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## **Why Chinese Firms Fail in Norway**

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### **ABSTRACT**

Recent years have seen the dramatic rise of emerging markets multinationals, particularly from China, entering in bigger numbers and with bigger investments around the world. The globalization of Chinese companies has fuelled the fear of a Chinese communist party takeover of foreign enterprises. Less known are the many failures that have accompanied Chinese internationalization, and the many mistakes made by Chinese managers in navigating the foreign landscape. We interview Chinese and local managers and government agencies. This research is conducted in a qualitative, multiple-case study based on semi-structured interviews and secondary research in four Chinese companies in Norway. Through in depth interview and a survey of the Norwegian news agencies, we gather information of 4 failed Chinese international ventures in Norway in an attempt to find the underlying problems associated with their failures. The findings indicate that legal factors, cultural difference, business strategy, organisational structure and selection of people were the key factors. This article is among the first attempts to identify the key failure factors of Chinese multinationals in Norway, and paves the way to better understanding the challenges of emerging market multinationals in developed economies.

### **INTRODUCTION**

Chinese investments in Norway began to grow in 2000 and over the last two decades, both number and scale of Chinese investments in Norway have increased. China has become a notable economic actor, a major purchaser of local firms in Norway, ranking between 10<sup>th</sup> and 15<sup>th</sup> place in the list of countries with the largest FDI holdings in Norway (Gåsemyr &

Sverdrup – Thygeson, 2017, pp.101-102). According to statistics from the China Ministry of Commerce (MOFCOM) (2020, p.34), as of the end of 2018, the stock of Chinese direct investment in Norway was USD 1.998 billion.

While many of the Chinese acquisitions were seen as successful, most notably Elkem acquisition by China Chemicals, some failures escaped the scrutiny of researchers and can provide insights into the critical mistakes that some firms might make. We defined failure by the firm's inability to turn profits from their business model. This paper is among the first attempts to identify the key failure factors of Chinese companies in Norway, a topic of interest to scholars, Norwegian businesses, and policymakers.

Because of the exploratory nature of this research, multiple case study approach is chosen in this study. Four failed (unprofitable) Chinese company cases in Norway are selected: Malungen Gjestegård (Yang Yang AS), Verkshotellet AS, SRBG Norway, and China Liangtse Wellness AS.

Based on the review of the studies on Chinese OFDI in Europe, it can be concluded that the studies mostly focus on energy industry, but not other industries (such as service industry). And there is much research on Europe-level or sub-European level such as Western, Eastern and Southern Europe, but very little research on the Nordic countries. As will be shown in the literature review, the existing and recent literature about critical success & failure factors of Chinese OFDI mostly focuses on Chinese cross-border M&As, but very few about other entry modes of Chinese OFDI, such as greenfield investment. Additionally, most of the existing literature in this subject is based on either narrow level (such as firm-level) or broad level (such as Europe-level), but very few is at country-level. This article focuses on the key failure factors of Chinese companies in Norway to fill the gap in this context.

This article contributes to the growing literature on the critical success & failure factors of Chinese OFDI at country-level, including both Chinese M&As and greenfield investments at different industries such as service industry and construction industry. In this study, it pays a special attention to Norway, a country that becomes increasingly attractive for Chinese investors.

The article enriches the research on Chinese OFDI in several different aspects. First, prior studies mostly focus on Chinese OFDI in other regions of Europe, not Nordic countries;

Second, prior research on Chinese OFDI has mainly investigated the M&As, not greenfield investments; Third, among the research papers of M&As, very few empirical research has been found to address the aspect of key success & failure factors. This research paper has helped to fill these research gaps.

Through desk research, calls to the embassy and a survey of the contemporary business media, more than 30 Chinese cross-border investments (M&As and greenfield investments) in Norway were found. This article focuses on the Chinese cross-border investments in Norway which have failed (unprofitable) and were fully owned by a Chinese investor. This study uses conventional purely financial measures (such as revenue, annual results) for performance evaluation to define whether a company is failed (unprofitable). Based on the financial measures in the financial statements of all these companies (except some companies are not liable for accounting in accordance with Norwegian law and regulation) from 2014 to 2018 (the financial statements for 2019 had not been announced yet when selecting the cases), and ownership percentage, only four Chinese company cases in Norway met the criteria, including two M&As and two greenfield investments, which are Malungen Gjestegård (Yang Yang AS), Verkshotellet AS, SiChuan Road & Bridge (Group) Corporation Ltd. (Norway), and China Liangtse Wellness Norway AS.

