



Bridging Theory and Practice: A European SME Entering China

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Abstract

This dissertation explores how market entry strategies work in the case of a concrete firm case. It examines EPS Global, a European SME specializing in smart parking, and its entry into the Chinese market. Using a qualitative approach, the work gathers first-hand information from EPS Global's executives and combines it with academic studies. This narrative tracks the company's steps into China, focusing on how it adapted to exogenous variables such as culture, regulations, and technology. Crucial issues like EPS Global's reaction to China's "Made in China 2025" initiative, the rise of the digital economy, and the "Belt and Road" initiative, frame how firm strategy was influenced and decisions undertaken. The importance of guanxi (business relationships) in Chinese business culture and its impact on EPS Global is also unpacked. The work offers insights that are helpful for other companies planning to expand into foreign markets, especially China.

Keywords: China, Market Entry Strategies, SMEs in China, Technological Innovation, Cross-cultural Business, Digital Economy, Strategic Partnerships, Belt and Road Initiative, Guanxi, Smart Parking

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Resumo

A presente dissertação explora as estratégias de entrada no mercado com recurso a um caso concreto de uma empresa. Para isto, é analisado o percurso da EPS Global, uma pequena e média empresa europeia de smart parking, e a sua entrada no mercado chinês. Com recurso a uma abordagem qualitativa, na presente dissertação foram utilizados dados primários de entrevistas com executivos da EPS Global discutidos à luz de literatura académica. Esta narrativa acompanha o percurso da empresa na entrada na China focando-se na sua adaptação a variáveis exógenas tais como a cultura, regulamentação e tecnologia. Para além disto, serão abordados aspetos significativos tais como a análise da reação da EPS Global à iniciativa chinesa "Made in China 2025", à iniciativa "Belt and Road" e o impulso da economia digital, factores estes que influenciaram as estratégias adoptadas e decisões tomadas pela empresa. O estudo debruça-se também sobre o papel do guanxi (elemento chave nas relações e dinâmicas empresariais). Por fim, serão fornecidas considerações que poderão ser de particular relevância para empresas que considerem expandir para mercados estrangeiros, particularmente na China.

Palavras-chave: China, Estratégias de Entrada no Mercado, Pequenas e Médias Empresas na China, Inovação Tecnológica, Negócios Interculturais, Economia Cultural, Parcerias Estratégicas, Iniciativa Belt and Road, Guanxi, Smart Parking

Unindo a Teoria e a Prática: uma Pequena e Média Empresa Europeia no Mercado Chinês

por

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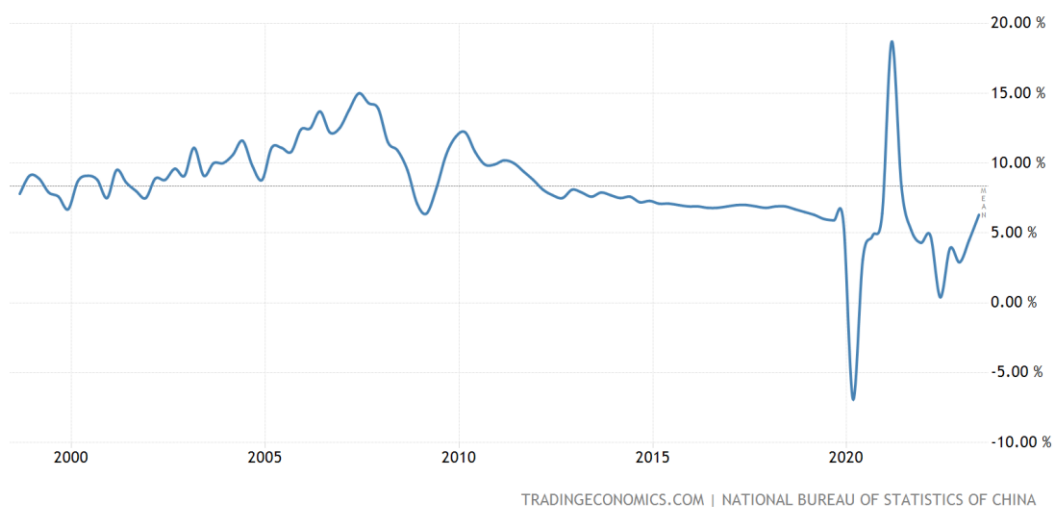
I. Introduction

China has been an attractive market for decades: its huge population (1.41 billion as of 2022), rapid economic growth and massive labor force are desirable for global businesses. (World Bank Open Data, 2023) With increasing disposable income, the rising Chinese middle class offers a lucrative market for both luxury and essential goods. Notwithstanding its enormous potential, China is also associated with various complexities and challenges, along with a significant pull back related to macroeconomic phenomena particular to China and the global economy.

Market entry is not easy and entering the Chinese market is no exception. China's strides in technology are noteworthy. From mobile payments to e-commerce, the country has embraced technology at an astonishing rate, as a developing country in many industries jumping over the developed countries. Businesses entering China often find an environment ripe for technological integration and innovation. Over the last several decades, China has been moving towards a more open domestic market, inviting international businesses to invest and partake in its growth. To put things in perspective, the magnitude of economic growth over the last 25 years averages just below 10% (National Bureau of Statistics of China, 2023) with a growth trajectory that was not linear.

Figure 1

China's economic growth in the past 25 years



While many companies are striving to establish themselves in China, few manage to navigate the intricate cultural, political, and economic landscape. Without essential knowledge,

establishing a China presence is difficult with the process often being so time and resource-consuming that firms are forced to cut their losses and exit. Most businesses have limited latitude for mistakes, so when they occur, these prove to be fatal (Luo, 2001).

This Thesis describes the journey of a German-Hungarian SME – EPS Global, a smart parking company – that undertook the ambitious mission of attempting to penetrate the Chinese market. What separates this player from other foreign entrants is its unique position: it already operates in a challenging niche sector and now faces the difficulties of entering one of the world’s most demanding business landscapes. The sector entails more than simply order and delivery – it often requires legislative changes. For instance, if a city does not introduce traffic management via parking fee collection, introducing EPS Global’s smart parking solutions also requires legal mechanisms for debt collection from drivers unwilling to pay the parking fee. The firm’s experience, spanning a successful seven-year period in China, provides valuable pointers. By unpacking practical steps taken, challenges faced, and outcomes achieved while viewing these in light of established theoretical frameworks, this research aims to contribute to literature about theory and practice and supply insights about entering the Chinese market.

The **Research Question** we are seeking to answer is: “How does EPS Global's approach to entering the Chinese market align with established market entry theories, and what insights can be drawn from their experience for other companies eyeing similar expansions?”

Understanding firms’ challenges is critical to managerial acumen, especially in niche sectors. Innovative solutions like smart parking are gaining prominence as urban areas become increasingly congested. However, transferring specialized solutions to a distinct cultural and economic environment like China demands technological adaptation, strategic foresight, cultural insight, and a lot of patience and reserves. In light of all these, EPS Global's expedition into the Chinese market serves as a fascinating case study, shedding light on both the triumphs and misfortunes faced by niche sector players seeking footholds in dynamic yet challenging markets.

The scope of this investigation revolves around China’s evolving landscape under the leadership of President Xi Jinping, who was appointed as the general secretary of the Chinese Communist Party (CCP) and chairman of the Central Military Commission (CMC). Thus, he has been the paramount leader of China since 2012. Xi has also been the president of the People's Republic of China (PRC) since 2013. Since his appointment in 2012, the nation has witnessed transformative economic, social, and political changes. Xi's emphasis on strengthening the

Communist Party's role (Miller, 2017), reinforcing state control over critical sectors, advocating technological innovation, and projecting China's influence on the global stage has notably shifted business dynamics in China. This era exhibits both novel opportunities and more significant challenges for foreign businesses. This study aims for findings directly relevant to understanding the current business environment in China.

We seek to offer a comprehensive perspective on foreign market entry in China through a mix of primary data from EPS Global and the literature review. Primary resources include interviews with EPS Global executives, financial reports, and other relevant documents. The interviews show strategies implemented, decision-making processes, and reflections on overall experiences. The financial reports provide insight into the venture's successes or failures using relevant metrics. All primary data obtained from EPS Global was treated with confidentiality and care. Any sensitive information was anonymized to protect the interests and identities of individuals and the company. The data's handling, storage, and eventual disposal adhere strictly to established ethical guidelines and the company's data protection agreement. As for secondary sources, academic databases, relevant industry reports, news articles, and books were used.

Following the Introduction, Chapter 2 discusses the relevant literature concerning market entry strategies, nuances of the Chinese market under Xi Jinping's leadership, and cultural and other considerations important to foreign companies. Chapter 3 expands on the research methodologies adopted for this study. It describes the mixed-method approach, including collecting qualitative and quantitative data from EPS Global, the reasons for methodological decisions, the actions taken to ensure data confidentiality and ethical considerations. A study of EPS Global's entry into the Chinese market is presented in Chapter 4. This Chapter provides perspectives on connecting operational insights from real-world operations with financial metrics. Subsequently, in Chapter 5, the experiences of EPS Global are compared with the theories presented in the literature review. We identify how the company's journey aligns with or deviates from established concepts. Lastly, the primary findings from the research are summarized in Chapter 6. Practical suggestions for companies contemplating entering the Chinese market are provided, and areas warranting further investigation are highlighted.

