



Challenges And Strategies for Multinational Enterprises (MNEs) In China: An Exploratory Review

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Abstract

Over the years, globalisation has become a common phenomenon, and emerging economies like China have entered the equation, attaining the highest growth rates. Multinational enterprises (MNEs) operating in China confront a variety of challenges, such as cultural differences, complexity in the regulatory environment, and rivalry from local businesses. Thus, MNEs must employ the proper strategies in order to overcome these obstacles.

Through an analysis of the existing literature, comparison, and summarisation between authors and by addressing recent cases of MNEs in China, this article aims to answer the questions of what the main challenges for an MNE in the Chinese market are as well as the main strategies to achieve success in a market with so much potential.

One strategy that has proven effective for MNEs in China is building strong relationships with local partners and government officials. This can help MNEs understand the local business environment and navigate complex regulations. Localisation also proved to be an important strategy with companies needing to adapt products and marketing to match the needs and preferences of Chinese consumers. This involves modifying products to fit local tastes or using local marketing channels to reach consumers. Local businesses, in a highly patriotic nation, have also shown themselves to be a serious threat since they have a better understanding of the market. Thus, MNEs must have a strong commitment to their strategy, invest in R&D, and delegate decision-making authority locally to be competitive and flexible enough to respond to a highly dynamic market.

Key Words: Globalisation, Multinational Enterprises, Emerging Countries, China, Challenges, Business Strategies.

Desafios e Estratégias para as Empresas Multinacionais na China: Uma revisão exploratória

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Resumo

Ao longo dos anos, a globalização tornou-se um fenómeno comum onde economias emergentes como a China atingem as taxas de crescimento mais elevadas. Empresas multinacionais (MNEs) que operam na China enfrentam uma variedade de desafios, tais como diferenças culturais, complexidade nas leis, e rivalidade das empresas locais. Assim, estas devem adotar estratégias adequadas para ultrapassar estes obstáculos.

Através de uma análise da literatura existente, comparação e resumo entre autores e abordando casos recentes de MNEs na China, este artigo pretende responder às questões de quais os principais desafios para uma MNE neste mercado, assim como as principais estratégias para alcançar o sucesso numa economia tão promissora.

Uma estratégia que se revelou eficaz é o estabelecimento de relações fortes com parceiros locais e governamentais. Assim as MNEs podem compreender melhor o ambiente empresarial local e a operar em leis ambíguas. A localização também provou ser uma estratégia importante onde as empresas necessitam de adaptar os produtos e o marketing para corresponderem às necessidades e preferências dos consumidores chineses. Isto envolve a adaptação dos produtos de forma a adequarem aos gostos locais ou utilização de canais de marketing locais para chegar aos consumidores. Também as empresas locais, num país altamente patriótico, têm demonstrado ser uma séria ameaça uma vez que têm uma melhor compreensão do mercado. Assim, as empresas multinacionais devem ter um forte empenho na sua estratégia, investir na I&D, e delegar o poder de decisão local para serem competitivas e flexíveis o suficiente para responderem a um mercado altamente dinâmico.

Palavras-chave: Globalização, Multinacionais, Países Emergentes, China, Desafios, Estratégias de Negócio

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Table of Contents

- 1. Introduction 7
- 2. Literature Review 11
 - 2.1 Globalization as a continuous phenomenon 11
 - 2.2 Emerging Markets and its importance in the globalisation process 12
 - 2.3 China and Challenges for MNE’s..... 13
 - 2.4 Successful Strategies for multinationals in China 16
- 3. Four Fundamental Pillars to Guide Multinational Enterprises (MNEs) in the Chinese Market – A Framework 21
- 4. Cases In Point: Ermenegildo Zegna and Amazon China 23
 - 4.1. Ermenegildo Zegna: A Success Case in The Chinese Luxury Market..... 23
 - 4.1.1 Company Overview 23
 - 4.1.2 Importance of the Chinese market in the global strategy 24
 - 4.1.3 After-sales support and trained staff..... 24
 - 4.1.4 Increase of control..... 25
 - 4.1.5 Localisation..... 25
 - 4.2. Amazon: The failure in the Chinese market 26
 - 4.2.1 Company Overview 26
 - 4.2.2. The entrance and first impact..... 26
 - 4.2.3 JD and Alibaba..... 27
 - 4.2.4 Price Wars 28
 - 4.2.5 Logistics and Chinese Consumer Behaviour 28
 - 4.2.6 The Way to The End..... 29
- 5. Cases Discussion 29
 - 5.1 Ermenegildo Zegna..... 29
 - 5.2 Amazon..... 31
- 6. Conclusion..... 33
- 7. Limitations and Further Research 34
- Reference List 36

List of Abbreviations

BCG - Boston Consulting Group

FDI: Foreign Direct Investment

FTT - Forced Technology Transfer

GDP - Gross Domestic Product

I&D - Research and Development

IJVs - international joint ventures

JVs - Joint Ventures

MNE - Multinational Enterprise

P&G - Procter & Gamble

SMEs - Small and Medium Enterprises

U.S – United States of America

VC – Venture Capital

WTO - World Trade Organization

1. Introduction

“The way the world is going, it is technology driven. And it is not just driven by the old superpowers, it is driven by the far east and new emerging economies.” (James Dyson)

Starting several centuries ago, the globalisation process has gone through different phases, that had different characteristics and priorities. This phenomenon, which began with the exchange and export of elementary items, gradually gave place to the preponderance of goods with higher added values, where technology and digitalization have taken a greater significance. According to some authors, it is currently going through a phase entitled Globalization 4.0 (Vanham, 2019), in which e-commerce, artificial intelligence, and digital products are becoming more and more popular. In this phase, China appears for the first time together with the United States as the leading nations. The latter has always played a leading role throughout the history of the world economy, however, when the growth rates over the past several years are examined, it becomes clear that they have lagged those of developing nations like China or India, especially the Chinese market, where the growth rate has outstripped all others. Taking this development tendency into consideration, it is projected that China, the actual world's second-largest economy, will overtake the United States as the world's largest economy by 2030 (Jennings, 2022). As an example of growth, since 2004 China has become the country with the highest Foreign Direct Investment (FDI) inflow, which reflects its potential and importance for the global strategies of Multinational Enterprises (MNEs).

With technological and digital development increasing at unprecedented rates, the world is undergoing huge changes at all levels. In economic and corporate terms, markets are increasingly in a transition that results in a global stage. This brings countless opportunities as well as challenges for which companies and their executives must be prepared. Numerous authors have written about globalisation both in developed countries and, more recently, in the explosion and growing significance of emerging markets. Gone are the days when competitors were only national or even continental in scope. Nowadays, companies need to have a global vision as well as strategies to be present in markets with high growth potential. Otherwise, they risk being overtaken by their competitors, which will have a damaging effect on their revenues and, eventually, their own survival in an increasingly competitive market where only those with more anticipatory capability and strategic vision will prevail. As stated in a BCG report in 2015, “Any approach needs to be dynamic and agile so that strategies can be altered when short- and long-term developments alter conditions within and across individual countries.” (Khanna et al., 2021)

Each country and each market have its dynamics, its infrastructure, its agents, and everything that makes it up to be an attractive market for multinational enterprises (MNEs) and foreign direct investment (FDI). The Chinese market, which is the focus of this paper's analysis, is no exception, and with all the potential mentioned above, it is extremely interesting to analyse the main characteristics and challenges that MNEs must face, as well as some strategies that they can implement, to be present with a successful performance in such an important and rapidly growing market as the Chinese one.