As an explorative study, certain limitations should be kept in mind in interpreting the preliminary findings from this research. The first limitation relates to the weakness of case study research method. The findings derived from the four selected cases cannot be generalized to all the contexts of Chinese cross-border investments. The second limitation relates to the subjective nature of judgements made by the participants in the empirical study. The identified key success & failure factors were based on the perceptions of the interviewees.

Five key success & failure factors of Chinese companies in Norway are identified in this study, including legal factors, cultural difference, business strategy, organisational structure and selection of people.

## **LITERATURE REVIEW**

The literature review summarizes up-to-date research and articles on Chinese investment in Europe with specific time frame (the last 4-6 years), and specific level of the geographical region. We divide the literature into Chinese outward foreign direct investment (OFDI) in Europe, Chinese OFDI in Norway, and key success & failure factors of Chinese OFDI.

### **Chinese outward foreign direct investment in Europe**

China's Foreign Direct Investment in Europe has experienced a significant surge over the last decade. But since 2017, the trends of Chinese OFDI in Europe have declined as the Chinese government imposed restrictions to the Chinese OFDI due to uncontrolled outflow of capital towards the end of 2016, and protectionist stances that aim to prevent technology firms from slipping into the hands of foreign companies in Europe have become more widespread. These positions have resulted in that the European Commission proposal to have greater powers to block foreign investment and EU member states are modernizing FDI screening regimes (Hanemann, Huotari, & Kratz, 2019). In 2019, Chinese FDI in the EU-28 dropped to EUR 12 billion and back to 2013/2014 levels. The distribution of Chinese investment in the EU-28 was concentrated in Northern Europe which overtook the “Big Three” economies (UK, Germany, France) as the main destination of Chinese FDI and received 53 percent of all Chinese investment, mainly in Finland, Sweden, and Ireland. Meanwhile, the “Big Three” economies received only 34.6 percent of total Chinese investment. The industry mix of Chinese investment in EU-28 was concentrated in the consumer products and services, health and biotechnology, automotive, and financial and business services (Kratz, Huotari, Hanemann, & Arcesati, 2020).

The biggest research stream of Chinese OFDI in Europe is in the energy sector, which covers the aspects of recent trends, risks and opportunities, implications, policy drivers, and regions. Conrad & Kostka (2017) analyse recent trends in Chinese investment in the European energy sector and conclude that these investments have increased in size, targeted a wider number of countries and entered multiple areas of the global value added stream, in particular fossil, renewable energies and energy infrastructure. Southern European countries have gradually consolidated as important recipients of Chinese investments. The energy sectors of all four countries (Italy, Spain, Greece, Portugal) have been primary beneficiaries. Italy and Spain have received significant investments in solar-related greenfield projects, whereas Greece and Portugal have mostly benefited from operations in wind-related ones (Pareja-Alcaraz, 2017).

Conrad & Kostka (2017) highlight the significant opportunities for substantial economic benefits and political partnership brought by Chinese investments in Europe's energy sector, but also point out growing concerns among policymakers and business managers in Europe, including unfair competition, economic risks and national security.

Based on the case CDP Reti, Otero-Iglesias & Weissenegger (2019) point out that State Grid Corporation of China's acquisition of CDP Reti has no direct threat to national security. But by using the "thought experiment" developed by Scholten and Bosman, they conclude that in a world where the importance of renewable energy increases, a framing power rather than control over the strategic development of a country's grid is sufficient to exert geopolitical power. Since State Grid Corporation of China's exponents on CDP Reti's board can at least partly influence the company's investment decisions, then the transaction grants China geopolitical influence over Italy's grid.

From the policy driver perspective, Liedtke (2017) concludes that Europe is not an important source of Chinese energy imports. Most Chinese energy investment in Europe serve both political and commercial goals. Politically, penetrating the European energy sector enhances the supply chain security of fossil fuels, promoting environmentally friendlier production techniques as well as increasing the shares of renewable energy and energy efficiency. Commercially, Chinese companies, by acquiring shares in established European energy companies, gain stronger global market positions, increase their energy supply chain and establish themselves further as truly international actors on the global energy markets. Additionally, make use of European technology and know-how, thus strengthen their energy-industrial capability and improve their international competitiveness.

