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## **New Ventures in China: The Identity Work in Gaining Insidership and its Outcomes**

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### **ABSTRACT**

This paper aims to provide improved understanding into how International New Ventures (INVs) strive to overcome external challenges and how they seek to establish legitimacy in host, emerging markets. It highlights that having access to the local network alone is a necessary but not sufficient condition to succeed. It is also necessary to receive the attention of the local stakeholders and to develop relationship with them. We conducted a qualitative study and examined the Swiss startups in China (SNVs). Our study highlights that getting established in China requires commitment to the market in order to gain the necessary attention and to maintain responsiveness within the market. The deep technological knowledge behind products is a competitive advantage and protection for SNVs in China but not sufficient to succeed in China. Acquiring the deep market understanding and partnership development are the necessary conditions. Our results reveal how SNVs tackle this challenge. First of all, SNVs adapt to the mindset in the market and quickly gain insidership during the market exploration phase to acquire the understanding of the local rules of the game, e.g., culture, institutional logics and behaviours of key stakeholders, their motives as well as their evaluation criteria. Finding the right connection who can give access to resources embedded in a local network is critical for success in China. Second, based on the interview data, we identified the actions taken by the start-ups to mitigate the liabilities of smallness depending on their China Market Mindset, defined as the capacity to effectively seize opportunities, tackle challenges and successfully develop business in China.

Keywords: International New Ventures, emerging markets, legitimacy, optimal distinctiveness, identities.

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### **INTRODUCTION**

Globalization and technological advancements across many sectors offer young firms opportunities for growth through early and rapid internationalization (Knight & Cavusgil, 1996; McDougall & Oviatt, 2000). Alongside, the reduced trade barriers and the improved connectedness contributed to the increased share of emerging economies in the global economy, where entrepreneurs play an important role facilitating economic growth (Kiss, Danis & Cavusgil, 2012). Emerging market contexts are “*settings that are characterized by weak capital market and regulatory infrastructures and fast-paced turbulent change*” where society and economy are co-evolving (Marquis & Raynard, 2015, p, 291). Fast growth rates, pro-market reforms and ‘institutional voids’ (Khanna & Palepu, 2010) are characteristics of emerging economies (Kostova & Hult, 2016). For the young entrepreneurial firms in pursuit of discovering and creating opportunities (Alvarez & Barney, 2007), the emerging markets present a fruitful context given their market size and pace of development. The emerging economies that set ambitious goals to enhance social welfare and economic growth, are attractive markets for the young entrepreneurial firms that offer innovative products in many fields such as health care, agriculture, financial services, energy. The ‘discovery of new means-ends relationship’ (Shane & Venkataraman, 2000) through the early and rapid internationalization (Verbeke & Ciravegna, 2018) offers these young firms the growth potential.

In this paper we will focus on ‘International New Ventures’ (INVs) internationalizing into emerging markets. INVs move into international markets early in their life cycles to achieve competitive advantage through the use of resources and sales in multiple countries (Oviatt & McDougall, 1994). They often operate under conditions of asset parsimony and overcome their resource and experience deficit by “*by leveraging unique capabilities and strengths – a high degree of entrepreneurial orientation, persistence, innovation, and differentiated offerings*” (Cavusgil & Knight, 2015, p.6). Firms need to establish their legitimacy in order to succeed and survive in their environment (Tolbert & Zucker 1983), however there is still limited insight on the challenges INVs encounter in emerging markets and how they address them. Interestingly for example, a multiple case study by Prystupa, Lupina-Wegner and Johannot (2019) reveal that the Brazilian market is challenging for Swiss New Ventures because of market complexity, instability and protectionism. Their study reveals importance of marketing capacity and the necessity to have a localized the business model and product which requires a high commitment mode. Therefore, further insight on INVs responses to challenges in emerging markets can provide actionable knowledge how INVs go about mitigating liabilities in emerging markets and establish their legitimacy to succeed in their host market. This paper aims to provide improved understanding into how INVs strive to overcome external challenges and how they seek to establish legitimacy in host, emerging markets.

### **ESTABLISHING LEGITIMACY IN EMERGING MARKETS**

Legitimacy is defined as the “*generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions*” (Suchman, 1995, p, 574). It is an important resource for survival and growth of young organizations (Zimmerman & Zeitz 2002). Achieving legitimacy in foreign markets requires deciphering the sets of principles that prescribe “how to interpret organizational reality, what constitutes appropriate behaviour and how to succeed”, i.e. institutional logics (Alford & Friedland, 1985; Thornton & Ocasio, 2008). The absence of such local understanding involves additional costs for foreign firms that local

firms do not have to tackle, which is referred to as liabilities of foreignness (Zahra, 1995). Specifically, in order to gain legitimacy in the host market, INVs might evaluate the ‘the product-market fit’ based on the assessments done from a distance, in the home market. Nevertheless, INVs decision taking might be effectual (Sarasvathy, 2001) upon market entry even when market selection is based on a causal decision making logic (Chetty et al. 2015). After the entry into the market, INVs gain legitimacy by interacting with diverse group of stakeholders (Choi & Shepard, 2005) and engaging in legitimizing activities in order to grow their business (Fisher, Kotha & Lahiri, 2016; Suddaby, Bitektine & Haack, 2017) in the new market.

