of development of the Shanghai FTZ has drawn a lot of attention in the international media, with many reportedly of the opinion that the zone has not lived up to its hype. As reported in the Wall Street Journal, 'progress on the Shanghai FTZ has been quite modest, even by the low standards of China's gradual and incremental approach to market-oriented and financial-sector reforms' (Hong, 2014). A survey conducted by the American Chamber of Commerce revealed that almost three-quarters of the respondents[46] believed that the Shanghai FTZ offered no tangible benefits for their business and 45% pointed out the lack of information to help them understand how it works (Murphy, 2015).

Despite the criticism, the analysis clearly indicates that the establishment of the Shanghai FTZ is viewed as a positive step towards the opening up of the Chinese economy, which is the foremost goal intended by the government. As mentioned in Section 2.3, the introduction of the 'negative list' has been a progressive step towards freeing up restrictions on foreign businesses. DNV GL's Norwegian Director confirmed this, saying that the introduction of the 'negative list' has been a big change and it 'lets a lot of foreign companies operate in the grey zone'.

In addition, the data collected suggests that authorities are open to dialogue and feedback from the ground from both foreign and local companies. Wang said that he has been involved in discussions with the relevant authorities on how the Shanghai FTZ can be improved with regards to the shipping sector and DNV GL's Chinese Manager mentioned that DNV GL has also been approached for opinions.

Taking into consideration the points discussed above, it should be noted that the Shanghai FTZ is a work in progress and serves predominantly as a 'test bed' for the government to test new policies, with regulations being changed and new trial schemes being introduced frequently.

[46] The survey was conducted on 370 members of the American Chamber of Commerce in Shanghai.

7. Recommendations and challenges

As mentioned in the introduction, this thesis aims to provide insights for future Norwegian maritime companies considering entering China. This section will highlight the challenges that the companies might face and present recommendations based on lessons drawn from the case companies. The themes covered are *importance of the Chinese market, business relations in China (guanxi), management of the local entities* and *potential sectors for growth in the maritime industry in China*. The recommendations and challenges mentioned here are based on data specific to the case companies and should not be taken as an all-encompassing overview.

7.1. Importance of the Chinese market

Both DNV GL and Thome stressed the importance of the Chinese market for companies that are looking into having a presence in Asia.

If you want to have a solid position in the Asian market, you need a solid position in China. China is the driver for the Asian market.

- Norwegian Director, DNV GL

Elwert agreed that 'you cannot ignore China when you are in Asia'. The analysis suggests that being present in China and Asia for maritime companies will become increasingly important, but that the competition in the market will increase (see Section 6.4.1).

For the maritime industry, 'most ships are built here (China)', making the country extremely important for companies operating in the industry (Norwegian Director, 2015), such as auxiliary companies operating in shipping finance and ship management. As China is taking up the competition with South Korea, among others, in the shipbuilding segment (see Section 2.1), the country will become increasingly important for the global maritime industry.

Given the importance of the Chinese market, many Norwegian associations have been established in China to foster closer relations and increase activity by Norwegian companies in the country. With Chambers of Commerce, Norwegian Business Association and others being present and active in China and Asia, Elwert stated that it is easier for new companies establishing themselves and finding a partner now.

7.2. Business relations in China (*guanxi)*

Much emphasis has been placed on business relations and *guanxi* in literature and guidebooks on how to do business in China as the cultural differences between the Chinese and the West are typically viewed as a challenge to foreign companies.

When doing business in China, personal and business relations are important.

- Norwegian Director, DNV GL

DNV GL's Norwegian Director stated that in China in general, it is very important for foreigners to understand the business culture. This is supported by the report published by PwC (2013a), which states that there are many examples on businesses being affected if or when multinationals fail to recognize the importance of *guanxi* or fail in implementing it into their business altogether (see Section 4.5).

The very nature of what DNV GL does, classification and certification, dictates strong ties and cooperation with different governments globally. This is also true in the case of China. As presented in Section 3.1, the relationship with the Chinese authorities was established in 1977 enabling the kick-off of the operations in the country. In the period between the 1980s and 1990s, top Chinese government officials made several trips to the DNV office in Høvik, and likewise for top executives in DNV to China. The *guanxi* was nurtured gradually through the repeated visits. It can be argued that the relations with former Premier Zhu Rongji and former President Jiang Zemin shows the significance that the Chinese places on the relationship with DNV GL.