II. Literature Review

This Chapter reviews the literature relevant to market entry strategies and the characteristics of the Chinese market. The purpose is to contextualize the challenges and opportunities that EPS Global, a Hungarian smart parking company, has faced in its expansion into China. The Chapter is structured in two sections. First, market entry strategies are discussed, and then the Chinese business environment under Xi Jinping.

Market Entry Strategies

Choosing the right market entry strategy can make or break a company's international expansion efforts (Peng, 2015). Strategies for entering global markets guide how firms organize, distribute, and supply products to foreign territories. The financial investment and degree of managerial oversight can differ based on the selected approach (Pan & Tse, 2000). Generally, the nature of the product or service, its worth, and any unique shipping requirements influence the choice of strategy. Additionally, existing rivals and customer preferences may influence decision-making (Hollensen, 2017).

Every enterprise must carefully choose its expansion strategy. Poor strategic selection can lead to financial loss, reputational damage, or even total failure, while a well-planned approach sets the foundation for sustainable growth and profitability (Root, 1994).

Michael E. Porter is considered the father of modern business strategy. Porter (1979) defined strategy as "creating a unique and valuable position involving a different set of activities." According to him, it is not enough to merely perform well; a company has to deliver a unique mix of value to succeed. The focus is on carving out a position in the competitive landscape where the organization can acquire and sustain a competitive advantage.

The Five Forces model, conceptualized by Michael E. Porter in *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (1979), is a cornerstone for evaluating a firm's ability to compete in a challenging industry landscape. It identifies five primary forces that dictate the intensity of competition and profitability within any given market: rivalry among existing competitors, the potential for new entrants, the influence of suppliers and customers, and the threat of substitute products or services. Collectively, these forces offer a framework to understand not just the immediate competitive environment of a business but also the structural underpinnings that shape the industry.

Understanding Porter's Five Forces is useful for market entry strategies. The framework supplies the forces the firm needs to manage and provides insights into potential barriers to entry – critical considerations for firms seeking to venture into new markets. For example, an industry with high entry barriers would be less appealing to new entrants (Root, 1994). These barriers range from the economies of scale enjoyed by existing competitors to government policies that may restrict new businesses. Hence, Porter's Five Forces are a valuable tool for market-specific strategies.

Building on Porter (1979) and understanding actionable steps to enter new markets are crucial. These are encapsulated in various market entry strategies, which serve as the blueprint for international expansion efforts. The forthcoming sections will unpack strategies, emphasizing applicability and challenges in the context of the Chinese market.

Firms engage in complex decision-making processes when planning geographic expansion into foreign markets. The managerial team plays a crucial role in selecting the target country, relevant stakeholders, and the specific mode of market entry, collectively referred to as the firm's "market entry strategy" (Andersen & Buvik, 2002). Different entry modes are characterized by various institutional and organizational arrangements, which can encompass a wide range of business activities like manufacturing, servicing, and sourcing (Hollensen et al., 2011; Holtbrügge & Baron, 2013; Welch, Benito & Petersen, 2007).

Several motivating factors drive a firm's decision to internationalize. These can be classified into five categories: demand-based triggers like market attractiveness, supply-based incentives such as access to valuable resources, the necessity to follow key customers or competitors, and financial benefits like tax incentives or better financing options. Entering foreign markets often arises from interactions with other entities within the firm's industrial ecosystem rather than being an independent choice (Glowik, 2020). Entry decisions have long-term impacts on the firm, especially since changing a mode of entry can incur significant costs and repercussions (Brouthers & Hennart, 2007; Pedersen, Petersen, & Benito, 2002).

Different Approaches to Entering Markets

Tactics for entering markets can be divided into four principal categories. These can be designed to challenge current market leaders directly or focus on markets primarily restricted by economic or sociocultural impediments. The core strategies are:

- 1) Introducing something entirely innovative (be it a product, a business model, or abilities);
- 2) Directly confronting the established market leaders;
- 3) Modifying the existing rules of the industry or reshaping the competitive landscape;
- 4) Utilizing a proven product or model to penetrate a new market setting (Picken, 2020).

The characteristics of a target market determine which strategies to adopt. For well-established markets, newcomers benefit from existing frameworks, but they might also be confronted by entrenched competitors. In contrast, challenges in less mature markets often arise from barriers such as a lack of market depth or limited know-how (Picken, 2020).

Non-consumption as a Competitor

Emerging economies in particular are characterized by companies frequently competing against "non-consumption" situations, where customer needs go unmet (Picken, 2020). The same can occur in established economies, as seen in the example of where reliable internet is not available everywhere. Firms can gain a competitive edge by identifying and overcoming these barriers (Picken, 2020).

In volatile markets, businesses must adapt to rapidly shifting customer requirements and dynamic market conditions. The absence of standardized procedures and distribution networks provides additional challenges, requiring firms to be flexible in their market entry approaches (Picken, 2020).

Types of Market Entry Strategies

As stated, the choice of market entry strategy is crucial for firms looking to expand into foreign markets. Scholars and practitioners categorize strategies into several broad types: Direct Exporting, Licensing, and Foreign Direct Investment (hereinafter "FDI") (Hollensen, 2011; Welch, Benito, & Petersen, 2007). Direct Exporting involves selling products directly to consumers in the foreign market, usually through intermediaries such as agents or distributors. Licensing allows a firm to grant a local company the right to produce and sell products in a foreign market in exchange for royalties or fees. Franchising involves authorizing another entity to operate using the franchisor's brand name, systems, products, and processes. Lastly, FDI is an approach where the firm makes a direct investment in a foreign market, usually through acquiring an existing company or setting up a wholly-owned subsidiary. Each strategy provides

distinct levels of control, risk, and return on investment, making it essential for firms to choose carefully.

Many companies can test foreign markets without significant initial investment, starting with the exporting approach, which is cost-effective and easy to initiate. Export intermediaries like EMCs and trading companies provide support for businesses either new to exporting or looking to expand their international footprint, helping them navigate logistical and regulatory challenges. The rise of e-commerce further simplifies entry into international markets, allowing even small businesses to go global rapidly (Bernard & Jensen, 1999).

However, each of these comes with drawbacks. Casual exporting may lack focus or the marketing investment needed for long-term success abroad. Using intermediaries can result in lower profit margins and less control over marketing and branding activities or the product itself. Meanwhile, e-commerce may offer quick market entry but also brings challenges like 24/7 customer service, shipping complications, and the need to be agile in adapting to various consumer behaviors and regulations.

Alternatively, licensing can be an appealing route, particularly for firms in manufacturing sectors. Here, one company (Firm A) permits another (Firm B) to use its proprietary technology, such as patents or trademarks, for a specified royalty fee. For instance, if a U.S.-based exporter cannot meet the demand in Turkey, it may grant a Turkish firm the right to use its technology and trademark, thus expanding into a new market without risking significant capital. The licensee, typically the foreign firm, provides the upfront capital investment. This has advantages for small and medium-sized enterprises (SMEs), allowing them to go international with comparatively lower financial risks (Peng, 2012).

The downside is the potential loss of control over technology or a brand name, an extremely high risk in China. The brand may suffer reputational damage if the licensee fails to maintain quality standards. In such cases, taking legal action in a foreign jurisdiction can be a complicated and costly, and terminating the licensing agreement may also be complex. These risks necessitate a careful evaluation of potential partners and a thorough understanding of the terms and conditions of licensing agreements (Peng, 2012).

Another strategy firms often consider when entering foreign markets is forming joint ventures (hereinafter “JV”s). This form is an obligation in many countries’ specific industrial sectors, as the target countries’ judicial system requires it: in China, this cooperation model is the only possible market entry for large car manufacturers. Creating a JV provides an alternative route

for businesses looking to mitigate risks while capitalizing on shared resources and expertise. JVs entail two or more distinct legal entities opting to collectively own and manage a mutual business venture, such as producing or selling a specific product or service. In such arrangements, the parent company contributes resources and shares revenues and risks based on equity apportioned (Rugman & Collinson, 2012). An "equal joint venture" is where each company contributes equally, sharing control, risks, and profits. In contrast, a "majority joint venture" occurs when one entity holds more than a 50% equity stake, granting it primary control over strategic and managerial decisions. However, JVs can also be very flexible where a minority shareholder has the opportunity to gain minority right protection: the JV partners can agree that a particular decision, for example, decisions related to the protection of the IP of the foreign investor, can be only concluded with 66% or 75 % plus one vote majority (Hill, 2012).

Based on industry alignment, a "horizontal joint venture" involves companies that operate within the same sector and have similar value-adding activities, whereas a "vertical joint venture" includes firms that occupy different positions within the same industry's value chain. The latter often results in a supplier-buyer relationship. Lastly, "conglomerate joint ventures" involve firms engaging in diverse business activities (Kutschker & Schmid, 2006).

Overall, JVs are a way to bypass the transaction costs associated with small-number bargaining, making market entry initiatives less efficient or even not feasible. With JVs, parties sidestep the need for complicated, one-off negotiations, opting for a long-term relationship with shared assets and risks.

