

**UNIVERSITY IN LJUBLJANA  
FACULTY OF ECONOMICS**

**DIPLOMA THESIS**

**DUŠANKA STOJIC**



**UNIVERSITY IN LJUBLJANA  
FACULTY OF ECONOMICS**

**DIPLOMA THESIS**

**DOING BUSINESS IN CHINA – THE CASE STUDY OF  
McDONALD'S**

**Ljubljana, November 2010**

**DUŠANKA STOJIĆ**

## STATEMENT

I, Dušanka Stojić, student of the Faculty of Economics, state that I am the author of this diploma thesis, whose mentor was mag. Pfajfar Gregor. I do permit this paper to be published on the faculty's web pages.

Ljubljana, \_\_\_\_\_ Signature: \_\_\_\_\_

## TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>1</b>
<b>1 MCDONALD'S COMPANY .....</b>	<b>2</b>
1.1 HISTORY OF MCDONALD'S .....	2
1.2 TYPES OF RESTAURANTS.....	5
1.3 PRODUCTS .....	5
1.4 PRESENCE IN A GLOBAL MARKET .....	6
<b>2 INTERNATIONALIZATION.....</b>	<b>6</b>
2.1 INTERNATIONALIZATION THEORIES .....	7
2.2 MOTIVES TO GO ABROAD.....	10
2.3 MARKET ENTRY MODES.....	14
2.3.1 <i>Export entry modes</i> .....	15
2.3.1.1 <i>Indirect exporting</i> .....	15
2.3.2 <i>Contractual entry modes</i> .....	16
2.3.3 <i>Investment entry modes</i> .....	19
2.3.4 <i>Evaluation of entry modes</i> .....	19
2.4 MCDONALD'S INTERNATIONALIZATION PROCESS .....	20
2.4.1 <i>McDonald's internationalization pattern</i> .....	21
<b>3 CHINESE MARKET .....</b>	<b>22</b>
3.1 ABOUT CHINA .....	22
3.1.1 <i>China's location in the world</i> .....	22
3.1.2 <i>China population</i> .....	24
3.2 HISTORY OF CHINA.....	25
3.3 PEST ANALYSIS .....	27
3.3.1 <i>Political factors</i> .....	27
3.3.2 <i>Economic factors</i> .....	28
3.3.3 <i>Social factors</i> .....	29
3.3.4 <i>Technological factors</i> .....	31
<b>4 DOING BUSINESS IN CHINA .....</b>	<b>31</b>
4.1 WHY CHINA?.....	31
4.2 CHALLENGES OF DOING BUSINESS IN CHINA.....	34
4.2.1 <i>Government protectionism</i> .....	34
4.2.2 <i>Corruption</i> .....	34
4.2.3 <i>Bureaucracy</i> .....	36
4.2.4 <i>Difference in culture</i> .....	37
4.3 CHINA FAST FOOD MARKET .....	37
4.3.1 <i>China's Fast Food Industry Analysis</i> .....	38
<b>5 MCDONALD'S IN CHINA.....</b>	<b>40</b>

5.1. CHALLENGES .....	41
5.2 OPPORTUNITIES AND SUGGESTIONS FOR MCDONALD'S .....	43
5.3 SWOT ANALYSIS .....	45
<b>CONCLUSION.....</b>	<b>46</b>
<b>POVZETEK .....</b>	<b>48</b>
<b>SOURCES AND LITERATURE.....</b>	<b>55</b>
<b>APPENDIX.....</b>	<b>1</b>

## LIST OF APPENDIX

APPENDIX 1: Provinces, Autonomous regions, Municipalities and Special Administration Regions.....	1
APPENDIX 2: Population of Administrative divisions.....	2
APPENDIX 3: Overlook of dynasties by time frames .....	4

## LIST OF FIGURES

<i>Figure 1: China's location in the world .....</i>	23
<i>Figure 2: Location of provinces, autonomous regions and municipalities .....</i>	24

## LIST OF TABLES

<i>Table 1: McDonald's Revenues .....</i>	4
<i>Table 2: McDonald's International Revenues .....</i>	6
<i>Table 3: Major motivations for companies .....</i>	11
<i>Table 4: Integrated internal/external and proactive/reactive stimuli.....</i>	12
<i>Table 5: Export barriers .....</i>	13
<i>Table 6: Advantages and disadvantages of franchising .....</i>	17
<i>Table 7: Evaluation of entry modes .....</i>	20
<i>Table 8: China's GDP growth over the last 5 years.....</i>	29
<i>Table 9: Dimensions of culture .....</i>	29
<i>Table 10: Cultural dimensions of China based on Hofstede .....</i>	30
<i>Table 11: Corruption perception index (CPI) for China by years and its rank in the world ..</i>	35
<i>Table 12: Starting a Business data for China compared to good practice economy and comparator economy.....</i>	36
<i>Table 13: Obtaining construction permits data for China compared to good practice economy and comparator economy.....</i>	37
<i>Table 14: Porters 5 Forces Model.....</i>	39
<i>Table 15: SWOT analysis of McDonald's for Chinese market.....</i>	46

# Introduction

Expanding into new markets has the potential to increase company's revenue, productivity and profit. However, achieving these things is not an easy task. The company needs to learn about the benefits it would obtain and problems it might encounter, and compare them in order to decide if entering a new market makes sense. As different markets and industries face different success and problem parameters, a company that is hoping to expand internationally needs to be aware of them. These factors can determine whether the company succeeds or fails in the market and therefore an uneducated decision to enter a specific market could result as costly and damaging to the company. But rushed judgment to stay out of the market may mean the company misses out on extensive profits and market shares.

For a while now China is known for its production resources in the form of low cost labour, but that is not the only attraction foreigners feel towards this country. Due to the increase in the living standard amongst the Chinese population and improvement in the general business environment, China has gained great attention for its market potentials. The Chinese regime is oriented towards attracting foreign investments of all kind but it concentrates mainly on technology knowledge. To assure interest in China, the government also revoked certain entry barriers and implemented special tax reductions (Zhang, 2002, p. 57).

Despite rapid economic growth and its appeal to the foreigners, a lot of companies fail when attempting to enter or prosper in this market. The reason for this is to be found in geographical, cultural and lingual distance. Such differentiation in business environment and business etiquette causes more than a few difficulties to the foreign hopefuls. Therefore the purpose of this thesis is to present the Chinese business environment and the way of doing business in China. The goal of this study is to have a greater understanding of the aspects of doing business in China in general and also based on a specific company. I will do so by implementing PEST analysis and presenting some barriers and challenges when entering the Chinese market. After having covered the theoretical aspects, I will focus on combining these theoretical findings with practical examples. These examples will be based on the McDonald's company, which is one of the biggest providers of westernized fast food in China.

In the first chapter I will discuss McDonald's company in general; describing their history, products they offer, types of restaurants and presence in the global market. With this chapter I merely wish to illustrate company's milestones from a small U.S. based company to a huge multinational corporation as it is today. The second chapter will describe theoretical points of internationalization. It will focus on internationalization theories, motivations to go abroad, market entry modes, and conclude with McDonald's internationalization process and internationalization patterns. In the third chapter I will discuss the Chinese market, starting with some general data about China, moving on to history of China and finishing with the

PEST analysis. Perhaps history of China does not seem of importance for this particular thesis, but in fact it is. I will show that the historical background plays a huge part in the mentality of the Chinese people in their private and professional lives (Country Studies – Historical Setting, 2010).

Chapter four will be the core of this thesis and it will illustrate a clear picture of how the Chinese market is attractive and challenging at the same time. It will also include a section about Chinese fast food industry in reference to the case study of McDonald's in the following chapter. In chapter five, I will focus on some challenges McDonald's had to face over the years by doing business in China and suggestions and opportunities that can still be explored. After doing so, I will finalize and sum up this diploma thesis with a conclusion.

## **1 McDonald's company**

McDonald's was incorporated in 1955 and since then it has not only become the world's largest quick-service restaurant organization, but has literally changed eating habits in America and all around the World. In its 32,000 restaurants, which are located in 119 countries on six continents, in average they serve 46 million people every day. Their restaurants are mainly run by franchises or through joint ventures with local business people, as only approximately 6,000 of them are company owned and operated. Nine major markets for McDonald's are Australia, Brazil, Canada, China, France, Germany, Japan, the United Kingdom, and the United States. These nine markets account for 80% of the restaurants and 75% of overall sales (Funding Universe - McDonald's corporation, 2010).

### ***1.1 History of McDonald's***

The long journey of McDonald's started in 1940 when the brothers McDonald opened the first McDonald's restaurant in San Bernardino, California. Their business was initially selling hot-dogs on a stand, but after establishing a restaurant they served around 25 items that were mostly barbequed. By doing so, it became a popular teenage hangout place, but it did not stay like that for long, as the brothers closed and reopened the restaurant to sell only hamburgers, milkshakes and French fries (Iloveindia- History of McDonald's, 2010).

McDonald's as we know it today dates its founding to the opening of a franchised restaurant by Ray Kroc in Des Plaines, Illinois, on April 15, 1955. This restaurant was the 9<sup>th</sup> McDonald's restaurant overall. Later on Kroc purchased the McDonald brothers' equity in the company and led its worldwide expansion. This is how McDonald's became listed on the public stock markets in 1965. The McDonald's brothers and Kroc fought over control of the company and as Kroc was also noted for aggressive business practices, the McDonald's brothers were compelled to leave the fast food industry (Agarwal, 2010).



Very early in the process Kroc decided it was best to first establish the restaurants and then to franchise them out, so that he could control the uniformity of the stores. McDonald's grew slowly for its first three years, as there were 34 restaurants by 1958. However, in 1959, Kroc opened 67 new restaurants, bringing the total to more than 100 restaurants (Iloveindia-History of McDonald's, 2010; BBC - Brief history of McDonald's, 2005).

In the early 1960s, McDonald's really began to take off. This was largely due to growth in United States (U.S.) automobile use that came with suburbanization and also partially due to the company's skilful marketing and flexible response to customer demand. McDonald's spectacular growth continued in the 1970s. Americans were more on-the-go than ever, and fast service was a priority. Till 1972 the company had served 20 billion hamburgers, passed \$1 billion in annual sales and system-wide sales exceeded \$3 billion (Funding Universe - McDonald's corporation, 2010).

In the late 1970s a lot of competition, from fast-food chains like Burger King and Wendy's, began to emerge and experts believed that the fast-food industry had reached its peak. The competitors were fighting for market share and so in 1980s the period of aggressive advertising and price slashing, also known as "burger wars" began. Despite experts' claims that the fast-food industry was saturated, McDonald's continued to expand. Eating out had become a habit and with the help of McDonald's relentless marketing the sales continued to grow (Funding Universe - McDonald's corporation, 2010).

It took McDonald's 33 years to open its first 10,000 restaurants and by the end of 1997 the total had surpassed 23,000. Overall, the company derived increasing percentages of its revenue and income from outside the United States. In 1992 about 75% of system-wide sales came out of U.S. McDonald's, but by 1997 that figure was down to about 51%. A similar thing happened also with the percentages showing only revenue and income of the U.S. units. Numbers showed a reduction from about 60% to 42.5%. In response to these difficulties, McDonald's drastically cut back on its U.S. expansion (Funding Universe - McDonald's corporation, 2010).

After struggling times in 1990s McDonald's announced a major restructuring that involved the closure of more than 700 restaurants (mostly in the United States and Japan), the elimination of 600 jobs, and charges of \$853 million. The charges resulted in a fourth-quarter 2002 loss of \$343.8 million, which was the first quarterly loss in McDonald's 38 years as a public company. McDonald's continued to curtail store openings in 2004 and to concentrate on building business at existing restaurants. A capital expenditures budget of more than \$1.5 billion was stated to be used to remodel existing restaurants in 2004. McDonald's also aimed to pay off its debt of \$400 million to \$700 million and to return approximately \$1 billion to shareholders through dividends and share repurchases (Funding Universe - McDonald's corporation, 2010).

Nowadays McDonald's is working with promising revenues and profits, which is shown in Table 1 listed below. In the U.S., revenues in 2009 and 2008 were positively impacted by the ongoing appeal of McDonald's iconic core products and the success of new products, as well as continued focus on everyday value and convenience. In addition, their market-leading breakfast business contributed to revenue growth in 2008. New products introduced in 2009 included McCafé premium coffees and the Angus Third Pounder, while new products introduced in 2008 included Southern Style Chicken products, Iced Coffee and Sweet Tea. The refranchising strategy negatively impacted revenue growth in both years. Europe's constant currency increases in revenues in 2009 and 2008 were primarily driven by comparable sales increases in the U.K., France and Russia (which is entirely Company operated) as well as expansion in Russia. In both years, these increases were partly offset by the impact of the refranchising strategy, primarily in the U.K. and Germany. In APMEA, the constant currency increase in revenues in 2009 was primarily driven by comparable sales increases in Australia and most other Asian markets, partly offset by negative comparable sales in China. The 2008 increase was primarily driven by strong comparable sales in Australia and China, as well as positive comparable sales throughout the segment. In addition, expansion in China contributed to the increases in both years. In Other Countries & Corporate, Company-operated sales declined in 2008 while franchised revenues increased primarily as a result of the Latam transaction in August 2007. Revenues in both years were negatively impacted by the refranchising strategy in Canada (McDonald's corporation annual report, 2009, p. 16).

*Table 1: McDonald's Revenues*

	Amount			Increase/ (decrease)		Increase/ (decrease)*	
	2009	2008	2007	2009	2008	2009	2008
Dollars in millions							
Company operated sales							
US	\$4,295	\$ 4, 636	\$4, 682	(7)%	(1) %	(7)%	(1) %
Europe	6,721	7, 424	6, 817	(9)	9	3	6
APMEA	3,714	3,660	3, 134	1	17	5	14
Other countries & corporate	729	841	1, 978	(13)	(57)	(7)	(58)
Total	\$15,459	\$16,561	\$16,611	(7)%	- %	- %	(2)%
Franchised revenues							
US	\$3,649	\$3, 442	\$3, 224	6%	7%	6%	7%
Europe	2,553	2, 499	2, 109	2	18	10	13
APMEA	623	571	465	9	23	12	20
Other countries & corporate	461	449	378	3	19	9	17
Total	\$7,286	\$ 6, 961	\$ 6, 176	5 %	13%	8 %	10%

continued

	Amount			Increase/ (decrease)		Increase/ (decrease)*	
Total revenues							
US	\$7,944	\$ 8,078	\$ 7, 906	(2)%	2%	(2)%	2%
Europe	9,274	9, 923	8, 926	(7)	11	5	7
APMEA	4,337	4, 231	3, 599	3	18	6	15
Other countries & corporate	1,190	1, 290	2, 356	(8)	(45)	(2)	(46)
Total	\$22,745	\$ 23, 522	\$ 22, 787	(3)%	3%	2%	1%

Legend: \* excluding currency translation

Source: McDonald's Corporation Annual report, 2009, p. 15.

## 1.2 Types of restaurants

McDonald's restaurants are either company based or franchised to third parties. Of its 32,278 restaurants around the world as on September 30, 2009, 25,975 (80%) were franchises and 6,303 (20%) were company-operated. The initial capital required to build a restaurant and maintain it through reinvestment is provided by franchises. Compared to that, direct restaurant operation is more capital-intensive, which results in lower restaurant margins and percent of revenues (United States Securities and Exchange Commission, 2009, p. 13).

## 1.3 Products

McDonald's main sale focus are hamburgers, various types of chicken sandwiches and products, French fries, soft drinks, breakfast items and desserts. In most markets McDonald's also offers salads and vegetarian items and in certain markets even some products, which are available only on that precise market. For example, Portugal is the only market where one can buy a McDonald's soup. McDonald's is also very aware of the cultural differences that effect purchasing decisions of food, and therefore, for example, does not offer beef products in India. In wish to make McDonald's offer more familiar to locals, they also implement items that are more common for them. A good example of this kind of a product is "McRice" in Indonesia.

## 1.4 Presence in a global market

McDonald's is well-established in Europe, Asia/Pacific Islands, the Middle East and Africa. Its growth in Europe is mainly driven by France, Germany and the United Kingdom. In Asia a significant potential has been indicated by the general management. For that reason McDonald's adapted its menu items to local cultures, such as the Teriyaki Mac in Japan, variants of Filet-O-Fish in China and lamb in place of beef in India. Also a nice bolster of global reputation is a great honour given to McDonald's when it was selected as the Official Restaurant of the Beijing 2008 Olympic Games.

In Table 2 we can see that more than 60% of McDonald's revenues represent international units. McDonald's is not present only in developed markets like the U.K., Canada, South Korea and Australia, but it also operates in fast growing emerging markets like China, India, Russia and Eastern Europe. By tapping into a growing global middle class, the company's international operations have consistently posted strong same-store sales growth. Although France, Germany and U.K. are the ones that bring most revenues, China is the one that shows most potential in growth, when talking about international part of McDonald's operations (United States Securities and Exchange Commission, 2009, p. 13).

*Table 2: McDonald's International Revenues*

<b>Geographic region</b>	<b>Percent of total revenues</b>
U.S.	35
France, Germany, UK	21
Rest of Europe	14
Australia, China, Japan	8
Rest of Asia, the Middle East, Africa	8

*Source: Summarized from United States Securities and Exchange Commission, 2009, p. 13.*

## 2 Internationalization

There are many definitions that describe the concept of internationalization. The term internationalization has been in use since the 1920s when it replaced the term imperialism, which indicated business expansion over the borders of your home country. 50 years later, a new term globalization arose and started to replace the term internationalization. We talk about globalization when a company is expanding their operations on a global scale and not only to a few countries (Ruizzier, 2005, p. 10).