When [Chinese] business relations see the picture of former President, Jiang Zemin, in Høvik, they immediately know this company is ok.

- Norwegian Director, DNV GL

According to DNV GL's Norwegian Director, it is good to show that the top leader has been to the office in Norway. He elaborated that when Chinese business partners see that Jiang has been to Høvik, there are a lot of things they do not need to worry about and they do not need to 'do the diligence type of thinking'. The value of this cannot be underestimated. This reflects back on the importance of business relations in China, as the analysis indicates that

having the right *guanxi* can be a symbol of trustworthiness of a company. As mentioned previously, the DNV GL situation is unique due to the nature of their operations.

In China, strategies implemented by foreign companies to be more successful in the *guanxi* aspects, is forming alliances or acquiring Chinese companies. The foreign company can this way gain access to a myriad of relationships (PwC, 2013a). Through their alliance with Sinocrew, Thome has already established a form of *guanxi* in China. The same goes for Odfjell through their investments.

The analysis indicates that *guanxi* is recognized as a large part of everyday life in China and it is recommended that foreign companies take it into consideration, as these relationships could be helpful not only in entering the market but sustaining the company's presence in China.

7.3. Management of the local entities

As highlighted in Section 6.2, appropriate management of the local entities is crucial for succeeding in China.

DNV GL's Chinese Manager pointed to several important factors in the management of the local entities. The first factor is the importance of finding a good manager in the start-up phase, as good leaders are important. This is supported by the attention DNV GL pays to recruitment and training. Secondly, it is important to select good people, and not just good English speakers.

The Chinese Manager also reckoned that controlling the local entity would be easier for a smaller company. With a bigger office, the parent company's influence becomes weaker, which could result in people going in different directions. Thus, the third important factor is to establish a strong company culture from the early beginning. The winning recipe consists of good leaders, selection of the right people and implementation of the company culture in the local entity from the start.

You will need to have a strong presence; you cannot remote control the office in China from Norway.

- Michael Elwert, Thome

Elwert highlighted the importance of having a strong presence in China instead of managing the local office from overseas, as it will not work for the managers from the foreign company to come to China a few times a year. The managers need to be in China physically in order to manage the entity and build relations.

7.4. Potential sectors for growth in the maritime industry in China

As mentioned in 6.4.1, due to the weakening effect of the O advantage – experience and technical capabilities – it will benefit future Norwegian companies contemplating entering China to find sectors in the maritime industry where technical capabilities are lacking locally.

It all depends on what China needs.

- Norwegian Director, DNV GL

The Norwegian Director recommended that Norwegian maritime companies take advantage of the advanced technology that Norway specialises in and tap on the demand for these technologies in the Chinese market. In his opinion, China currently needs technology in niche sectors such as deep-sea offshore vessels and cruise ships, which the Norwegian maritime industry has good competence in. He mentioned further that the market and the demand for different technology are constantly changing; hence, the questions always goes back to 'what does China need'.

When asked about the potential growth areas, Elwert and Wang both reckoned that ship management presents strong growth opportunities in the Chinese maritime industry now. Elwert explained that the reason is most shipowners in China have little experience internationally and are new to the concept of ship management; this is where international ship management companies can enter the market and add value.

8. Conclusion

The purpose of this thesis has been threefold. To find out i) *why* the case companies entered the Chinese market, ii) *how* they entered the Chinese market and iii) *what* they have been doing to ensure the continued success of the company. Through Section 6.1 entering China, the analysis has presented the case companies' motivations (*why*), FDI strategies and entry methods (*how*) for entering China. Moving past the entering phase, the crux in the continued sustainability of the companies in China today lies in the actions taken (*what*) to keep the business going, which is analysed in the rest of Section Six. Section Seven then acts as an informative compendium highlighting the main issues for Norwegian maritime companies contemplating entering China.

This section will conclude this thesis with a summary of the general trends in the Chinese maritime industry, as well as insights and advice.

8.1. General trends in the Chinese maritime industry

The analysis of the three Norwegian case companies revealed the respective motivations for entering China, which uncovers some general trends for the maritime industry. DNV GL is market seeking: being where their customers are and being able to provide consistent service around the world. Thome is both resource seeking and market seeking, in that they came to China for crewing, and are also planning to expand into ship management. Odfjell is in China for strategic asset seeking reasons, as their investment is aimed at contributing to their overall long-term strategy for expansion in China.