An organization's competitive positioning can thus be markedly improved. This is especially crucial in industries characterized by rapid innovation and change. When firms strategically align, they benefit from shared resources and combined market reach, strengthening their competitive position against rivals. A JV can be the fulcrum that tilts market power in hyper-competitive industries. JVs are fertile grounds for learning and transferring critical and often complex organizational knowledge. Unlike market transactions, which focus primarily on exchanging goods or services, JVs allow for a more nuanced and in-depth knowledge transfer. This includes hard, technical knowledge and the soft, less easily quantifiable aspects of organizational knowledge, such as culture, management practices, and problem-solving techniques (Kogut, 1988).

Additionally, theoretical frameworks like transaction cost economics and strategic behavior offer lenses through which the motivations for JVs can be understood. Forming a JV often goes

beyond mere cost-sharing and includes strategic imperatives, like learning and adapting to rapidly changing market conditions (Hennart,1988).

Thus, JVs are not ad-hoc responses to challenges but constitute well-calculated moves aimed at navigating the complex matrix of economic costs, strategic benefits, and long-term organizational objectives. We can characterize JVs as opportunistic alliances and strategic necessities, reflecting the interplay of economics, strategy, and organizational behavior (Kogut, 1988).

Public-private partnership business models (PPPs) have emerged as a viable alternative to traditional state-operated facilities, involving private companies in various activities ranging from design through construction to operations (Malhotra, 1997). These partnerships are mutually beneficial where both entities can leverage capabilities to achieve outcomes neither could accomplish independently. However, implementing PPPs is fraught with challenges. Governments need to consider multiple factors, including transparency, competitiveness of bids, risk allocation, and the provision of necessary financial backing (Frontmatter, 2003). The complexity of these agreements often centers around equitable risk-sharing among all parties involved.

Globally, the PPP model has diverse applications—from energy production in privatized markets to capital-intensive infrastructure projects like roads. It is especially appealing in environments with limited governmental resources. The discussion of PPPs is pertinent to understanding the FDI strategies of companies like EPS Global, which has engaged in PPPs and JVs as part of its foreign market entry and expansion. PPPs are also relevant for China because of the prevalence of state-owned enterprises (SOEs) which dominate the private sector.

Criteria

Market entry modes in international business have garnered attention given their importance for firm performance and long-term strategy. Theories such as the Analytic Hierarchy Process (AHP) and Fuzzy AHP address complex decision-making entry mode processes. These methodologies consider many factors, ranging from host country variables to organizational and strategy factors, to determine the most suitable entry method (Fan et al., 2016).

But despite a wealth of empirical research, there remains a lack of consensus on how specific variables should direct choices of entry modes, such as JVs or wholly owned subsidiaries. Factors influencing these decisions have often been grouped into four categories: host country-

specific, home country-specific, company-specific, and venture or transaction-specific variables. Antecedent factors, including cultural distance, market attractiveness, and the legal environment, have been identified as highly influential (Morschett et al., 2010).

Non-Market Strategies

Corporate Political Activity (CPA): Corporate Political Activity is a critical strategic dimension for companies, where they engage in activities to influence government actions and policies impacting their business. Firms utilize various methods like lobbying, political donations, and advocacy campaigns to shape regulatory frameworks and legislative decisions. This strategic involvement in politics is essential for businesses to secure a competitive edge, align government policies with their interests, and mitigate risks associated with political changes (Hillman & Hitt, 1999; Lawton et al., 2013).

Corporate Social Responsibility (CSR): Corporate Social Responsibility is the commitment of businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local community, and society at large. CSR strategies are increasingly integral to business models as they enhance brand reputation, strengthen stakeholder relationships, and support sustainable development goals. By prioritizing ethical practices, environmental sustainability, and social welfare, companies establish themselves as responsible corporate citizens, fostering trust and loyalty among consumers and stakeholders (Carroll & Shabana, 2010).

China Country-Specific Idiosyncrasies

China presents a dynamic opportunity for foreign businesses, characterized by a rapidly expanding domestic market and an evolving institutional landscape. Notable are the favorable policies in its special economic and high-tech zones (Wu & Burge 2018), enhanced human resources quality (Ma et al. 2016), and improved infrastructure. The vast scale of the Chinese market is further evidenced by the substantial number of Starbucks stores, with around 6,000 outlets marking China as Starbucks' second-largest market globally, despite the nation's historical preference for tea. This contrasts with about 15,000 stores in the U.S., emphasizing the significant market penetration achieved by Starbucks in China (Statista, 2023).

In China, foreign companies often grapple with a dual challenge: navigating an emerging market's regulatory framework and adapting to a fast-changing legal environment. This

situation demands agility and a comprehensive understanding of the local legal context to ensure successful business operations (Froese et al., 2019).

The landscape of innovation management in China is complex, especially for foreign firms. Collaboration, often through joint ventures (Zhou & Li 2008), has been a key strategy for knowledge exchange and industry development (Herrigel et al. 2013). However, intellectual property concerns lead many foreign partners to withhold core innovations from their Chinese counterparts. Consequently, joint ventures are frequently transitioned into wholly-owned foreign subsidiaries (Puck et al. 2009), safeguarding innovation. Furthermore, China's ambition to shift from "Made in China" to "Created in China" reflects its aspiration to break into the global value chain from being merely a labor arbitrage and transition into an innovation-driven economy, avoiding the middle-income trap (Lewin et al. 2016).

Under Xi Jinping's leadership

China's position in the global landscape is undergoing a significant shift. Historically driven by industrial growth and foreign investment, the nation is now moving towards domestic consumption becoming the primary engine of its economy. This evolution marks a gradual reduction in China's economic reliance on the world, even as the world becomes increasingly dependent on China as the producer of last resort and the world's second-largest economy and leading trading nation. These shifts, occurring under the leadership of Xi Jinping, have led to heightened trade tensions and a rise in protectionism globally, raising questions about the future integration between China and the international community (Woetzel et al., 2019).

Xi Jinping's leadership is central to understanding China's current political trajectory and its impact on global relations, including strategic rivalry with the US and geopolitical dynamics in the Asia-Pacific region. Characterized by his ambition to emulate Mao, including his willingness to engage in strong-armed tactics against rivals, Xi is known for his political, rather than technical or bureaucratic approach to decision-making (Kristensen & Morgan, 2018). His leadership has been marked by a willingness to break norms, as evidenced by actions like the unprecedented anti-corruption campaign and bold foreign policy declarations asserting China's hegemony in the Pacific and emphasizing Asian self-reliance in security matters (Goldstein, 2020).

Xi's tenure has seen a notable departure from Deng Xiaoping's policy of keeping a low profile on the world stage. He has moved towards a more assertive stance, especially with challenging the United States. This change in approach is evident in his strategic vision for China's

international role, testing the established global order and signaling a new era of Chinese foreign policy. The consolidation of power under Xi, including the abolition of the presidential term limit, reflects his belief in the Chinese Communist Party's (CCP) absolute leadership and underscores his commitment to maintaining and promoting Chinese characteristics in various policy areas (Yoshikazu, 2021).

Significant Economic Policies

Made in China 2025

China's ambitious "Made in China 2025" (MIC25) initiative, championed by President Xi marks a pivotal shift in the nation's technological and economic trajectory. This strategic plan, aimed at transforming China into a global superpower in high-tech industries like robotics, IT, and power equipment, is underpinned by substantial state and private investment. Despite triggering concerns in Western nations about unfair business practices, intellectual property the, and potential market dominance, China has subtly recalibrated its public discourse on MIC25 without diminishing its commitment to technological advancement (Zenglein & Holzmann, 2019).

At the core of MIC25 is China's drive to overcome the middle-income trap and ensure continuous economic growth. By emulating the East Asian development model, the initiative seeks to reduce dependence on foreign technology and replicate the technological advancements of countries like Japan and South Korea in various high-tech sectors. Central to this endeavor is China's focus on emerging technologies, with aspirations to dominate in fields like smart manufacturing and digitalization. The strategy has led to China's increased global influence in 5G technology, high-speed rail, and renewable energy (Zenglein & Holzmann, 2019).

The implications of MIC25 extend globally, significantly impacting the innovation landscape and competitive dynamics, particularly for European companies. While presenting short-term business opportunities for foreign tech firms, the strategy raises long-term challenges in maintaining competitiveness and innovation. Germany's intense collaboration in research and technology with China under MIC25 exemplifies this complex interplay, highlighting the need for a balanced approach to leverage opportunities while safeguarding technological sovereignty and industrial interests (Zenglein & Holzmann, 2019).

Digital Economy Push

China's commitment to advancing its digital economy under Xi Jinping's rule has been a key component of its economic policy. This transformation is largely driven by government initiatives that intertwine with the private sector's dynamism. Implementing the "Internet Plus" strategy is a notable example, integrating advanced digital technologies like the internet, cloud computing, and big data with traditional industries. This policy has catalyzed the development of significant infrastructure projects and fostered a supportive environment for digital enterprises. The government's active role as an investor and consumer in new technologies has further nurtured digital innovation and growth (Woetzel et al., 2017).

At the same time, China has emerged as a global leader in the digital economy, evidenced by its dominance in sectors such as e-commerce and digital payments. This leadership is underpinned by a vast, youthful consumer base highly receptive to digital technologies, thus enabling rapid commercialization and scale. China's digital ascendancy reflects the country's strategic approach of initially allowing room for experimentation in the digital sector, followed by more active support and regulation. These concerted efforts in digital economy development represent a crucial aspect of China's economic policy landscape, influencing both domestic growth and global digital trends (Woetzel et al., 2017).