It is easy to deduct that globalization and internationalization cannot be separated terms, because they complete each other. Globalization enables the growth of company's international activities by expanding its resources, production capabilities and marketing strategies outside the home country borders and vice versa (Makovec Brenčič, 2006, p. 17).

Katsikeas & Morgan (1997, p. 78) define it as a process that from the company's point of view consists of: market selection strategy, entry modes, product/service strategy and companies' development strategy of individual business functions. It means that the company is moving business operations to foreign markets and is more present in international activities, concerning purchase and sales.

Hollensen defined it in a similar manner. Internationalization includes internal and external environmental processes of a company and development of its resources. It occurs when the company expands its research and development (R&D), production, sales and other business activities into international markets. He also noted a difference between internationalization process of a large company and a small to medium enterprise (SME), where a large company normally undertakes various foreign expansion projects simultaneously, in incremental steps, and SME normally regards each internationalization venture as a distinct and individual (Hollensen, 1998, p. 35-6; Hollensen, 2004, p. 30).

## **2.1 Internationalization theories**

In his book, *Global Marketing; A Decision-Oriented Approach*, Hollensen (2004, p. 50-52) described six different internationalization theories, which are: Traditional marketing approach, "life cycle" concept for international trade, the Uppsala School approach, the internalization/transaction cost approach, Dunning's eclectic approach and the network approach.

### **- Traditional marketing approach**

It reflects traditional marketing focus on the company's core competences, combined with opportunities in the foreign environment. The cost-based view suggested that the company must possess a 'compensating advantage' in order to overcome the 'cost of foreignness'. This led to the identification of technological and marketing skills as the key elements in successful foreign entry (Hollensen, 2004, p. 51).

### **- "Life cycle" concept for international trade**

This theory talks about changes in location of production, as the newly implemented product on domestic soil slowly reaches its stage of maturity. At that point a company senses the pressures of competition and is therefore obliged to consider moving their production into

countries with lower production costs. This theory suggests that large companies from developed countries have a fairly big advantage over companies from less developed countries (Kim et al., 2002, p. 42).

Hollensen (2004, p. 51) described this theory in a similar manner. In 1966, Vernon's "product cycle hypothesis" was introduced and it suggests that the producers in advanced countries are closer to the markets than producers located elsewhere, which implies that the first production facilities are most likely to be located in advanced countries. By a growing demand some level of standardization and also economies of scale, through mass production, become more important. Product costs are the next concern and that is how less developed countries get their end of the deal. Because products are more or less standardized, less developed countries may offer competitive advantage as production locations.

#### - The Uppsala School approach

Nowadays this theory is one of the most discussed and relevant, as it is the work of Scandinavian researchers who suggest that the process of internalization is founded on evolutionary and sequential growth of foreign commitments with time (Katsikeas & Morgan, 1997, p. 71).

Hollensen (2004, p. 51) described it as a stages model that suggests a sequential pattern of entry into successive foreign markets, coupled with a progressive deepening of commitment to each market. Increasing commitment is of great importance in the thinking of the Uppsala School. It suggests that companies tend to develop more interest and therefore intensify their commitment in foreign markets as their experience grows. Chetty and Campbell-Hunt (2003, p.798) added that by gaining market knowledge also the load of sources, which companies direct to a specific market, show growth.

Whitelock (2002, p. 342) on the other hand also explained the key features of the Uppsala Model, which are: Companies develop their activities abroad in a certain time period and in incremental fashion. To do so, they rely on their own knowledge development. Knowledge development is explained by the concept of physical distance. This means that the companies tend to expand into markets that are physically closer and decide to tackle more distant markets when they find their knowledge to be appropriate.

#### - The internationalization/transaction cost approach

In the early 1970s intermediate forms of internationalization were not considered interesting. In 1976, Buckley and Casson extended the choice of licensing with the aim of reaching customers outside company's state borders. They suggested that multinational companies prefer to "internalise" transactions via direct equity investments, rather than licensing their capabilities. Their focus on market-based (externalization) versus company-based

(internalization) solutions highlighted the strategic importance of licensing when entering a foreign market. Internationalization involves two interdependent decisions, which are: Choosing the location and the mode of control (Hollensen, 2004, p. 51).

Closely related to the transaction cost (TC) theory (Williamson, 1975 in Hollensen, 2004, p. 52) is the internalisation perspective. The main question in internalisation theory is set when a company decides to enter a foreign market: Should they internalise within their own boundaries (a subsidiary) or should they internalise through some form of collaboration with an external partner (externalization). Both internalisation and TC perspectives are concerned with the minimization of TC and conditions underlining market failure. The big picture of this theory is analyzing the characteristics of a transaction in order to choose the most efficient one. Multinational companies think of internalisation theory as their form of the TC theory (Rugman, 1986; Madhok, 1997, 1998 in Hollensen, 2004, p. 52).

Jaklič and Svetličič (2001, p.16) specified that internalisation theory outlines the reasons that make companies prefer vertical market transactions within a national or multinational company, rather than horizontal market transactions among equal independent partners. A company will grow by establishing subsidiaries and in that way engage in more transactions within a larger multinational company. This will occur when TC are higher than costs of doing business within the domestic company. By applying this theory, the company will avoid transaction costs and with global growth enable strengthening of its position in the market.

- Dunning's eclectic approach

Ownership-Location-Internalisation (OLI) framework, composed by Dunning (1988), discussed the importance of location variables in foreign decisions. According to this framework, the propensity of a company to engage itself in international production increases, if the following three conditions are satisfied (Johanson & Mattson in Hollensen, 2004, p. 52):

1. Ownership advantages: If a company owns foreign production facilities, it has bigger ownership advantages in comparison to companies of other nationalities. These so called advantages may also consist of intangible assets.
2. Location advantages: There must be profit involved in order for the company to continue these assets with factor endowments in the foreign markets. If there is no profit then that market would be served by exports.
3. Internalisation advantages: There must be more profit in using the advantages than in selling them or giving the right to use them to a foreign company.

The OLI model began when Dunning chose to interact the resources that a firm was able to move to a different country against those that could not be so moved. He also assumed that the company is an apparatus for integrating factors of production, which provided uncontroversial framing for his hypothesis. His hypothesis was that some non-national firms seemed able to import strategically significant resources that were not available to the national firms and so overcome other penalties of foreignness (Spender, 2006, p. 4).

- The network approach

The assumption of the network approach is that individual companies can not be analysed as an isolated actor, but have to be viewed in connection with other actors operating in the international environment (Hollensen, 2004, p. 52). Therefore companies internationalize through establishing and developing connections with business partners in foreign networks (Jaklič, 2002, p. 2).

Lipičnik (1994, p. 70) added that dynamical networks are merely organizational structures, which can be drawn, but are invisible, and by using computers they normally connect constructors, merchants, work force and distributors. Lipičnik also explained the invisibility of the organizational structure with a practical example of the hockey stick. The idea of the hockey stick was conceived in Scandinavia, it was constructed in the U.S. (in order to fit the needs of the large American and Canadian market), manufactured in Korea and distributed through a Japanese multinational enterprise. All these companies made the hockey stick, but they worked on a project individually, without being physically joined in a known organizational structure.

Advantages of such an organizational structure are to be found in its flexibility, greater use of human resources and capability and efficiency in general. Due to specialization of individual companies in the network, the cost of production is lower (Lipičnik, 1994, p. 70).

An example of a vertically connected organization is McDonalds, as it has a chain of restaurants nearly all over the world with specified quality of meat, potatoes, coffee temperature and so on. It seems as if McDonald's is a large self-sufficient company, but it is not quite so. Their business system is a compound of franchisees and independent suppliers and connections between them represent a network (Jarillo, 1993, p. 7).

## ***2.2 Motives to go abroad***

A company's management will normally consider international activities only when it is stimulated to do so. Various stimulations can push or pull individuals and companies to decide for internationalization. Hollensen (1998, p. 23) indicates that the main reason for a company's international path is profit, but there are also some smaller motivations in the



background. To have success in internationalization, a company must thoroughly examine its motivations that were crucial in making the decision to go international (Kotler, 1996, p. 187).

Morgan (1997, p. 70-71) stated that there are two popular typologies that suitably classify export stimuli. The first typology indicates that the stimuli are classified by internal or external environment, where internal stimuli are considered to be those which are associated with influences in the corporate environment of the company and the external those with origins in company's domestic or foreign external environment. The second typology classifies stimuli according to proactive and reactive motivations.

Hollensen (2004, p. 31) suggests that there are two types of motivations for internationalization, which are: Proactive and reactive. When a company initiates a strategic change we are talking about proactive motivations and when a company merely replies and adapts to the changes in the outside environment we are talking about reactive motivations.

Czinkota (2005, p. 352-354) explained the proactive and reactive motivations in a more detailed manner, as demonstrated in Table 3.

*Table 3: Major motivations for companies*

<b>Proactive motivations</b>	<b>Reactive motivations</b>
Profit advantage	Competitive pressures
Unique products	Overproduction
Technological advantage	Declining domestic sales
Exclusive information	Excess capacity
Tax benefit	Saturated domestic markets
Economies of scale	Proximity to customers and ports

*Source: Czinkota, 2005, p. 352, Table 11.1.*

Czinkota (2005, p. 354-355) also suggests that the companies that are motivated by proactive factors are more successful in international business, due to self-initiative and the drive within the company. The clearest differentiation between the two types of companies can be done while examining their initial international entry manner. Proactive companies have most likely solicited their own first international order, whereas reactive companies probably received an unsolicited order from abroad.

Morgan (1997, p. 71) summarized findings of many authors by saying that integrating the internal/external and proactive/reactive stimuli will make the typology more comprehensive. This way the typology will have a greater level of explanatory power compared with the two independent dichotomies. Table 4, listed bellow, shows integrated internal/external and proactive/reactive stimuli.

Table 4: Integrated internal/external and proactive/reactive stimuli

Export stimuli	
Internal-proactive export stimuli	<ul style="list-style-type: none"> <li>- Positive interest and a desire to export</li> <li>- Ambition of decision makers for greater sales and profit</li> <li>- Competitive elements: R&amp;D, uniqueness of a product, marketing, finance, etc.</li> </ul>
Internal-reactive export stimuli	<ul style="list-style-type: none"> <li>- Viable market development strategy</li> <li>- Seasonal demand cycle for products</li> <li>- Desire to harness unused resource capacity of the company</li> <li>- Unsold inventory through overproduction</li> </ul>
External-proactive export stimuli	<ul style="list-style-type: none"> <li>- A number of “change agents”</li> <li>- Possession of exclusive information on foreign markets</li> </ul>
External-reactive export stimuli	<ul style="list-style-type: none"> <li>- Unsolicited inquiry from abroad</li> <li>- Circumstances within the domestic market; saturation or decline in domestic sales, competition gearing up, logistical proximity to freight-forwarding intermediary channels</li> <li>- Favourable foreign exchange rates between the domestic currency and the target export country currency</li> <li>- Reduction in import tariffs and relaxed product regulations</li> </ul>

Source: Summarized from Morgan, 1997, p. 71-72.

Another way to specify the motivations for internationalization is saying that there are traditional motivations, emerging motivations for internationalization and motivations linked to globalization. Traditional motivations are insuring raw materials, searching for new markets and access to cheaper factors of production. Emerging motivations are company's ability to learn, global coordination and global competitive positioning. Motivations linked to globalization are economies of scale, growing cost of research and development and shorter product life cycle (Bartlett & Ghosal, 2000, p. 5-9).

Tratnik (1999, p. 26-29) indicates four motivations for internationalization, which are: Searching for sources, searching for markets, increasing efficiency and strategic reasons.

Companies that are searching for sources will internationalize in order to obtain certain or specific sources at lower cost, compared to domestic cost. By doing so, they could enable higher profitability and a competitive advantage of the investor. The sources companies are

looking for are physical sources, cheap (motivated, educated) work force and technology knowledge and management, marketing or organizational skills (Tratnik, 1999, p. 26-27).

Companies that are motivated by finding new markets normally invest in a foreign country in hopes of supplying it, or its neighbouring countries, with products or services. With such a form of direct investment the company usually replaces export with the goal of keeping and protecting the existing markets or exploiting and obtaining new markets (Tratnik, 1999, p. 26-27).

Companies that are motivated by increasing efficiency invest internationally in hopes of gaining new markets and sources that would bring economies of scale and diversification on risk. Doing business this way enables the companies to take the best out of each market they invested in. This kind of internalization can only happen if the international markets are well developed and opened enough. An Example of such internationalization is internationalizing due to savings in taxes (Tratnik, 1999, p. 27-28).

Companies motivated by their own strategic goals, which are in most cases preserving and strengthening international competitiveness, are normally multinational companies and companies that are investing in foreign markets for the first time because they want to gain an international competitive advantage. Main motives are linked to increasing company's assets and the diversification of activity, which strengthens the competitive advantage and reduces uncertainty of doing business. These companies expect to enjoy the advantages of the overtaken companies or partners by strategic investing, or at least prevent their competitors of doing so (Tratnik, 1999. p. 29).

When talking about internationalization and motives for such actions, we also need to consider the barriers a company faces in order to reach their perspectives and goals. Export barriers can be encountered by the company at any stage of internationalization, from pre-export and other initial stages to extensive levels of international involvement. Morgan summarized many authors by classifying four different export barriers, which are: Internal-domestic export barriers, internal-foreign export barriers, external-domestic export barriers and external- foreign export barriers. These barriers are shown in Table 5.

*Table 5: Export barriers*

<b>Export barriers</b>	
Internal-domestic barrier	<ul style="list-style-type: none"> <li>- Management or company's desire and inherent interest in satisfying domestic demand</li> <li>- Resource constrains; insufficient production capabilities, lack of managerial staff, inadequately trained staff</li> </ul>
Internal-foreign barrier	<ul style="list-style-type: none"> <li>- Logistical difficulties in transport and shipping</li> <li>- High risks and costs</li> <li>- Payment problems and delays</li> </ul>

continued

<b>Export barriers</b>	
	- Limited knowledge of market intelligence to research foreign markets
External-domestic barrier	<ul style="list-style-type: none"> <li>- High cost of finance or limited venture capital to fund export</li> <li>- Excessive documentation requirements and procedural difficulties in explicating export transactions</li> <li>- Management lack of knowledge of (provision, government export assistance, incentive and promotion programs)</li> </ul>
External-foreign barrier	<ul style="list-style-type: none"> <li>- Distinctive foreign consumer preferences</li> <li>- Unfamiliar business protocols and practices</li> <li>- Difficulty in sourcing competent distributor/agent representation</li> <li>- Lack of export market distribution channel structure and development</li> <li>- Imposition of tariff barriers and regulatory import controls</li> <li>- Competitive intensity</li> <li>-Exchange rate fluctuation</li> </ul>

*Source: Summarized from Morgan, 1997, p .74.*

### **2.3 Market entry modes**

After the evaluation of the markets and the decision making concerning which market to enter, companies need to choose a market entry mode. This decision is heavily influenced by company's motives and the specifications of the market it wishes to penetrate (Balažič, 2008, p. 27). Deciding how to enter a market is a demanding task, as there are many forms of entry that are risky, demand a lot of control and a lot of flexibility in sources integration. When a company is considering market entry modes, it always needs to evaluate the risk, control and the flexibility of the company in terms of a chosen entry mode (Vogrinc, 2009, p. 16).

Due to constant changes in the environment the company needs to decide when it is going to enter a foreign market and how involved in the market it wishes to be. The main entry modes are export entry modes, contractual entry modes and investment entry modes (Hollensen, 2004, p. 284). If we compared these modes with the previously mentioned criteria in mind, we could conclude that export entry modes are the least risky and demand minimum investments, but on the other hand they offer negligible control. They are also more flexible compared to investment entry modes, but that does not make it an ideal entry mode. Each market needs to be studied and only after that a decision which market entry mode to apply can be taken (Balažič, 2008, p. 27).

Darling and others (2004, p. 34) describe entry modes as export entry modes, contractual entry modes and investment entry modes. Export entry modes may be direct or indirect,

contractual entry modes involve different alternatives, such as licensing, franchising, etc., and investment entry modes consist of acquisitions or establishing new solely owned venture or acquisition or establishment of a joint venture in a foreign market.

### **2.3.1 Export entry modes**

Exporting is normally the least risky form of internationalization and in most cases it represents first steps into doing business internationally (Holensen, 2004, p. 291). In this case, companies produce their products on their own or on foreign soil and then export them to other markets, directly, indirectly or cooperatively (Taylor et al., 2000, p. 147).

#### **2.3.1.1 Indirect exporting**

When an independent company takes over company's export activities, including documentation, transport, distribution and product sales on a foreign market, we can say that a company is an indirect exporter. This form of exporting does not demand a lot of knowledge or experience due to similarity in selling the product on a domestic market. Normally, a company that has minimal resources and wishes to test out the markets before making any final decisions and companies that are aiming at foreign markets with the goal of selling exceeds in productions are the ones deciding for this form of exporting (Young, 1989, p. 11).

More advantages of indirect exporting are a low political and marketing risk and the ability of choosing an experienced exporter. But on the down side there is considerable lack of control in who, where, when and how the products are being marketed in a foreign country. There is also a possibility of a bad brand image due to distribution channels and potential bad product promotion. Because of poor contact with foreign market companies just do not have enough information on its potential (Vogrinc, 2009, p. 19).