Besides, there are also some other researches of Chinese OFDI in Europe, including the location choice, drivers and motivations, and other sub-European regions of Chinese OFDI. For examples, from the location choice perspective, Karreman, Burger, & Van Oort (2017) conclude that the importance of overseas communities in the location choices of Chinese firms is based on increased access to strategic information. The relationship between the size of an overseas Chinese community and the probability of Chinese investment is stronger for communities hosting newer generations of Chinese migrants; in addition, they partially corroborate that this relationship is stronger when the education level of the community's

Chinese migrants is higher, particularly in the context of knowledge intensive sectors and high value-added functions. And Zhang *et al.* (2012) propose that the potential of location in an established ethnic business community maybe an important determinant of the location decision for small emerging Chinese and Indian multinationals.

From the drivers and motivations perspective, Di Minin, Zhang, & Gammeltoft (2012) believe that technology exploration is still the most important motive driving Chinese companies to expand their R&D activities into developed countries in Europe. And Blomkvist & Drogendijk conclude that the main motives for Chinese investment in Europe are market seeking and strategic asset seeking (Blomkvist & Drogendijk, 2016).

Jacoby (2014) analyses the pattern of Chinese investments in Central and Eastern Europe (CEE) and concludes that Chinese investments in CEE have little to do with Chinese firms' preferences for liberal policy regimes, tolerance for corruption, or reliance on communist-era networks. He documents the current size and shape of Chinese firms' efforts to internationalize in this economic space, demonstrating an important difference between Chinese investment behavior in CEE and in the EU-15, namely the region's much more active use of greenfield activity (and lighter use of M&A and strategic alliances). Case studies of each mode (greenfield, M&A, and strategic alliances) reveal little evidence of a "China, Inc." He points out that Chinese firms in CEE are more motivated by market access than by technology or management assistance.

### Chinese OFDI in Norway

The Norwegian and Chinese economies are highly complementary and have a deep foundation for cooperation, but the current trade, investment and cooperation between the two countries are far from reaching their scale and level. Chinese investments in Norway in the 2000s are more resource-and energy-related. For example, in 2003, Chinese investor Sinochem acquired and merged Atlantis Holding Norway AS (hereinafter referred to as Atlantis) which was originally a wholly-owned subsidiary of Norway Petroleum Geo-Service ASA (PGS), mainly dealing with oil and gas exploration and production, and headquartered in Dubai UAE. Atlantis owns 8 contractual blocks distributed in Tunisia and UAE (Sinochem, 2020). In 2008, China Oilfield Services Limited acquired and merged Awilco Offshore ASA (which was originally a Norwegian oil service company with operations related to drilling and

housing rigs) and then changed the company's name to COSL Drilling Europe AS (COSL, 2020). This acquisition is by far China's largest investment in Norway (based on this empirical research).

And then in 2010, Nobel Peace Prize incident resulted in the six-year freeze of bilateral political affairs, which suppressed some Chinese investors' interest and opportunities in Norway, but several major investments were completed during this period despite the dysfunctional political relations, which includes in 2011, China Bluestar Group acquired and merged Elkem ASA (It is a leading company in the global silicon material industry). This is by far the second biggest Chinese investment in Norway (based on this empirical research). On 19.12.2016, bilateral relations normalized again. Since then, actors on both sides are signalling increased economic interest and negotiating for a bilateral Free Trade Agreement.

The trends of Chinese investment in Norway from the early concentrated in natural resource and energy-related sectors to later geared towards specialized and relatively high-tech companies which are well-known leading actors in their sectors, and also consumer industries (such as Voss Water). Moreover, the trends also show the diversification among Chinese investors with the entrance of some private companies, but the main investors are still state-owned enterprises (Mathy & Sverdrup – Thygeson, 2020; Gåsemyr & Sverdrup – Thygeson, 2017).

In addition, Kristoffersen (2019, p. 26) points out that the typical sectors in Norway that hit both technology and consumer trends for Chinese investment will include: maritime and marine, energy and resources, seafood, tourism. In his report, he stated that Norway now has the most Chinese tourists in the Nordic region. And he gave some good examples of the fact that Chinese companies themselves want to make money from the greatly increasing Chinese tourists to Norway. For example, in 2018, state-owned tourism giant Jin Jiang bought more than 50 percent of Radisson Hospitality, which operates Plaza in Oslo, as well as hotels in Trondheim, Stavanger and Kristiansand. Jin Jiang bought the shares from Chinese HNA Group - which also owns Hainan Airlines, one of China's largest airline. In the spring of 2019, Hainan Airlines started up the first direct flights between Oslo and Beijing. He believes that the direct route from Beijing will probably increase the number of Chinese tourists to Norway further, and direct flights could also play a major role in exporting fresh seafood to the rapidly growing Chinese market.