Belt and Road Initiative

The Belt and Road Initiative (BRI), initiated in 2013 by Xi Jinping, is a substantial strategy to enhance regional cooperation and connectivity across Asia, Europe, and Africa. Covering over 65 countries, it intends to rejuvenate the ancient Silk Road through the Silk Road Economic Belt (SREB) and the Maritime Silk Road (MSR). This plan focuses on improving infrastructure, facilitating policy coordination, financial integration, trade, and interpersonal connections with China at its core (Clarke, 2018).

BRI spans various sectors, including infrastructure, technology, education, and tourism, encompassing six economic corridors to drive socio-economic growth through regional and global integration. Central to this are financial bodies like the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF), which provide critical funding for these expansive initiatives. BRI's impact extends beyond the participating countries, marking China's strategic shift towards global integration and enhancing its global governance influence (Herrero & Xu, 2017; Liu et al., 2018).

BRI offers significant opportunities for global businesses, especially in technology and infrastructure. Its emphasis on modern infrastructure development necessitates innovative

technological solutions, presenting a lucrative arena for international enterprises. This potential is supported by the AIIB and SRF, which finance a range of BRI projects (Rahman, 2020).

Business Culture in China

In the Chinese business context, *guanxi* (关系) is a key element shaping interpersonal relationships and business dynamics. Rooted in factors such as locality, dialect, kinship, and trade connections, *guanxi* is vital for transaction facilitation and resource acquisition. Enhanced by *ganqing* (感情 - affection), these relationships grow stronger and more dependable, underpinned by ongoing social interaction and mutual support, forming the backbone of reliable business networks (Tong, 2014).

Guanxi extends to social interactions, with dinners and drinking with business partners being more than mere socializing. These gatherings are essential for nurturing and maintaining *guanxi*. Sharing meals and participating in drinking rituals go beyond mere formality; they are strategic in forging business alliances. These settings allow negotiation, resolving disputes, and exchanging information in a friendly atmosphere (Langenberg, 2007).

Guanxi-based dealings contrast sharply with Western business practices' formal and impersonal nature. The flexibility and mutual trust inherent in *guanxi* often precede strict rule adherence, highlighting a distinct aspect of Chinese business culture. This flexibility is critical for multinational companies in China, where seamless integration into the *guanxi* network is key to navigating the local business environment. Verbal agreements, rooted in trust, symbolize strong relationships, although formal contracts are necessary when engaging new clients (Chen & Chen, 2004).

Maintaining strong *guanxi* relies on regular social interactions. Without these, *guanxi* can weaken over time. Adding more bases to *guanxi*, like shared experiences and mutual interests, helps deepen relationships, fostering stronger ties marked by *ganqing* and *xinyong* (信用 – trust, creditworthiness). Relationships with multiple connections tend to be more robust than those based on a single connection. Yet, despite the importance of *guanxi*, it does not trump normal business decision-making criteria. Friendships and relationships are vital, but they don't negate the significance of price and economic factors. Keeping *guanxi* strong also depends on being reliable and trustworthy. Failing in these areas, especially in maintaining *xinyong*, can quickly turn a close relationship into a distant one (Tong, 2014).

Understanding and engaging with the guanxi system and its foundations in ganqing and flexibility is a complex yet crucial task for foreign businesses. Success in the Chinese market relies on effectively integrating into these intricate personal and business relationship networks. The strategic role of these relationships is significant for multinational companies, often dictating their success or failure in China (Langenberg, 2007; Chen & Chen, 2004).

III. Methodology

Introduction

This Chapter describes the methodology employed to explore the Research Question (RQ) of this thesis: “How does EPS Global's approach to entering the Chinese market align with established market entry theories, and what insights can be drawn from their experience for other companies eyeing similar expansions?”

Given the nature of the RQ, which seeks to bridge theoretical frameworks with real-world applications, a qualitative research approach was adopted. Also, access to the company’s management and financial reports provided further depth to the thesis. This mixed approach is suitable for exploring complex phenomena, especially when the objective is to understand the nuances and contextual factors influencing a company's strategic decisions. The methodology revolves around three primary components: in-depth interviews, management and financial reports analysis, and a comprehensive literature review.

The in-depth interviews, conducted with the CEO and founder of EPS Global, form the backbone of the primary research. These interviews were designed to extract insights into the company's strategic decisions, challenges faced, and adaptations made during its market entry into China (see Appendix A for interview questions). Simultaneously, the literature review complemented the primary data. This review encompasses academic papers with a particular focus on China. The literature review served a dual purpose: it provided a theoretical backdrop against which EPS Global's strategies are analyzed, and it aided in contextualizing the company's experiences within broader market entry discourse.

Together, these methods contribute to marrying theories of market entry strategies with their practical application in the complex and dynamic Chinese market.

Research Design

This section will elaborate on the research design, including the selection of the case study, data collection methods, and the analysis process.

The case study of EPS Global was selected due to its unique position in the market and strategic approach to entering China. This single 'case' within a real-life context represents a pertinent

example of specific experiences and challenges in China. The company's journey offers rich, contextual, and practical insights into applying market entry theories.

This paper's primary data collection method involves in-depth interviews with the CEO of EPS Global. His contribution was essential for this work as the founder and having a central role in the company's operations. These semi-structured interviews allowed flexibility in exploring relevant topics while ensuring that all critical areas were covered. The interviews were held in two two-hour sessions. A set of questions was sent to the interviewee, allowing for preparation of the topics about to be discussed. The open-ended questions were designed to elicit detailed responses about the company's strategies, experiences, and reflections. Every piece of information was treated following protocols of confidentiality and ethics. The researcher asked for permission to record the interview, and anonymity was ensured where necessary.

Questions revolved around eight main categories: Introduction and Company Background, Market Entry Strategies, Alignment with Theory, Practical Execution, Challenges and Adjustments, Performance and Outcomes, Lessons Learned and Future Plans, Concluding Questions. The recordings of the interviews were thematically analyzed according to the previously mentioned categories.

Limitations

This methodology had inherent limitations. Primarily, it relied on interviews with EPS Global's CEO. While they provided insights, they were potentially limited by individual perspectives and biases. While detailed, the focus on a single case study restricts broader applicability across different industries or companies. Additionally, translating the Hungarian language interviews, the native tongue of the interviewee, into English might subtly alter meanings, impacting interpretation. The research deliberately concentrated on EPS Global's market entry into China. This focus allowed for a detailed exploration of a single case at the expense of being able to make broader industry generalizations. The study was centered on market entry strategies in the smart parking sector, excluding operational or financial aspects.

A key aspect of this study is its integration with existing literature. It compares EPS Global's practical experiences with theoretical models of market entry strategies. This approach aimed to identify alignments or gaps between theory and practice, enriching both academic and practical understandings of market entry in complex environments like China. This comparison provides material for businesses planning international expansions and contributes to academic discussions on market entry strategies.

IV. Case Study

Introduction

Cracking new markets in the complex global business arena is crucial for ambitious enterprises. This case study focuses on EPS Global's strategic entry into the Chinese market. *Inter alia*, the narrative will shed light on the tactical adjustments and partnerships formed by the company to align its operations with the local market. The case culminates in synthesizing EPS Global's key takeaways, contrasted with established market entry theories, offering valuable insights for other enterprises eyeing international expansion.

Introduction and Company Background

In 2012, the company was founded to take Hungarian expertise in parking solutions to foreign markets, specifically China. The founders already had some knowledge of the Chinese market, bolstered by experience in managing citywide parking in Budapest. One of the founders and current CEO had previously gained immersive experience as General Manager of the Transport Management Company (parking management is a very significant transport management tool) of the Budapest Municipal Government and later worked on parking projects at the Institute for Transportation and Development Policy (ITDP). The other founders were all familiar with the parking industry, having delivered several projects and taken part in developing the world's first mobile parking payment system, in the city of Budapest as early as 2003.

Despite all this, management had relatively limited experience with the Chinese market, or as most Hungarian SMEs, with any foreign market. This was by far the biggest challenge, and many problems originated from the lack of international and China-specific experience. As infrastructure developers, EPS aimed to bring Hungarian parking management know-how to China. The goal was to create concessions with municipalities through the Public-Private Partnership (PPP) business model, invest heavily in these cities, and start building the parking infrastructure with the required knowledge. Concessions were already a widespread form of business in Europe, but this approach was a novelty in China then. Actually, EPS Global's first Chinese parking project was the first parking PPP cooperation in the PRC. Significant investments included the citywide design of parking spaces, a waste investment in software development, installing smart equipment into every parking space, procuring all the related hardware elements, travel cost, establishing the local special purpose vehicle (hereinafter SPV) companies, investigating the legal system and developing the legal framework, etc. All in

exchange for a profit or revenue-sharing and long-term business model, e.g., twenty-year concession rights based on fixed-term concession contracts with the municipalities.

Their core product was not hardware but knowledge; they offered know-how transfer through concession contracts with local governments for infrastructure development. Their initial investment was in a PPP model, where the focus was not on building hardware but on implementing their proprietary system. A significant realization was that there was no globally applicable parking software system, which led them to develop a software solution tailored for the Chinese market.