#### **2.3.1.2 Direct exporting**

When the manufacturer of a certain product makes direct contact with the end customer outside its state borders, we are talking about direct exporting. This way of exporting demands more exporting expertise, due to a higher level of control over the entire process. It is obligated to find new business partners and to do the necessary market research of aimed markets. It is responsible for the documentation, transport and marketing strategy of the product (Makovec Brenčič, 2006, p. 56). It can also be based on exclusive sales agreements with foreign agents that operate as company's chosen representatives or distributors in a certain country, or a smaller geographical region within that country (Vogrinc, 2009, p. 18).

Direct export is considered to be a more mature level of internalization, from the development point of view. The company has direct contact with foreign clients, is developing its own business network abroad step by step and is consequently increasing its control over the entire marketing process. That way it is building its own market identity, not only at home but also on foreign soil (Vogrinc, 2009, p. 19).

### 2.3.1.3 Cooperative exporting

It is a form of exporting that is based on cooperation with other companies, so called export marketing groups, which take care of all the export activities and international business involved in the process. Companies that are joined in this way are able to explore the market and present themselves much more efficiently than if they went in alone. An organization can replace many sales representatives, which enables the company to set better prices and lower the costs of production. Another good side of cooperative export is the possibility of standardization of transport, which suggests that transport is not a matter of the exporting company. On the down side of this form of export is the fact that some companies are just not willing to give up total independence (Hollensen, 2004, p. 302; Makovec Brenčič, 2006, p. 56).

### 2.3.2 Contractual entry modes

There is a considerable difference between entering a foreign market with exporting and entering the same market contractually. When we are talking about export entry modes, we know that the company is manufacturing its products in its home country, foreign country or a duty-free zone. After the products are manufactured, the company sells them on a foreign market, directly, indirectly or cooperatively. But when we have contractual entry modes in mind, we know that export (or import) is no longer necessary, because we are no longer transferring products or services to a foreign market. This form of entry mode is transferring production, processes and knowledge of its formation. That way the company is able to understand the end buyer better and make its product market-fit (Makovec Brenčič, 2006, p. 60). It is safe to say that contractual entry modes represent the majority of all actual market entries and in this case McDonald's is not an exception.

Most common contractual entry modes are:

- Licensing
- Franchising
- Joint ventures
- Strategic alliances
- Contractual manufacturing

### 2.3.2.1 Licensing

Licensing is a way of doing business internationally, when a company (the licensor) sets an agreement with a foreign company (licensee) to resign protected rights and knowledge that have a certain value to the company (Hrastelj, 1995, p. 514). It is a method of market entry offering a low level of investment and a fast market entry and is ideal for a licensor who is keen on manufacturing its own products in the licensee country. The agreement set by licensor and licensee confers the right of the licensee to use the combination of technical know-how, patent rights, trade marks rights and copyrights. Although both parties benefit with increased profits, it is important to stress that usually it is far better to market products in overseas territories than to license the patents and/or the production know-how (Branch, 2000, p. 407).

### 2.3.2.2 Franchising

Franchising is a form of doing business that is based on contractual relations between a franchisee and a franchiser, where the franchisee concurs to produce and market a product/service following instructions given by the franchiser (Klanček, 2002, p. 29). In return the franchiser receives fees, running royalties and other compensation from the franchisee. Tamer Cavusgil (2002, p. 94) indicated main advantages and disadvantages of this entry mode, which are shown in Table 6.

*Table 6: Advantages and disadvantages of franchising*

<b>Advantages</b>	<b>Disadvantages</b>
Rapid expansion into a foreign market with low capital outlays	Lack of full control over the franchisee's operations
Marketing is standardized, and there is a distinctive image	Limitations on the franchiser's profit
The franchisee is highly motivated	Restrictions imposed by governments on the terms of franchise agreements
Political risks are low	

*Source: Tamer Cavusgil, 2002, p. 94.*

### 2.3.2.3 Joint venture

Joint ventures are medium-term or long-term projects, contractual associations or investments that enable fulfilment of common goals of two or more business partners from different countries (Šuštar, 1992, p. 7). For all parties, ventures are means to share both capital and risk and make use of each other's strengths. However, potential problems are likely to arise if there is more than one party involved in the decision making process. Key to success of such partnership is patience and flexibility of both partners. Usually, however, one of the partners

must play the dominant role to boost the business and lead it to success (Tamer Cavusgil, 2002, p. 101).

Vogrinč (2009, p. 22) states the indicators of a joint venture, which are:

- Partners in joint venture are from different countries
- Partners jointly organize and manage investments
- Partners share profits and lose
- Rights and duties are arranged contractually
- Common goal is reaching highest possible profit
- Partners develop long-term business relations

#### 2.3.2.4 Strategic alliances

A strategic alliance is a form of a non-capital joint investment, which can be classified as a link between companies, often ex-competitors, that join their powers in order to achieve a better position on the global market (Makovec Brenčič, 2006, p. 101). The companies act that way in pursuit of agreed goals to meet a critical business need, while remaining independent organizations. The impetus to form a strategic alliance comes primarily from marketing and from financial, R&D and efficiency considerations of operating in a competitive global market (Branch, 2000, p. 12).

#### 2.3.2.5 Contract manufacturing

Contract manufacturing is an established working agreement between two companies. As part of the agreement, one company would custom produce parts or other materials on behalf of their client. In most cases, the manufacturer also handles the ordering and shipment processes for the client. As a result, the client does not have to maintain manufacturing facilities, purchase raw materials or hire labour in order to produce the finished goods (Hollensen, 2004, p. 310).

Contract manufacturing arrangements have several advantages for all companies involved. For the manufacturer, there is the guarantee of steady work and having contracts in place that commit to certain levels of production for one, two and even five year periods, which makes it much easier to forecast the future financial stability of the company. The advantage for the client is that it does not need to purchase or rent production facilities, buy equipment, purchase raw materials or hire and train employees to produce the goods. Therefore the problems with the employees, failure to report to work, equipment break-downs and other minor details are no longer a cause for worry, as the manufacturer is in charge of all these things. All the client has to do is generate sales, forward orders to the manufacturer and keep accurate records of all income and expenses associated with the business venture (Hollensen, 2004, p. 310).



### **2.3.3 Investment entry modes**

The last group of entry modes is investment entry modes that suggest that the company takes complete control and ownership over the form of entry. The question a company must answer is to which level it should control its actions on foreign markets. The decision of control is mainly based on dispersion of responsibility between the company and its subsidiary, based on abilities, area of expertise and marketing development goals (Vogrinc, 2009, p. 23).

There are a few types of investment entry modes (Makovec Brenčič, 2006, p. 104-111):

- Sales representatives
- Resident sales representatives / sales branches / sales units abroad
- Sales and production unit in the entered market
- Warehouses
- Regional centres
- Globally integrated companies
- Acquisitions

### **2.3.4 Evaluation of entry modes**

The importance of international trade to a nation's economic welfare and development has been heavily documented in the economics literature since Adam Smith's (1776) pioneering inquiry into the nature and causes of the wealth of nations. The rationale underlying this relationship suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services that cannot be produced indigenously (Morgan & Katsikeas, 1997, p. 68).

Ongoing globalization in the last two decades triggered growth in number of companies developing strategies to enter and expand into markets over their borders. Once a company decided to enter or expand into a foreign market it also needed to determine how to go about operations in that particular market (Osland et al., 2001, p. 153).

Koch (2001, p. 65) believes that selecting an overseas market and entry models are components that form the core of any international strategy. Quer and others (2007, p. 74) backed this theory up by saying that choosing a suitable mode of entry is one of the most important decisions a company must adopt during its internationalization process.

Pan and others (2000, p. 535) state that entry modes are a combination of varying degrees of resource commitment, risk exposure, control and profit return. As it is shown in Table 7, every entry type has its perks and downsides and each form of entry demands some sort of compromise. The company cannot have both high level of control and high level of

flexibility. Therefore, each company needs to study the market they are entering, resources they have and goals they strive to achieve. Having all mentioned in mind, they can decide which of the factors they are willing to sacrifice; control, profit, risk or resource commitments, in order to maximize return and minimize risk (McDonald et al., 2001, p. 207).

*Table 7: Evaluation of entry modes*

<b>Entry type</b>	<b>Entry mode</b>	<b>Level of control</b>	<b>Resource commitment</b>	<b>Risk</b>	<b>Profit potential</b>
Export entry mode	Exporting	Very low	Very low	Very low	Very low
Contractual entry mode	Franchising	Low	Low	Low	Medium
	Licensing	Low	Low	Low	Medium
	Joint venture – min. part	Medium	Medium	Medium	Medium
	Joint venture-major part	High	High	High	High
Investment entry mode	FDI. Independent entry	Very high	Very high	Very high	Very high

*Source: Kim, et al., Models of foreign market entry by Korean SI firms, 2002, p. 19.*

Ahmed and others (2002, p. 809) assure that each entry mode provides management with a trade-off. First option is that the management retains full control of its operations through a wholly owned subsidiary (high commitment of resources) but is facing exposure to total risk. Second option would be the joint venture agreement, where the company shares control and resources with another company and that way avoids some of the risk. And the last, third option, is exporting, which means that the management shifts control and risk to another company and avoids most of the risks in that target market.

In the following chapters the emphasis will be on the American fast food giant, McDonald's, and its entry strategy in China, franchising. Franchising is one of the safest ways of entering a foreign market as it represents low level of risk and low resource commitment. However; low level of risk and low resource commitment stands to be accompanied by low level of control and merely a medium level of profit potential.

## **2.4 McDonald's Internationalization process**

When the number of units in the U.S. and Canada, in 1970, reached its then assumed peak of 1,800 units, McDonald's embarked upon its internationalization process. Although its chain in

the North-American market was still showing strong growth during the 1970s, with an average of 60 new units per year, this rate was somewhat lower than what had been achieved earlier, when the surge of new units had stood above 100 per year, on average, during the 1960s (Sapolnik Dahab, 2000, p. 8).

In the 1980s a fevered rivalry in the fast-food sector began with a strong trend toward concentration in distribution franchises in particular. There are two possible reasons that McDonald's Corporation could have had in mind, when they decided to internationalize: Slower pace of growth in the internal market or the swelling force of competition. Both of these factors were cutting into McDonald's profit margins and therefore McDonald's chose to seek growth over a wider horizon (Sapolnik Dahab, 2000, p. 8).

If we take a closer look into the internationalization process of McDonald's, we can see that it has had two main criteria points in choosing the areas to target for international expansion. These two criteria were geographical proximity and/or similarity to American culture. At the beginning of the 1970s, the overseas locations included the Virgin Islands, Panama and El Salvador (geographic proximity) and Japan, Germany, Holland and Sweden (distant, but strongly influenced by American culture). From 1980 on, the rate of internationalization quickened, consolidating McDonald's position in Europe and the Pacific Rim, while the 90s witnessed McDonald's franchise penetration into countries of the former Soviet Union, the Middle East and North Africa. In 1997, the McDonald's Corporation was present in 103 countries and boosted a network of 13,000 units (Sapolnik Dahab, 2000, p. 8).

#### **2.4.1 McDonald's internationalization pattern**

McDonald's pattern of internationalization is mainly the same in every country, as they tend to establish a contract of "area development" with a local businessman. This concept, which exists in literature largely as a result of McDonald's own influence, indicates that the local businessman acquires the right to spread the McDonald's brand into his country or region. While doing so, he assumes all the property investment risks and becomes fully responsible for the franchise's growth plan in the country or region. However, this contract does not give the businessman the right to license or further franchise the brand (Sapolnik Dahab, 2000, p. 9).

Normally, the profits derived from the owned units are divided equally between McDonald's and the area leader, and in the case of the franchised units no percentage over profits goes to the area leader. In this case all of the profit is split between the franchisee and McDonald's. McDonald's insures that the area leader gets all the brand know-how and technical, logistic and marketing support needed for the development of the area, but does not allow the area leader to expand the chain without McDonald's approval. The franchising right is held

entirely by the McDonald's Corporation and therefore the area leader is also not allowed to open new franchise units (Sapolnik Dahab, 2000, p. 9).

Once they made an agreement regarding the franchise's expansion plan within the area, any further expansion is a matter that can only be acted upon by the mother corporation. Therefore McDonald's corporation decides, if there are any process of diffusion of know-how, improvements or changes of any kind that need to be made. As mentioned above, franchisees and the area leader are hierarchically below the mother corporation in everything related to the franchising contract or opening new units, but they do own the physical property in the area (Sapolnik Dahab, 2000, p. 9).

When the McDonald's Corporation feels like it has gained dominance over the market area in question, it starts to negotiate with the market leader in order to acquire all of the facility's properties in the area. After the network is reconfigured in terms of owned units and franchisees, it is depending solely upon McDonald's internationalization strategy for the country. McDonald's considers each country on an individual basis, learning about operational policies that reflect the realities found in each country. If those policies are compatible with the overall aims of the McDonald's Corporation, the green light for doing business is on (Sapolnik Dahab, 2000, p. 9).

### **3 Chinese market**

This point will focus entirely on China, where I will begin by giving some general data on geographical location and population of China. Not only population numbers for China in general, also numbers according to provinces, municipalities and regions will be outlined. Further on, historical highlights and sequels of dynasties, which lead to a communist governmental organization and its implications on today's global business will be presented. I will also illustrate the PEST analysis where major aspects of a complex environment such as China will be discussed.

#### **3.1 About China**

##### **3.1.1 China's location in the world**

China (People's Republic of China) is situated in eastern Asia, bounded by the Pacific in the east. After Canada and Russia it is the third largest country in the world, as it has an area of 9.6 million square kilometres or one-fifteenth of the world's land mass. Its beginning is located at the confluence of Heilong and Wusuli rivers in the east to the Pamirs west of Wuqia County in Xinjiang Uygur Autonomous Region in the west, about 5,200 kilometres apart; and

from the midstream of the Heilong River north of Mohe in the north to the southernmost island Zengmu'ansha in the South China Sea, about 5,500 kilometres apart. China's location in the world is demonstrated in Figure 1 (China Today – General Information of the People's Republic of China, 2010).

China's border is approximately 40,000 kilometres long, of which 22,000 kilometres are borders on land and 18,000 are coastline borders. Coastline borders are washed by the waters of the Bohai, the Huanghai, the East China and the South China seas. The Bohai Sea is the inland sea of China. There are 6,536 islands larger than 500 square meters; the largest is Taiwan, with a total area of about 36,000 square kilometres, and the second, Hainan. The South China Sea Islands are the southernmost island group of China (China Today – General Information of the People's Republic of China, 2010).

*Figure 1: China's location in the world*



*Source: China Today; General Information of the People's Republic of China, 2010.*

China is divided into 22 provinces, 5 autonomous regions, and 4 municipalities under direct control of the central government. It also has two special autonomous regions (Hong Kong and Macau) and claims sovereignty over a 23rd province (Taiwan). These three are listed as separate countries (China Today – General Information of the People's Republic of China, 2010)<sup>1</sup>.

---

<sup>1</sup> Detailed overlook of provinces, autonomous regions, municipalities under direct control of the central government and two special autonomous regions is to be found in Appendix 1.

Figure 2: Location of provinces, autonomous regions and municipalities



Source: *China Today; General Information of the People's Republic of China, 2010.*

### 3.1.2 China population

Censuses have been conducted in 1953, 1964 and 1982. Five years after the last one the government announced that the fourth national census would take place in 1990 and that following censuses would take place every ten years thereafter. The third national census in 1982 reported a total population of 1,008,180,738 and is considered to be much more accurate than the previous two (Country Studies – Population, 2010).

For many centuries China has been the world’s most populous nation and it still keeps its leading position on the scale of most populated countries. When China took its first post-1949 census in 1953, the population stood at 582 million and by the fifth census in 2000, the population had more than doubled, reaching 1.2 billion (China Today – China Population Statistics and Related Information, 2010).

In the 1920s and 1930s, Chinese interest in social programs through reproductive control, including eugenics, intensified. Beginning in the mid-1950s, the Chinese government introduced, with varying degrees of success, a number of family planning, or population control, campaigns and programs. China’s fast-growing population was a major policy matter for its leaders in the mid-twentieth century, so that in the early 1970s, the government implemented the stringent one-child policy (publicly announced in 1979). Under this policy, which had different guidelines for national minorities, married couples were officially permitted only one child. As a result of the policy, China successfully achieved its goal of a more stable and much-reduced fertility rate (Country Studies – Population, 2010).

In 2008, the total population of China reached 1,328 billion, which is about 22% of total population in the world<sup>2</sup>. Li Bin, director of the National Population and Family Planning Commission, said that the world's most populous country is projected to have 1,39 billion citizens by 2015, up from 1,32 billion at the end of 2008 (China Today – China Population Statistics and Related Information, 2010).

### **3.2 History of China**

The history of China as we know it dates back 3,300 years. Some newer archaeological studies even provide evidence of its existence in 2500 B.C. It is supposed to have flourished between 2500 and 2000 B.C. in the area which is now central China and the lower Yellow River Valley of north China. Many centuries of migration, amalgamation and development brought about a distinctive system of writing, philosophy, art, and political organization that came to be recognizable as Chinese civilization. The thing that makes this civilization so unique in the world's history is its continuity through over 4,000 years to the present time (Country Studies – Historical Setting, 2010).

Till the 20<sup>th</sup> century the majority of the written proof of China's history was conducted by the members of the ruling scholar-official class. Such notes were made to provide the ruler necessary data to guide or justify his policies. As they took care of the dynastic politics, the historians described a Chinese political pattern of dynasties, one following another in a cycle of ascent, achievement, decay, and rebirth under a new family (Country Studies – Historical Setting, 2010).

Historical notes tell us that there were 29 dynasties ruling in China over the years. First of them is supposed to be Xia, but there are no archaeological findings offered up to date to support that theory. Dynasties that followed were Shang, Zhou, Qin, East Han dynasty, West Han dynasty and 23 others (Rošker, 2001, p. 84).