In terms of challenges, many of those found in China are common to other emerging countries having the most varied origins. Firstly, some institutions do not function as well (Hoskisson et al, 2000) as in developed markets. This leads these markets to not function efficiently, resulting in institutional voids (Khanna & Palepu, 1997) causing problems of available information, as well as dubious regulatory and judicial systems. Other studies have also looked at the characteristics of emerging markets (Khanna, Palepu & Sinha, 2015), such as the political and economic aspects as well as production factors that impact the attractiveness and performance of these markets. Particularly the Chinese Communist Party, which has ruled the country for many years, has extremely nationalistic policies and is in control of every aspect of the society. Some practices of this government have a direct impact on the presence of MNEs in this market, as well as conflicts between countries. The trade dispute between China and the United States is an example of this, as trade tariffs between the two countries increased after the US accused China of practises such as forced technology transfer (FTT), limited market access, intellectual property theft, and subsidies to state-owned enterprises (Hass & Denmark, 2020). There are several barriers and limitations in the various market areas (Product, Labour, Capital), such as piracy, limited knowledge of English by workers, the necessity to recruit outside (Gupta & Wang, 2009), but also difficulty on the part of international enterprises in obtaining financing. The Chinese market is very nationalistic, often favouring national companies, where it is very important to adapt to the characteristics and preferences of the consumer.

In order to deal with these challenges, MNEs must organise themselves in the best way and take decisions to meet the Chinese consumer as well as all the other aspects that stakeholders can influence their performance in this market. Different authors have approached different MNEs success strategies in China from distinct viewpoints. Although many of these touch on different areas of analysis, there are some conclusions that can complement each other.

China's middle class has rapidly expanded during the past few decades (Chen & Lu, 2011). While this raises several environmental, demographic, or social issues, it also creates several

market opportunities that may be taken advantage of by both local businesses and MNEs looking to enter this market. Because of this, enterprises must place their bets on the mass market, where they should follow the strategy of providing a product that is "good enough" while valuing the link between price and quality (Shankar, Ormiston, Bloch, & Schaus, 2008). To this purpose, there should be a very tight control of costs and an attempt to create economies of scale as much as possible. Local teams should be in charge of these activities since they have a greater understanding of the market, the tastes, and the preferences of the Chinese audience, where localisation plays a significant influence (Shankar, Ormiston, Bloch, & Schaus, 2008, Sang & Ulrich, 2021). The Western perspective on things is frequently very different from the local reality, which can prove to be a big disadvantage compared to competitors who are concerned to adapt to the differences of each market, so understanding the characteristics, nuances, and preferences of the Chinese market is crucial.

Other writers, such as Pan and Chi in 1999 and Johnson and Tellis in 2008, have examined concerns including market access or the cultural and geographical distance from the origin of the MNEs to China. Some of the results were in accord, such as the notion that enterprises that enter the market sooner and those that are located physically and culturally closer to China tend to perform better.

Achieving success in China is difficult and sometimes only possible through a change of mindset and corporate governance. There are several cases of failure of major brands, and, especially in the case of some technological giants it becomes quite interesting to understand why and what are the causes of failure. In what is one of the biggest digital and technology markets, examples like Google, Amazon, eBay, or Uber all failed (Li, 2019). This outcome was the result of several factors, including a too western perspective, a lack of power on the ground, and an absence of connections with key stakeholders such as the government (Li, 2019, Sang & Ulrich, 2021). However, there are also several successful foreign MNEs in China, such as Ikea, Starbucks, Coca-Cola, McDonalds or Zegna. The latter will be analysed to understand the main drivers of success in this specific case. Once again it will be possible to see that the adaptation to the market had a strong influence, as well as the persistence and determination to succeed in China.

The main questions that this paper aims to answer are the following:

1. What are the main challenges that Multinational Enterprises (MNEs) face when expanding into the Chinese market?
2. What are the strategies used to enhance the performance of these Multinational Enterprises (MNEs) in this market?

In terms of structure, this thesis' remaining sections are structured as follows: Section 2 provides a comprehensive and exhaustive review of papers authored by various authors. Beginning with the concept of globalisation, it will be possible to comprehend the path it has gone till the rise of developing economies. Following that, the significance and important rising nations that have gained prominence in the global economy will be examined. Finally, the most important part of this article ends with a presentation of the major issues facing the Chinese market from several writers, along with the best approaches that MNEs may take to get around these hurdles and succeed in this market that has so much potential. Section 3 will introduce a framework that aims to summarise the several viewpoints of the authors that have already been explored and to visually illustrate the best strategies for MNEs in four separate categories: strategic, operational, governance, and cultural. Section 4 gives two examples of MNEs that are currently or have previously operated in the Chinese market. Zegna and Amazon are portrayed as successful and unsuccessful cases, respectively. In Section 5 there will be a link here not only to the articles indicated in the literature review, but also to the developed framework, to grasp the linkage of the points mentioned above with these two real-world practical cases. Section 6 wraps up the dissertation with a discussion of the major findings. Finally, Section 7 discusses the paper's main limitations as well as potential future research.

2. Literature Review

2.1 Globalization as a continuous phenomenon

Economic globalization, which began in the aftermath of World War II (Horowitz, 2004), has been driven by the convergence of three forces: politics, economics, and technology, leading to a more interconnected and open global environment (Zakaria, 2008). Factors such as population growth, technological developments, and the raise of global trade by the leading powers of the industrial world have contributed greatly to this phenomenon that we continue to observe nowadays. Even though it is a present phenomenon, some writers argue that the global economy is endangered by anti-globalization reaction, or "deglobalization" (James, 2017). With the growth of protectionist and nationalist regimes like Donald Trump's, countries are beginning to adopt policies that favour local transactions above dependency on foreign markets (James, H. 2017). These occurrences, however, do not discredit the globalisation process; they only slow it down.

Globalisation has taken a prominent role in all aspects of the world as we know, and the expression "Global Village" (Fiore & McLuhan, 1967) is increasingly used by authors who study this topic. Also, development of means of transports, media, facility of communication, and flow of people, has led to an exponential increase in the phenomenon of globalisation and is nowadays something essential in the business world. Therefore, multinational enterprises (MNE's) "proactively sought to reorganise their activities, whether inter-firm or intra-firm; intra-border or cross-border, exploiting the opportunities that globalisation has made available" (Narula & Dunning, 2012). This relationship between globalisation and multinational enterprises (MNE's) has also been studied by other authors such as Kenichi Ohmae. In his studies, the author mentions the importance and necessity of companies to expand globally. The author even mentions that globalisation is imperative for companies to be competitive because there is a huge difference between being exposed to hundreds/thousands of millions of customers or being restricted to the size of the market of a single country. Fixed costs, when spread over a larger universe of consumers, will become much less relevant and a source of competitive advantage for those companies that go outside their market. (Ohmae, 1993)

Furthermore, and despite this recent phenomenon of some conservative and nationalist policies, over the last decades most of the governments around the world have included in their economic policies a free market system, through fiscal measures as well as trade agreements. As a result, rival MNE's can access the patents, hire staff from their competitors, reverse-

engineer rival goods, purchase inputs at a discount price, and even work together with other companies (Kafouros, Buckley & Clegg, 2014).