They encountered challenges in their assumptions about technology adoption. For instance, while Europe was still transitioning from parking meters to mobile payments, China had already leapfrogged this step. The radical adaption of mobile payments made the need for parking meters obsolete. This necessitated a pivot to more modern solutions at the local government's request. Besides the technical offer, local governments and municipalities showed significant interest in the business opportunity. A typical revenue sharing in this industry could mean 70% of the parking revenue goes to the private company and the rest to the municipality. The model used by EPS Global is the profit-sharing model, where first, the private investor deducts its OPEX and CAPEX financing cost from the revenue, and the remaining profit is shared in the following pre-agreed ratio: the private investor receives 70%, and the municipal government receives 30%.

Initially, the company had developed a geomagnetic sensor¹ and a parking terminal based on its judgment of the actual need; the latter hardware (the parking terminal) proved to be a significant mistake in the firm's history as they could never be used in Chinese projects. This was because cellphones and e-payments are so developed that no Chinese individual would ever drop coins into a parking terminal, as in the US and Europe. Recognizing this mistake, they immediately stopped the parking terminal development, accounting for an immediate EUR 500k loss. In parallel, they had to realize that they could not compete with the Chinese hardware manufacturers; competitors immediately appear whenever any new hardware technology that can be reproduced relatively easily gains traction in the local market. Therefore, they

¹ Geomagnetic sensors in parking systems are devices that can detect the Earth's magnetic field to ascertain the presence or absence of a vehicle in a parking space. These sensors are usually installed underground or at the surface level of each parking spot. When a car parks over the sensor, the metal in the vehicle causes a disturbance in the Earth's natural magnetic field, which the sensor detects.

immediately sold off their sensor business segment for half a million euros to a European company to cut further losses.

In business, luck is a significant factor: Just when EPS Global signed a JV agreement with its Chinese partner, who delivered soon after the first PPP project for the JV of the Chinese and Hungarian companies, the Hungarian Governmental (state-owned) Export-Import Bank (hereinafter “EXIM Bank”) launched an export incentive venture capital fund, specifically designed to support Hungarian companies aiming to export abroad. The bank advised the company to focus on exporting its know-how and software solutions based on that rather than any hardware. This counsel played a pivotal role in their future decision to pivot toward becoming a more technology-(software)-centric enterprise.

The business landscape further evolved with the advent of COVID-19, prompting them to adapt their operations and move towards becoming a technology company. Their core business has since diversified, signing contracts in multiple cities outside China. They've also begun shifting their business model from B2G (Business to Government) to B2B (Business to Business), targeting local governments and other businesses like banks or parking operators. This was a response to the hardships caused by the pandemic. It would prove extremely challenging to manage 300 Chinese employees online from Budapest for over three years without a set date when borders would be open again.

In 2021, the company transformed into a technology enterprise, undergoing multiple developments, including delivering and operating a citywide smart parking system in Hungary, two demo projects in Saudi Arabia, and winning several further projects. They also realized the importance of the right partners and engaged with large system integrators like Saudi and Cyprus telecom giants. It was also the year of the company’s inaugural European smart parking project in Hévíz, Hungary. Hévíz became the first Hungarian municipality to adopt a citywide state-of-the-art parking solution, realizing and operating smart parking solutions across the entire city's parking facilities. It became clear over the years that the most significant advantage of EPS Global is its hardware-independent end-to-end solution, incorporating every element of parking into one software; from parking space management to debt collection, analytics, and finances to mobile applications and hardware integration, their system provides a tailor-made solution for clients and satisfies all operational needs.

Based on the experiences in China, the EPS Global system is hardware-independent. As mentioned, local Chinese hardware has to be integrated into EPS’ smart parking solution for

Chinese projects. They now offer solutions to municipalities and other clients that can be incorporated into existing infrastructure.

Market Entry Strategies

The sheer scale of the Chinese market was a compelling motivator for EPS Global, with 250 cities with populations exceeding one million. At the time of their entry, parking solutions in these densely populated cities were notably underdeveloped despite the ever-increasing number of vehicles on the road. This presented a massive, largely untapped market for parking solutions, solidifying EPS Global's focus on China.

EPS Global's CEO had extensive experience in urban projects, specifically parking assessments, while serving as the head of ITDP's European office. This role involved advising on traffic demand management in several Asian cities on behalf of the World Bank and the Asian Development Bank, which financed significant urban transportation projects. Through this work, he visited over 30 Chinese cities. He participated in numerous projects, acquiring a deep knowledge of the parking market and transportation expertise, but still lacked specific local business knowledge. After establishing the company EPS Global, it was assumed that if their parking solutions worked well in Hungary, they would similarly be effective in other locales. However, they initially overlooked assessing business risks in China, particularly the complexities of dealing with local municipalities and internal corporate matters of a JV with a foreign partner in a distinct cultural and regulatory business environment.

For their market entry strategy, EPS Global initially collaborated with a local private individual who claimed to have the necessary governmental contacts (*Guanxi*) to facilitate business deals. However, this relationship faltered when it became clear that his connections were not influential enough to secure the necessary partnerships. Following this setback, EPS Global engaged with a state-owned enterprise known as GMEDRI (Guangzhou Municipal Engineering Design and Research Institute). The joint venture between EPS Global and GMEDRI initially appeared to be a strategic move, combining EPS Global's technical expertise with GMEDRI's local market knowledge, as GMEDRI is the largest transport planning and engineering entity in Southern China. However, the partnership ultimately proved to be a misalignment, as GMEDRI did not have the power nor appropriate local knowledge of business, underscoring the importance of selecting a suitable local partner when executing a market entry strategy.

In making their market entry decision, EPS Global was guided by established business theories, opting for a joint venture as the best strategy for entering the Chinese market. The logic was

sound in theory; joint ventures often offer a lower-risk way to enter complex, heavily regulated markets by leveraging a local partner's existing relationships and expertise.

However, the reality diverged from the expectations set by these theoretical models. EPS Global's assessment of their joint venture partner, GMEDRI, was not thorough enough. The assumption was that as a PRC government entity, GMEDRI would have the necessary connections to expedite business operations. This turned out not to be the case.

In hindsight, EPS Global should have focused on establishing a foothold in a single city rather than seeking a partner to cover the whole or even just a part of such a huge country. A partner with deep-rooted connections in one city would have offered a better chance of a successful market entry. EPS Global routinely faced the same question from Chinese city leaders: “Do you already have a project in China?” The negative response correlated with failure to gain a foothold in the city where this question was asked, as no Chinese city wanted to be the first mover. And this story repeated itself time and time again. The misalignment between theory and practice mainly lay in partner evaluation and the scale of initial entry, serving as valuable lessons for future endeavors.

Practical Execution

EPS Global approached the Chinese market meticulously, basing its entry strategy on comprehensive market research. An early realization was that their existing technological infrastructure was not wholly or partially compatible with the demands of the Chinese market. By 2014, it became clear that a significant technology overhaul was essential.

Key Milestones:

1. After realizing the need for transport demand management in Chinese cities, the company established EPS Global to “conquer” the Chinese parking market.
2. **Initial Entry and Partnership with GMEDRI:** The company initially ventured into the Chinese market through a JV with GMEDRI in 2012. Although the partnership did not yield the expected results, it provided valuable experience and insights into the market.
3. **Technological Revamp:** The inadequacy of their existing solutions was apparent by 2014, leading to a focus on technological enhancements designed for the local market.
4. **Pivotal Partnership with ZTE ITS:** EPS Global's most transformational milestone was entering into a JV with ZTE ITS Company Limited (hereinafter ZTE ITS, ITS standing

for intelligent transport solutions) in November 2015. ZTE ITS is a subsidiary of ZTE Corporation, one of China's leading multinational telecommunications companies. This partnership fundamentally changed the trajectory of EPS Global's Chinese operations, providing the firm with a robust local ally, which brought both technological prowess and crucial government connections. The collaboration remains strong today and is central to EPS Global's success in China.

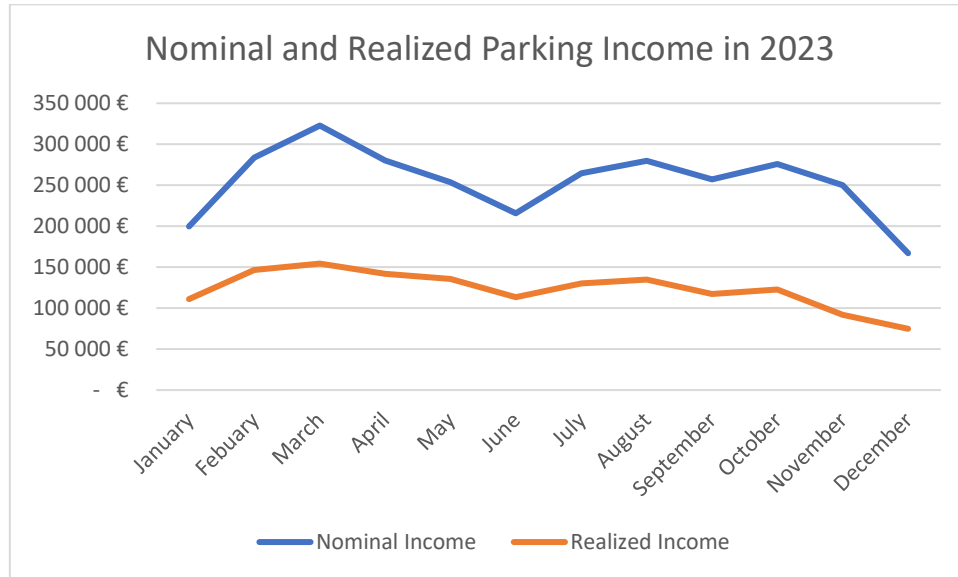
5. **Landmark Yangzhong Project:** In April 2016, EPS Global, along with ZTE ITS, secured a city-wide parking project in Yangzhong. This county-level city operates under the administration of Zhenjiang in Jiangsu province. The project is a 20-year PPP cooperation to equip 10,000 parking spaces in the city with smart technology and operate the parking system for 20 years. It remains a cornerstone of the company's portfolio, showcasing its expertise and critically validating its entry strategy and capabilities.