There has been some level of critical and concerns about Chinese investments in Norway in three main aspects: 1) Security (mainly about Huawei), 2) Chinese standards and practices (mainly about China Bluestar Group's acquisition of Elkem), and 3) national ownership in strategic areas (mainly about the Chinese investor Nubo Huang's interest in buying a sizeable area in Svalbard and a large piece of land in the northern part of mainland Norway—Lyngen for tourism-related developments). The debate about Huawei has been growing and becomes the focus in the last few years due to the international opinion shift on Huawei's upcoming development of 5G network. But the debate about whether Chinese owners would able to develop the company (Elkem) and take care of the Norwegian workers faded away as the company is now regarded as a very good case on how Chinese capital can contribute to good industrial development in Norway. And the debate about Chinese investor Nubo Huang to buy properties in Norway's Arctic also faded as the Norwegian government has bought the land in Svalbard and the other deal has since remained non-completed (Mathy & Sverdrup – Thygeson, 2020; Gåsemyr & Sverdrup – Thygeson, 2017).

In general, the Norwegian public debate on Chinese investment has been relatively positive. Economic relations between Norway and China are viewed as mutually beneficial, and Chinese investments in Norway are welcomed. After the normalization of relations in 2016, Norwegian business environments look forward to a golden age for Chinese capital flows to Norway (which has not come yet) (Mathy & Sverdrup – Thygeson, 2020; Gåsemyr & Sverdrup – Thygeson, 2017).

### **Key success & failure factors of Chinese OFDI**

The surge in Chinese OFDI since the early 2000s has attracted growing attention for international business scholars, but the aspect of key success & failure factors of Chinese OFDI has not been sufficiently studied.

In the first study that applies an absorptive capacity lens to see how overseas M&As from Chinese MNCs succeed in establishing a global competitive position, based on the case studies of TCLs acquisition of Thomson's TV business and Lenovo's acquisition of IBM's PC unit, Deng (2010) proposed that whether, and to what extent, Chinese companies can effectively acquire strategic assets and enhance their competitive advantage is determined by

those acquiring firms' absorptive capacity at multidimensional levels: 1) ability to understand strategic assets and its key determinant—prior related knowledge which will enable the acquiring firms to effectively value the target firm and acquire strategic assets; 2) ability to integrate strategic assets and its key determinant—combinative capabilities which will enable the acquiring firms to effectively assimilate and integrate the acquired strategic assets; 3) ability to apply strategic assets and its key determinant—strategy execution and effort which will enable the acquiring firms to apply the acquired strategic assets into commercial ends and enhance their business performance.

A recent research paper further enriches this process perspective based on empirical evidence of four leading Chinese M&As in Europe, and also argues that both pre-acquisition status factors (including prior related knowledge and cultural difference) and the post-acquisition process factors (including level of integration, integration speed, human resource related problems and integration process communication) affect post-acquisition capability reverse transfer of strategic assets in the post-acquisition stage of EMNCs' outward M&As. In addition, this paper identified three previously neglected success factors in post-acquisition reverse capability: home-country advantage, motivation-oriented complementary resources, and acquirers' attractiveness; and highlight the importance of pre-acquisition social integration behaviours of Chinese acquirers for M&A success (Ai & Tan, 2020).

By examining the case of Zoomlion's acquisition of CIFA based on the key FSAs and FSDs analysis of both Zoomlion and CIFA, SWOT analysis of both Zoomlion and CIFA, and the key CSFs analysis of both home and host country, the Spigarelli et al. (2015) identified several key success factors at the firm level, including 1) integration in R&D, marketing and sales; 2) the development of extensive communication and trust among the managers of both companies; 3) the exploitation of the Chinese market as a source of demand; 4) the shifting of selected production lines to the Chinese market.