In addition to liability of foreignness, INVs also tackle liabilities of newness and smallness (Zahra, 2005) such that being in the early stages of development the INVs are often uncertain regarding whether the market for the product will materialize and whether will receive legitimacy (Zander, McDougall-Covin & Rose, 2015). Entering into a new market might entail deciphering multiple institutional logics (Nigam & Ocasio, 2010) and dealing with institutional complexity when being exposed to incompatible logics (Greenwood, Raynard, Kodeih, Micelotta & Lounsbury, 2011). In addition, the product or service offering of these young firms might span fields (York, Hargrave & Pacheco, 2016) or might be in emerging fields (Weber, Heinze & DeSoucey, 2008). Thus, to cope with the complexity and incompatible logics between home and host markets, INVs might purposefully and strategically participating in shaping the institutional environment through relational, infrastructure-building and socio-cultural bridging strategies i.e. institutional linkages (Marquis & Raynard, 2015). However, in host markets, INVs are away from the network of alliances (Baum, Calabrese & Silverman, 2000) which they have in home markets. Thus, they do not have the sufficient network that will support their survival in the host country.

Therefore, there is a need to better understand how INVs respond to complex institutional environments and how this impacts their ability to become established in foreign markets (Fisher et al., 2016). Firms need to balance the tension between conformity and differentiation, i.e. attain “*optimal distinctiveness*” (Zhao, Fisher, Lounsbury, & Miller, 2017) in their pursuit of opportunities in emerging markets. However, a minimum level of legitimacy is necessary for INVs to benefit from differentiation (McKnight & Zietsma, 2018). For INVs aiming to secure resources, to establish partnerships and to acquire new customers in new markets, “legitimately distinctive” identities might allow establishing favourable judgements among external audiences (Navis & Glynn, 2011). INVs can draw on multiple identities (Gioia, Schultz & Corley, 2000) to demonstrate their alignment with the expectations and also their differentiation from others when responding to external audiences. Further, recently Edman (2016) suggested that the effects of foreignness can be better understood by adopting organizational identity lens.

## **ACHIEVING OPTIMAL DISTINCTIVENESS IN EMERGING HOST MARKETS**

Organizations construct their identities within the wider industry context they are located in (Clegg, Rhodes & Kornberger, 2007) and relate to the collective identity categories in establishing their distinctiveness (Lounsbury & Glynn, 2001; Wry, Lounsbury, & Glynn, 2011). In order to achieve optimal distinctiveness, the INVs need to communicate their identities relating to the collective identity categories and situate themselves within the industry context as well as at the host country. Identities are important when operating under ambiguity and complexity, and particularly in the case of new ventures (Navis & Glynn, 2011) that seek competitive advantage entering into emerging markets. Entrepreneurs rely on various mechanisms to establish their legitimacy (Überbacher. 2014; Fisher, Kuratko, Bloodgood, & Hornsby; 2017). Identity work is one of the means used by entrepreneurs to construct the legitimacy of the INVs (Brown & Toyoki 2013; Suddaby, Bitektine & Haack,

2017). During the early stages of development, entrepreneurs engage in both ‘idea work’ and ‘identity work’ (Grimes, 2018) and the founders’ identities can lead to inertia or flexibility of startups in nascent industries (Zuzul & Tripsas, 2019).

The entrepreneurs “*dynamically create and appropriate*” relationships over time (Prashantham & Dhanaraj, 2010, p.988) utilizing their memberships in different collectives. The network of relationships that INVs leverage (Coviello & Cox, 2006) can impact their market selection and their mode of entry (Coviello & Munro, 1997). However, upon entry the INVs need to define and communicate their optimum distinctiveness in relation to others within the host country to gain acceptance. Therefore, the relationships they develop with different audiences within the host country can impact how the INV conforms to the expectations within the host country and how they differentiate themselves from the others. This is particularly important in the context of emerging countries as the firms in emerging markets heavily rely on their relationships to overcome the high uncertainty (Peng, Wang, & Jiang, 2008).

There is limited insight on how INVs draw on their identities to overcome outsidership and to gain insidership in emerging markets. It is important to examine how INVs draw on multiple identities to develop relationships and establish their legitimacy to better understand how INVs go about achieving optimal distinctiveness in the host country. We conducted multiple case studies to provide a deeper understanding on: How do INVs overcome liabilities of outsidership and smallness in emerging markets? What role identities might play to gain insidership?