2.2 Emerging Markets and its importance in the globalisation process

When discussing globalisation, it is impossible to avoid mentioning emerging countries. There are dozens of these nations, but China has dominated the last 20 years being the one with the highest growth rates. From their population, growth potential, to their contribution to the world's GDP, this country plays an important role in the strategies of MNE's. Looking back over the past five centuries, there have been important and disruptive milestones that have caused the world to undergo three major changes. "The rise of the Western world", which took place between the fifteenth and eighteenth centuries and was characterised by the political dominance of the Western nations. "The Second Shift", which took place at the end of the 19th century when there is the rise of the United States as the main global power. And finally, and where we are today, "The Rise of Rest", characterized by a galloping economic growth of countries like India and China, where their annual growth rates have taken values that were once unthinkable (Zakaria, 2009).

Additionally, developing countries such as China and India have been the fastest-growing market for most products and services since the early 1990s (Khanna, Palepu & Sinha, 2015), demonstrating their increasing influence in the global economy.

These economies in general, and Brazil, Russia, India, and China (BRIC) in particular, are increasingly taking over as the world's growth hubs, as opposed to the traditional dominant economies of the USA, Europe, and Japan, which have slower growth rates (Pillania, 2009).

In the case of China, there were various economic, technological, and social factors for this paradigm change. The increase in knowledge-based services (Javalgi et al, 2011), as well as the demand for outsourcing R&D and exports of high-tech products and services, contributed significantly to this change (Filatotchev et al., 2009). Low labour costs were an unavoidable factor for this economy's success; nevertheless, not just cheap labour but also skilled labour, particularly in the field of technology, has boosted the rise of high-tech exports. (Milner, Greenaway, and Mahabir, 2008). Economically speaking, even if China and India never rise above middle-income level, some research (Zakaria, 2008) state that they will remain the world's second and third largest economies for the foreseeable future. And, if this seems incomprehensible, think in mathematical terms, and notice that any number, no matter how infinitesimal, becomes a substantial number when multiplied by 2.5 billion (the approximate

population of China plus India). So, when you combine a low starting point with a large population, you can see why these economies are rising and why they offer so much potential for multinational enterprises. (Zakaria, 2008).

However, the high degree of instability and transitory nature of these emerging nations, with changes taking place in the economic, political, social, and demographic spheres, are some of their defining characteristics (Mody, 2003).

2.3 China and Challenges for MNE's

As it was described, many authors consider China to be one of the most important emerging markets in a variety of ways. In terms of economics, and considering FDI (Foreign Direct Investment), China surpassed the United States in 2014 to become the top destination for FDI, although not on a cumulative basis (Tung, 2016). But not everything is perfect. Although this country has numerous potentials, multinationals have faced and continue to face several hurdles and obstacles. Because of these constraints, whether social, political, demographic, or economic, many multinational firms struggle to create successful strategies in this country.

In demographic terms, China's age pyramid changed at a rate that was not expected. While the one-child policy was positive for controlling China's population and protecting against some adverse effects of overcrowding a country, it had also resulted in a steadily ageing population. China is becoming older at a record-breaking rate. By 2050, its median age will increase from 37 to 49, roughly nine years earlier than the United States is predicted to be (Chand & Tung, 2014). This ageing population may ultimately result in higher tax policies by the Chinese government, something that is not attractive to multinational companies who do not want higher tax rates. Also, the low labour costs comparative advantage in China will diminish over time since there will be more intense competition for skilled labor and talent (Tung, 2016).

Additionally, as it is typical in all emerging countries, there are several institutional voids, that is to say, the absence of information or contracting intermediaries that effectively connect economic agents (Ma, 2016). In contrast to industrialised economies, where there are numerous institutions that support efficient market operation, these elements are rather absent in these developing nations. By lowering uncertainty and creating a stable context that promotes collaborations, institutions play a crucial role in economies (Hoskisson et al, 2000). However, there are three main types of market inefficiency (Khanna & Palepu, 1997):

1. Information problems: MNE's are reluctant to undertake business if they lack complete understanding;

2. Misguided regulations: In which regulators place political objectives above economic effectiveness;
3. Inefficient judicial systems: Markets depend on legal systems that are strong enough to maintain contracts in a consistent and predictable manner.

In an environment without strong governance structures, accountability measures, transparent reporting standards, and fair legal procedures, it is easier for corruption and crime to occur (Hoskisson et al, 2000) as well as other scenarios that have a detrimental impact on the success of businesses that seek to operate in these areas. China's regulatory landscape is dynamic and sometimes complex. For multinational enterprises (MNEs), it's critical to adjust to these developments and comply with local laws and standards.

The “Five Contexts Framework” (Khanna, Palepu & Sinha,2015) is a tool that serves to analyse the institutional context of each country, thus helping to spot institutional voids, thus helping MNE's managers to understand how to adapt their business model to the specificities of each country. Consequently, the five situations are as follows:

1. Political and Social Systems: Each nation's political structure has an impact on its economy, labour market, and capital markets;
2. Openness: The likelihood that international intermediaries will be permitted to conduct business in a country increases with the degree of economic openness of that nation;
3. Product markets: Market research and advertising are still in their infancy in product markets in underdeveloped nations;
4. Labour markets: Despite the enormous populations in emerging countries, corporations have trouble hiring managers and other skilled workers because it's hard to gauge a candidate's potential;
5. Capital markets. The lack of sophistication of the capital and financial markets in underdeveloped nations is notable.

Regarding the political landscape in China, MNE's face a communist party with the monopoly of authority, where abuse of power for personal gain is permitted with little public criticism, and where the media is also under government control. In terms of openness, the government is accepting acquisitions as well as foreign direct investment (FDI) in which a parent business establishes a subsidiary in the country.

When it comes to products market, there is a significant issue with product piracy and counterfeiting across the whole country. In terms of capital, banking system is not the most

effective one, so MNE's frequently must turn to finance in their home country. Lack of corporate transparency is a reality, and there is little VC (Venture Capital). Lastly, aside from the fact that English is not as commonly spoken as it is in other significant marketplaces, there is a shortage of highly qualified managers on the job market, which makes it more challenging to find and keep talent in countries (Khanna, Palepu & Sinha, 2015). "The War for Talent in China" is recognized by its multifaceted nature, with a particular impact on top management levels, in specific industries such as financial services, in specific functional areas like as accounting, and on the east coast (Gupta & Wang, 2009). At the same time as there is an increase in the number of MNE's in the market, the large-scale appearance of Chinese multinationals that end up recruiting top management managers to MNE's, intensifying the scarcity and competition for talent (Gupta & Wang, 2009).