Hence, there was a general trend of international players in the maritime industry going to China, resulting in DNV GL following their customers. Further, China is emerging as a shipowning nation, requiring DNV GL's services and Thome's ship management services in the future. The investment in terminals by Odfjell reflects the predictions of increasing number of vessels travelling to China, and thus a demand for the said terminals.

The analysis indicates good prospects for the maritime industry in terms of auxiliary services such as terminals, classification and ship management, and a general trend of increasing activity in the maritime industry. The interviewed Norwegian case companies stressed the importance for maritime companies to be in China if they want to have a presence in Asia.

One of the main focus areas surrounding business and politics in China is the problem of corruption. The low level of trust in public institutions coupled with the low level of social welfare has resulted in an increased potential for corruptive behaviour in the Chinese society. That said, the case companies have collectively shown that by instilling a strong stand on corruption from the top and using tools such as a Code of Conduct, it is possible to be a sustainable business in China without resorting to unethical behaviour. With the mounting criticisms, the Chinese government is now taking a pro-active stance and is determined to weed out corruption in the public sector. The general consensus is that this is a positive movement and changes are already starting to be seen on the ground level. However, given the pervasiveness of corruptive behaviour in both the business and political arena, it would take a considerable amount of time before China can reach the standards of the Scandinavian countries. Hence, when implementing compliance policies, companies should keep in mind both the legal and cultural aspects of the local business practices and try to strike a balance without running the risk of non-compliance with Norwegian anti-corruption laws.

Another major development that has been taking place in China recently is the establishment of the Shanghai FTZ. Since the opening in September 2013, the Shanghai FTZ has attracted both positive and negative feedback from the international committee. Some have lauded the development made in terms of regulations, for example, the replacement of the 'positive list' with the 'negative list', while others have been forthcoming in expressing their disappointments regarding the slow progress in terms of policy implementation. The analysis revealed that all of the interviewees belonged more with the former, expressing that the establishment of the Shanghai FTZ and thereafter the free trade zones in Tianjin, Guangdong and Fujian, as a positive trend towards the opening up of the Chinese economy. The fact that two of the three interviewees were approached by the authorities to give feedback on the Shanghai FTZ also shows the government's openness for dialogue from the ground.

Despite the positive developments on the policy level, the analysis also indicated that the case companies are of the opinion that as the Chinese local companies get more experienced, it might be tougher for foreign companies to run their businesses in China. The local Chinese companies are developing at a rapid pace, resulting in a dampened need for expertise from foreign companies and hence, FDI.

8.2. Insights and advice

All interviewed case companies highlighted the importance of finding a right partner. The data gathered suggests that establishing a partnership is not a straightforward matter of picking out the biggest and best company in the industry but more about the cultivation of relationships. Understanding the local culture would help a company to foster better relationships, and through this it will help companies to find and attract the right partner. This points to the importance of understanding the concept of *guanxi* and the Chinese business culture.

As for setting up a local entity in China, a partnership/ JV with a local partner is the natural and sometimes, the only choice of entry into the market, as shown in the cases of Thome and Odfjell. This is mainly due to the regulations on full foreign ownership in the maritime industry and the language and cultural barriers. DNV GL is unique and the company is currently established as a wholly owned foreign enterprise due to their hybrid business position between a regulatory body and a commercial company. It is unlikely that other businesses will be granted the same advantage. Taking these insights into account, incoming Norwegian maritime companies are recommended to enter into some form of partnership/JV with a Chinese partner, depending on their competencies and risk preferences. Considering the favourable conditions of the Shanghai FTZ, it is further recommended that the JV be registered and operate within this zone.

Most multinational maritime companies typically employ the global strategy when engaging in international FDI, likewise for the three Norwegian case companies analysed in this thesis. They have centralised main functions in their respective headquarters in Norway and Singapore. DNV GL's use of a standard global recruitment strategy and high levels of expatriation illustrates the high level of coordination and integration between the parent company and the local subsidiaries. Thome's case of recruitment and training through Sinocrew is special as the partnership has been operating under an LOA and only recently solidified with the approval of a JV within the Shanghai FTZ. The authors expect Thome to participate more in the recruitment process and use expatriate managers once the JV is officially in operation. The case companies have also used training as a tool for transferring knowledge and ensuring the correct functioning of the local entities. Therefore, the analysis indicates that the main recommendations for incoming Norwegian maritime companies would be to hire good leaders, possibly through the use of expatriate managers at the

beginning, and to focus on recruitment and training. It is also important to instil the right company culture into the local entities from the start, especially with regards to more sensitive issues such as corruption.