After the Shang dynasty (16-11 century B.C.) implemented permanent editorial board and permanent army service to protect China from the people from the north, the Zhou dynasty (1050-221 B.C.) followed. In the Zhou dynasty China endured many changes, as the feudal society started to take shape. It is an era of great importance due to its golden age of trade and development of a new intellectual class (Rošker, 1992, p. 97-98). There were numerous philosophers and politicians that were going from one castle to another, offering their knowledge in exchange for payment. Society of that time valued knowledge much more than wealth and physical power and for that reason the intellectual class was at the very top of the class scale. Almost at the end of the same scale we can find merchants and the reason for that

---

<sup>2</sup> Population of Administrative divisions is to be found in Appendix 2.

is Confucianism which is still highly implemented in the Chinese culture today (Šutič, 2002, p. 2).

From 221-206 B.C., the Qin dynasty took its time and its purpose was from the very beginning heavily influenced by military ideas. Their leaders were striving towards achieving absolute centralized management and capital loading with means of free competition. They had no interest in the old feudal system and therefore they divided the entire country into provinces, and provinces into divisions that weren't managed by feudal lords. That is how they demolished the feudal system and with it also privileges of nobility (Rošker, 1992, p.101).

All the way to the 19<sup>th</sup> century many dynasties have ruled and in that time a strong sense of hostility towards foreigners developed, as China became judgmental towards foreigners and trade<sup>3</sup>. Chinese view of the outside world was limited to all the foreigners who came to China over the centuries from less developed countries along their borders. The Chinese saw their domain as the self-sufficient centre of the universe and from this image the traditional Chinese name for their country derived, Zhongguo, which literally meant, "Middle Kingdom" or "Central Nation" (Country Studies – Historical Setting, 2010).

Chinese hostile attitude towards so-called barbarian people surrounding Chinese borders on all sides and their belief that their culture is superior to any other culture was still heavily present even in the 19<sup>th</sup> century, when China had faced its first serious confrontation with the West. China had taken the Europeans for granted, as they believed that its relations with Europeans would be conducted according to the tributary system that had evolved over the centuries between the emperor and representatives of the lesser states on China's borders, as well as between the emperor and some earlier European visitors. This way of thinking was heavily mocked in the mid 19<sup>th</sup> century, when the Western weaponry and technology militarily humiliated the Chinese. This led to territorial dismemberment and China had to reassess its position, with respect to Western civilization. By 1911 the two-millennia-old dynastic system of imperial government was brought down by its inability to make this adjustment successfully. That is how China became a republic and how it got its first president, Sun Yat-Sen (Country Studies – Historical Setting, 2010).

On September 21, 1949, the Peoples republic of China was formed and it was led by a communist party, whose president was Mao Zedong. Mao was the leader of the communist party for over 40 years, the president of the military board that controlled the army and the president of the state. Therefore it is safe to say he was one of the most influential people in modern history of China (Country Studies – Historical Setting, 2010).

---

<sup>3</sup> Detailed overlook of dynasties by time frames is to be found in Appendix 3.



When the Peoples Republic of China was formed, it was among the poorest countries in the world, as its economy relied mainly on traditional farming. 80% of work force was getting their income from farmer works, population was growing rapidly, technology was getting obsolete and that is what led China to decreasing returns. Mao Zadonga decided to put a stop to this and give China a place in the world, which he believed it deserved. He started to implement many reforms that had a definite goal to increase the development of heavy industry. He was successful in doing so, but on the down side managing politics with coercive measures also left its consequences. Economy and technologically were inefficient and due to this a lot of people starved to death (Vietor, 2001, p.7).

Mao Zadonga died in 1976 and in 1978 China got its new leader, Deng Xiaoping. He started in an entirely new stream that was more similar to the Western way of managing economy. This period is known as a transit period from planned economy to market economy. Modernization reached many areas like agriculture, industry, science, technology and national defence system. With this reform a democratic movement emerged and in 1989 it ended with a military confrontation. Only years after, a difference and progress was notable in Chinese political system, as students gained the right to study abroad and many Chinese emigrants returned to their home in hopes of building a new and modern China (Country Studies – Historical Setting, 2010).

### **3.3 PEST analysis**

When a company wishes to enter a certain market, it needs to have studies done in order to assure they will function within it as comfortably as possible. Analyzing macro environmental issues under which a company will have to operate is therefore of great importance.

#### **3.3.1 Political factors**

Politically, China combines a socialistic political regime with the aim of a market economy. In practice, China is a unitary state, where the Chinese Communist Party (CCP) holds all political power (China - China's Political System, 2010). When it was established, it had merely 57 members and no control over proceedings of the government. However, by the end of 2009, the number reached astonishing 77,995,000 members and is supervising all political, governmental and military organs. In order to assure economic and social development it allows cooperation of other smaller parties (China Today – The Communist Party of China, 2010).

A one-party state may imply a stable political agenda; however, there are three major elements that can threaten China's political stability. Firstly, tensions between richer and poorer areas in China are increasing and the Chinese authorities must contend with separatist

movements in Tibet and Xinjiang (Wilson, 2008). Secondly, China's pension system is on the verge of a collapse, with only 6 out of 31 regional pension funds being solvent (Jiangong, 2008). Thirdly, international disputes with Taiwan on political belonging, Hong Kong with pro democracy activists and Japan on exploitation of natural resources might threaten stability in the long run (Index Mundi – Taiwan disputes: International, 2010).

### **3.3.2 Economic factors**

China is now serving as the world's primary engine of growth, having assumed that role from the U.S. in mid 2003. The country's first production census discovered at the end of 2005 that Gross Domestic Product (GDP) has recently been grossly underestimated, as a result of a failure to take into account the rapid growth of the services sector. Result of this was that the growth rates for 2003-2005 recorded 10% per year in real terms. The government tried to cool the overheating economy but without success. Officially recorded growth rate in 2007 reached 11.4%, but it didn't stay long this way, as in 2008 the global economics crisis began to reduce it. Forecasts at that time weren't very optimistic and therefore the government decided to invest RMB 4 trillion into the economy, in the form of an economic stimulus package, consisting largely of investment in fixed infrastructure and human capital. The preliminary estimate for real GDP growth was 9% but it was revised upwards to 9.6% on December 25, 2009 (Chinability – GDP Growth in China 1952-2009, 2010).

In 2009, GDP growth rate was 8.7% and World Bank estimates that it will rise to 9.5 in 2010. Its estimate is based on expected boost in exports, strong growth in real estate and robust domestic spending. It is suggested that the growth rate in 2010 relies less on government stimulus spending, which was the main force driving the 8.7% growth in 2009. The World Bank report also states that China will continue to bolster its economy through government-led investment, but on a much smaller scale, and advises the Chinese government to tighten monetary and other policies. That way they would have a stronger RMB to manage inflation expectations and contain the risk of an asset-price bubble. Inflation is expected to reach 3.5-4% on average in 2010, largely due to rising food prices. However, these prices are not expected to keep going up as rapidly as they did at the end of 2009, due to the factors behind food price increases that are not likely to persist (Xiaoji, 2010). All the mentioned data can be seen in Table 8.

The World Bank's predictions for 2010-2011 are less than promising, as the report says that the rich countries will have a sluggish recovery. Growth in developed countries will be 1.8 % in 2010 and edge up to 2.3% in 2011 and growth in developing economies 5.2% in 2010 and 5.8% in 2011 (Xiaoji, 2010).

*Table 8: China's GDP growth over the last 5 years*

<b>Year</b>	<b>Real annual growth rate (%)</b>
2005	9.9
2006	11.1
2007	11.4
2008	9.6
2009	8.7

*Source: Summarized from Chinability – GDP Growth in China 1952-2009, 2010.*

### **3.3.3 Social factors**

Before doing any type of business in China, one must get familiar with the Chinese business culture. Understanding a cultural environment is of great importance in all stages of internationalization and all forms of entry modes. Cultural differences demand individual approaches in terms of production management, marketing or any other activity in a new environment (Johnson, 2003, p. 199). When we talk about culture, we are referring to assumptions, values and beliefs set upon a country and individuals residing in it (Jaklič, 2000, p. 175). Most widely used culture analysis method was conducted by Hofstede, which suggest that there are five dimensions of culture. These dimensions as explained by Johnson (2003, p. 203) are shown in Table 9:

*Table 9: Dimensions of culture*

<b>Dimension</b>	
Power distance index (PDI)	Is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally.
Uncertainty avoidance (UAI)	Deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for truth.
Masculinity (MAS)	Masculinity versus its opposite, femininity, refers to the distribution of roles between the genders, which is another fundamental issue for any society to which a range of solutions are found
Individualism (IDV)	Individualism on one side versus its opposite, collectivism, that is the degree to which individuals are integrated into groups
Long term orientation (LTO)	LTO versus short-term orientation: Values associated with Long Term Orientation are thrift and perseverance; values associated with Short Term Orientation are respect for tradition, fulfilling social obligations, and protecting one's 'face'

*Source: Geert-Hofstede – Geert Hofstede Cultural Dimensions, 2010.*

In Table 10, I illustrated findings of Hofstede’s analysis based on China and world’s average. Hofstede rated countries on a scale from 1 to 100, where being closer to upper part of the scale indicated greater level of measured dimension.

*Table 10: Cultural dimensions of China based on Hofstede*

<b>Dimension</b>	<b>China</b>	<b>World average</b>
PDI	80	55
UAI	30	64
MAS	66	50
IDV	20	43
LTO	118	45

*Source: Geert-Hofstede – Geert Hofstede Cultural Dimensions, 2010.*

According to Hofstede's analysis, China ranks very high in long term orientation, very low in individualism, high in power distance, low in uncertainty avoidance and average in masculinity. We will start with power distance index, which is set at 80 and is well above world’s average. This indicates that the power distance remains high in China, whether it is within the company or in a society. When doing business in China, one must be aware of this large hierarchy gap. It is often hard to move up on their corporate ladder compared to other cultures.

Uncertainty avoidance index for China is low, which indicates that the people residing there accept uncertainty and are not burdened with it. Hofstede also implies that this kind of a culture is open to free belief and therefore one would not be punished for its own beliefs and standpoints. Although Hofstede was talking in general, in this case this is not true. A simple example could be the protests in China’s restrictive western region Xinjiang, where there were numerous people injured or killed.

Masculinity index for China is above world average. This indicates that men have a larger role in the society, assume leading positions and therefore have greater power over decision making.

Low individualism is also important for learning the Chinese way of thinking. It shows their desire to stay close to groups such as family, business partners, work team, friends etc. This indicates that society’s best interest is of greater importance than individual’s best interest. Their collectivist spirit can also be seen when referring to the way they do business, because they tend to choose their business partner carefully and with a lot of research and thought, but they also tend to keep the same business partner for years to come.

Long term orientation index shows the Chinese society's view towards time and their attitude towards perseverance. As I already mentioned while I was explaining the low individualism index, China's slow and steady wins are the core of doing business. Building strong, reliable, lasting relationships is necessary in gaining the trust needed before making any decisions. This index also suggests that the Chinese like to plan things ahead and in order to achieve their goals they use their contacts and acquaintances. This is called "guanxi" and is one of the most common cultural aspects of China.

### **3.3.4 Technological factors**

As China has become better connected to the global economy, the government has placed more emphasis on science and technology. This has led to increases in funding, an improved scientific structure and input of more available resources for research purposes. These combined factors have led to advancements in numerous fields, including agriculture, medicine and genetics.

Over 60% of (R&D) spending in China comes from the private sector, while the state contributes the rest. China's R&D/GDP ratio more than doubled, from 0.6% in 1996 to 1.5% in 2007, a period during which China's GDP grew at 12% annually – an enormous, sustained increase. The gap in China's R&D/GDP ratio relative to those of developed economies suggests that China's R&D volume can continue to grow rapidly (Science and Engineering Indicators – Global expansion of Research and Development Expenditures, 2010).

## **4 Doing business in China**

### **4.1 Why China?**

Foreign direct investment (FDI) has been one of the most discussed topics in the drive for economic globalization. Since 1993, China has been boasting the largest amount of FDI inflow of all developing countries and it has played an important role in contributing to the country's economic development, trade development and institutional reform (Zhang, 2002, p.52).

Based on multinational company motives, technology and production structure Zhang (2002, p. 52) distinguishes between vertical (export-oriented) and horizontal (market-oriented) FDI. Export-oriented FDI is oriented by cheap labour and it fragments the production process across countries, by production stages based on labour intensities. In general, the vertical multinationals set up at least one stage of the production in a foreign country with the purpose

of intensively using the unskilled workforce. Countries with low wages and countries that offer favourable incentives such as tax holiday will attract such FDI.

Horizontal FDI are a form of FDI where a company decides to build plants in multiple countries in order to serve local markets. This means that the horizontal multinationals build up similar production facilities abroad for economies of scale to gain access to foreign markets. If the horizontal multinationals wish to compete with the locals, they need to possess certain advanced technology that has not been grasped yet by the host country. This kind of FDI is wished upon by host countries, as it assures growth in market size and consequently offers greater opportunities to effectively realize economies of scale. Considering that this kind of FDI involves advanced technology, it normally has higher requirements for human capital and infrastructure in the host country (Zhang, 2002, p. 52-53).

Taking into account theoretical framework and stylized facts of FDI in China, FDI determinants may be identified. Some of these determinants are market size, labour costs, labour quality, agglomeration economies, transportation, FDI incentives, cultural links and openness (Zhang, 2002, p. 53).

An important factor affecting revenue and therefore profits of a multinational company is market size of a province. Those, market oriented FDI's seek to establish companies or facilities on local markets. Using these facilities they supply local customers with goods and services, with the purpose of exploiting a new market. The larger the market size of a province, the faster the economic growth and the higher the level of development - the more FDI it is likely to receive. The market size is measured by real GDP of a province and its expected impact should be positive (Zhang, 2002, p. 53).

Foreign investors generally aim to take advantage of cheaper factor inputs in China, especially cheaper labour for the export-oriented FDI in which production is labour intensive. China is definitely a country with a huge source of cheap, by social criteria non-demanding labour and that is one of the main reasons of such volume of FDI in China (Zhang, 2002, p. 53). Low labour costs are definitely a key factor for Asian investors, as they direct their capital mainly towards labour intensive and low-technology branches. A simple example of such a branch is the clothing industry.

For long China was considered as a country with a huge source of labour, but at the same time a country with weak source of labour. Workers of China were not considered educated and did not have the necessary knowledge on the field of management and technology. This represented a problem for many potential investors. Nowadays, the perception of China differs from what I have just described, as the Chinese are getting more and more evolved. It holds a great potential in human capital and is capable of imitating any given technology in a short period of time. High labour quality raises output, but not only that as it also enables companies to operate production with advanced technology. Consequently, provinces with

higher labour quality, measured by share of secondary school students in provincial population, should receive more FDI relative than other provinces. Labour quality is measured by the share of secondary school students in total population in a province and should have a positive impact on FDI inflows (Zhang, 2002, p. 53).

By clustering of manufacturing and foreign investment activities, combined with better access to markets and influence the location has on foreign manufacturers, agglomeration economies derived. It means that manufacturing production generally could become more efficient due to agglomeration economies that result from existing manufacturing activities locating in close proximity. Measured by the share of manufacturing output in provincial GDP, a province with strong agglomeration economies should attract more multinational companies (Zhang, 2002, p. 53). Agglomeration in China has a long history, as it began at least in the era of the Song Dynasty. In this era the coast was considered to be China's economic centre, therefore the events and policy seemed to favour coastal provinces. After the Opium war and China's gradual opening foreigners gained an even greater access, as restricted areas (except southeast coast) became accessible. Today the Open Door Policy and the establishment of Special Economic Zones continue a long process where government policy has favoured foreign investment along the coast (Akerman, n.y., p.13).

Another FDI determinant which is frequently mentioned is transportation. A highly developed transportation network is a definite benefit when attempting to attract FDI. The more railroad and highway mileage adjusted for province size a country has the more it is appealing to foreign investors (Zhang, 2002, p. 54). Ever since the mid 1990s, the transportation network in China has grown and evolved immensely to support the growth of the country. Huge sum of money has been spent by the government to build sea ports, airports, rail heads, subways, and even a magnetic train in Shanghai to create what will become one of the world's most complicated networks (All roads lead to China – Map: China's Transportation Network. 2006).

To encourage FDI, China conducted some special and foreigners friendly policies in taxation, land use and foreign currency exchange in coastal regions. As I already mentioned the government favours investments into coastal regions and therefore it directed its policies mainly in those areas (4 special economic zones and 14 opened cities). Result of such governmental actions was that the coastal region received a lion share of total FDI (Zhang, 2002, p. 54).

In the case of cultural proximity between FDI sources and hosts the amount of FDI flows would be highly encouraged. This is considered carved in stone especially when talking about the pairs of Hong Kong-Guangdong province and Taiwan-Fujian province. These two pairs are geographically adjacent to each other and they speak the same dialect. Such geographic and linguistic proximity plays a key role in large FDI in Guangdong and Fujian provinces (Zhang, 2002, p. 54).

The last FDI determinant according to Zhang is openness. The FDI regime adopted since 1991 to open more industries to FDI and to allow more local sales by foreign affiliates are supposed to have substantially contributed to the FDI boom in the 1990s (Zhang, 2002, p. 54).

## **4.2 Challenges of doing business in China**

### **4.2.1 Government protectionism**

Government protectionism certainly is an issue when talking about doing business with China. But the question is who is executing it? Is China the target of protectionism or is China the one handling foreign trade with protective measures? People's Daily published an article, quoting Yi Xiaozhun, the vice minister of the Ministry of Commerce, saying that China is in fact the largest victim of governmental protectionism, as some countries have used carbon tariffs to conduct trade protectionism under the guise of coping with climate change (People's Daily – China is major target in trade protectionism, 2010).