Also, the expansion of the economy, the exponential increase in Chinese private savings, and the professionalisation of accounting through the strengthening of financial statements all resulted in a high need for professionals in these fields (Gupta & Wang, 2009).

The challenges faced by China's economy are visible, and even in an extremely technological and digital country like China, it is observed that a large proportion of Western Digital firms such as Google, Amazon, eBay and Uber have not been successful in the strategies implemented there. The competitive advantages achieved in other countries were not enough, much due to reasons such as (Li, 2019): poor understanding of the business environment; ineffective strategy making and communication; underperformance in operation and execution.

In addition, there is a very patriotic culture in the Chinese culture (Shu, 2022) that favours local companies, so this is a handicap that MNE's face when trying to implement their business model in China. Still on the technological branch, the digital technologies and intellectual property that Western companies rely on are frequently simply copied and then customised to local preferences.

Finally, the issue of Forced Technology Transfer (FTT) is one of the most recent issues that has gotten even worse due to the US-China trade dispute (Jiang, Keller, Qiu, Ridley, 2019). This is a consequence of Chinese law, which in several highly technology fields require multinational corporations seeking to conduct business in China to establish legitimate commercial partnerships with a domestic Chinese partner. Typically, these agreements take the form of international joint ventures (IJVs). As a result of these partnerships, businesses who wish to compete in this market face a major danger from rivals who may steal their valuable information and intellectual property. Recent examples include Tesla, which wholly owns a

production plant in Shanghai but still suggests some partnership with regional organisations in R&D and technology.

2.4 Successful Strategies for multinationals in China

Challenges and institutional voids, particularly in emerging markets like China, can pose difficulties for multinational enterprises (MNEs). As a result, research has been conducted to identify the most effective strategies for MNEs to succeed in these markets.

A common mistake made by western companies is assuming that the range of institutions that support their business operations are present in other regions of the world, when in fact, many of these institutions may be absent (Institutional Voids) (Khanna & Palepu, 1997). Another mistake is that although some companies appear to be performing well, this is because they are focusing on premium niches, which will result in a tiny and diminishing market share as multinationals from home countries will drive them aside, which demonstrates the real threat these corporations represent to MNE's (Gupta & Wang, 2009).

Those MNE's that overcome the challenges and avoid mistakes might obtain significant rewards. Not only every market demands a particular set of adjustments, but MNE's need to understand the institutional context of each market (Khanna & Palepu, 1997), and those who succeed have six things in common (Shankar, Ormiston, Bloch, & Schaus, 2008).

1. Enter the mass market to achieve scale in distribution, brand building and operations: This is a winning alternative to focusing on premium sectors, but it can also be viewed as a strategy to achieve higher segments by first sustaining and growing the company in the mass market and then capitalising on the benefits to focus on the premium.
2. Localize at every level (4 P's – Product, Placement, Price, Promote): Local competitors have a lot of benefits, most notably that they know the market better and have more consumer loyalty. Additionally, they could belong to the state or get special treatment from it, and consecutively, have good connections with significant stakeholders, extensive understanding of local laws, and reduced labour costs (Amitabh Mall et al., 2013). As a result, successful MNE's develop ways to tailor their product offerings to each new market. Protect & Gamble (P&G) modified its Crest toothpaste with flavours to delight the Chinese consumer, as well as a version with salt, since Chinese culture views salt as a whitening factor for teeth. Because of this emphasis on localization, the brand's toothpaste sales have increased by about 25% in ten years. Localisation in terms of advertising adaptation, means of distribution and price are also equally important.

3. Manage costs aggressively: Successful MNEs have adopted a cost attitude of "good enough." This "good enough" market sits above low cost but accessible goods. For this strategy to be effective, aggressive cost control techniques must be implemented, such as outsourcing, employing local suppliers, and making use of on the used capital equipment or labour-intensive production methods. All aspects, from packaging to operational effectiveness across all sectors, are reviewed to reduce costs as much as possible.
4. Build local team: Instead of hiring expatriates who incur high expenditures and have little expertise of the local market, successful MNEs integrate world-class local management teams. Rather of taking on managerial responsibilities, expatriates are responsible for cultivating local talent and transferring knowledge. To succeed in China, multinational enterprises must make investments in local talent. This involves recruiting and training local workers as well as offering chances for their professional and career development.
5. Acquire selectively: Strategic acquisitions are one method for MNEs to penetrate emerging markets. By doing this, businesses can expand their product line to include well-known regional brands, strengthen and expand their distribution network, access a local talent pool, and cut operational costs. One such instance occurred when Gillette purchased Fujian Nanping Nanfu Battery Co. Ltd., a significant Duracell battery rival in China. They were able to gain better access to more than three million retailers in China as well as cut production costs, raise profits, and other aspects.
6. Stay the course: Companies are able to retain a stronger focus on the demands and challenges of each of the emerging markets by separating it from developed economies. This division also allows for learnings about what works and what doesn't in each area and create synergies between them that would otherwise be missed if MNEs viewed emerging markets as a peripheral aspect of their global business strategy.

In addition to the aspects mentioned above, other papers have analysed some success factors of MNE's in the Chinese market through other angles, namely through Entry Mode, Market Entry Timing, and Location Advantages (Pan & Chi, 1999), as well as more macro factors such as Economic Distance (Johnson & Tellis, 2008). As evidenced, the papers are ten years apart in time, so some of the conclusions were not similar.

- Timing of market entry

Regarding Timing of market entry, both indicate a benefit for MNEs who entered the market first. There is evidence showing that businesses that enter a market first are more profitable is

consistent with theories suggesting that MNEs with more experience can learn from their mistakes for longer, establish relationships with key stakeholders like the government, for instance, and receive subsidies and incentives for new entrants (Pan and Chi 1999). Also, MNE's that successfully navigate the challenging conditions in emerging markets benefit from first mover advantages. However, it is very important to have the government support (Hoskisson et al, 2000).

- Entry Modes

Classifications change depending on how much control a company has over a foreign market. These two studies fall into several categories, but the most recent one suggests that as corporations have higher control, they tend to be more successful. However, according to a 1999 study by Pan and Chi, Equity joint ventures in China were profitable compared with cooperative operations and wholly foreign-owned subsidiaries, which are the type of entrance where there is a higher level of control by the company. This second conclusion emphasises the need of understanding the Chinese market, its peculiarities, and consumer preferences, as indicated previously. As a result of not operating alone, even if they have control, EJV's have the cooperation of local partners and government institutions in policy, supply, market access, and other key areas (Pan and Chi, 1999). Therefore, restricting to these two papers, the conclusion is that there is some discrepancy of results and conclusions.

- Location Advantages

According to Pan and Chi (1999), the three municipalities of Beijing, Shanghai, and Tianjin, as well as the open coastal cities, were more profitable sites than Special Economic Zones (SEZ's) that are favourable in terms of taxation and incentives. This may have resulted in the fact that MNE's in SZE's export more, and as was also shown in the study, firms with a greater focus on the domestic market tend to be more successful compared to those that focus more on exporting.