## **RESEARCH DESIGN AND METHODS**

Our aim is to provide a better understanding of how INVs go about mitigating liabilities in emerging markets and establish their legitimacy in their host market. Examining the Swiss startups in China was an appropriate context for our study. First of all, Swiss firms target customers in foreign markets given the small size of their domestic market and the lack of natural resources (apart from water). The international orientation is one of the drivers of success of Swiss firms (Breiding, 2013 & Baldegger & Wild, 2019). 99% of Swiss firms have less than 250 employees and exports make up around 33% of the gross domestic product. While EU is the largest trading partner followed by the USA, China is the third most important trading partner and priority export market for Switzerland. The bilateral Free Trade Agreement (FTA) was signed in 2013 between Switzerland and China.

Having innovation and technology as a national priority, Switzerland invests 2.9% of its GDP in R&D. Switzerland is ranked in the first place in Global Innovation Index for nine consecutive years since 2011. A number of public programs and special funds have been set up to encourage research which contributed to having a leading expertise in a number of fields such as life sciences, micro and nanotechnologies, information and digital technologies, energy and environmental technologies, and in nutrition and agri-food. The technology transfer organizations along with research institutes facilitate bringing scientific innovation to the market. In this context, many Swiss start-ups which we define as Swiss New Ventures (SNVs) internationalize into foreign markets for growth.

China is perceived as an important market for Swiss firms. As the second largest economy and contributing to about a quarter of global growth (OECD, 2019) China’s fast paced growth in attracted many foreign firms. The FDI inflows to China reached \$ 139 billion and the number of new companies established by foreign investors increased 70 per cent in 2018 versus the year before (UNCTAD, 2019). The Chinese government agenda for development, such as the China 2025 and the Belt and Road initiative, attracts the attention of Swiss startups that offer advanced technological solutions to societal problems in fields such as health care or energy.

Second, the institutional contexts Swiss and Chinese have similarities and differences on a number of dimensions. First of all, the level of uncertainty faced by businesses is different in both countries. Switzerland has a solid social and political system as well as financial stability. However, China is a complex market that has been going through institutional change wherein following the reforms the entrepreneurial activities in China has evolved and resulted in high rates of entrepreneurship (Milana & Wang, 2013). However, in the absence of strong formal institutions local firms rely on their relationships, i.e. *guanxi* (connections, networks) in managing uncertainties and external dependency (Park & Luo, 2001). A multiple case study of Swedish New Ventures in China reveals the importance of networks, and that local network development is dynamic over time and changes alongside experience in China (Andersson, Evers, & Gliga, 2018).

#### *Data Collection and Analysis*

We examined various online databases to identify firms appropriate for the multiple-case study. We followed the operationalization of new ventures in previous studies (cf. McDougall, Covin, Robinson & Herron, 1994; Choi & Shepard, 2005) and selected firms that established their presence in China within the 8 years after their inception. We then sought to narrow down the list with the guidance of government organizations. Despite the widespread interest, a relatively small number of SNVs operate in China. Given that time is a valuable resource for SNVs, our initial round of contacts yielded few results in terms of gaining attention and securing access. Nevertheless, through the snowball sampling we were able to secure the support of 11 firms that agreed for an interview. We collected data from these 11 SNVs that engaged in business development in China and conducted a cross-case analysis. Our sample consisted of firms from diverse sectors. Table 1 presents the business model and life stage of firms in the sample at the time of the study.

[Insert table 1 about here]

Given the existing Venture Leader (VL) program funded by the Swiss government institutions, we examined the VL experience of participating firms in both the US and China, taking into account potential previous learning effects. Eight of the 11 firms had VL experience, three had no VL experience. The experience of firms is shown in the table below.

[Insert table 2 about here]

Our data collection took place between July 2018-January 2019. In order to accomplish our objective, we relied on three different data sources. First, we collected and examined the archival data that was available on the internet on the case study organizations. This included website information and the media appearances of firms. Additionally, we collected and examined the websites and reports on Swiss startups that were available on government support organizations' websites. Second, we conducted 15 interviews with co-founders or with managers experienced or knowledgeable about setting up their operations in China. We asked about the establishment trajectory of their new ventures in China, the problems encountered, and how they sought to gain acceptance of the influential stakeholders (such as customers, local partners, investors and government officials). Moreover, we observed why and how SNV leverage (or not) 'Swissness' in their efforts to gain acceptance and to overcome foreignness. The interviews lasted about 30 to 60 minutes. We collected a total of 951 minutes of interview data from the firms in the sample. Third, we collected data interviewing further eight individuals (advisors, consultants, service providers) who were knowledgeable about the establishment of Swiss firms in China which accumulated to a total of 365 minutes.

[Insert table 3 about here]

[Insert table 4 about here]

We recorded and transcribed the interviews with the permission of the interviewees. Following each interview, the first author took notes on the insight gathered from the data on

the case study organization as well as the new insights that were mentioned by the interviewee. Then, we conducted open coding. During the data analysis, we took notes of our reflections and identified areas for further inquiry. Specifically, we examined the context (Miles & Huberman, 1994). Through temporal bracketing (Langley, 1999) we sought to better understand the context prior to the market entry and the issues encountered by SVNs and how they responded in the host market. We examined the codes across cases and organized the themes that emerged into the second order categories. We sought to maintain distance while theorizing from data (Langley et al., 2013). Majority of the data for this study was collected by the first author, however, the second author was knowledgeable on formal and informal institutions within the host country. On multiple occasions, we discussed the second order categories and also discussed how the cases differed and which ones had similarities before arriving at the archetypes we present in this paper. Specifically, we examined whom SNVs were interacting with and particularly their relationships with the local stakeholders, who the existing and target customers were and what were the characteristics of their relationships with them.