In the research paper "*Comparing critical success factors between European M&As in China and Chinese M&As in Europe: A mixed-method analysis*" (Chen, Werle, & Moser, 2016), the scholars conducted a comprehensive literature review on the influencing factors for the cross-border M&A performance outcome, and grouped these factors into five perspectives, including strategy, culture, organisation, process, and external. And then based on a multiple-case study, their empirical analyses suggest that the critical success factors for the Chinese

acquiring company are 1) to respect other cultures and not dominate them; 2) to involve its entrepreneurial CEO/chairman in the whole M&A process; 3) to keep the local management of the acquired European company in place in order to maintain know-how and motivation in the acquired European company and have clear and consistent guidelines for the integration of the two companies; 4) to consider interests and opinions from the public, media, unions and politicians in Europe.

## **METHODS**

Due to the complexities of failure, an exploratory study is undertaken and qualitative research methods are used (Sekaran & Bougie, 2013). Case study is a widely used type of qualitative research methods, which focuses on collecting information about a specific object, event, or activity, such as a particular business unit or organization (Sekaran & Bougie, 2013, p. 103). Case study involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple methods of data collection, which is well suited to explore new insights based on an in-depth study of selected cases (Yin, 2009, p. 18).

According to Yin (2014), case study can be categorized to a single case study or multiple case studies. A single case study is holistic, investigating one case in depth and usually considered when doing a critical or atypical case; while multiple case studies study various cases that are similar in some ways (such as members of a group or examples of a phenomenon), which allows examination of what is similar and dissimilar about the cases in order to find patterns and uniqueness, particulars and generalizations in the cases developed. Thus, this paper uses multiple case studies because it is more powerful than a single case study as it provides more extensive descriptions and explanations of the phenomenon or issue.

We used both secondary data, including research material published in journal articles, research reports and similar documents which can be made available by public libraries, websites, data obtained from already filled in surveys, government and non-government agencies, etc., and primary data such as interviewing. Interviewing is one of the more formal data collection methods for qualitative research and is very useful especially during the exploratory stages of research (Sekaran & Bougie, 2013).

We particularly relied on semi-structured interviewing, so we can pre-plan the interview questions and focus on open-ended questions related to success/failure allowing direct interaction while giving the interviewees the opportunity to report on their own thoughts, behaviours, and feelings (Given, 2008). We interviewed both Chinese managers, government officials and Norwegian managers. The preplanned written interview guide is developed in Norwegian, English, and Chinese.

Additionally, in order to understand the relevant laws and regulations related to the cases in depth (collect data) and verify the relevant data collected from interviews and secondary research involving laws and regulations related to the cases (verify data), UDI (the Directorate of Immigration) was contacted. UDI is the central agency in the Norwegian immigration administration, and processes applications for protection (asylum), visitor's visas, family immigration, residence permits for work and study purposes, citizenship, permanent residence permits and travel documents. UDI also make decisions on rejection and expulsion (UDI, 2020).

In the data analysis, we follow the recommendations of Miles & Huberman (1994) three steps: 1) data reduction: coding and categorizing the data; 2) data display: presenting the data in quotes, a matrix, a graph, or a chart illustrating patterns in the data in order to help the researcher and eventually the reader to understand the data; 3) drawing conclusions. The three steps is not a step-by-step, linear process. For example, data coding can help simultaneously to develop ideas on how the data may be displayed, as well as to draw some preliminary conclusions which can, in turn, feed back into the way the raw data are coded, categorized, and presented (Sekaran & Bougie, 2013, p. 337).

Cross-case analysis method is chosen in this paper according to Yin (2009, pp. 156-160). This method applies specifically to the analysis of multiple cases, treats each individual case study as a separate study, and then aggregates/synthesizes findings across a series of individual case studies. Cross-case analysis is a method that facilitates the comparison of similarities and differences across case studies with a view to supporting empirical generalisability and theoretical predictions.

An overview of the four cases is seen in Table 1, and an overview of the four Chinese investors is seen in Table 2. A short description of each follows. Appendix 1 provides a description of each of the cases.

In this research, repeated data collection and data analysis are involved. After conducting the interview for the first case, the interview notes and the data collected from secondary research were transcribed to a word-document, then coded and categorized. The same was done with the other three cases. Meanwhile, the transcripts are coded to identify the similar and different ideas expressed by different interviewees. After the full set of transcripts have been coded, use coding as a basis for analysis to identify who said what in conceptual terms, how frequently it was said, and whether pairs of ideas were expressed together. Finally, all the raw data collected from the data collection process are transcribed into one word-document to get an overview of the data.