- Economic and Cultural Distance

Johnson and Tellis (2008), analysed these two aspects in terms of their influence on the performance of MNE. As expected, cultural distance is somewhat related to economic distance. MNE's from countries more distant both economically and culturally (Hofstede's cultural dimensions) from China have more difficulties in achieving successful performances.

In addition to the previously mentioned research, more recent papers have also tried to comprehend and decipher what propels MNE's to prosper in one of the biggest economies in the world, like China's. In one of them (Sang & Ulrich, 2021), the authors developed a framework where they include three necessary conditions (demand, access to market, advantage), five managerial decisions (Commitment, Governance, Leadership, Strategy, Product), as well as two extra factors that are very important when it comes to achieving success: agility and luck, or in other words, exogenous factors that you can't control.

Regarding demand, the company must set out to do a task that many Chinese consumers need to be done to succeed in China. Access to market is related to legal and bureaucratic issues that underlie the entry of the intended activity into the Chinese market. The final condition for advantage refers to a company's control of a resource or asset that helps them provide a solution to customers and that is difficult for rivals to obtain. The authors refer to these as "alpha assets".

The Five managerial decisions relate solely to internal aspects to the company and must be considered when all three conditions are met. The following list contains the information necessary to comprehend each of these choices' practical consequences.

- Commitment: Given the huge size of the Chinese market, the return can be quite large, however, the level of commitment of the companies at the financial level also must keep up with the size of the market.
- Governance: Related to organizational aspects and how the operation is set up in the country, the company can function quite independently, or as a regional division of the parent company. This will have implications in terms of resource allocation, decision-making power, or even in terms of the report. In this decision, it depends a lot on the industry where the company is located because it may require a higher or lower level of localization that will influence the way the company is installed in the market.
- Leadership: Entering the Chinese market sometimes resembles founding a start-up rather than a regional division. The leadership abilities required in this industry frequently approach entrepreneurship more so than traditional large-company management. An MNE should have a CEO with the following qualities to have effective leadership: be familiar with the parent company's culture; comfortable operating in both China's business environment and that of the parent company.
- Strategy: To join a market and achieve long-term sustainable success, an MNE must create a top-level plan. This necessitates identifying important partners and stakeholders, as well as design and production, among other business plan components.

For business success in China, developing trusting connections with regional partners might be essential. These alliances may offer insightful information about the local market and assist firms in navigating China's challenging competitive landscape. The plan should direct the business over the first two year after entrance.

- Product: A product may need localization, depending on the market and sector. This phenomenon is highly common in the B2C market in China, where businesses typically must adapt their products to suit Chinese consumers' interests, preferences, and norms. For the best fit, this procedure is not always simple and necessitates effort and investment.

The authors also include entrepreneurial agility and luck/exogenous factors as key elements. Agility in business management is crucial in a market where everything changes constantly, and competitors react in a matter of days. Due to foreign MNE's more centralised stance, where decisions are made at their headquarters, there are occasionally problems in this area since it does not contribute to an entrepreneurial leadership style among local leaders which results in less agility. The luck factor, or as it is often described, exogenous factors comprise everything outside the company's sphere of control. However, this can be divided into two major groups. Those factors that can be predicted (exchange rates, inflation, among others), which are called "known unknowns", and those that are quite difficult to predict "unknown unknowns". The latter group includes phenomenon such as the COVID-19 pandemic, wars, or natural disasters. In this context, companies must carry out contingency plans, make assumptions and calculate the probability of success, and draw scenarios to try to minimise the negative impact that these external and almost impossible to control factors may cause.

In summary, it can be concluded that different authors have approached the path to success in China from different perspectives. Although there are some points of contact, most of them addressed different aspects of different fields that lead MNEs to a better performance in the Chinese market. Considering the characteristics and context of this market, there are numerous areas to which companies should pay attention, both internal and external to them.

3. Four Fundamental Pillars to Guide Multinational Enterprises (MNEs) in the Chinese Market – A Framework

In order to synthesize the various points listed above, the following framework was developed which gathers the main points addressed by the authors and consequently divides them into four different areas of analysis: Strategic, Operational, Governance and Cultural. This framework aims to bring together some key elements for MNE management in China through a selection of articles from authors specialised in the market. For these reasons, it was given the name of Four Fundamental Pillars to Guide Multinational (MNEs) in the Chinese Context. In addition to the four areas mentioned, it's crucial to emphasise the exogenous factors, or luck, because, as Sang and Ulrich noted in 2021, this has a significant impact on how well businesses perform and can, in some cases, be controlled or predicted if management conducts a thorough analysis of the external environment and develops backup plans.

FOUR FUNDAMENTAL PILLARS TO GUIDE MULTINATIONALS (MNEs) IN THE CHINESE MARKET



Figure 1- FOUR FUNDAMENTAL PILLARS TO GUIDE MULTINATIONALS (MNEs) IN THE CHINESE MARKET

4. Cases In Point: Ermenegildo Zegna and Amazon China

To continue this exploratory process of the performance of MNEs in the Chinese market and robust the analysis, two real cases will be addressed in this chapter. Apart from providing a more complete analysis, this link between theory and reality also allows to relate the framework developed above and apply it to the cases.

Thus, next section of this article looks at two case studies of MNEs that have established their operations in China: Amazon and Ermenegildo Zegna. These cases were adapted from the book *Winning in China: 8 Stories of Success and Failure in the World's Largest Economy* written in 2021 by Karl T. Ulrich and Lele Sang. These two cases were selected because they contrast in terms of success and are quite recent. Analysis will reveal that, contrary to expectations, Amazon's strategy in the Chinese market ended up being a failure, from which it emerged in 2019. On the other hand, Zegna ended up establishing itself in the market as one of the main luxury clothing brands in the country, and China is today one of the main markets for the brand.

Throughout the cases, it will be possible to understand and analyse which are the main success and failure factors of the strategies of both companies. At a later stage, we will also connect some of the theories to the two cases in order to try to scrutinize as much as possible what led these companies to have such different paths when it comes to the success of their strategies in the industries where they operate.

4.1. Ermenegildo Zegna: A Success Case in The Chinese Luxury Market

4.1.1 Company Overview

Ermenegildo Zegna is one of the most prominent examples of an Italian family business becoming a world leader in the luxury fashion industry (Cedrola & Silchenko, 2016). Founded in 1910 by Ermenegildo Zegna in northern Italy, the company is constantly innovating and expanding to this day. In 2021, and for branding purposes, the brand was renamed just Zegna. The third generation of this family-owned company's management is currently in charge. As family company model, the organization's current CEO Gildo Zegna, and Paolo Zegna, chairman of the company were key figures in one of the brand's most significant expansions: the Chinese market. Because it only had family members as stockholders, which, according to Paolo, allows him to take a long-term view and make decisions that might otherwise be

incomprehensible to the stock market, the business built its first boutique store in Beijing in 1991 (Sang & Ulrich, 2021).

4.1.2 Importance of the Chinese market in the global strategy

China accounts for one-third of the company's revenues and has more than 70 stores there, demonstrating the strategic importance of this market. The fact that this brand entered the market early and was able to capitalise on it is one of the factors cited as contributing to its success. However, the company's rise to the top of the luxury fashion sector in China was fuelled by more factors than just that.