Regulatory challenges

Regulatory challenges persist to this day around the legal framework for parking fines. Currently, only seven key cities and 32 provincial capitals have the power to fine drivers who fail to pay the parking fee. In other cities, there is no legal penalty for non-compliance, making it difficult to enforce payment from motorists. This continues to be the most significant challenge. But it is also one of the largest opportunities, as anyone operating public parking management and collecting parking fees faces the same challenge. EPS Global invested much time and energy to overcome this challenge and found a legal way to collect the unpaid parking fee. Today, the Chinese SPVs of EPS Global are, in principle, capable of collecting on debts relying on existing Chinese National and city-specific local laws and regulations. Now, the company is working closely with local authorities to overcome hurdles for executing collections for nonpayment. This move from theory to practice will help create an environment conducive to efficient parking management.

Figure 2

Nominal and realized parking income from the Chifeng Parking Project, showcasing the regulatory challenges



One of the foremost issues revolved around the yuan, China's local currency. Unlike hard currencies like the U.S. dollar or the euro, the yuan is a soft currency, which is not easily convertible. This brings a layer of intricacy when it comes to international transactions. The Chinese Foreign Exchange Bureau closely scrutinizes every financial operation involving foreign currencies, requiring companies to comply with exchange rules and regulations constantly.

Joint Ventures (JVs) and, especially wholly or partially foreign-owned JVs in China, have specific regulations, particularly regarding their capital-to-debt ratios. Chinese authorities enforce stringent guidelines on how much debt a JV can carry. This led to challenges in securing loans, as the company's capital structure needed to align perfectly with Chinese financial regulations to become eligible. The nature and structure of the JV's capital also influenced the kinds of loans it could access. This led EPS Global to realize the importance of hiring finance experts who understand general financial regulations and the specifics of their industry in China and Hungary. One of the largest challenges of EPS Global was and still is how to harmonize EU country banking rules and regulations with the PRC's.

The regulatory environment in China is challenging due to the specific restrictions and dynamic nature. A company has to keep up-to-date with both general regulations, such as those involving

currency exchange and debt structures, as well as industry-specific ones, such as those pertinent to urban parking solutions.

Therefore, a key lesson drawn from EPS Global's experience is that expert financial guidance and planning are not just advisable but essential when navigating China's labyrinthine regulatory environment.

Significant Challenges Faced During the Venture

One of the most significant challenges was navigating the intricacies of Chinese business culture. It is notoriously hard to discern a genuine "yes" from a mere formality, as the Chinese often avoid saying "no" directly. The basis of this custom is not to offend with a "no" to the other party. This nuance resulted in misunderstandings that led to trust issues. Another practical concern was the geographical distance; frequent trips to China were expensive and logistically complex, not to mention the language barriers that made preparations difficult.

A critical strategic decision involved how much autonomy should be granted to the local partner and/or the local management, assuming they would better understand their domestic market. However, this assumption often proved to be ill-considered and led to management mistakes. EPS Global had to recalibrate its level of engagement in decision-making processes within the JV, correcting the course from a hands-off approach to a more balanced, collaborative involvement.

The social fabric of doing business in China is woven with expectations for heavy drinking at business meetings, formal dinners with partners, and an array of invitational events to build trust. Earning this trust was crucial for EPS Global, given the underlying skepticism in initial interactions. Understanding the ambiguity between "yes" and "no" and building personal relationships became essential for navigating cultural differences.

By facing and overcoming these challenges, EPS Global established a foothold in the Chinese market. Despite the initial hurdles, their experiences have equipped them with a nuanced understanding of how to operate successfully in this unique business environment.

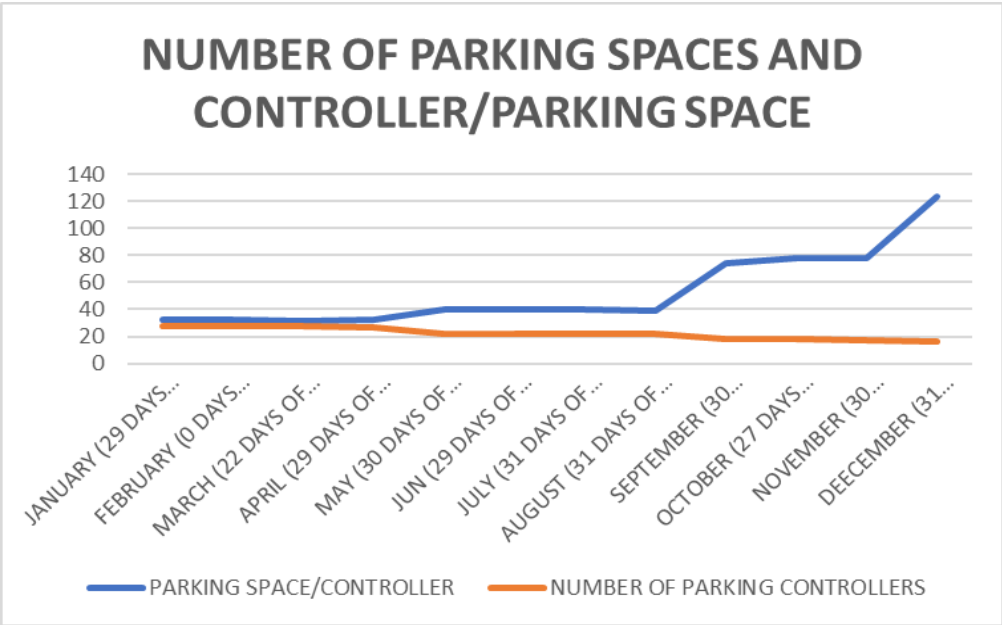
Performance and Outcomes

EPS Global employs key metrics like EBITDA to evaluate its performance in China. While one project is nearing positive EBITDA, another has already achieved it. Due to COVID-19, the original business plan faced a three-year delay. Operational metrics include the number of managed parking spaces, profitability, and parking enforcement efficiency. The largest OPEX

cost of parking management is labor, especially the expense of parking controllers. Initially, an inspector managed 30 spaces; after years of hard work, the same resource oversees over 90. The development has to go on; therefore, EPS Global is continuously developing new technologies, integrating new hardware to become more and more (cost) efficient. With developing scan vehicles, E.g., inspectors on motorbikes equipped with cameras, the coverage now extends to hundreds of spaces. The focus remains on profitability, as the company considers its valuation more critical than dividend distribution. Exit strategies are already being contemplated as a measure of long-term success.

Figure 3

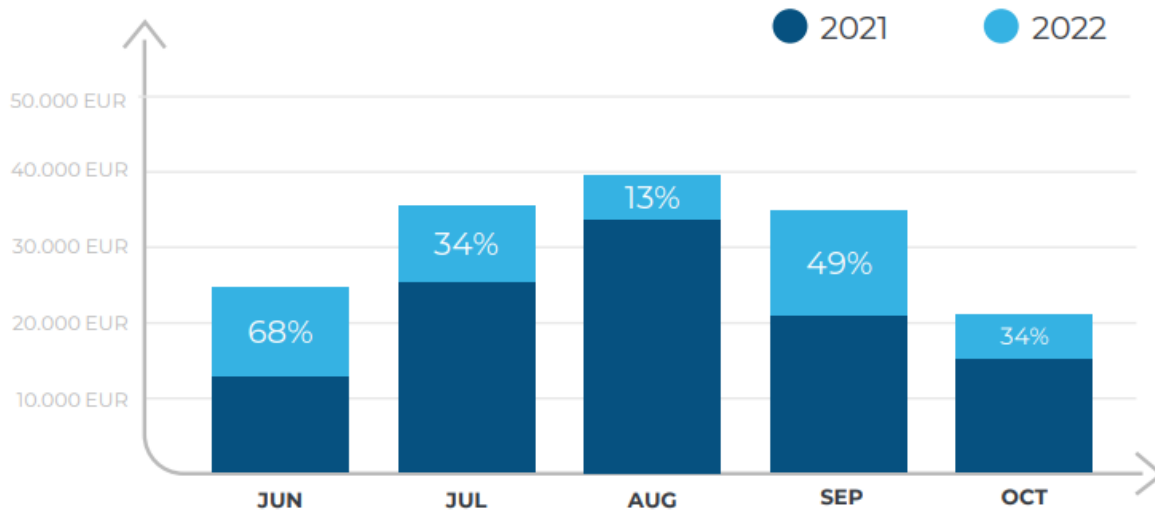
How controlling efficiency can be increased by new technologies



Entering the Chinese market has yielded significant benefits for EPS Global. It demonstrated that the company can operate in any international setting. Technological advancements in China have enriched EPS Global's offerings for other markets. The experience has led to a tangible increase in operational know-how, enhancing the quality of the company's products. The success in China is a vital reference, increasing EPS Global's credibility globally.