8.3. Concluding remarks

This thesis provides insights and advice for Norwegian maritime companies considering entering China and has presented the success stories of the three Norwegian case companies, as well as current and future trends that will be helpful to doing business in China. As suggested by the interviewees, the potential opportunities in the Chinese maritime industry lie in the niche and high-technology sectors such as deep-sea offshore vessels, cruise ships and ship management services. The insights and advice reflects the current situation of the case companies and needs to be adjusted to changing environments or different company settings.

Further research could be done to go deeper into what the case companies did specifically in the entry phase and thereafter to ensure the sustainability of the firm. Potential areas to look into include the channels used to obtain partners; the specific recruitment and training programmes implemented; and management and IT systems used for integration between the parent and local entities/JVs.

Appendix

Main question	Follow up	Help
When did DNV start thinking about re-entering China?		• Entered in 1900s • Re-entered in 1974 (before opening up)
What were the motivations of re-entering China?	• Market trends • How did you get information? Continued to keep in contact with relations?	• Norwegian ships- increased berthing in China. They wanted to certify the repairs done there
How did DNV go into China in 1974? Relationship with China in the 20th century?	• How did you get permission to set up the office? • Under the provisions on administration of foreign investment in international maritime transportation, foreign companies are only allowed to establish JVs (up to 49%) so how was DNV established in 1974? Did DNV get special permission from the government? • Was the early entry crucial for the success of DNV? • How did Abrahamsen enter China? Building relations beforehand? • 1987: Svein Ullring visited China and the Chinese suggested that DNV set up office in Shanghai and indicated that the application will be approved • 1992: Zhu Rongji visited Høvik • 1995: Registered as full status corporation • 1996: Jiang Zemin to Høvik • 1999: moved office from Hong Kong to Shanghai	• Good relations with authorities • Never had any joint ventures • Thus, it was not until 1974 that DNV once again should return to China. During a ten-day trip to Beijing and Tianjin, Egil Abrahamsen (CEO) established contact with government bodies for shipping and oil, and with the Chinese shipping and oil industry, and in the Bohai area he got to visit one of the operating oil production platforms there. An agreement with the Chinese Registry of Shipping (CCS's forerunner) was negotiated and signed, and six Chinese BSc graduates were invited to DNV's trainee program
How is the relationship like with the Chinese Classification Society (CCS) and how did it come about?	• What kind of co-operation agreement was it? • Mutual beneficial agreement: DNV using CCS to get into China while CCS using DNV to go international	• 1974: agreed on • 1977: formalized
Can you elaborate more on the current relationship and activities that DNV have with CCS?	• Mutual beneficial agreement	• CCS-DNV Technical Institute • A joint classification scheme for vessels built in Chinese yards
For now, it seems like DNV and CCS are close partners. In the future, how do you foresee the relationship going? Is it possible that there comes a time when DNV and CCS become competitors?	• CCS: statutory government body. Non-profit? So they will never be competitors?	

Are there any other competitors in the market?	• Market share in China? 1999: 30% (?)	• Lloyd's? American Bureau of Shipping? • Nov 2014: Lloyd's and ABS were banned for 6 months for certification of offshore rigs due to compliance failure of paperwork
Do you think type of activity affected the entry method?	• More crucial for DNV than for example Odfjell? Classification societies are kind of regulatory • Relationships with government authorities	
How many per cent of your customers are Chinese companies?		
What are the main challenges in today's business environment in China?		
What are your thoughts on the Shanghai free trade zone?	• Do you think it will work? • How has the reception been amongst the foreign companies? • How can DNV benefit from the relaxed regulations? • How do you think other Norwegian companies can benefit from it?	
Do you have plans for expanding further in China? Why/why not?		
Going into organisational managerial matters, do you have any preference for nationalities when choosing managers?	• % of Chinese vs. international/Norwegians in the Chinese offices • % of Chinese workers in the non-managerial and managerial positions • How has that changed over the years?	
Training: do local employees receive training and what kind of training?		
What do you think is DNV's crucial success factor in China?		
What recommendations would you give to Norwegian Maritime companies wanting to enter China, considering the current market conditions?		
If you were me, is there anything I forgot to ask? Is there anything you want to add, that would be relevant?		

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