Zegna's clothing has always been thought to be expensive, particularly its suits, which were already being sold for about \$2,000 in the early 1990s. However, these suits were well-known among the elite, and people who wore them might have some influence and benefit from business interactions with government officials in a nation where the government can have a significant impact on corporate development. Yet, when the company first entered China, there weren't many elite customers, which led to the business operating for five years at a loss (1991 - 1996). At the same time the company was expanding and establishing its brand within the Chinese elite.

4.1.3 After-sales support and trained staff

Although the company is vertically integrated, which guarantees product quality, it has managed to set itself apart from local rivals through after-sales support and individualised client care. Zegna has further surpassed other luxury firms by managing all consumer data through a computer-based system. This connection with clients not only made it possible to develop a long-term relationship, but it also made it possible to adjust marketing techniques to reach the right audience. Also, when the company first entered the Chinese market, there weren't many people with experience in marketing and distributing luxury apparel. As a result, Zegna had to turn to managers from advanced economies like Italy so that, in the next, they could transmit the necessary knowledge to the Chinese personnel to meet the requirements of customers. Additionally, the company provided career advancement opportunities for its employees as well as ongoing training to ensure that workers' knowledge was of the highest calibre, comparable to that found in New York's or Milan's luxury markets.

4.1.4 Increase of control

The removal of restrictions by the Chinese government that only permitted luxury brands to conduct business in the nation through alliances with local distributors or franchisees was another significant element in Zegna's expansion in the Chinese market. Beginning in 2005, the business began to cancel these agreements and open its own boutiques in upscale areas of several cities, each with a distinctive style. As a result, the business customised its offer for each location of the shop. The independence and confidence given to the China team, which was comprised of half Chinese and half foreigners with market experience and who were able to implement the developed plan without consulting headquarters, were crucial to this strategy.

4.1.5 Localisation

The business had complete ownership of every store in the Chinese market by 2010, giving it greater control over the market's merchandise, means of distribution, brand, and customer service. This control was crucial because, as for example with the preference for leather goods, it was necessary to adjust the offer to Chinese culture and consumer tastes. The company recognised this demand and created accessories that sold well. Even with this concern, there were times when European designers made mistakes because they were unaware of the realities of the Chinese market. However, the corporation has tried to tailor the items to the tastes of the customers, and at the moment, one-fifth of the offer is developed with the aim of being localised to Asian culture.

4.2. Amazon: The failure in the Chinese market

4.2.1 Company Overview

Founded in 1994 by Jeff Bezos, Amazon is now a giant multinational enterprise (MNE) with its core business focused on e-commerce and other technology-based industries. Starting out as an online marketplace for books, the company now sells almost every kind of item and is considered one of the big five technology companies along with Google, Apple, Microsoft, and Facebook (Lotz, A. 2019). Amazon, already present across many markets, entered the Chinese market in 2004 and reached a B2C market share peak of 15.4% in 2008 (Cebece, 2020). The company's foray into this sector, meanwhile, did not last as long as estimated.

Despite all the global success achieved, Amazon closed its domestic ecommerce company in China in 2019, which turned out to be a surprising failure. However, and as everything has a reason, there were a variety of circumstances that contributed to this result, as will be demonstrated below (Sang & Ulrich, 2021).

4.2.2. The entrance and first impact

When Amazon expanded into China in 2004, the internet was still in its childhood. There were few users or companies in the e-commerce market, but two stood out in China: Dangdang and Joyo. The latter was acquired by Amazon, and this is how the company entered the Chinese market, which Bezos described as "very dynamic" at the time. However, not everything went as planned, and the integration of Joyo into Amazon's team in China encountered some difficulties. The companies' visions differed, and with Joyo being composed entirely of Chinese, the requirement of English proved to be a critical factor in the integration of the two teams. As a result, Joyo's Chinese team left months after the acquisition and was replaced by Chinese expatriates with western academic backgrounds. From that moment on, Joyo adapted its modus operandi to Amazon's reality, and from the website to logistics, everything was replicated. The success carried out in other markets would have predicted the effectiveness of the strategy in the Chinese market.

Amazon's key driver was a great customer experience. This would lead to attracting traffic to the site and consequently more sellers would be interested in selling on the platform. With a more diversified offer and new products, the customer experience would increase, which made the business model successful. Furthermore, with this model it was also possible to decrease unit costs and prices for the final consumer.

In order to improve data analysis, manage stocks, and speed up delivery times in China, the firm moved the computer system there. Also, company has extended the Joyo offer and constructed logistical hubs in the most significant cities.

One of the factors taken into consideration was the website's adaptation to the tastes and preferences of the Chinese consumer. The website's worldwide architecture failed to draw in many users, but once it was customised for China, the conversion rate has increased significantly. In terms of payment methods, it was a pioneer in the digital field by accepting card payments at a time when cash-on-delivery was dominant.

4.2.3 JD and Alibaba

As Amazon pushed its way into the Chinese market, new rivals especially JD and Alibaba (Taobao and Tmall websites), were arising. The first, which was founded by Liu, started as an online shop before expanding to sell goods in other categories. The second decided to pursue a strategy that increase market share by cutting pricing.

Because e-commerce was still in its infancy stage and there was a widespread lack of trust, Taobao developed tools that aided in this area, such as an instant messaging tool that allowed vendors to chat to consumers and a more secure payment mechanism, Alipay.

Due to the expansion and market share gains of these two rivals (JD and Alibaba), Amazon had to restructure itself to stay competitive. The business came up with the "buy box" concept. This box assisted the consumer in selecting the top seller among comparable goods based on performance. The top-rated vendor who could deliver the finest customer experience—essential to Amazon's business model—would receive the box. While this feature was immensely beneficial to consumers, it did not appeal to sellers, leading many to move to Alibaba and JD, which presented lists with several vendors of the same product. In compared to Amazon, these competitors were also able to address the issue of counterfeiting more effectively by identifying and removing these products from its websites (Cebeci, 2020).

4.2.4 Price Wars

Price, as it is in practically all businesses, is a major influence factor in customer decisions. Therefore, JD has begun to obtain advantages in this area by lowering margins and pricing because of sustained capital raising.

However, pricing was only one of the reasons contributing to Amazon's decline in China. Unlike the American conglomerate, Alibaba and JD developed special discount days to attract new clients, which were a success. In the instance of Alibaba, company developed what they called the "Single Day" on November 11th as a means for singles to enjoy being single. This day has become a yearly tradition, with Alibaba registering sales of more over \$30 billion on that one day in 2019.

Similarly, JD established a day with discounts and promotions named "618 festival," with the presence of the number 8 referring to the meaning that this holds for the Chinese society. Amazon has not participated into the pricing and special day dynamics. The fact that its competitors were "losing" money in order to acquire market share contradicted the company's strategy. As a result, Amazon's Chinese competitors recognised the effectiveness of these techniques, although Amazon was slow to react to the realities of this market.