## **SWISS NEW VENTURES IN CHINA**

Foreign firms in the Chinese market encounter the intensity of local competition, government influence and differences in interactions with the local stakeholders.

### *Impact of Regulatory Institutions on SNVs*

Our interviewees mentioned that strong government controls and influence over local players. As China seeks to become an economic power and enable social and economic development, there is a high level of interest in new technologies to enhance development beyond the 'growth coast'. The government also seeks to maintain capital in China while pushing for development. Moreover, the government is quick to deploy initiatives and implement plans, and has identified leading players (i.e., champions) in certain fields to boost advancement. However, some regulatory procedures can be cumbersome. Dealing with government institutions and receiving approval is a lengthy process, particularly for foreigners. Foreign firms are subject to different regulations, particularly in employment relationships. In addition, the Chinese government is seeking to address data protection issues that is a concern for both leading local players and foreign firms.

### *Impact of Chinese Competition on SNVs in China*

China is a big market with fierce competition. It is also a highly fragmented market which consists of specificities in different regions. Speed matters in creating and seizing opportunities. Chinese customers are open to new ideas; however, getting their attention requires speed and responsiveness both before and after sales. Therefore, commercial capabilities in the Chinese market are as crucial as technological capabilities. Relationships and resources embedded in the local network is a source of competitive advantage in economic exchanges in this highly competitive, fast-paced market. Intensity of competition based on price also drives the need for attention and responsiveness in the market. Local players deal with the competition and speed through continuous learning and development. Being fast learners and having an understanding of the market, local players in China tend to offer products and services as soon as they are good enough. SNVs are aware that competitors are capable of coming up quickly with similar and/or better products and services for a better price. Since offering renewed products in large quantities is a resource intensive effort, local players seek out new ideas, rapidly test them on the market, and offer them on a mass scale. Given the constant change, local players are focused on short-term horizons and goals. As needs and preferences change in the market, Chinese actors tend to focus on what they can do to meet the needs of today and in volume. In their view, although the future is

uncertain, it holds infinite possibilities. Within this competitive environment, local Chinese players operate with high aspirations: “Think big, win big”.

#### *Business Relationships Between SNVs with Chinese Stakeholders*

INVs approach different groups of actors in China. SNVs consider that having the right partner can facilitate gaining access to information and acceptance from potential customers, as well as managing relationships with the government and regulatory institutions. SNVs search for local partners who can help leverage technological knowledge with their capabilities. The most common approach attempted by SNVs is through **Chinese investor**, distributor or directly with the customer. First, the SNVs seek to secure resources by interacting with the Chinese investors. While Chinese investors open up networks and provide financial resources, there are a limited number of investors who can invest abroad given the regulations in force. Further, our interviewees also mentioned that interaction with the Chinese investors is different than their interaction with the European investors. The SNVs noticed that Chinese investors are used to “hearing much bigger numbers”. Chinese firms prefer to rapidly scale up their investments. When SNVs are not able to offer products to a large customer base and in volume, their products may receive insufficient attention. Thus, capturing the attention of Chinese investors is a particular challenge for SNVs. The investors tend to make investments in the fields that they are knowledgeable about and in which they can facilitate the growth of the venture through their network and resources. Moreover, the numbers mentioned by the SNVs are perceived to be small by the investors who is looking for higher amount of return for their investments. When evaluating the potential, the investors would like to hear a clear picture as to what the SNV is looking for and what it needs to grow their business in China (whether it is a resource, partnership) which also saves time and be effective in their evaluation. Further, the SNVs need to convince the investors in face of the prevailing negative perception regarding the foreign firms. According to the local players, most of the European firms are not able to understand the market or to keep up with the pace in the market and they are not able to offer products or services that respond to the need in a speedy manner, therefore, they fail. When looking for investors, SNVs not only need to identify the ones having the expertise in their field, but also need to prepare themselves to demonstrate to these investors their level of commitment to grow their business in the Chinese market, since presence in China is important to develop and nurture relationships but also to be responsive in the market. On the other hand, some SNVs that secured resources from Swiss institutions were hesitant to commit to the Chinese market not to upset their existing investors given that the investors mostly prefer to remain in proximity to be able to control the progress and to provide guidance and support when necessary.

Second, some SNVs seek to work through **Chinese distributors** given the size of the Chinese market and considering the local specificities in different regions, which makes it difficult to develop a sales force able to cover the market to acquire and maintain customer relationships. While it may be interesting for these distributors to have high quality foreign products in their portfolio to differentiate themselves from their peers and to benefit from other local advantages, our interviewees indicated that the distributors may not have the reach required nor the necessary local relationships in the relevant Chinese regions. Furthermore, their sales force might not have the level of technical knowledge needed to deal with the customers.