Figure 3

How the same parking area's revenue changed in a year after introducing EPS Global's smart parking solutions



Lessons learned and future plans

Choosing an appropriate local partner is crucial for market entry, as a mismatch can lead to wasted time and resources. EPS Global emphasizes the importance of humility when entering developing markets, acknowledging that local practices can often be superior to imported methods. A key lesson has been adapting to local payment systems, such as the widespread use of electronic payments in China. Working predominantly with local management has also proved beneficial in navigating the complex Chinese market environment.

EPS Global is actively considering new business models to expand in China and other international markets. The technology service model has been identified as a more agile and efficient path for scaling operations, especially compared to traditional infrastructure development. Given its technological shortcomings in smart parking, the United States is on the radar as a significant future market. Concurrent expansions are being planned for various regions, including the Western and Eastern parts of the world and the Middle East. Since many local governments operate their parking services, EPS Global intends to serve as a technology provider in these markets.

The firm's experience in China has become the backbone of its global expansion, serving as a proving ground for its business model and new technologies. While setbacks due to the COVID-

19 pandemic were considerable, they also acted as a catalyst for revisiting and refining business approaches.

Looking back, the company recognizes that a more collaborative involvement with local partners in hardware development could have mitigated several risks and reduced costs. The merits of adopting a more aggressive approach in negotiations with local authorities and stakeholders are also noted. With development costs nearing 2.7 million EUR, a more cautious approach could have curtailed expenses.

For companies contemplating entry into the Chinese market, the lessons are clear. Extensive preparation is required to navigate the initial slow pace of progress, with an understanding that rapid scaling may be needed at short notice. Companies should plan for robust financial reserves and seek expert consultation in the planning and execution phases. Physical presence in China, either by frequent visits or by hosting Chinese partners, pays off despite seeming costly initially. The competitive landscape and the dual importance of written and verbal agreements in China also highlight the necessity of validating market potential before introducing any new product or service.

V. Bridging Theory and Practice

In this Chapter, we connect academic theories and frameworks on market entry strategies with the practical experiences of EPS Global in the Chinese market. By examining EPS Global's strategic choices and their alignment with theoretical models, this Chapter aims to bridge the gap between conceptual understanding and real-world application. The discussion focuses on various market entry approaches, the influence of external factors like government policies, and strategic decision-making processes, providing a comprehensive analysis of how theoretical insights are manifested in practical business scenarios. This exploration enhances our understanding of EPS Global's journey and lessons for other businesses navigating similar paths.

[Link to market entry strategies](#)

In EPS Global's expansion into China, their strategic approach to market entry, mainly through joint ventures, was a critical factor in their success. Aligning with Kogut (1998), this method allowed EPS Global to gain local insights, crucial for navigating China's unique business environment. The practical challenges of managing these joint ventures, such as aligning business goals and handling cultural differences, highlighted the importance of flexibility and cultural understanding in international business.

Moreover, EPS Global's adjustment to the Chinese market, specifically its pivot from a hardware-centric to a software and service-oriented approach, is a vivid example of adapting to market conditions. This strategic shift was not just about technological evolution but also about responding to the unique demands and opportunities in the Chinese market. This move reflects a deep understanding of local market dynamics and consumer behavior, which is crucial in international business. EPS Global tapped into a growing demand for integrated, technology-driven solutions in China by focusing on software and services, showcasing their ability to innovate and adapt in a fast-paced, evolving market. This adaptability is a testament to the practical application of market entry theories, where understanding and responding to local market trends and consumer preferences are key to success, as pointed out by Picken (2020) as non-consumption as a competitor.

Its engagement in Public-Private Partnerships (PPPs) illustrates strategic alignment with government initiatives and local infrastructure projects in China. This approach aligns with theories suggesting that firms entering foreign markets can benefit from partnerships with local

or governmental entities. Such collaborations can offer easier market access, share risks, and utilize local expertise, which is crucial in navigating the complex Chinese business landscape.

The influence of host and home country variables, introduced by Fan et al. (2016), on EPS Global's market entry strategy is evident. Cultural, legal, and business environment differences between Hungary and China necessitated adjustments in operational and strategic approaches. Understanding these variables is vital, as they significantly impact the success of foreign market entries, influencing decisions on entry mode, market positioning, and resource allocation.

Lastly, EPS Global's strategic decision-making process in entering and adjusting to the Chinese market underscores the importance of thorough planning and continuous evaluation. Their approach aligns with strategic decision-making theories, emphasizing the need for businesses to analyze market conditions, assess internal capabilities, and adapt strategies in response to changing market dynamics and competition. This process involves initial entry strategies and ongoing adjustments to remain relevant and competitive in the evolving market.

Link to Chinese idiosyncrasy

EPS Global witnessed firsthand the impact of the "Made in China 2025" initiative. They observed that almost every product, including niche market items like parking technology, was available domestically in China. This included rapid advancements in parking sensor technology. Due to tariffs and regulations, using non-Chinese hardware in China became impractical, as local products were more affordable and readily available. Moreover, EPS Global experienced China's swift adoption of new technologies, often outpacing Western counterparts. This trend was especially evident in the development and implementation of smart city concepts and IoT technologies within the last decade. The company noted the advanced communication network in China, highlighted by the simultaneous use of 5G and Narrowband Internet of Things² (NB-IoT) technologies, which was not typical in the Western world.

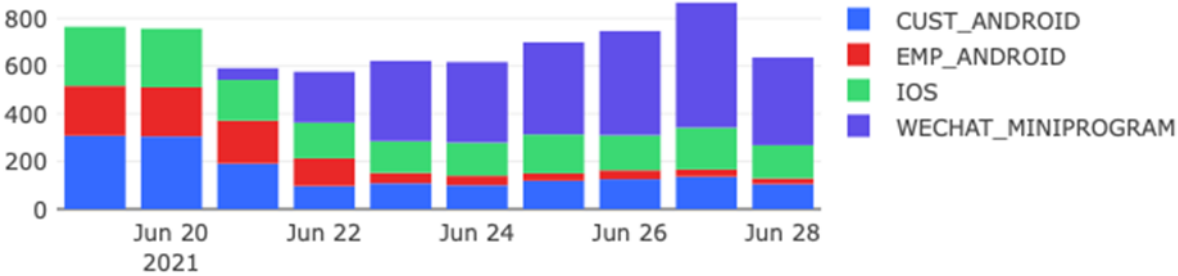
This emphasis on local innovation and production had broader implications for EPS Global's operations, particularly in technology adoption. The digital economy push in China is remarkably evident, primarily through the widespread adoption of digital payment systems, such as WeChat and Alipay. Cash has become almost obsolete. For EPS Global, the most critical development was integrating with WeChat for communication and payment. Initially, they

² Low-power, wide-area network technology that offers efficient connectivity for devices requiring minimal data transmission, low bandwidth, and extended battery life. It's ideal for IoT applications in environments like smart cities, agriculture, and utilities.

developed a dedicated parking app, which saw little use due to the ubiquity of WeChat. Consequently, they were compelled to enable payment through WeChat using QR codes. Subsequently, EPS Global established an official WeChat account for customer communication and developed a WeChat mini-app for parking services, fully integrated within the WeChat platform. As a consequence, the number of customers using the dedicated parking app has significantly decreased, since using WeChat has proved to be more convenient. Adapting to this environment was challenging due to the lack of English documentation for WeChat, necessitating the use of translation tools. This adaptation highlighted the openness yet localized nature of platforms like WeChat in China.

Figure 4

The impact of introducing the WeChat mini app



Note: CUST_ANDROID refers to the company’s parking app made for Android OS; EMP_ANDROID refers to parking transactions started by the controllers; IOS refers to the company’s parking app made for iOS. The X-axis refers to parking transactions made on the given day

This digital transformation was not limited to payment systems; it extended to essential business operations, as experienced by EPS Global. EPS Global significantly benefited from the Belt and Road Initiative (BRI). Supported by Hungarian state investment, the company thrived under Hungary's somewhat unique, China-friendly policy, diverging from typical EU positions. This is exemplified by projects like the Budapest-Belgrade railway. Notably, the first joint venture agreement of EPS Global with ZTE ITS was signed at the 2015 Belt and Road Forum, attended by Hungary's Foreign Minister and the Party Secretary of Yangzhong. A second project involving an investment of 83 million yuan in Chifeng was signed at the 2019 Forum. The CEO credits the success to BRI's framework and Hungary's strong diplomatic ties with China, highlighting a case where EPS Global, aided by the Hungarian ambassador's intervention,

overcame challenges that an American company could not, due to its non-BRI status and different diplomatic relations.