After the categorization, the literature review is re-visited to ensure academic relevance (of the categories), and follow-up questions are communicated with the interviewees to ensure the accuracy of case analysis. Then, the themes/concepts are derived from the categories, including legal factors, cultural difference, business strategy, organisational structure, and selection of people. Finally, cross-case analysis is conducted.

In this research, validity is considered in the very earliest stages when deciding how to collect data. To ensure the validity of the data, multiple methods and multiple sources of data have been adopted in this study. And to ensure that the methods and measurement technique are in high quality and targeted to measure exactly what this research needs to know, appropriate methods of measurement are chosen, thoroughly researched, and based on existing knowledge. For example, the interview questions developed in this research, are based on established theory, findings of previous studies, and information about these companies collected from second research. And the interview questions are carefully and precisely worded.

In this research, reliability is considered throughout the data collection process to ensure that the results are precise, stable, and reproducible. To ensure the liability of data, each measurement is carried out with the same steps in the same way by applying the methods consistently. For example, data collection for each case is carried out with secondary research and interviews, following the same steps in the same way by applying the methods consistently. When conducting the interviews, questions are phrased the same way each time, and specific responses are clearly defined.

In addition, the interviews have been conducted by phone call or WeChat call, so the mental, emotional, or moral barriers between the interviewer and the interviewees are reduced.

Meanwhile, the interviews are conducted in semi-structure, which reduces the subjective influence of the interviewer. These increase the validity and reliability of this paper.

Furthermore, the authors triangulated the data by researching external reviews of these companies, including a literature review, secondary research, interviews with representatives of the four selected companies, and contacting UDI for verifying the relevant data collected from interviews and secondary research involving laws and regulations related to the cases, to increase the validity and reliability.

Both primary data and secondary data of this research are collected from three different language sources—Chinese, English, and Norwegian, which avoids unclear information due to the language barrier or limited data. This also increases the validity and reliability of this paper.

## **RESULTS**

### **The legal environment**

Several factors have contributed to the firms' lack of success. Lack of legal knowledge is one of them. The legal environment covers a wide range of topics, including labour, environmental and consumer regulation; taxation and reporting requirements; and rules on ownership, competition and corporate governance; etc. (Johnson, 2017). The failure case of Malungen Gjestegård, involves labour regulation. UDI seized five Chinese's passports, deported them within a time limit and imposed a two-year entry ban on them because the five Chinese only had valid tourist visas, not work permits. Then, the Chinese investor argued that these people were not here to earn money or work. And they were all invited by Stange municipality as a guarantee. However, the UDI made its five decisions based on the nature of the relationship which was considered a serious violation of Section 55 of the Immigration Act. Section 55 applies to residence permit requirements in order to be able to work and stay, including both with and without remuneration for work.

***“Section 55. Requirement for residence permit in order to take up employment and residence***

*A foreign national who intends to take up employment with or without remuneration or who wishes to engage in business activity in the realm must hold a residence permit giving him or her the right to take up employment or engage in business activity, unless otherwise provided in or in accordance with this Act.*

*A foreign national who intends to take up residence in the realm for more than three months without taking employment must hold a residence permit. Residence in another country participating in cooperation under the Schengen Agreement is equivalent to residence in Norway. The King may issue regulations containing further provisions on calculation of the period of residence.”* (Immigration Act, 2008, section 55)

The five Chinese worked with kitchen and civil engineering work, which means that they engaged in business activity in Norway regardless of with or without remuneration.

Therefore, they must hold a residence permit in Norway. But they only have tourist visas.

Tourist visa is one kind of visitor’s visa in Norway. Visitor’s visa to Norway includes visas for visiting family, visiting girlfriend or boyfriend, on business, attending a cultural event or visiting an organisation, tourism or visiting Norway for other reasons, and traveling with, or visiting, a family member who is an EU/EEA national. A person cannot work while visiting Norway on a visitor’s visa and cannot apply for a residence permit while visiting Norway on a visitor's visa, either (UDI, 2020). Obviously, tourist visa is not residence permit. Therefore, the Chinese investor’s argument cannot be justified. Labour market crime is a priority area in Norway. UDI is very strict at following it up.

In addition, the UDI is the authority with decision-making authority in deportation cases, not the police. When the Chinese investor tried to get the deportation decision on the involved family member of the proprietor cancelled, they should call the UDI, not the police. The UDI as the superior expert body, instructs the police and foreign service missions in immigration cases and processes applications for protection (asylum), visitor's visas, family immigration, residence permits for work and study purposes, citizenship, permanent residence permits and travel documents. The UDI also makes decisions on rejection and expulsion (UDI, 2020).