Third, SNVs also sought to gain the attention of customers who are the early adopters among the local target customer groups. Some reached out to contacts in their international networks to make the introductions to the subsidiaries of international firms in China. Others, sought to attract the potential customers by maintaining visibility with their presentations or product displays in trade fairs and then followed up with those that are interested. The SNVs noticed that the sales team of the local competition was outnumbering their team when



visiting the customers. Further they noticed that doing business came after establishing the interpersonal relationship which is maintained with frequent interaction after reaching an agreement. During the exchanges that took place in a friendly context, the potential customers sought to evaluate the person they are dealing with before engaging in a business relationship.

Some SNVs also sought partnership with local suppliers to modify or improve or their product that they aimed to sell in and outside of China. Engaging with the reliable suppliers was difficult for the SNVs when their orders were in small quantities. The large suppliers preferred the accounts that asked for production and delivery of supplies in large numbers. Further, producing the quality parts that the SNV demanded was bearing additional cost. Moreover, the SNVs were perceived risky. When the orders were small, and the SNV is young, the return on investment on engaging with such account was not perceived high. Convincing the suppliers about the business potential and the benefits of collaboration was important in engaging with the suppliers. Nevertheless, even when the collaboration with the suppliers was established, increasing the quality of the pieces required multiple attempts and additional time to do controls with close contact on the part of the SNVs.

#### *Building and Maintaining Relationships*

SNVs indicated that the relationship building with the potential partner is the biggest challenge for them in China because of two key cultural characteristics.

First, **hierarchy and power** are highly respected in Chinese culture. Holding a central and competitive position indicates power and higher status in a collective which is an important evidence of being a legitimate actor in the ecosystem. Thus, through their powerful positions central players earn respect from those within and outside their collective. In order to protect their position locals remain alert for potential threats seek to eliminate rivalry while seeking and seizing opportunities to maintain their powerful position.

Second, relationship building takes under the **condition of uncertainty**, due to high competition, lack of transparency and a weak legal protection. Therefore, local Chinese actors seek to gain information on the potential business partner by looking at whether that person and her or his business are reliable and trustworthy. As interpersonal relationships are considered more binding than written contracts, actors with status and reputation benefit from the reliability and trustworthiness perceived by others. Perceptions of reliability are based on the history of past actions and can spill over through relationships. In China, information is exchanged fast and frequently; however, as resources are distributed unequally and unevenly, valuable resources embedded within personal networks and shared selectively with the expectation of reciprocity. In general, there is a low level of trust towards outsiders. Hence, developing relationships as an outsider is a long-term process built on respect and reciprocity over time. New connections made through referrals speed up the process of developing networks. However, making connections has instrumental value and involves a certain level of risk to the person making the connection. For example, the person requesting the favour might not return the favour in the future or might put the reputation and existing relationship of the connecting person at stake. Therefore, connections are made for those who are worthy and with the expectation of reciprocity.

In order to mitigate those challenges, our interviewees indicated that obtaining early information from “similar others” and also access to local networks through referrals as important factors in the market exploration. First, they reach out to their peers, and receive recommendations and advice from a “**similar other**” **networks**. Most often, this is the Swiss network category and other foreigners in China who have had experience doing business or living in China, intermediaries and consultants, as well as home country government institutions such as especially swissnex. Swissnex is the Swiss Consulate for Education and Technology and one of its missions is to support technology-intensive Swiss start-ups. They

are active in communicating the identity and attributes of Swiss firms through storytelling (e.g., CNN Money Switzerland) and maintain visibility of Switzerland and Swiss firms proactively engaging in local and international events in China. SNVs participation and visibility in these events signal the legitimacy of SNVs in their home country and the endorsement of the Swiss government. This facilitates making connections to China-based stakeholders early on and allows to make additional connections through such endorsements. It is a sign of reliability as Chinese players tend to pay attention to those SNVs with a Swiss government endorsement. Moreover, swissnex together with other Swiss government institutions offer visibility to Chinese stakeholders. For example, being invited to high profile events with a Swiss ambassador and having access to a network of innovative Swiss firms is perceived positively by the Chinese stakeholders. Having access to Swiss networks and relationships within that network allows them to stand out.

Moreover, through their participation and interaction in these events, SNVs increase their awareness of the issues that receive attention in their field, government and regulatory demands, and pressures on local actors. Questions and comments received from local actors as well as learning through the experience of other SNVs within the Swiss network allows them to increase their China market knowledge and enables SNVs to cross-check the reputation of potential partners in China and benefit from recommendations and new connections. Reaching out to potential business partners through referrals signals trust and the potential for a long-term partnership, as well as the likelihood of a sincere effort to build good personal relationships. Our interviewees are indeed concerned for being cheated or connected to unreliable partners thus “similar other” network is viewed as relevant in order to double check trustworthiness of the Chinese potential partners. In addition, SNVs utilize a number of strategies to check the reliability of their potential partners, such as background checks using search engines, finding out who their customers are, their reputation among customers, their past success and current situation as well as talking to them and their customers “to get a feel”.