Gettman (2004, p. 7-8) has a different opinion. He says that China made a huge progress while going from planned to market oriented economy, but it still lacks equality skills. A part of government is still protecting local companies from import, while they are encouraging export, even more so if the local company is state owned. Gettman believes that going from one economy to another is a long process and that for now there are still traces of planned economy to be found. He gives an example that the state of China still owns the biggest banks and other financial institutions and with their help directs the loans to the companies which are state owned.

I believe that judging who is the victim in this game of protectionism is something one needs to decide for himself, because the fact is that in these times of economy crisis, many or even most countries are at least silently protectionist.

### **4.2.2 Corruption**

When somebody gives or receives something in order to ease or fasten normally illegal governmental issues, we talk about corruption. Table 7 shows the corruption perception index (CPI) by years, which measures the perceived level of public sector corruption in 180 countries and territories around the world. It is measured on a scale from 0 to 10, where 0 represents the highest level of corruption and 10 the lowest level of corruption (Transparency International – Corruption Perception Index 2009, 2010).



Table 11 clearly paints a negative picture concerning corruption in China. PCI last year was 3.6, which is too high, considering economic growth and participation of foreign investors. It has even reached 79<sup>th</sup> place on the scale of corruption, where the first place indicates least corruption. China's corruption problems have attracted nearly as much attention over the past generation as the economic reforms and rapid growth with which they have become linked. But corruption is nothing new in China, and the post-reform surge of corrupt practices and its growing significance as a political issue have deep roots.

In January 2010, BBC news announced that China's anti-corruption watchdog stated, that there were 106.000 officials found guilty of corruption in 2009, which is an increase of 2,5% compared to 2008. The government says that the increase is due to better supervision of the problem, and that corruption has consistently been rated as number one concern by Chinese, ahead of pirated goods and pollution (BBC News – Corruption up among China government officials, 2010).

*Table 11: Corruption perception index (CPI) for China by years and its rank in the world*

<b>Year</b>	<b>Rank</b>	<b>CPI score</b>
2001	57	3.5
2002	59	3.5
2003	66	3.4
2004	71	3.4
2005	78	3.2
2006	70	3.3
2007	72	3.5
2008	72	3.6
2009	79	3.6

*Source: Transparency International – Corruption Perception Index 2009, 2010.*

Meddling of bureaucratic institutions while taking economic decisions and not obeying the laws while executing them is one of the main reasons for corruption in China. In the last years there was most corruption in the field of land property, as most of the properties are still governmentally owned and government does with it what they please. It is known that they change the purpose of the property with intentions of lowering the prices and selling the property to a private owner (Garnaut, 2006, p.70). But this is not the only reason we should be aware of, there is also the cultural aspect that needs to be considered. Guanxi is a cultural specification of the Chinese market which indicates long term relations and using acquaintances in order to obtain the best business deal. Also giving gifts, which is a necessity in doing business in china, can be a reason of corruption. What is an appropriate gift and what can be considered a bribe?

### 4.2.3 Bureaucracy

When an entrepreneur draws up a business plan and decides to penetrate the Chinese market, they still need to pass the long and questionable procedures in order to incorporate and register the new company before they can legally operate. All economies differ greatly in how they regulate the entry of new businesses. In some the process is straightforward and affordable. In others the procedures are so burdensome that entrepreneurs may have to bribe officials to speed up the process or may decide to run their business informally. However, burdensome entry regulations do not increase the quality of the products, make work any safer or reduce pollution. On the contraire, they even constrain private investment, in other words, they push people into informal economy, increase consumer prices and fuel corruption (Doing Business - China, 2010, p. 5).

China is definitely one of the countries with burdensome entry regulations as it demands 14 procedures in 37 days to sort out all the paperwork needed to start a business. Compared to good practice economy such as New Zealand these numbers seem obscene, as forming a business there only needs 1 procedure and it can be done in 1 day. Even in Russian Federation the number of procedure is lower, as an entrepreneur needs to go through 9 procedures and be done with it in 30 days. Mentioned data can be found in Table 12.

*Table 12: Starting a Business data for China compared to good practice economy and comparator economy*

<b>Country</b>	<b>Procedures (number)</b>	<b>Time (days)</b>
China	14	37
New Zealand*	1	1
Russian Federation**	9	30

Legend:\* good practice economy; \*\* comparator economy

*Source: Doing Business - China, 2010, p. 9.*

The report Doing Business, among other things, focused on procedures necessary to obtain construction permits and placed China on 180<sup>th</sup> place for overall dealing with construction permits. To get a construction permit in China an entrepreneur needs to go through 37 procedures and it takes him 336 days to do so. Compared to Denmark, which is a good practice economy, these numbers seem oddly high. In Denmark one only needs to go through 6 procedures to obtain the same permits. However, China is not the only country and also not the worst country when talking about numerous procedures to obtain construction permits. Russian Federation takes the lead in this field, as getting construction permits demands 54 procedures, which takes 704 days. Mentioned data can be found in Table 13.

*Table 13: Obtaining construction permits data for China compared to good practice economy and comparator economy*

<b>Country</b>	<b>Procedures (number)</b>	<b>Time (days)</b>
China	37	336
Denmark*	6	No data
Russian Federation**	54	704

Legend: \* good practice economy; \*\* comparator economy

*Source: Doing Business - China, 2010, p. 9.*

#### **4.2.4 Difference in culture**

Chinese culture is a phenomenon that took years, centuries and millenniums to develop. It is rich, powerful and enlightened but also very unique. Its uniqueness makes it so interesting and at the same time very hard to understand. Unfortunately, if a company wants to succeed in a foreign market, it needs to know all aspect of the environment they are stepping into and culture is certainly a big part of it. However, understanding a culture like Chinese is not an easy task and therefore many companies fail at establishing business connections and even more at keeping them.

As I already mentioned, Chinese business practice is vastly different from the Western way, Europeans are more used to. But not even China is deaf when it comes to listening and adjusting to a standardized way of doing business. With the Chinese economy opening up, China's joining of WTO and the Olympics in 2008, many Chinese business practices are now beginning to align with more conventional methods. However, due to unique history and background, China will always have their own unique business culture and etiquette (Chinese Culture - Understanding Chinese business culture and etiquette, 2010).

#### **4.3 China fast food market**

Fast food is not considered to be a traditional Chinese concept; in fact, it is a translation of »kuai can,« which literally means »fast and convenient food« or a »quick meal«. Chinese culture is known by giving great importance to slow and somewhat elegant table manners, which also represents health and politeness. However, fast food giants found a way to make their product more appealing by transforming the structure of fast food restaurants from a dinning place to a social communication gathering place. Chinese fast food boom can also be a consequence of surging employment rate in China, which is making people busier.

Increasingly busier lifestyle, particularly in urban regions, is leading to a rising demand for fast food (Research Report on the Fast Food Industry in China, 2009, p. 1).

During 1980s-1990s, western fast-food giants began to explore the Chinese market in order to attract more Chinese consumers to try an absolutely different flavour. This resulted in unexpected awareness of Chinese consumers and moulding into a huge fast food consuming country. Now, China is the fifth largest fast food consuming nation in the world (Research Report on the Fast Food Industry in China, 2009, p. 2).

When KFC entered the Chinese Market in April, 1987, the development of Chinese modern fast food industry began to take its course. In 1990s, when the gross national product (GNP) went up by 78%, Chinese fast food industry obtained an annual increase rate as high as 20%, and also acquired a proportion of profit between 10% and 20%. From then on Chinese fast food industry became an important power supporting the development of catering industry and a new point for economic growth. By the end of 1996 the country was flooded with fast food enterprises. There were 800 professional fast food enterprises with more than 4,000 chain operation enterprises and nearly 400,000 fast food restaurants. The annual revenue of the fast food industry at that point reached 40 billion RMB, accounting for one fifth of the revenue of catering industry. Only three years later, in 1999, there were already more than 800,000 fast food enterprises and restaurants with revenue of 75 billion RMB. This amount represented one third or the revenue for the entire catering industry (Research Report on the Fast Food Industry in China, 2009, p. 2).

Chinese fast food market continued to grow and in 2005 it reached astonishing lengths. In total the revenue of Chinese food and drinks industry reached 112,49 billion dollars with a year-to-year growth rate of 18.7%, of which fast food industry took up to 24,2% with a revenue of 27,22 billion dollars. This meant an increase of 30% over a previous year, 2004. The share of fast food retail industry is expected to reach 9.3% by 2011 from 7.4% in 2007 and it is expected to grow at a compound annual growth rate (CAGR) at around 25% in time period from 2008 to 2011 (All Business – Research and Markets: China’s Fast Food Industry is Expected to Grow at a CAGR of around 25%, 2007).

With all the mentioned data we can assume that the Chinese market is far from forgotten or overused. Even though the financial crisis also affected the catering market in China, especially cut down expenditures in the high-end business banquet, the fast food market opportunities exceed the crisis.

#### **4.3.1 China's Fast Food Industry Analysis**

To briefly analyze the Chinese fast food market I have chosen Porters five competitive forces model that was developed Michael E. Porter in 1980. Since that time it has become an

important tool for analyzing an organizations industry structure in strategic processes. Porter’s model is based on the assumption that the corporate strategy should take into account the opportunities and the threats of the organizations external environment. It suggests that the competitive strategy should be based on understanding industry structures and their changes. Therefore Porter identified five competitive forces that shape every industry and every market. These forces asses the threat of entry, bargaining power of buyers, bargaining power of suppliers, threat of substitutes and the intensity of competition (Hollensen,2004, p. 86).

*Table 14: Porters 5 Forces Model*

<b>Porter's 5 Forces Model</b>	
<b><i>Threat of entry</i></b>	
High profitability levels	China's fast food industry has already become the biggest and most attractive profit zone with a high profit rate.
Low capital requirements	Compared to other industries, the fast food in China requires less capital, the majority of which is allocated to food materials and rentals.
Low barriers to entry	Fast food industry does not involve a large amount of patents for the food and therefore the barriers to entry are relatively low.
Minimal relation by incumbents	Although there are a few leading brands enjoying a large portion of market share, no one is able to play as a monopolist to create large-scaled attack towards new entrants in China.
<b><i>Medium threat of substitutes</i></b>	
Low switching cost	Most customers only seek fullness and taste through fast food, their switching cost could be very low, when turning to substitutes.
High buyer propensity substitute	Chinese consumers tend to be less loyal and change their choices frequently, which lead to a high propensity to substitute.
<b><i>High bargaining power of consumers</i></b>	
More buyers than sellers	There are a few brands which are serving a large customer base. This reduces the switching cost of buyers, thus making them more powerful.
Highly price-sensitive buyers	Customers have diverse choices and low brand loyalty and tend to allocate more importance on the price and become sensitive with the price fluctuation.
High availability of substitutes	Most of the fast food brands have a number of outlets, especially within popular central districts, making different substitutes easily accessible.

continued

<b>Porter's 5 Forces Model</b>	
<b><i>Weak bargaining power of suppliers</i></b>	
Low degree of differentiation inputs	As the inputs usually would be raw materials, degree of differentiation can be very low.
Supplier switching cost relative to firm switching cost	Unlike the situation of company versus buyer, company could have less switching cost when changing suppliers.
<b><i>Great intensity of competitive rivalry</i></b>	
Great number of players	Business of domestic, foreign chain stores and single shops could be considered as competitors of a fast food company. The number of competitors could be very high.
Medium diversity of rivals	Diversity in cuisine, operation patterns and business model is not peaking high, which means there is a great level of competition intensity.

*Source: Summarized from Ting, et al., 2009, p. 5-7.*

## 5 McDonald's in China

When McDonald's decided to penetrate the Chinese market in 1990, there was already a strong competitor in the market and therefore they knew they will have to put a lot of thought and energy into making the McDonald's business prosper in that particular market.

As stated in China daily, "KFC's booming sales also provided a big incentive for McDonald's to enter the Chinese market in October 1990. The leading global fast food chain chose Shenzhen, a major southern city where there was no KFC at the time, to open its first 500-seat store on Jiefang Road, in the city's busiest area. Its Ronald McDonald clown, yellow M logo and Big Mac that helped McDonald's quickly win over local consumers. A plaque on the store's wall testifies to its historic significance in Chinese culinary cultural history" (China Daily - Competition gearing up in China's fast food industry, 2008).

McDonald's is a typically Western brand that offers food common to westerners and for that reason it was even harder to imagine such success of McDonald's at that time. Because of many cultural, political, judicial and other differences between McDonald's in China and the U.S., like every other company entering a new market, McDonald's had to face its share of challenges while entering China. There have certainly been a lot of those, but in this thesis I will discuss only the most evident and interesting.

## **5.1. Challenges**

Due to many cultural differences McDonald's could not just waltz in and make things its own way. It had to pay a lot of consideration to the Chinese way of thinking and doing business, which is normal when entering a new market. One of the issues McDonald's had to overcome was choosing a partner, because the Chinese government would not allow a Western company to have a full ownership and at the same time grow and prosper. Because of this reason McDonald's had to look into the option of a joined venture. Choosing a partner with good connections and relations with the Chinese government is of great importance for the success of the business. McDonald's chose the partner carefully and without a doubt successfully, as it started its business by signing a 20-year contract with the Beijing Department of Agriculture.

In 2001, both McDonald's and KFC announced their decision to resort to franchising (McDonald's starting in 2003) in hope of expanding their presence in the Chinese mainland. Peter Chen, president of McDonald's China Development Company, said that to be a qualified franchisee, one must have good ethics, a successful commercial experience and a capital of RMB 3.5-4 million (stated in 2001). He also said that McDonald's will offer franchises to individuals and not companies and these individuals will be required to accept a training period of at least one year. The plan was that McDonald's would provide the operating locations and the franchisee would invest in equipment, trademark and refurbishing (China daily - McDonald's to offer franchises in China, 2001).

One of the most interesting challenges McDonald's had to face was when they decided to implement typically western Drive-Thrus on Chinese soil. In 1990, when McDonald's entered the Chinese market, the streets were clogged with bicycles, but later on with economic growth also came an explosion of car ownership. In this point McDonald's saw a window of opportunity and decided to do something about it. The company opened the first Drive-Thru outlet in 2005 and although it brought great success it had to walk a long way covered with thorns (Griffith, 2008).

This was a way covered with thorns, because the Drive-Thru was a brand new concept in China and people didn't know how to use it or what to make of it. It also happened that the people drove in, took their food, parked the car and ate in front of the restaurant, or even took the food they bought in a bag using Drive-Thru and came around to sit in the restaurant. They were just not used to this way of serving food, which is very convenient for the fast pace living American and not so much for the food enjoying Chinaman. This implied that Chinese crews not only had to learn how to run a Drive-Thru, but had to teach their customers how to use one.

Nowadays we can find numerous Drive-Thrus in China and the use of it has changed dramatically. People got used to it and now use it as if they always had it. This is also due to the agreement between McDonald's and the Chinese state oil company, Sinopec. Sinopec granted the right to open McDonald's stores at any of Sinopec's new and existing gas stations all over China which amounted to 30 000 of possible locations to set up McDonald's stores. The very first one opened in 2006 in a surprisingly run-down neighbourhood outside Beijing and it soon became a key part of McDonald's expansion strategy in China. They were willing to bet on an area that may have not been ready for a McDonald's, at least not at that time. Due to economic growth of China McDonald's is placing its bet on developing parts of China and setting up its stations there. It has paid off in the past and they are hoping it will pay off in the future as well (Griffith, 2008).

Another challenge McDonald's had to face was strongly linked to the healthy product awareness. As we were stepping into a new millennium people became more and more aware on the topic of health issues. In China you can find KFC or McDonald's at the downtown or shopping centres of many cities. Most of those outlets are full of young people, especially children with their parents. According to the latest statistics, the proportion of obesity among children under the age of 15 increased from 15% in 1982 to 27% in 2004. Among the predisposing factors for increasing prevalence of childhood obesity in China fast food and physical inactivity are the two most important. Because of the efficient advertisements of such fast food giants, as are McDonald's and Kentucky Fried Chicken, Chinese children are devouring the American fast food faster than ever (Tsun, 2004).

The reason for KFC taking the biggest piece of the pie in China is in my opinion pure advertising. Due to health concerns and growing awareness Chinese people seek for something healthier in products which are by its nature not very healthy. Therefore if you could compare KFC that offers mainly chicken to McDonald's which is "beef based", you can see KFC has the advantage. Chicken is considered to be the healthiest type of meat and also it was a part of Chinese cuisine for ages. To conquer this challenge McDonald's had to improve its image and introduce McDonald's to the Chinese people as a health oriented fast food chain. The first step was implementing some new products to the menu (salads, fruit, chicken...) and the second was extensive advertising. It was a genius idea on McDonald's part to sponsor the Olympics and put the sportsmen in the ads, as they even got the Olympic phenomenon Michael Phelps to do the commercial. They were improving the brand's image, although it does not necessarily mean improving the menus by making them healthier.

McDonald's tried to compete with KFC by offering more chicken meat on the menus and somewhat stepped into a "Chicken Battle" with its fast food competitors in China. In most markets around the globe McDonald's and KFC were defined as "KFC's fried chicken and McDonald's hamburgers" dichotomy. Both of them were functioning on their own turfs and they were not considered to be direct competition. This fact began to change when



McDonald's released a similar menu to the KFC menu in the Chinese market place (The China Expat - McDonald's advertising in China).