The success of EPS Global under the BRI framework is further exemplified in their navigation of the Chinese business culture, specifically in leveraging guanxi. An illustrative instance of guanxi's significance in EPS Global's operations involves a subsidiary with a 40-million-yuan loan from State Power Investment (SPIC), ranked 262nd on the Fortune 500 list (Fortune Editors, 2023). Due to COVID-19, EPS Global's CEO, who hadn't met the financiers personally, requested an extension on the loan's capital moratorium, which is set to expire on December 20, 2023. This loan was initially negotiated by EPS's JV partner, ZTE ITS, without direct interaction between EPS's CEO and the lender. Despite the Chifeng project subsidiary being EBITDA-positive and able to pay interest, it struggled with capital repayment. This led to a crucial meeting in China, arranged solely for this purpose. Significantly, it was only after a dinner involving a deep and often personal conversation joined by substantial alcohol consumption and relationship-building that the SPIC Vice President of Risk Management, a key decision-maker, agreed to extend the moratorium. On December 12, 2023, this event underscores the pivotal role of personal connections in Chinese business dealings. This situation highlights the importance of guanxi and encapsulates the unique challenges and strategies EPS Global employed in its Chinese market endeavors.

VI. Conclusion

The journey of EPS Global into the Chinese market, as analyzed in this thesis, offers a substantive exploration of the challenges, strategies, and successes inherent in international business ventures. This case study illustrates the practical application of theoretical business models and sheds light on the complexities of adapting to a foreign market's unique cultural and regulatory environment.

EPS Global's strategic entry into China showcased the need for a multifaceted approach, combining a deep understanding of local market dynamics with a flexible adaptation of their business model. While rooted in comprehensive market research and global best practices, this approach required significant adjustments to align with China's unique consumer behaviors, business practices, and regulatory frameworks. The adaptability demonstrated by EPS Global is a critical lesson for any company venturing into unfamiliar markets. It underscores the importance of remaining responsive and agile in unexpected challenges and market shifts.

One of the most striking aspects of EPS Global's strategy was its emphasis on cultural intelligence. The company's success in China is partly attributed to its sensitivity and responsiveness to the local culture. This included understanding the overt business practices and delving deeper into the underlying cultural nuances that influence consumer behavior and business relationships. Future research could further investigate the impact of cultural intelligence on business success in various global markets, providing insights into how companies can effectively incorporate cultural understanding into their international strategies.

The role of technology and innovation in EPS Global's strategy was another critical factor in their success. As the smart parking industry rapidly evolves, keeping pace with technological advancements is crucial. EPS Global's ability to tailor its technology to meet the specific needs of the Chinese market was a significant achievement—this aspect of its strategy points to the broader importance of technological adaptability in international business. Future studies could focus on the intersection of technology and market adaptation, exploring how companies in various industries can leverage technology to enhance their international market strategies.

Moreover, EPS Global's experience in China highlighted the vital role of strategic partnerships and alliances. These partnerships provided market entry support, ongoing insights, and access to critical networks, which were invaluable in navigating the complex Chinese business landscape. Future research could examine the dynamics of forming and sustaining strategic

partnerships in different international contexts, offering guidelines for how companies can effectively leverage these alliances for long-term success.

In conclusion, EPS Global's entry into the Chinese market is a useful case study on international business expansion, pointing out particularities and country specific idiosyncrasies that a firm must strategically manage. This thesis unraveled complexities of aligning theoretical market entry models with the practical realities of entering a foreign market. The insights from EPS Global's experience provide valuable lessons for companies contemplating global expansion. As the international business environment continues to evolve, the lessons from EPS Global's journey in China will remain pertinent, offering both inspiration and practical guidance for future business ventures in the global arena.

Appendix A: Interview Questions

Introduction and Company Background

1. Can you briefly describe EPS Global's history and core business activities?
2. What is the company's experience with international markets prior to entering China?

Market Entry Strategies

3. What motivated EPS Global to specifically target the Chinese market?
4. How did EPS Global assess the opportunities and risks of entering the Chinese market?
5. Which market entry strategies were considered, and why was the chosen strategy deemed the most suitable?

Alignment with Theory

6. Were any market entry theories or frameworks consulted or applied in this strategic move?
7. How would you evaluate the success of the chosen market entry strategy against the expectations set by theoretical models?

Practical Execution

8. Can you elaborate on the operational steps taken to implement the market entry strategy?
9. What were the key milestones in the process of entering the Chinese market?
10. Were there any regulatory hurdles, and how were they managed?

Challenges and Adjustments

11. Can you share some of the major challenges faced during this venture?
12. Were any adjustments or pivots required in the strategy post-entry?
13. How were cultural differences managed, if they were a factor?

Performance and Outcomes

14. How is the performance of EPS Global's operations in China measured?
15. What have been the realized gains or benefits from entering the Chinese market?

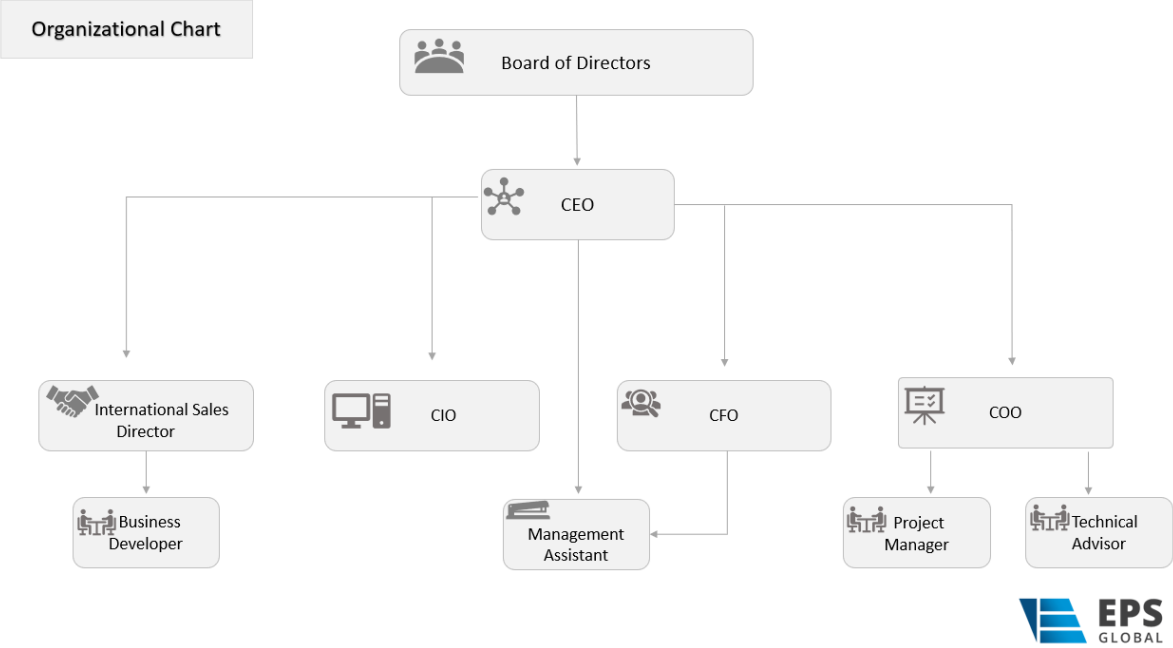
Lessons Learned and Future Plans

16. What lessons have been learned that could guide EPS Global or other companies in future market entries?
17. Are there any plans for further expansion in China or other markets based on the experience gathered?

Concluding Questions

18. How does EPS Global's experience in China fit into the larger trajectory of the company's growth?
19. Is there anything you would have done differently, in hindsight?
20. Do you have any advice for companies planning to enter the Chinese market, considering both theoretical and practical aspects?

Appendix B: Organizational Chart



Appendix C: CEO Curriculum Vitae

CV OF ZOLTÁN GYARMATI

Personal data:

Born: 23rd of March, 1978 in Budapest, Hungary
Nationality: Hungarian
Studies: College of Management, Budapest (Economist), BA at the St. Stephen University
Budapest (Economist, specialization in Corporate Organization Development),
Eötvös József High School
Primary school in Vienna, Austria
Address: H-1121 Budapest, Rácz Aladár street Nr 94.
E-mail: zoltan.gyarmati@epsglobal.eu
Languages: English – fluent
German – fluent
Hungarian – native

Yanzhong ZTE-EPS Parking Management Co., Ltd.

Board member and General Manager
2018 April –
www.yztinche.cn

EPS Global Zrt

CEO
2016 November –
www.epsglobal.eu

ZTE-EPS Smart Parking Systems (Jiangsu) Co., Ltd.

Vice-President and General Manager
2016 March –
www.zte-eps.cn

Institute for Transport and Development Policy (ITDP)

Transport Demand Management Expert
2013 January – 2015 December
www.itdp-china.org

Institute for Transport and Development Policy (ITDP) European Representative Office

Executive Director
2011 February – 2013 January
www.itdp.org

Budapest Governmental Municipality's Traffic Management Authority: Parking Ltd

Managing Director
2007 June – 2010 November
www.parking.hu

Csepeli Lakásfejlesztő Zrt (Residential Developer of Csepel (the 21st district of Budapest))

President - CEO
2006 December – 2009 January
www.csepelilakasfejleszto.hu

Autoker Holding Rt

Vice President – COO (before Director for Development and Operations)

2001 June -2005 March

www.autoker.hu

TÖMB Real-Estate Utilization Ltd.

Operations Manager

1999 February – 2001 June

www.tomb.hu

Hungarian States Privatization Company, now Hungarian State Holding Company

Sales Manager

1997 December – 1999 February

www.mnv.hu

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