Second, we also noticed that experienced entrepreneurs **leveraged their learning from their past venture or other professional experiences** in similar industry contexts in order to mitigate the challenges in local business partnership development. Prior experience facilitates interaction with their target audience and accelerates the acquisition of the necessary market understanding. The CEO’s of C3, C6 and C9 had extensive experience in business development. Although not speaking the local language does not necessarily pose a major challenge to SNVs during the market exploration phase. However, speaking the local language becomes an important factor in relationship development. The SNVs in our sample either had Chinese speaking co-founder or had hired Chinese managers who could develop and maintain relationships with customers or partners through frequent interaction for their business development in China. The CEO of C4 had hired a Chinese business development manager in Switzerland, C6 and C11 had a Chinese speaking employee in their team based in Switzerland. Further, the interviewees mentioned that being able to speak Chinese was important especially for the SNVs that engaged in partnership in second and third tier cities where local players such as Chinese firms or Chinese government tend not to speak English.

This leads majority of INVs to locate in **international cities**. Nine of the eleven firms in our sample were based or had their business partner located in Shanghai or Hong Kong area. After asking further about the choice of location, we found that SNVs that aspire to be known as an international firm also tend to select the international cities where the local players are used to interacting with the foreigners and have the international mindset. In these large international cities, the SNVs were able to interact with the Chinese investors who had returned to China after being abroad, found the local human resource who have had education abroad or has international background, and also other foreign firms that are their target customers in

addition to the intermediaries who can provide them support services. On the other hand, the SNVs had difficulty in finding the Chinese employees with the adequate educational background and experience as the preference of local talent was to work for well-known international large firms that offer reputation and career growth potential. When they had the Chinese talent, the preference of the employee was to be based in Shanghai as in the case of C2 and C11.

## CHINA MARKET MINDSETS

We observed that although the SNVs which we interviewed reported similar challenges, they address them differently. We identified three distinctive identity categories of SNVs which communicates as to how the SNV relates to the industry context as well as at the host country (cf. Clegg, Rhodes & Kornberger, 2007; Lounsbury and Glynn, 2001; Wry et al., 2011). The mindsets are at the organizational and individual levels as the identity of the leaders of small firms has a dominant impact on the identity of the firm. While SNVs we interviewed fell into three different China Market Mindsets, we identified four different “China Market Mindsets” into which foreign firms can fall<sup>1</sup>. Each mindset has distinctive China business development behaviours that are pursued in the market penetration phase. Figure 1 presents the China Market Mindset.

[Insert Figure 1 about here]

The Y-axis indicates the level of identity duality i.e. identification with both home-Swiss and host-Chinese ecosystems. When the SNVs does not have a dual identity, such SNV remains an outsider in China, staying close to home country values or foreign networks, and does not show deep interest in China. While the outsider shows mono-cultural identity which can be described as “international”, the insider demonstrates dual identity, e.g., “international and Chinese” and can act drawing on these dual identity resources.

The X-axis indicates level of embeddedness in local stakeholder relationships, i.e., the degree of local networks mobilized by the foreign firm or entrepreneur to penetrate in the market. The low level of embeddedness in local relationships means that an SNV relies on a distributor; a high resource entry mode means there is a Chinese executive in charge of the China market penetration, or that there is a partnership with an investor or a joint venture (JV). As the China Market Mindset typology demonstrates, a foreign firm can demonstrate a low or a high level of identity alignment with China (Y-axis; country level) and Chinese stakeholders (X-axis; stakeholder level). A high identity alignment, leads to perceived legitimacy in local networks and a low identity alignment leads to embeddedness in foreign networks in China. Embeddedness in local networks gives access whole spectrum of market knowledge with relatively greater ease and speed.

This brings us to the first category. **Foreign insiders** consider China has a high strategic importance to them, i.e., China is their main market. The Foreign Insiders tend to maintain a presence in China by opening their own offices and hiring Chinese employees who have the right connections or can develop such connections within the market to grow the business in China. The Foreign Insiders’ innovative product or service is in the field considered as priority by the government (such as drones, clean tech, robotics) and provides an immediate solution to Chinese stakeholders. The Foreign Insider thus receives the respect and attention of local stakeholders and are able to secure resources to succeed in the Chinese market. Indeed, teaming up with the Swiss firm offers the Chinese players the possibility to become stronger and have respect. In addition, reciprocity is viewed as high when the solution offered by the Swiss firm is in a field where the Chinese government supports further development, domestic innovation and future technological excellence. Hence,

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<sup>1</sup> We investigated larger European firms in China with the Swiss National Foundation grant as well as insights gathered at the Sino-Swiss Summer University in Intercultural Management.

collaboration is established with the Chinese partners and the Chinese government. Such a partnership has a strong base and is constructed on the Respect-Reciprocity-Trust Principle. The Foreign Insiders is the category of SNVs which benefit most from the “advantage of newness”. Chinese local actors are curious and are highly driven by learning, therefore, are open to try and test new ideas. SNVs are able to receive attention if their product allows Chinese stakeholders to increase their power and status by making them different from others within their collective. We had five SNVs in this category. They leverage local manufacturing capability and/or local market knowledge to develop products or services to be sold within and outside of China. Thus, both the SNV and the Chinese partner increase their competitiveness through collaboration. SNVs’ business can contribute to overall development or industrial learning in China.