The numbers have proven that the "Chicken Battle" in China was not successful for McDonald's. In 2005, Pepsi-Cola Company's China operations had a 19% profit margin, but according to fast food industry analysts McDonald's profit margin in China was likely only 10-11%. In addition to this, McDonald's 760 stores is approximately 1/2 of KFC's store count in China. KFC is also adding new stores in China at the torrid rate of one store per day (The China Expat - McDonald's advertising in China).

Due to the failure in the chicken battle McDonald's decided to switch up its strategy. They decided to follow the growing trend of wealth in the middle class and higher rate of increase in beef consumption compared to pork consumption. As their Big Mac sales slowly began to grow again, McDonald's realized it needed to push beef products in the China market. They believe the Chicken battle failed because they were not being themselves and by offering more beef they will truly be representing their tradition and also their specialty (The China Expat - McDonald's advertising in China).

This time around, McDonald's wants to solve the problem from inside out. The ultimate beef experience that they are creating in McDonald's in China is a result of customer research and feedback. Keeping up with the lifestyle changes of Chinese consumers, and providing the absolute best Chinese fast food experience after analyzing these changes is the true strength of McDonald's in China. In addition to all already mentioned McDonald's is making use of its comprehensive marketing advantage in the Chinese market, developing a long-term "Beef" education campaign. They developed the slogan, "Do you have enough beef?" and are using many marketing channels to challenge young Chinese people. They can take part in a "beef club", become a "beef person", share the "beef experience" alongside with the stars and of course engage nutritionists from the China beef promotion. All of this is just show, but the nutritional value of beef will be ingrained in the minds of Chinese consumers (The China Expat - McDonald's advertising in China).

## ***5.2 Opportunities and suggestions for McDonald's***

McDonald's is seen as one of the most important fast food providers in China with only KFC having bigger market participation. In order for McDonald's to reduce this gap and increase market share, brand awareness etc, there are some characteristics or elements that can be improved or created. First of all, I can discuss the human resources operations; McDonald's characterizes for developing talents, for offering career opportunities and creating work stability in a great way. This clearly generates a sense of pertinence towards the company, but in some way it can also reduce motivation for improvement for the people that are not seen by their superiors as "future talents" Maybe some people have capabilities that are not easily

recognizable through utilization of standardized procedures and frameworks, such as the ones McDonald's has for almost every aspect of its operations. This can be difficult to accomplish, but maybe it is possible to generate alternative programs to discover new leaders and promising talents that maybe cannot be discovered through traditional ways (Jenkins, 2008, p. 1).

The next element that can help the company towards its future growth is the improvement of its image. It is a commonly accepted fact that the food offered by McDonald's is not very healthy, that it contains fattening ingredients and that having it as a part of your regular diet can be harmful to your health. The company could offer alternative healthier products, modify current products into healthier ones to make them more in line with the Chinese eating habits. For example, highlight the freshness of products, colours and balance between the ingredients.

Another suggestion could be to include traditional gestures of the Chinese culture in the service at the restaurants in order to reduce the cultural gap of McDonald's huge westernized service towards a more friendly and known environment for Chinese people. It is also a fact that, as the Chinese economy grows, more and more people are buying cars. Due to this element the Drive-Thru, also a very westernized element of McDonald's, can be another source of growth for their business. In relation to this element it is important to highlight that currently it is not very attractive to the Chinese market, but as we continue to see this growth many cultural changes and lifestyle changes are going to come, people will have less time to spend in restaurants and will be needing services like the one McDonald's has to offer.

The Daily China interview with McDonald's China CEO Kenneth Chan makes reference to a certain advantage of the Chinese market, which is the fact that it has not been so badly affected by the financial world crisis. Because of this McDonald's is planning to invest in new restaurants, hire more people, raise salaries and make other big investments that they are not making in other parts of the world. The CEO says they are thinking on the long term potential of the market and while most companies are tightening their belts, McDonald's is taking advantage by investing in this time of crisis. What McDonald's is trying to accomplish is the fastest possible growth while reducing the differences with its competitor and also leaving behind smaller competitors like Burger King (Qingfen, 2009).

Other opportunity offered by the Chinese market is that prices of fast food restaurants were considered by the local customers to be of luxury nature. When the hunger for bigger market share became more aggressive, competitors in the industry had to lower the prices. This can be seen as a big opportunity if the company does things well, as it can attract new customers with lower prices. Also due to one of the effects of the financial crisis, commercial premises have been losing value, which can create expansion opportunities for the company (Qingfen, 2009).

There is another important characteristic about the Chinese market that can be seen as an alternative for growth and that MacDonald's is starting to exploit and is being seen as a long term strategy. This strategy is as simple as it can be and it is based on providing breakfast. The reason for this is that the Chinese at lunch time usually include rice porridge, pork or mushrooms, which are in no way similar to hamburgers, but usually they have breakfast outside home, so the eggs and hash browns can be seen as an alternative for them. It is also important to say that more than 80% of Chinese people have breakfast and that more than 60% of them do it outside home, which creates a huge potential for this breakfast strategy (Franchise business opportunities - McDonald's pushing McMuffins and coffee in China, 2007). McDonald's successfully implemented breakfast into their menus in 2007; however, I believe that they could provide a wider set of products to satisfy the exigent Chinese consumer.

The biggest competitor on the Chinese soil is most definitely KFC and "The China Expat" gives some reasons for this. Market research has shown that Chicken products are healthier than beef products, which is of great disadvantage for McDonald's. Do to this fact McDonald's needs to find a way to boost their image and perception of the brand. It is also stated that Chinese in general prefer fried chicken, which is offered by KFC as their main product, when choosing between chicken and hamburgers. Also KFC offers more Chinese specific related options in its menu, something McDonald's is missing, and better prices and bundles for its products (The China Expat - McDonald's advertising in China).

More related to operations, KFC has managed to get good quality local product suppliers that have helped them in the offering and maintaining lower prices while McDonald's continues importing some key products, such as fries and ketchup, which prevents them from lowering prices and competing at least in the price element with KFC in a more direct way (Marr, n.y., p. 2).

### **5.3 SWOT analysis**

The underlying premise of SWOT analysis is to match the company's distinctive competencies and resources with the market to create a perfect match between the company and the external environment and therein develop a sustainable competitive advantage. The attractions of SWOT analysis are that this technique is familiar and easily understandable by users and it provides a good structuring device for sorting out ideas about the future and an organization's ability to exploit that future (Valcanos et al., 2009, p. 5). Table 15 shows McDonald's strengths, weaknesses, opportunities and threats of doing business on the Chinese fast food market.

Table 15: SWOT analysis of McDonald's for Chinese market

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- Strong brand name; recognizable characters</li> <li>- Large target group</li> <li>- Almost certain success of new stores</li> <li>- Ability to adapt when faced with criticism</li> <li>- Play area for children</li> </ul>	<ul style="list-style-type: none"> <li>- Many other similar competitors</li> <li>- Is not considered healthy</li> <li>- Negative image due to growing obesity</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- Charity and humanity awareness</li> <li>- Changing the image</li> <li>- Standardization with adjustments</li> <li>- Green energies and green packaging</li> </ul>	<ul style="list-style-type: none"> <li>- Fierce competition aiming at the same customer</li> <li>- Growing criticism due to obesity and other health issues</li> </ul>

## Conclusion

A few decades ago one wouldn't even noticed the absence of China from the global business environment, as if it was just one more country that had low or even no perspective. Nowadays, the whole picture looks entirely different. The global business environment can not even be imagined without China, as it plays a crucial role in the global economy.

China is most definitely a country with rich culture and tradition that has been around for millenniums. However, the thing I feel I need to stress at this point is the hostility it felt towards foreigners and the results it brought. Till the 19th century, China was closed to foreigners and only after the opium wars it was obligated to open up its ports for international trade. With the rise of the West, China had to implement many novelties that resulted in internal political disputes, collapse of the dynasty, demands for revolution and civil war. The Communist party under the leadership of Mao Zedong won the war and so the reform era began after 1978.

With the membership in WTO China finalized its place in the global economy and changed its course probably forever. Due to fiscal policy, China became attractive to foreign investors and therefore investments to China kept increasing every year since. First countries to invest in China were mainly Asian, but later also Western countries decided to take that leap of faith. Of course they were driven by the huge population of China and the growing economy, which does not seem to come to an end soon. For this exact reason McDonald's decided to pursue the China dream along with the American dream.

Two decades in China have certainly been successful for McDonald's as it grew from one unit in Shenzhen to approximately 1,000 unites all over China. McDonald's top management is

fairly optimistic about further business on China's soil and is looking forward to new challenges. They are planning to set up hundreds of new units all over China and hopefully succeed in doing so. If we consider it as a win-win situation, McDonald's will gain more profits and China will have more work available for the locals.

It is a commonly known fact that there is a big competition in the Chinese fast food market and therefore McDonald's should continue to change, improve, grow and adjust. One of the most recent challenges that McDonald's was faced with had to do with health issues. More and more people in the world and naturally also in China are becoming aware of healthy products. McDonald's biggest competitor offers mainly chicken, which is by its nature healthier than beef burgers, and customers are getting more and more conscious of that fact. In my opinion, McDonald's made a brilliant move by sponsoring the Olympics and by putting sportsmen on the cups for their drinks. That way, even though it is not as healthy as it should be, people still buy it because of the efficient advertising. Basically, McDonald's has only two options concerning health issue challenge, which are: Changing the food by making it healthier or making it seem healthier by improving the image of the brand.

My recommendation to the McDonald's management would be to work on the brand image in a way where they actually change the product and not only make it appear healthier. They can also attract new customers by adding products that are of a more specific nature, like for example gluten or lactose free products. This way they would demonstrate interest in health issues and most likely gain points of approval from consumers in China. However, changing the products and implementing new ideas is costly, but on the long run it is bound to pay off.

Standardizing or adopting products is also one of the discussed issues and in the case of China a company cannot even consider total standardization of its products and operations. China's culture is just too different and therefore people accepting a product that pays no regard to the culture, language and customs is highly unlikely. McDonalds' main competitor in China, KFC, realized this fact decades ago and has been adopting its products and restaurants in a way where it is still westernized but with a touch of Chinese culture. I believe McDonalds should follow this pattern, and learn from the market leader, because there certainly must be a reason why KFC holds such an advantage over McDonald's.

Perhaps they could also play the »be green card« and focus their marketing strategy and advertisements in that direction. Promoting green packaging and green energies could only benefit the brand image and its overall perception. This way they would show environment awareness and establish themselves as an environment-friendly company.

In conclusion, I would like to add that in the strong and growing Chinese economy McDonald's, and also other companies, can expect a lot of success. To achieve this success they need to be aware of the cultural differences and differences in doing business home and in China. Even in schools, we, the Europeans, are thought that doing business with the

Chinese is difficult, but in fact, it is not difficult – it is only different from what we are used to.

## **Povzetek**

### 1 UVOD

Širitev na nove trge podjetju ponuja priložnost povečanja prihodkov, produktivnosti in dobička. Ker doseganje omenjenega ni lahka naloga, mora podjetje preučiti koristi in morebitne ovire pri vstopu na novo zastavljeni trg in se na podlagi tega odločiti, ali je sploh smotrno vstopiti. Vsak trg je determiniran s samosvojim setom parametrov uspeha in izzivov, s katerimi se mora seznaniti vsako podjetje v procesu odločanja za internacionalizacijo. Ti parametri lahko določajo, ali podjetje uspe ali propade na določenem trgu, kar pomeni, da nepremišljen vstop lahko prinese usodne posledice. Seveda pa tudi neutemeljena odločitev ne-vstopa na trg lahko pomni izostanek iz perspektivnega trga, ki bi potencialno lahko prinašal dobičke in zajeten tržni delež.

Že nekaj časa je Kitajska znana po svojih proizvodnih virih v obliki nizkih stroškov dela, vendar to ni edina prednost, ki jo čutijo tujci ob misli pri poslovanju s Kitajsko oziroma na Kitajskem. Zaradi povečanja življenjskega standarda kitajskega prebivalstva in izboljšanja splošnega poslovnega okolja je Kitajski tržni potencial pridobil veliko pozornosti. Kitajski režim je usmerjen k privabljanju tujih naložb vseh vrst, pri čemur poudarek namenjajo tehnološkemu znanju. Da bi zagotovili zajeten obseg investicij na Kitajskem, je vlada celo preklicala nekatere ovire pri vstopu in uvedla posebna znižanja davkov (Zhang, 2002, 57).

Čeprav je Kitajska velesila v vzponu in kot taka priteguje veliko pozornosti in interesa, pa vseeno ni zagotovilo za uspeh. Zelo veliko podjetij se ob vstopu na Kitajski trg sooča z nepričakovanimi težavami. Kar jih popelje v neuspešno poslovanje. Razloge za neuspeh lahko najdemo v geografski oddaljenosti, kulturni diverzifikaciji in jeziku, kar nakazuje velike razlike tako v poslovnem okolju kot tudi poslovnem bontonu. Zaradi omenjenega je namen tega diplomskega dela prikazati sliko kitajskega poslovnega okolja in poslovanja znotraj tega, cilj pa pridobitev globljega razumevanja različnih vidikov poslovanja na Kitajskem, na splošno in tudi na specifičnem primeru. Sledeče bo raziskano z uporabo PEST analize in predstavitev nekaterih vstopnih ovir in izzivov ob vstopu na kitajski trg. Teoretična podlaga bo podkrepjena s praktičnimi primeri, ki bodo temeljili na ameriškemu ponudniku hitre prehrane, McDonald's, ki je drugi največji ponudnik tovrstne prehrane na Kitajskem.

Prvo poglavje diplomskega dela opisuje podjetje McDonald's, njihovo zgodovino, produkte, ki jih ponujajo, vrste restavracij in prisotnost na globalnem trgu. V tem poglavju zgozlj opisujem korake, ki jih je naredilo majhno, v ZDA zasnovano, podjetje na poti do mednarodnega uspeha. Drugo poglavje je deloma teoretična podlaga naslednjim poglavjem,

saj ponazarja teoretično plat teorij internacionalizacije, motivov za internacionalizacijo in vstopnih oblik na tuji trg. Drudi del je praktične narave, saj prikazuje proces in vzorce internacionalizacije podjetja McDonald's. Tretje poglavje opisuje kitajski trg, in sicer osnovne podatke o Kitajski, zgodovinsko zaledje Kitajske in PEST analizo kitajskega trga. Zgodovina Kitajske se morda na prvi pogled ne zdi pomembna za obravnavo v tem diplomskem delu, vendar nadaljnja poglavja temu pričajo nasprotno, kajti zgodovinsko ozadje še vedno igra veliko vlogo v mentaliteti kitajskega prebivalstva v privatnem, kot tudi poslovnem življenju (Country Studies – Historical Settings, 2010).

Jedro tega diplomskega dela je četrto poglavje, ki opisuje prednosti in izzive poslovanja na kitajskem trgu. Del tega poglavja je namenjen tudi orisu kitajskega trga hitre prehrane, ki služi kot podlaga naslednjemu poglavju, kjer teoretični del povezujem s praktičnimi primeri podjetja McDonald's. Peto poglavje torej opisuje izzive, s katerimi se je spopadlo podjetje McDonald's v letih poslovanja na kitajskem trgu ter priložnosti in predloge izboljšave, ki jih je še moč izkoristiti. V zaključku diplomskega dela pa so razvidne glavne ugotovitve strjene v krajšo smiselno celoto.

## 2 POSLOVANJE NA KITAJSKEM TRGU

- Zakaj Kitajska?

Tuje direktne investicije (TDI) so ena izmed bolj obravnavanih tem, saj so smatrane kot gonilna sila ekonomske globalizacije. Od leta 1993 naprej je Kitajska žela zavidljive vsote TDI, kar je znatno prispevalo k ekonomskemu razvoju države, razvoju mednarodne menjave in institucionalnim reformam. Upoštevajoč teoretične okvirje in stilizirana dejstva TDI na Kitajskem se determinante TDI delijo na velikost trga, ceno in kakovost delovne sile, lokacijsko strnjevanje gospodarstva, transport, TDI spodbude, kulturne povezave in odprtost gospodarstva (Zhang, 2002, 52–53).

Prvi faktor, ki vpliva na prihodke in posledično tudi na dobiček multinacionalnega podjetja je velikost trga province. Večji kot je trg province, večja bo gospodarska rast in višji kot je nivo razvitosti, več TDI lahko pričakuje. Drugi faktor je ogromen vir poceni in socialno nezahtevne delovne sile, ki je na voljo na Kitajskem, zaradi česar predvsem azijski investitorji usmerjajo svoj kapital v delovno intenzivne in nizko-tehnološke veje poslovanja. Tretji faktor je potencial v človeškem kapitalu in zmožnosti posnemanja tehnologije v kratkem času. Province z višjo stopnjo kvalitetne delovne sile bodo prejele relativno več TDI kot province z nižjo stopnjo kvalitetne delovne sile. Četrty faktor je strjevanje gospodarstva, saj je dolga leta obala Kitajske veljala za ekonomski center Kitajske. Po opijskih vojnah se je Kitajska morala ukloniti in tujcem dovoliti dostop tudi do teh, do tedaj, prepovedanih območij. Peti faktor je transport, saj boljša transportna infrastruktura pomeni večje število prejetih TDI. Da bi okrepili ekonomsko rast in zagotovili ekonomsko stabilnost, je Kitajska po letu 1990 začela graditi eno izmed bolj kompleksnih logističnih infrastruktur v svetu. Šesti faktor je uvedba

določenih tujcem prijaznih sprememb v fiskalni politiki, ki očitno favorizirajo vlaganja v obalne regije. Sedmi faktor je kulturna bližina, kar pomeni da bolj kot sta si država vlagateljica in država prejemnica kulturno blizu, bolj je smiselno spodbuditi investicijo. Osmi in zadnji faktor pa je odprtost gospodarstva, ki je po režimu, odobrenem leta 1991, narekoval večjo odprtost industrije do TDI, znatno doprinesel k rasti TDI v devetdesetih letih (Zhang, 2002, 53–54).