4.2.5 Logistics and Chinese Consumer Behaviour

Amazon distinguished itself from its competitors in logistics from the start. However, at the time, the distributors in the Chinese market were poor, resulting in numerous complaints and significant losses for the corporations. JD recognised tremendous potential in this area and invested extensively in an integrated logistics network as well as its own delivery service with pickup stations and drivers riding three-wheeled electric bikes. JD was able to avoid not just the chaotic traffic of the larger cities, but also more remote locations with limited access.

In cultural and consumer behaviour aspects, the most important characteristic of Chinese customers is that they prioritise delivery speed above all else and JD has also excelled in this regard by making it a priority. The corporation would rather warn clients that the item is not in stock than keep them waiting for weeks. It also developed free same-day and next-day delivery programmes, which Amazon exclusively offered in the United States and at a fee to the client.

4.2.6 The Way to The End

It was easy to see that Amazon was losing ground in the Chinese market. In terms of pricing, supply, and logistics, Amazon was beginning to lag its two primary rivals, JD, and Alibaba.

The "Instant messaging tool," which was discussed in a previous paragraph, is one of the most intriguing themes of analysis. Because contacting Amazon was perceived as a negative in their global vision, they categorised it as a non-perfect order. Thus, Amazon was unable to see how crucial it was for the Chinese consumer to transmit security, even though this has been recommended several times by the Chinese team to the global management.

Because to these and other subsequent errors, Amazon had a market share of less than 2% by 2012, while Alibaba became the market leader with sales of over \$145 billion, followed by JD with \$60 billion. When Amazon quit the market in 2019, it had a 0.6% market share, while Alibaba's Tmall had 61.5% and JD.com had 24.2% in the fourth quarter of 2018 (Cebece, 2020). It seems clear that the company over confided that the market would adapt to its way of thinking, rather than the other way around. The global success of the company also led to local bosses being listened to when they knew the real characteristics of the Chinese market.

5. Cases Discussion

This section aims to connect the framework to the cases of Zegna and Amazon that were shown earlier. The studies and articles that will be used are those that have been presented in the literature review and that aim to support the success and failure that Zegna and Amazon have had respectively.

5.1 Ermenegildo Zegna

As we have seen throughout this case study, Zegna's success in the Chinese market is due to a variety of variables, including strategic, political, and cultural ones. However, when analysing Zegna's performance, one of the first factors to consider is how it manages and implements its governance. As it was already noted, this company's management is family-based, which has several advantages, the most important of which is unquestionably the capacity to make fast, flexible strategic choices (Cedrola & Silchenko, 2016). This conclusion is in line with the "agility" factor that Sang and Ulrich (2021) defined as key for a company to succeed, since

competitors are able to adapt very quickly and agile governance with quick decision-making greatly benefits the strategy of a company in China.

Additionally, Zegna joined the Chinese market in 1991, when the luxury clothes business was in an embryonic phase. Thus, the company benefited from first-mover advantages by being one of the pioneers in this industry. These benefits are not exclusive to the China since market pioneers can give long-term first-mover benefits (Robinson et al,1994). However, research indicate the significance of this strategy and timing of entry into the Chinese market. As previously stated in the theoretical section, (Pan & Chi, 1999, Johnson & Tellis, 2008, Hoskisson et al, 2000) it highlights to the benefits that corporations acquire in this market by anticipating others. It was through the company's vision that success became possible. At the time of its entry, China was one of the poorest countries in the world, whereas it is currently the world's largest luxury market. The company faced the unknown and the doubtful conditions and dealt with them in the best way.

This successful entry was also due to the effect of reputation (Hoskisson et al, 2000) that brand managed to transmit from the beginning, where the importance of government politicians support was also highlighted as a factor that helped Zegna's performance in the market. They have not only begun to allow luxury companies' fully owned subsidiaries to operate in China, but they have also purchased the brand's apparel, as was the case of President Xi Jinping, who showed interest in and has publicised the brand by appearing in public wearing Zegna clothing. In relation to the change that allowed fully owned subsidiaries of this industry to operate in China, it gave the company an increase in the degree of control that allowed it to make decisions in an easier way in strategic and operational terms, providing more agility (Sang & Ulrich, 2021) in its governance. Although the studies discussed above do not all agree on the same idea, this increase in control can justify the success of this strategy because, according to the article written by Johnson and Tellis in 2008, there is the following correlation: companies that enter a market more independently tend to achieve better results than those that enter through partnerships.

Despite being considered a successful strategy, Zegna needed to have a lot of commitment (Sang & Ulrich, 2021) to get where they got. Proof of this was the fact that the five-year period (1991-1996) they operated at a loss, not giving up the planning designed and ideas they had for the market.

Even in terms of human resources, there are parallels with some theories that identify patterns for MNEs to succeed in China. In addition to pioneering customer service and automated data processing, the corporation explored managers from developed nations to

transfer the knowledge and technical skills necessary to achieve outstanding standards. This example relates to the point "Build Local Team" (Shankar, Ormiston, Bloch, & Schaus, 2008), because even though they were not expatriates, the company used foreign managers to transmit the necessary knowledge and techniques while maintaining a local team capable of meeting the company's requirements and standards of excellence. The importance of localisation expands to more area than just management teams and staff. The company's concern with adapting its products to the tastes and preferences of the Chinese consumer was almost always present in its strategy, and when it was not, this had a negative impact on sales. The point "Localize at every level" (Shankar, Ormiston, Bloch, & Schaus, 2008) refers to this aspect. As several examples in the past have shown, by being concerned with Chinese consumer tastes (as was the case of leather goods), the company reaped the rewards, and the huge proportion of the offer adapted to the Asian reality (20%) is proof of this.

5.2 Amazon

Unlike the Ermenegildo Zegna success story, Amazon's reality in the Chinese market had completely different contours. Just as some studies are able to justify the success, the same happens in the opposite case. In the specific case of this American multinational, much of the unsuccess was due to its rather Western vision without realising the real characteristics and challenges that the Chinese market represented for this company's strategy. The worldwide success, even outside the United States, led to an overconfidence that the same would happen in this market, but the outcome was quite different. However, these were only some of the many factors of failure that can be justified through studies and articles that have analysed this market.

Early on, Amazon's performance in this marketplace had some mishaps. As mentioned in the case, it entered the market through the complete acquisition of the Chinese company Joyo, however, despite being one of the largest e-commerce companies at the time, the integration was not as desired. In one of the six points mentioned in the article *How To Win In Emerging Markets* (Shankar, Ormiston, Bloch, & Schaus, 2008), the authors refer to the need for companies to acquire with criteria in this type of markets because, as this is a way to penetrate them and although it allows the company to take advantage of work already done, it has its disadvantages when not properly carried out. In this specific case of Amazon, one of the main cultural and linguistic problems of the Chinese population was put to the test: the proficiency of the English language countries (Khanna, Palepu & Sinha, 2015). This was a major barrier in the adaptation of the local Joyo to the Amazon team, since the mastery of English was required

by the American multinational that was forced to resort to expatriates with Western academic backgrounds to take over the management of the company on site. This is seen as a mistake by some authors (Shankar, Ormiston, Bloch, & Schaus, 2008), because, in addition to representing high costs, they do not have the best knowledge of the local market reality, something that became decisive in the failure of Amazon's strategy in China. Although initially there was an adaptation of the website to Chinese preferences, the episodes that followed confirmed this lack of market knowledge on the part of the decision-makers.