Second category is the **Foreign internationals** that are the SNVs which are an international company and operate with an international mindset. They thus tend to establish offices in big international cities such as Shanghai and Beijing. In these large international cities, the SNVs tend to find Chinese investors and local human resources who have been educated abroad or have an international background, and also other foreign firms that are their target customers in addition to the intermediaries who can provide the support services to foreigners. The Foreign Internationals come to China because they are interested in benefiting from the potential opportunities in the country's large market but as a springboard to the entire South-East Asia. Although they are aware that the Chinese market has particularities, they tend to stay within international networks. They have less language barrier in international networks however the range and diversity of their relationships in the local networks remain limited which has implication on their ability to interact with other local Chinese players. Moreover, the Foreign Internationals approach local stakeholders with cautiousness, their interest in China is linked to potential gains, and they are less concerned about reciprocity within the Chinese market. Thus, they are relatively unable to approach other local Chinese firms, and they tend to offer in China the products which they offer in other markets with little modification. At the same time, Chinese insiders and stakeholders in big cities are constantly solicited with projects with potential as well as big local firms, and they pay less attention to small Swiss firms. Thus, finding an “international” partner in China is more difficult. We had four firms from the Foreign Internationals category in our sample: their product appeals to foreign (international/ Chinese) firms and requires little modification, e.g., linguistic adjustments. Their products are appealing to the international customers in China and they use their international networks in making connections with them. They tend to focus on the South East Asian region, leverage their presence in China rather than specifically focusing on China as their key market.

Third category are the **Foreign Passionates** who passionate about China (Y- axes) and the Chinese people (X-axes) and would like to benefit from the Chinese market with their high technology, innovative products and services. Language is not a barrier for Foreign Passionates and they can utilize the local networks through family ties to identify and connect with the potential partners and customers. The Foreign Passionates can connect to local players outside of ‘international’ cities and connect with decision makers in established Chinese firms and government organizations. However, they are not able to convince the locals with their product. Further, getting established in big cities limits interactions to a certain group which might impede gaining the insight necessary for product, service and business model adaptation. The interviews reveal that in such conditions, the SNVs’ product is perceived by Chinese distributors, suppliers, and investors as ‘nice to have’, i.e., there is low reciprocity meaning that the local stakeholders perceive their legitimacy as low since the product is not necessarily adapted to local market needs. Although their technology offer is highly respected, i.e., high quality, reliable and sophisticated, it does not correspond to an

urgent need in the market but instead it speaks to a small group of local players. The Foreign Passionates are integrated into Chinese culture, but they do not possess sufficient resources which can allow them to adapt their product or service. Our interviewees in the Foreign Passionates category indeed mentioned that the success of the business depends on the relationship/support from powerful stakeholders in China, e.g., the government; however, they were not themselves close to the government networks. The Foreign Passionates might be respected by Chinese stakeholders, but the reciprocity potential remains low as the offer does not serve the immediate interest of the local players. Instead, such SNVs might draw attention of Chinese players at the periphery (often still in international cities such as Shanghai) of those who may consider that a partnership with a “Swiss” firm might be nice to have, but they cannot help localize the product or scale up. After engaging in such a partnership, e.g., to maintain customer relationships or develop the sales force to cover the market, the Passionates continue to remain at the periphery due to the lack of resources to localize or commercialize the product. The Foreign Passionates maintain their presence with representative offices in China and continue to develop their network and also follow the trends in China. Thus, we observed that the mindset of “Passionates” might be considered as being a temporary one; once they acquire the necessary market knowledge, they may shift to the next category presented below. We identified two firms in this category.

We collected data from SNVs present in China. However, the insights we gathered from our interviewees helped us identify an additional category – **Fearful Curious** who do not necessarily have much intrinsic interest nor concern for China, its people or government. While they are curious about Chinese customers and partners, they focus on “me issues” and “their business”, i.e., they are motivated to gain access to this huge and high potential market for their own self-interest. Moreover, they are very concerned about being copied and threatened by the size and complexity of the Chinese market. They focus on finding a trustworthy partner than about appearing trustworthy to the local actors. The Fearful Curious are less concerned with reciprocity, i.e., how their business can contribute to overall development or industrial learning in China. The Fearful Curious are uncertain about the potential of the market and they seek access to local networks through distributors who act as intermediaries (gatekeepers). They do not consider adapting their service or product and tend to look for a customer who uses the product of an SNV. The Fearful Curious do not seek to localize their product or service, nor integrate into China. While the Fearful Curious are not present among the SNVs in our sample, firms in this category tends to consider that the “Chinese are not ready for their product” or they are not fit for China. While operating in China is appealing to the Fearful curious, becoming established there is a resource intensive effort necessitating a certain level of financial strength and market knowledge. Thus, they lack the capacity and motivation to pursue opportunities in China.