#### -Izzivi poslovanja na kitajskem trgu

Poglavitni izzivi pri poslovanju s Kitajsko so vladni protekcionizem, korupcija, birokracija in kulturne razlike. Vladni protekcionizem je kontroverzna tema, saj nekateri strokovnjaki trdijo, da je Kitajska velika zagovornica vladnega protekcionizma (Gettman, 2004, 7), drugi pa, da je Kitajska zgolj žrtev protekcionizma (People's Daily – China is major target in trade protectionism, 2010). Prehod iz planskega v tržno gospodarstvo je bil zagotovo velik korak za Kitajsko, vendar pa je po mnenju Gettmana (2004, 7) za takšen prehod in posledično tudi zmanjšanje vladnega protekcionizma potrebnega več časa.

Ko nekdo sprejme ali poda nekaj z namenom olajšanja ali pospešitve državno-pravnih zadev govorimo o korupciji. Kitajska je na svetovni lestvici korupcije, kjer je umeščenih 180 držav in kjer prvo mesto pomeni najnižjo stopnjo korupcije, v zadnjih letih zasedala 79. mesto. Problemi s korupcijo na kitajskem trgu so vzbudili skoraj toliko pozornosti kot ekonomske reforme in hitra gospodarska rast (Transparency International – Corruption Perception Index 2009, 2010). V zadnjih letih je bilo največ korupcije prisotne na področju zemljiške lastnine, saj je še vedno večina zemljišč v državni lasti, in tako ima država proste roke pri odločanju v kakšne namene bodo uporabljena (Garnaut, 2006, 70).

Naslednji izziv pri vstopu na kitajski trg je prav gotovo birokracija, saj zakoni in predpisi na tem trgu narekujejo dolg in obremenjujoč proces registriranja in pridobivanja vseh potrebnih dokumentov za vzpostavitev podjetja. Tako je potrebnih 14 postopkov in 37 dni, kar je v primerjavi s prejšnjimi leti precej manj, a v primerjavi s katero drugo državo precej veliko. Takšna država je na primer Nova Zelandija, kjer je za vzpostavitev podjetja potreben en dan in en postopek (Doing Business - China, 2010, 9).

Kot že omenjeno se Kitajska poslovna kultura precej razlikuje od vzhodnjaške, na katero smo Evropejci bolj vajeni, vendar tudi Kitajska ni slepa in gluha, ko se gre za prilagoditev k standardiziranemu načinu poslovanja. Postopno odpiranje kitajskega trga, priključitev v WTO in olimpijske igre leta 2008 nakazujejo, da se je mnogo katera poslovna praksa pričela usklajevati z bolj konvencionalnimi metodami. Kljub temu bo Kitajska zaradi zgodovinskega ozadja vedno imela samosvojo poslovno kulturo in bonton (Chinese Culture - Understanding Chinese business culture and etiquette, 2010).



### - Kitajski trg hitre prehrane

Hitra prehrana prav gotovo ni tradicionalen kitajski koncept, saj kitajska kultura ceni popolnoma drugačno obliko prehrane, vendar pa so v letih med 1980 in 1990 velikani vzhodnjaških verig s hitro prehrano začeli raziskovati priložnosti kitajskega trga. Ko je aprila 1987 KFC vstopil na kitajski trg, se je začel izoblikovati kitajski moderni trg hitre prehrane, dandanes pa je Kitajska kar peta največja potrošnica hitre prehrane na svetu.

V devetdesetih letih, ko je GNP porasel 78 %, je kitajska industrija s hitro prehrano dosegla 20 % letno stopnjo rasti in tako pridobila delež dobička med 10 % in 20 %. Od takrat naprej je ta industrija obravnavana kot sila, ki podpira storitveno industrijo in posledično kot novo obliko priložnosti za ekonomsko rast. Ob koncu leta 1996 je bila Kitajska poplavljen s podjetji s hitro prehrano in omenjena industrija je že takrat dosegla RMB 40 bilijonov letnih prihodkov, le tri leta kasneje pa je ta vsota porasla na RMB 75 bilijonov (Research Report on the Fast Food Industry in China, 2009, 2).

Kitajski trg s hitro prehrano je še naprej rasel in v letu 2005 dosegel presenetljiv obseg. Skupni prihodki industrije hrane in pijače so znašali 112,49 milijarde dolarjev, z letno stopnjo rasti 18,7 %, od tega je delež hitroprehrambene industrije znašal 24,2 % in 27,22 milijarde dolarjev prihodka. V letih od 2008 do 2011 naj bi ta delež naraščal s približno 25 % CAGR (compound growth rate) (All Business – Research and Markets: China's Fast Food Industry is Expected to Grow at a CAGR of around 25 %, 2007).

### 3 McDONALD'S NA KITAJSKEM TRGU

#### - Izzivi, s katerimi se je soočil McDonald's

Podjetje McDonald's je na kitajski trg vstopilo leta 1990 in v 20. letih poslovanja se je bilo primorano soočiti s številnimi izzivi. V nadaljnjih odstavkih je opisanih le nekaj tistih, ki so najbolj zanimivi in primerni za obravnavo v tem diplomskem delu.

S prvim izzivom se je McDonald's spopadel že pred vstopom na kitajski trg, saj je moral zaradi državnih regulativ, ki niso dovoljevale polnega lastništva poslovnih enot tujcem, poiskati primerne partnerja. Poslovni partner naj bi imel dobre povezave in odnose z državnimi organi, kar je predpogoj za uspešno poslovanje na Kitajskem. Upoštevajoč ta kriterij, je McDonald's izbral partnerja, Ministrstvo za kmetijstvo v Pekingu, in podpisal 20-letno pogodbo. Od leta 2003 naprej pa McDonald's na kitajskem trgu posluje skozi franšize (China daily – McDonald's to offer franchises in China, 2001).

Eden izmed najbolj zanimivih izzivov, s katerim se je soočil McDonald's, je vpeljava vzhodnjaškega koncepta »Drive Thru«, saj kitajski potrošniki niso vedeli niti čemu služi. Tako so se z avtom pripeljali, naročili hrano, parkirali avto in pojedli v restavraciji. Zaradi

omenjenega so zaposleni imeli dvojno delo, in sicer naučiti se voditi takšno poslovanje in hkrati učiti potrošnike uporabljati takšno storitev. Danes je »Drive thru« storitev znana vsem kitajskim potrošnikom, k čemur je pripomogel tudi Sinopec. Sinopec je naftno podjetje v državni lasti, s katerim je McDonald's podpisal pogodbo, ki je narekovala pravico postavitve McDonald's restavracij na vseh novo odprtih lokacijah Sinopec-a (Griffith, 2008).

Še en izziv, ki ga želim poudariti je povezan z naraščajočo zavednostjo o škodljivosti hitre prehrane. Vse več ljudi se namreč zaveda, da hitra prehrana povzroča debelost in zdravstvene težave, kar negativno vpliva na poslovanje podjetja McDonald's. Čeprav za enkrat še ni opaziti pretirane razlike v potrošnji, se je na ta udarec potrebno pripraviti. KFC je zato uvedel t.i. belo knjigo, kjer navaja hranilne vrednosti svojih proizvodov in čemu takšna hranilna vrednost služi. Ker KFC ponuja v večini piščančje proizvode, ki naj bi bili bolj zdravi kot proizvodi iz govejega mesa, je njihova naloga v tem boju precej lažja. McDonald's se je tega problema lotil z napačnega kota, saj je poskušal spremeniti svoj jedilnik, zato je uvedel več piščančjih jedi, vendar je v boju za kitajske potrošnike s precej bolj razvitim KFC-jem izgubil. Menimo, da poraz ni nujno posledica spremembe proizvodov, temveč zgolj pomanjkanje poznavanja kulture trga in prilagoditve celotne marketinške strategije le-temu. Konec koncev je tudi KFC vzhodnjaško podjetje, ki nudi vzhodnjaške proizvode, a v primerjavi z McDonald's-om žanje precej višje dobičke. Razlog za to je verjetno v oglaševanju in lokalizaciji proizvodov.

Potem ko je McDonald's izgubil »piščančjo bitko« s KFC-jem, se je odločil spremeniti celotno strategijo in se vrniti k svojim koreninam. Vodstvo podjetja McDonald's se je odločilo problem razrešiti tako, da kitajskemu potrošniku vcepijo t.i. nepozabno govejo izkušnjo (ultimate beef experience). Tako so razvili kampanjo, katere slogan je »do you have enough beef«, ustanovili »beef club«, uvedli portale »become a beef person« in »share beef experience«. To kampanjo so podkrepili z mednarodnimi in lokalnimi zvezdami v oglasih in upajo, da bo povprečen kitajski potrošnik na tak način spoznal prehransko vrednost govejega proizvoda (The China expat - McDonald's advertising in China).

#### 4. SKLEP

Pred nekaj desetletji ne bi niti opazili odsotnost Kitajske v globalnem poslovnem okolju, saj je veljala za državo z majhno perspektivo ali pa celo za državo brez perspektive. Danes pa gospodarska slika zgleda precej drugače, saj si globalnega poslovnega okolja niti predstavljati ne moremo več brez prisotnosti te države. Skozi leta je Kitajska postala ena izmed gonilnih sil svetovnega gospodarstva, saj igra ključno vlogo v ekonomiji sveta.

Kitajska je prav gotovo država z bogato kulturo in razvejano tradicijo, ki je stara že več tisočletij. Ravno zaradi tega je pomembno poudariti njen razvoj skozi stoletja, saj je šele v zadnjih letih postala bolj odprta in dovzetna za tujce. Do 19. stoletja je bila Kitajska zaprta in celo sovražno nastrojena do tujcev. Po tem obdobju in opijskih vojnah pa je bila primorana

odpreti svoja pristanišča z namenom mednarodne menjave. Z vzponom Vzhoda je na Kitajskem prišlo do velikih sprememb, ki so peljale v notranje politične konflikte, zlom dinastije, zahteve po revoluciji in civilno vojno, v kateri je zmagala Komunistična partija pod vodstvom Mao Zadonga, in tako se je na kitajske v letu 1978 začela doba reform.

S članstvom v WTO je Kitajska postavila pečat svetovni ekonomiji in, morda celo zavedno, spremenila njeno delovanje. Zaradi fiskalne politike je ta država postala zanimiva za tuje investitorje, in tako so investicije v tej deželi pričele rasti iz leta v leto. Prve države, ki so investirale v Kitajsko, so bile azijske države, vendar so se s časoma tudi vzhodnjaške države odločile za tovrsten podvig. K sprejemu te odločitve jih je spodbudilo to, da je Kitajska država z večmilijonsko populacijo in ekonomsko rastjo, za katero se zdi da sploh ne vidi konca. Iz tega razloga se je tudi podjetje McDonald's odločilo za vstop na ta trg in do danes svoje poslovanje razširilo preko vseh pričakovanih meja.

Dve desetletji na kitajskem trgu sta bili več kot uspešni za podjetje McDonald's, saj je svoje poslovanje razširilo iz ene enote, v Shenzhenu, na približno 1000 enot po celotni Kitajski. Vodstvo podjetja McDonald's je precej optimistično glede nadaljnjega poslovanja na kitajskem trgu, saj načrtuje odprtje več sto novih enot znotraj države. Čeprav uspeh ni samoumeven, vodstvo upa na ugodne izide in meni, da je takšna širitev »win-win« situacija, tako za njih kot tudi za kitajski trg, ki bi s tem pridobil veliko število delovnih mest za lokalne prebivalce, McDonald's pa nove priložnosti za dobiček.

Da je na kitajskem trgu hitre prehrane ostra konkurenca, je splošno znano dejstvo in ravno zaradi tega mora McDonald's nadaljevati s spremembami, inovacijami, nadgradnjami in adaptacijami. Izziv, s katerim se je McDonald's soočal pred nedavnim, je povezan s temo zdravega proizvoda. Vse več ljudi postaja zavednih na področju zdrave prehrane in tudi Kitajci sledijo temu vzorcu. Glavni konkurent podjetja McDonald's na Kitajskem je KFC in le-ta v večini ponuja piščančje proizvode. Že v osnovi je piščančje meso smatrano kot najbolj zdravo meso, čemur goveji burgerji težko konkurirajo. Pri razreševanju nastale situacije menimo, da je McDonald's ubral pravo pot, saj se je odločil za več milijonsko investicijo, ko je sponzoriral olimpijske igre nekaj let nazaj. Obraze športnikov smo videli na embalaži in drugih vrstah oglasov, kar je potrošnike privabilo k nakupu. To ne pomeni, da je zaradi tega proizvod bolj zdrav, je pa zagotovo boljše pozicioniran zaradi učinkovite promocijske strategije. Tako se podjetju McDonald's ponujata dve možnosti, in sicer ali spremeniti proizvod, da bo bolj zdrav, ali pa dodelati strategijo promocije izdelkov tako, da bo proizvod smatran kot bolj zdrav.

Predlog vodstvu podjetju je, da se pri izboljševanju imidža podjetja osredotoči na proizvod in ga izpopolni, tako da bo ustrezal potrebam kitajskega prebivalstva. Glede na naraščajočo stopnjo zavednosti zdrave prehrane, bi predlagali prirojitev proizvoda v tej smeri in morda tudi uvedbo določenih, bolj specifičnih, proizvodov, kot so proizvodi brez glutena ali brez laktoze. Na tak način bi McDonald's širši javnosti pokazal interes za razrešitev problema

nezdrave prehrane in pridobil odobravanje potrošnikov. Čeprav je spreminjanje in uvajanje novih proizvodov proces, ki je povezan z visokimi stroški, menimo, da je na dolgi rok bolj smiselna adaptacija kot pa standardizacija.

Standardizirati ali adaptirati proizvode je tudi eden izmed obravnavanih izzivov, kjer menimo, da je zaradi drugačnosti kulture in mentalitete prebivalstva proizvod bolj smotrno prilagoditi. Brez upoštevanja kulture, jezika in običajev je zelo majhna verjetnost sprejema proizvoda s strani kitajskega potrošnika. KFC je že pred več kot desetletjem nazaj ugotovil, da brez lokalizacije proizvoda ne more žeti zelenih dobičkov, zato stremi k temu, da proizvod, oglaševanje in ceno prilagodi lokalnemu trgu. Menimo, da bi McDonald's moral slediti zgledu KFC, saj je prav lokalizacija proizvoda in upoštevanje kulture tisto, kar je postavilo to družbo na zmagovalno stopničko kitajskega trga hitre prehrane.

Še en predlog, ki bi ga vodstvo podjetja lahko upoštevalo je igranje na karto zelene ozaveščenosti, kar pomeni, da bi se bilo potrebno s smotrno marketinško strategijo usmeriti tudi v promoviranje »green packaging« in »green energy«. Takšna predstavitev podjetja lahko le koristi ugledu in percepciji znamke, saj bi s tem pokazali interes do ohranjanja okolja in se posledično uveljavili kot okolju prijazno podjetje.

V hitro rastoči kitajski ekonomiji imajo podjetja veliko možnosti za uspeh, ki pa ga lahko dosežejo le, če sledijo kulturnim vzorcem in spoštujejo kulturne in poslovne navade Kitajcev. Celó v šolah nas, Evropejce, učijo, kako zelo težavno je poslovanje s Kitajci, vendar pa v resnici ni težavno, le drugačno je od tega, na kar so navajeni.

## Sources and literature

1. Agarwal, A. (2010, 10. July). Ray Kroc: The man behind McDonald's. *Jobs Journal*. Found on 12<sup>th</sup> of August 2010 on web address <http://www.jobsjournal.com/articles/312005108/Ray-Kroc-The-Man-behind-McDonald-s>
2. Ahmed, Z., Mohamed, O., Tan, B. & Johnson, J. (2002). International Risk perception and mode of entry: A case study of Malaysian multinational firms. *Journal of Business Research*, 55, 805-813.
3. All roads lead to China – *Map: China's Transportation Network*. Found on 11<sup>th</sup> of October 2010 on Web address <http://www.allroadsleadtochina.com/2006/08/14/map-chinas-transportation-netowork/>
4. All Business – *Research and Markets: China's Fast Food Industry is Expected to Grow at a CAGR of around 25%*. Found on 12<sup>th</sup> of August 2010 on Web address <http://www.allbusiness.com/food-beverage/restaurants-food-service-restaurants-fast/11597096-1.html>
5. Akerman, A. (n.y). Agglomeration of Industry in China: Does Location matter? *StockholmUniversity*. Found on 10<sup>th</sup> of October 2010 on Web address <http://people.su.se/~ank/Chinaa.pdf>
6. Balažič, B. (2008). *Možnost vstopa podjetja Nevron d.o.o. na Češki in Slovaški trg* (diplomsko delo). Ljubljana: Ekonomska fakulteta.
7. Bartlett, C.A. & Ghoshal, S. (2000). *Transnational management; Text, cases and readings in cross-border management*. Boston: Irwin McGraw-Hill.
8. BBC News - *Brief history of McDonald's*. Found on 15<sup>th</sup> of January 2010 on web address <http://www.bbc.co.uk/dna/h2g2/A3816740>
9. BBC News – *Corruption up among China government officials*. Found on 21<sup>st</sup> of August 2010 on Web address <http://news.bbc.co.uk/2/hi/8448059.stm>
10. Branch, A. (2000). *Export Practice and Management* (4<sup>th</sup> ed.). United Kingdom: Thomson Learning.
11. Chetty, S. & Campbell-Hunt, C. (2003). Paths of Internationalization among Small- to Medium- Sized Firms. *European Journal of Marketing*, 37, (5/6), 796-820.