With a greater knowledge of the market and the characteristics of Chinese consumers, competitors Alibaba (Tmall and Taobao) and JD have emerged. In addition to the Chinese patriotic culture (Shu, 2022) which favours local businesses, other factors led to these achieving large market shares reducing Amazon's strength over time. The fact that these are national companies with national leaders and management also made it easier to understand consumers' real needs and create localized solutions (Shankar, Ormiston, Bloch, & Schaus, 2008) to offer a better consumer experience. One example was the instant messaging tool and payment mechanism that solved/minimized the problem of lack of trust in e-commerce. Amazon's rivals were also able to set themselves apart through entrepreneurial management (Sang & Ulrich, 2021) in order to attract more consumers and increase sales. The creation of the holiday days that included the number "8" was not only a clever business concept, but also a method to demonstrate cultural adaptability in a society where the number "8" is associated with success and wealth. Both JD and Alibaba were willing to lose money to increase market share, which was significant and demonstrated the confidence that both businesses had in this industry even in terms of commitment (Sang & Ulrich, 2021).

It was in the realm of governance and leadership style that Amazon sinned badly and did not allow decisions to be made by the right people and at the right timing. The company did not separate the Chinese strategy from its global strategy, which violated the Stay the course point (Shankar, Ormiston, Bloch, & Schaus, 2008). This point suggests that the company should separate the strategies of emerging markets from developed markets, something that was not done by Amazon. A proof of this was the fact that teams in China constantly have to report and depend on managers in the United States to make decisions, which also complicates in terms of agility (Sang & Ulrich, 2021). In addition to this, other points of the authors' study were also put to the test, such as the case of leadership (Sang & Ulrich, 2021) which proves that, in fact, operating in the Chinese market is much more similar to creating a start-up than to leading a regional division of a company. In the Amazon example, one of the conclusions of the study by Johnson & Tellis, 2008 was also verified, which pointed to a higher probability of success when

the power of control and decision making increased. Both of Amazon's competitors not only had leaders with more entrepreneurial styles, but also had enough autonomy to make decisions, something that did not happen with the American multinational and together with everything else already mentioned led to the failure of the strategy and the closure of operations in such an important market as China.

6. Conclusion

This study's primary goal was to analyse the main challenges that multinational enterprises can face in the Chinese market and the best strategies and actions that they may use to overcome these obstacles at various levels. Through the analysis of previous literature and actual cases, it was concluded that China has become a major destination for foreign investment and a major player in the global economy, attracting multinational enterprises (MNEs) from around the world. However, and although some of the difficulties encountered are common to other developing countries, such as institutional gaps, there are many characteristics and dynamics that are very present in the Chinese market, such as the political system that affects relations with the government or even the patriotic sense that gives preference to local players and requires MNEs to rigorously adapt to the local environment. Cultural differences in China also represent an important challenge for MNEs. Chinese culture and history are unique, and it might be challenging for MNEs to comprehend and operate within them. To be successful in the Chinese market, MNEs must be aware of these cultural distinctions and considerate of regional customs and traditions. Therefore, it makes sense that the study by Johnson and Tellis from 2008 found that MNEs located closer to China, both culturally and geographically, tend to be more successful since they have a better understanding of the market and their target audience. Still within cultural considerations, it has been concluded in the literature as well as in the cases of Amazon and Zegna that local decision-making with local teams is essential. Along with increasing market knowledge, it also makes the company's governance more flexible and faster to respond to changes made by its competitors.

However, the challenges are not limited to these spheres. In technological terms, in a market as developed as China's, there are some intellectual property (IP) concerns. While in more developed economies there is greater protection and regulation on these issues, in China IP infringement is more common. The Chinese legal system is complex and ambiguous which leads MNEs to be very aware of these regulations and ensure that they comply in order to avoid legal issues and maintain a good reputation in the market. Moreover, policies such as the Forced

Technology Transfer (FTT) discussed in sections above, pose some threats to companies since they may need to spend in legal and technical precautions to preserve their intellectual property.

All MNEs should include localization into their market strategy in China. Companies must adopt a localised strategy in both product development and marketing and sales to better comprehend and satisfy Chinese consumers. This involves adapting products or services to meet local preferences, as well as developing marketing campaigns that are tailored to the Chinese market.

In a strategic vision, each market segment entrance should be made as soon as possible since the sooner the entry, the more the firms would profit from first mover advantages. Entry strategies, whether independent or based on partnerships, need to be carefully considered because bad relationships can lead to significant losses. In a market with a sizable population and an expanding middle class, economies of scale must be utilised to the fullest extent feasible in order to make everything as efficient as possible to lower costs, boost margins, and provide enough high-quality items to please Chinese consumers. Contingency plans must also be designed because the luck factor exists as Sang and Ulrich wrote in 2021, however there are areas where it can be controlled, and companies must be prepared in case they need to respond.

Overall, MNEs have a range of challenges while operating in China, but with the appropriate strategies and tactics, these difficulties may be overcome and MNEs can be successful in the Chinese market.

7. Limitations and Further Research

As predicted, and as with any research, there are certain limitations and questions that can be addressed in future studies. It's important to highlight some of the limitations that have previously been mentioned in prior sections. First off, many of the articles that discuss the Chinese market don't quite fit the context in which this paper is being written. When the publishing dates of most of the significant papers are examined, it becomes clear that the great majority of them were even published before 2010. Although many Chinese market and management principles have not changed over the past few years, this places some limitations on the analysis because concepts like the Internet Boom, e-commerce, and artificial intelligence were not yet a reality when the articles were written but are crucial to the markets' present and future. For instance, the studies by Pan and Chi in 1999 and Johnson and Tellis in 2008 both address important issues, such as the timing or mode of market entry, and come to interesting and sometimes concordant conclusions. However, it would be extremely advantageous to have more recent analyses, as even the 2008 study was written 14 years ago. Even though this is a

qualitative study, more data could have been gathered. As a result, it would be interesting to examine the profitability and market share trends of multiple multinational corporations over the past few years to see if there is any temporal pattern and, if so, whether this type of company faces more or fewer challenges as time goes on. A natural extension of this paper would be to assemble the database with primary data to run a quantitative analysis, and thus corroborate the theories with concrete data.

The lack of industry-specific segmentation of the multinational firms operating in the Chinese market is another limitation of this study. It is predicted that when examining various sectors, the definition of success would change depending on the company margins, profitability, or even the unique features of each market, such as market concentration or regulations.

Furthermore, there are present issues that might have a significant influence on the globalisation phenomenon and, as a result, the attractiveness of the Chinese market for various multinationals. Events such as the COVID-19 pandemic, the war between Russia and Ukraine, or even the growing tensions between China and the United States, bring new challenges, changes, and configurations at the level of business strategy, but also in company value chains, so it should be calculated and analysed what the main impacts and consequences that these events can bring to companies that want to internationalise (Seong et al., 2022).

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