Our interviewees in all categories indicated that while Swiss quality represents safeness and trust, expensive quality products appeal to a small portion of the customers/consumers in the Chinese market. The development of business relationships thus takes a long period of time and relationships are important when doing business in China. However, the higher the integration into the networks, the more market knowledge is possessed, and thus it becomes easier to localize the product, service and the business model in the market exploration stage. Thus, category Foreign International, possess less market knowledge than the Foreign Insiders. Indeed, the Fearful Curious and the Foreign Internationals have market knowledge limited to the international category, i.e., they do not have the information available to those in Foreign Passionates and Foreign Internationals which is needed to gain attention from local stakeholders. Thus, gaining deep market understanding might be more difficult for them or might take longer. This might create disadvantages given that the domestic competition learns from other domestic and

international players quickly, has the capacity to test and implement ideas fast, and is able to mobilize resources embedded within their local network. The risks thus involve exposure to imitation by local competition and/or losing the business. Foreign Passionates might become Foreign Insider as experience is gained in China. However, firms that start with a Foreign Insider seem to be one step ahead of the competition and already working on innovation with their Chinese partner.

## CONCLUSIONS

While pursuing opportunities INVs need to overcome the liabilities of newness, smallness and foreignness (Zahra, 2005) and establish their legitimacy in emerging markets. Entering into new markets INVs interact with various stakeholder groups. We identified and presented four archetypes which present the optimal distinctiveness INVs demonstrate depending how much INVs access local networks and the level of legitimacy gained. The Foreign Insiders overcome the liability of newness and smallness by developing and maintaining personal relationships with the local stakeholders. They are able to get the attention of the local stakeholders with their product or technology that is aligned with the government priority areas or in established fields. The Foreign Internationals pursue opportunities remaining in international networks and international cities. They seek to leverage their outsidership highlighting their 'international' identity as a strength and they appeal to a small group of locals in each specific market in the region, therefore, they maintain a regional focus and aim to sell to many customers at the region. The Fearful Curious suffer from liability of foreignness as they remain distant to the locals. These four categories demonstrate how INVs can mitigate liabilities and gain insidership by being attentive to identities in developing relationships with stakeholders in the context of emerging markets.

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**Table 1. Business model and life stage of firms in the sample at the time of the study**

<b>Business Model/Life-stage (in yrs.)</b>	<i>&lt; 2 yrs</i>	<i>4-6 yrs.</i>	<i>6-10 yrs.</i>
<i>B2B</i>	C1 C7 C9	C2 C3 C5 C6	C10 C11
<i>B2C</i>		C4 C8	

**Table 2. Experience in Venture Leader Program**

<b>VL US &amp; CN</b>	<b>VL US</b>	<b>VL CN</b>	<b>No VL</b>
C2	C5	C4	C1
C8	C6	C7	C4
C10	C11.		C9

**Table 3. Sample information: organizations**

<b>Interview number</b>	<b>Case code</b>	<b>Position of the interviewee</b>	<b>Interview date</b>	<b>Interview Duration (mins)</b>
1	C1	Co-founder 1	19/7/2018	40
2		Co-founder 2	26/10/2018	65
3	C2	Bus. Dev. mngr. 1	23/7/2018	90
4		Bus. Dev. mngr. 1	22/10/2018	65
5	C3	Founder	19/9/2018	57
6	C4	Co-founder 1	28/9/2018	60
7		Co-founder 2	24/10/2018	54
8	C5	Co-founder 1	1/10/2018	65
9		Op.s and Cust.S. 1	22/10/2018	60
10	C6	CEO	31/10/2018	72
11	C7	CEO & Co-founder	13/11/2018	60
12	C8	CEO & Co-founder	15/11/2018	57
13	C9	Founder & CEO	28/11/2018	44
		Founder & CEO	4/1/2019	24
14	C10	CEO & Co-founder	1/11/2018	75
15	C11	VP R&D HR	19/11/2018	63
<b>Total duration of interviews with firms (mins):</b>				<b>951</b>

**Table 4. Sample information: interviewees**

<b>No of expert interview</b>	<b>Interviewee code</b>	<b>Member of Swiss gov. org. (Yes/No)</b>	<b>Date</b>	<b>Interview Duration (mins)</b>
1	E1	Yes	30/07/2018	42
2	E2	Yes	30/7/2018	37
3	E3	No	12/9/2018	102
4	E4	No	19/9/2018	30
5	E5	No	17/10/2018	35
6	E6	Yes	22/10/2018	40
7	E7	Yes	26/10//2018	20
8	E8	No	2/112018	59
Total duration of interviews with experts (mins):				365

**Figure 1. The China Market Mindset.**