12. China - *China's Political System*. Found on 18<sup>th</sup> of July 2010 on Web address <http://www.china.org.cn/english/Political/26143.htm>
13. China - *McDonald's to offer franchises in China*. Found on 16<sup>th</sup> of June 2010 on web address <http://www.china.org.cn/english/15261.htm>
14. The China Expat - *McDonald's advertising in China*. Found on 16<sup>th</sup> of June 2010 on web address <http://www.thechinaexpat.com/mcdonalds-advertising-in-china/>
15. China Daily - *Competition gearing up in China's fast food industry*. Found on 16<sup>th</sup> of June 2010 on Web address [http://www.chinadaily.com.cn/bizchina/2008-06/30/content\\_6806904.htm](http://www.chinadaily.com.cn/bizchina/2008-06/30/content_6806904.htm)
16. China Today – *China Population Statistics and Related Information*. Found on 17<sup>th</sup> of July 2010 on web address <http://www.chinatoday.com/data/china.population.htm>
17. China Today – *General Information of the People's Republic of China*. Found on 17<sup>th</sup> of July 2010 on web address <http://www.chinatoday.com/general/a.htm>
18. China Today – *The Communist Party of China*. Found on 18<sup>th</sup> of July 2010 on Web address <http://www.chinatoday.com/org/cpc/>
19. Chinability – *GDP Growth in China 1952-2009*. Found on 18<sup>th</sup> of July 2010 on Web address <http://www.chinability.com/GDP.htm>
20. Chinese Culture - *Understanding Chinese Business Culture and Etiquette*. Found on 11<sup>th</sup> of October 2010 on Web address [http://www.chinese-culture.net/html/chinese\\_business\\_culture.html](http://www.chinese-culture.net/html/chinese_business_culture.html)
21. Chineseembassy- *Chronology*. Found on 20<sup>th</sup> of July 2010 on web address [http://jo.chineseembassy.org/eng/zgj/english\\_chinaabc2/t155857.htm](http://jo.chineseembassy.org/eng/zgj/english_chinaabc2/t155857.htm)
22. Country Studies – *Historical Setting*. Found on 17<sup>th</sup> of July 2010 on web address <http://countrystudies.us/china/3.htm>
23. Country Studies – *Population*. Found on 17<sup>th</sup> of July 2010 on web address <http://countrystudies.us/china/33.htm>
24. Darling, J.R. & Seristö, H.T. (2004). Key steps to success in export markets; A new paradigm for strategic decision making. *European Business Review*, 16 (1), 28-43

25. Doing Business – China (2010). Washington DC: The World Bank.
26. Franchise Business Opportunities - *McDonald's pushing McMuffins and Coffee in China*. Found on 18<sup>th</sup> of June 2010 on web page  
<http://franchise.business-opportunities.biz/2007/05/24/mcdonalds-pushing-mcmuffins-and-coffee-in-china/>
27. Garnaut, R. & Song, L. (2006). *The Turning Point in China's Economic Development*. Canberra: The Australian National University.
28. Gettman, M. & Decker, S. (2004). *China Country Commercial Guide FY 2004. A Guide to Doing Business in China & Information on Current Economic Conditions*. Beijing: The U.S. Embassy.
29. Griffin, R. & Pustay, M. (1999). *International business: Managerial perspective* (2<sup>nd</sup> ed.). Reading: Addison- Wesley.
30. Griffith, W. (2008, 15. August). McDonald's has a big appetite for China. *MSNBC*. Found on 16<sup>th</sup> of June 2010 on web address <http://www.msnbc.msn.com/id/26226387/>
31. Czinkota, M.R., Ronkainen, I.A. & Moffett, M.H. (2005). *International business* (7th ed.). USA: South-western Thomson.
32. Funding Universe - *McDonald's corporation*. Found on 15<sup>th</sup> of January 2010 on web address <http://www.fundinguniverse.com/company-histories/McDonalds-Corporation-Company-History.html>
33. Hollensen, S. (1998). *Global Marketing; A Market - Responsive approach*. London: Prentice Hall.
34. Hollensen, S. (2004). *Global Marketing; A Decision Oriented Approach* (3<sup>rd</sup> ed.). London: Prentice Hall.
35. Hofstede – *Geert Hofstede Cultural Dimensions*. Found on 20 of July 2010 on Web address [http://www.geert-hofstede.com/hofstede\\_china.shtml](http://www.geert-hofstede.com/hofstede_china.shtml)
36. Hrastelj, T. (1995). *Podjetniški izzivi mednarodnega poslovanja*. Ljubljana: Gospodarski vestnik.
37. Iloveindia- *History of McDonald's*. Found on 15<sup>th</sup> of January 2010 on web address <http://lifestyle.iloveindia.com/lounge/history-of-mcdonalds-1806.html>

38. Index Mundi – *Taiwan disputes: International*. Found on 18<sup>th</sup> of July 2010 on web page [http://www.indexmundi.com/taiwan/disputes\\_international.html](http://www.indexmundi.com/taiwan/disputes_international.html)
39. Jaklič, M. (2000). *Poslovno okolje podjetja*. Ljubljana: Ekonomska fakulteta.
40. Jaklič, A. & Svetličič, M. (2001). *Neposredne investicije Slovenije v državah nekdanje Jugoslavije: strateški ali defenzivni odziv?*. Ljubljana: Častnik Finance.
41. Jarillo, C.J. (1993). *Strategic network: Creatin the borderless organization*. Oxford: Butterworth Heinemann.
42. Jenkins , J. (2008). Cooking up a recipe for effective leadership. *CCL*. Found on 18<sup>th</sup> of June 2010 on web address [http://www.ccl.org/leadership/pdf/publications/lia/lia28\\_1CaseStudy.pdf](http://www.ccl.org/leadership/pdf/publications/lia/lia28_1CaseStudy.pdf)
43. Jiangong, Z. (2008, 01. March). *China's Pension System: A Race with the Aging Tsunami*. ChinaStakes. Found on 18<sup>th</sup> of July 2010 on Web address <http://www.chinastakes.com/2008/3/chinas-pension-system-a-race-with-the-aging-tsunami.html>
44. Johnson, D. & Turner, C. (2003). *International Business: Themes and Issues in the Modern Global Economy*. London, New York: Routledge.
45. Katsikeas, C.S. & Morgan, R.E. (1997). Theories of International Trade, Foreign Direct Investment and Firm Internationalization: A Critique. *Management decision*, 35 (1), 68-78.
46. Kenda, V. (2001). *Mednarodno poslovanje*. Maribor: Ekonomsko - poslovna fakulteta.
47. Kim, K.A., Kim, S.H. & Kim, S.H. (2002). *Global Corporate Finance: Text and Cases*. (5th ed.). Malden: Blackwell Publishers.
48. Klaneček, A. (2002). *Načrtovanje rasti podjetja za posredovanje zavarovanj s prodajo franšize* (specialistično delo). Ljubljana: Ekonomska fakulteta.
49. Koch, A. (2001). Factors influencing market entry mode selection. Developing the MEMS model. *Market Intelligence & planning*, 19 (5), 351-361.
50. Kotler, P. (1996). *Marketing management. Trženjsko upravljanje*. Ljubljana: Slovenska knjiga.
51. Lipičnik, B. (1994). *Organizacija podjetja*. Ljubljana: Ekonomska fakulteta.



52. Makovec Brenčič, M., Lisjak, M., Pfajfar, G. & Erkar, A. (2006). *Mednarodno poslovanje*. Ljubljana: Ekonomska fakulteta.
53. Marr, J. & Hatfield, A. (n.y.). Fast food restaurants: Just what Eastern China's customers ordered. *USDA*. Found on 18<sup>th</sup> of June 2010 on web address <http://www.fas.usda.gov/info/agexporter/1997/July%201997/fastfood.html> )
54. McDonald, F. & Burton, F. (2002). *International Business* (1st ed.). New York: Thomson.
55. McDonald's corporation (2009). McDonald's corporation annual report. USA: McDonald's corporation.
56. Morgan, R. E. (1997). *Export stimuli and export barriers: evidence from empirical research studies*. *European Business Review*, Bradford, 97 (2). 68-82.
57. Osland, G., Taylor, C. & Zou, S. (2001). Selecting international modes of entry and expansion. *Market intelligence & planning*, 19 (3), 153-161.
58. Pan, Y. & Tse, D. (2000). The hierarchical model of market entry modes. *Journal of International Business Studies*, 31 (4), 535-554.
59. People's Daily – *China is major target in trade protectionism*. Found on 20<sup>th</sup> of September 2010 on Web address <http://english.people.com.cn/90001/90778/90861/7141292.htm>
60. Qingfen, D. (2009, 14. April). McDonald's to step up hiring in China this year. *China Daily*. Found on 18<sup>th</sup> June 2010 on web address [http://www.chinadaily.com.cn/bizchina/2009-04/14/content\\_7674681.htm](http://www.chinadaily.com.cn/bizchina/2009-04/14/content_7674681.htm)
61. Quer, D., Claver, E. & Rienda, L. (2007). The Impact of Country Risk and Cultural Distance on Entry Mode Choice; an Integrated Approach. *Cross Cultural Management: An International Journal*, 14 (1), 74-87.
62. China research and intelligence (2009). *Research Report on the Fast Food Industry in China*. China: China research and intelligence.
63. Rošker, J. (2001). *Zmajeva hiša: Oris kitajske kulture in civilizacije*. Ljubljana: Cankarjeva založba.
64. Ruzzier, M. (2005). *Mednarodno podjetništvo: Model internacionalizacij malih in srednjih podjetij*. Kranj: Arak.

65. Sapolnik Dahab, S., Pina e Cunha, M. & Lúcio Cardim, R., (2000). Internationalization of Franchising: Juggling Local Tastes and Brand Consistency. *Iamot*. Found on 15<sup>th</sup> of May 2010 on web address <http://www.iamot.org/conference/index.php/ocs/7/paper/viewFile/1123/494>
66. Seabridge China – Research Report on China’s Fast Food Market. Found on 12<sup>th</sup> of August 2010 on Web address <http://www.seabridge-china.com/english/Article/196-1.shtml>
67. Science and Engineering Indicators – *Global expansion of Research and Development Expenditures*. Found on 20<sup>th</sup> of July on Web address <http://www.nsf.gov/statistics/seind10/c0/c0s2.htm>
68. Spender, J.C. (2006). *Multidimensional theorizing: Some methodological comments about John Dunning’s eclectic approach*. Northampton MA.
69. Šutič, N. (2002). *Tranzicija kitajskega gospodarstva* (diplomsko delo). Ljubljana: Ekonomska fakulteta.
70. Tamer Cavusgil, S., Pervez Ghauri, N. & Miling Agarwal, R. (2002). *Doing Business in Emerging Markets: Entry and Negotiation Strategies*. USA: Sage Publications, Inc.
71. Ting, E.L., Fung, R.C.C, Hui, D.X., Shen, K.X, Parwani, K. & Yiqiong, J.Y. (2009). *Marketing in China: Expansion of SUBWAY in China* (Research report). Hong Kong: City University of Hong Kong
72. Transparency International – *Corruption Perception Index 2009*. Found on 18<sup>th</sup> of August 2010 on Web address [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009](http://www.transparency.org/policy_research/surveys_indices/cpi/2009)
73. Tratnik, A. (1999). *Internacionalizacija slovenskih podjetij z neposrednimi naložbami v tujino* (magistrsko delo). Ljubljana: Ekonomska fakulteta.
74. Tsun, O.C. (2004, May). Obesity in Chenise Children. *JRSM*. Found on 16<sup>th</sup> of June 2010 on web page <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1079476/>
75. Tylor, C.R., Zou, S. & Osland, G.E. (2000). Foreign market entry strategies of Japanese MNCs. *International Marketing Review*, 17 (2), 146-150.
76. United States Securities and Exchange Commission. (2009). McDonald’s corporation quarterly report for the quarterly period ended September 30, 2009. USA: United States Securities and Exchange Commission.

77. Valcanos, E., Anastasiou, A. & Androutsou, D. (2009). *The Importance of SWOT Analysis for educational units that belong to the field of Vocational Education and Training: The case of the State Institute (IEK) OF Epanomi in Thessalonikim, Greece*. N.p.
78. Vietor, R.H. & Kennedy, R.E. (2001). *Globalization and Growth: Case Studies in National Economic Strategies*. Fort Worth: Harcourt College Publishers.
79. Vogrinc, J. (2009). *Internacionalizacija podjetja Freixenet s poudarkom na analizi vstopa na slovenski trg* (Diplomsko delo). Ljubljana: Ekonomska fakulteta.
80. Whitelock, J. (2002). *Theories of Internationalisation and Their Impact on Market Entry*. *International Marketing Review*, 19, (4), 342-347.
81. Wilson, L. & Toland, P. (2008, 24. March). Xinjiang, China's "other Tibet": Ethnic tensions on the rise in China's vast western frontier. *Aljazeera*. Found on 18<sup>th</sup> of July 2010 on Web address <http://english.aljazeera.net/news/asia-pacific/2008/03/2008525184819409441.html>
82. Xiaoji, Q. (2010, 17. March). World Bank sees China GDP up 9,5% in 2010. *China Daily*. Found on 18<sup>th</sup> July 2010 on Web address [http://www.chinadaily.com.cn/bizchina/2010-03/17/content\\_9603364.htm](http://www.chinadaily.com.cn/bizchina/2010-03/17/content_9603364.htm)
83. Young, S. (1989). *International market entry and development: Strategies and management*. Hemel Hempstead: Harvester Wheatsheaf.
84. Zhang, K.H. (2002). Why Does China Receive So Much Foreign Direct Investment? *IVEP*. Found on 10<sup>th</sup> of October 2010 on Web address [http://old.iwep.org.cn/wec/english/articles/2002\\_03/2002-3-kevin%20honglin%20zhang.pdf](http://old.iwep.org.cn/wec/english/articles/2002_03/2002-3-kevin%20honglin%20zhang.pdf)



## APPENDIX

### APPENDIX 1: Provinces, Autonomous regions, Municipalities and Special Administration Regions

*Table 1: Detailed overlook of provinces, Autonomous regions, Municipalities and special administration regions*

23 Provinces	5 Autonomous Regions	4 Municipalities	2 Special Administration Regions (SAR)
Anhui	Guangxi	Beijing	Hong Kong
Fujian	Inner Mongolia	Chongqing	Macao
Gansu	Ningxia	Shanghai	
Guangdong	Tibet	Tianjin	
Guizhou	Xinjiang		
Hainan			
Hebei			
Heilongjiang			
Henan			
Hubei			
Hunan			
Jiangsu			
Jiangxi			
Jilin			
Liaoning			
Qinghai			
Shaanxi			
Shandong			
Shanxi			
Sichuan			
Yunnan			
Zhejiang			
Taiwan			

*Source: China Today – China Population Statistics and Related Information, 2010.*

APPENDIX 2: Population of Administrative divisions

*Table 2: Population\* of Administrative divisions*

<b>23 Provinces</b>	<b>Population (unit: 10,000)</b>
Anhui	5,986
Fujian	3,471
Gansu	2,562
Guangdong	8,642
Guizhou	3,525
Hainan	787
Hebei	6,744
Heilongjiang	3,689
Henan	9,256
Hubei	6,028
Hunan	6,440
Jiangsu	7,438
Jiangxi	4,140
Jilin	2,728
Liaoning	4,238
Qinghai	518
Shaanxi	3,605
Shandong	9,079
Shanxi	3,297
Sichuan	8,329
Yunnan	4,288
Zhejiang	4,677
Taiwan	2,228
<b>5 Autonomous Regions</b>	<b>Population (unit: 10,000)</b>
Guangxi	4,489
Inner Mongolia	2,386
Ningxia	562
Tibet	262
Xinjiang	1,925
<b>4 Municipalities</b>	<b>Population (unit: 10,000)</b>
Beijing	1,382
Chongqing	3,090
Shanghai	1,674
Tianjin	1,001

continues

continued	
<b>2Special Administration Regions (SAR)</b>	<b>Population (unit: 10,000)</b>
Hong Kong	678
Macao	44

Legend: \*The above population statistics do not include 2.5 million members of Chinese armed force.

*Source: China Today – China Population Statistics and Related Information, 2010.*

APPENDIX 3: Overlook of dynasties by time frames

*Table 3: Chronological overlook of the Chinese dynasties*

Dynasty	Time frame
Xia	2070 - 1600 B.C.
Shang	1600 - 1046 B.C.
West Zhou dynasty	1046 - 771 B.C.
East Zhou Dynasty- spring and fall era	770 - 476 B.C.
East Zhou Dynasty- Warring States	475 - 221 B.C.
Qin	221 - 206 B.C.
West Han Dynasty	206 - 25 B.C.
East Han Dynasty	25 B.C. - 220
3 Kingdom era; Wei, Shu, Wu	220 - 280
West Jin Dynasty	264 - 317
East Jin Dynasty	317 - 420
North and South Dynasties	420 - 589
Sui	581 - 618
Tang	618 - 907
5 Dynasties	907 - 960
North Song Dynasty	960- 1127
South Song Dynasty	1127 - 1279
Yuan	1206 - 1368
Ming	1368 - 1644
Qing	1616 - 1911
Republic of China	1912 - 1949
Peoples Republic of China	1949 -

*Source: Chinese embassy - Chronology, 2004.*