In the case of SiChuan Road & Bridge (Group) Corporation Ltd , the company lacked related legal knowledge in Norway as the company didn't conduct market research, such as labor law, HSE, etc., which led to a number of problems and difficulties to the company. For example, because the company didn't know about the regulations of working overtime, the company let the staffs work overtime, which resulted in that the Norwegian government forced the company to make up all the costs and expenses related to overtime work, a total of more than NOK 1 million which increased total cost.

Moreover, during the Hålogalandsbrua project, because the company didn't know about the Norwegian welding requirements, widespread quality deviations on welding had led to much of the welding work having to be done again, and 100% X-ray of all welding work was carried out, which has led to further problems for an already strained project. This led to delays in the project. Welding was the major challenge in this project. In addition, during the Beitstadsundbrua project, because the company didn't know about the related Norwegian HSE requirements, therefore, the company underestimated the scope of work. Along the way, the HSE focus on diving assignments in connection with the work in the sea, which resulted in a much longer period of various work that has been carried out under the water surface than expected. This also led to delays in the project. It can be seen that legal factors are a primary cause of project delays in this case. The consequences of project delays have been discussed earlier.

In the case of China Liangtse Wellness AS, it also involves labour regulation. The main reason for the failure is that the health massage employees from China cannot obtain work visa in Norway because they don't meet the requirements for education/qualifications. On the website of UDI ([udi.no](http://udi.no)), it lists the requirements relating to education/qualifications for a Chinese to apply for a residence permit as a skilled worker with an employer in Norway.

#### ***“Requirements relating to your education/qualifications***

*You must have one of the following types of education/qualifications*

- *a completed vocational training programme of at least three years at upper secondary school level, for example as a carpenter or health worker. There must be a corresponding vocational training programme in Norway.*
- *completed education or degree from a university/ university college, for example a bachelor's degree as an engineer or nurse*



- *special qualifications that you have obtained through long work experience, if relevant in combination with courses etc. A permit is only granted in such cases in exceptional circumstances. Your qualifications must be equivalent to those of someone who has completed vocational training.” (UDI, 2020)*

However, the fact is that in China, none of the health massage employees has a completed vocational training programme of at least three years or completed education from a university/college in health massage because in China, there is no such vocational training programme at upper secondary school level or such education in university or college. Neither in Norway. Maybe some of them have long work experience in health massage. But it says very clearly in the requirements that UDI hardly grants a permit in such cases, and additionally, there is no such vocational training in health massage either in Norway or in China, so the long work experience in health massage does not meet the requirement that the qualifications gained through long work experience must be equivalent to those of someone who has completed vocational training. Therefore, the health massage employees from China cannot obtain residence permit in Norway.

For a company in the massage service sector, its business activity is to provide health massage service to the customers. Without health massage employees, then the company cannot provide any massage service to the customers, then the company is definitely unable to operate, and eventually fails.

The alternative, using a Finnish work visa to work in Norway for three months, is not a profitable solution because the company could not get enough Chinese massage employees to the Norwegian branch from the Finnish branch. Only 3-5 Chinese massage employees work in the Norwegian branch. The annual revenue generated by 3-5 Chinese massage employees is much less than the total annual cost and expenses of the Norwegian branch.

In summary, lack of related legal knowledge in Norwegian labour regulation ultimately led to the failure of China Liangtse Wellness AS. In this case, the labour regulation (which is the legal factor) has handicapped the company. Therefore, the legal factor is the key success & failure factor of the company.

## **The cultural environment**

Collinson & Rugman (2006, p. 129-148) define culture as “the sum total of the beliefs, rules, techniques, institutions, and artifacts that characterize human populations” or “the collective programming of the mind.” They point out that the key elements of culture include language, religion, values, attitudes, customs, and norms of a group or society, and culture can be analyzed at two levels: the psychic distance between groups of people, and the differences in culture embodied in national institutions and socio-economic systems.

In the case of Malungen Gjestegård, the Chinese investor was not aware of the culture difference between Norway and China. When the deportation happened, the Chinese investor tried to use “guanxi” to solve the issue, for example, asking Chinese embassy for help and asking the Stange municipal government for help. When it didn’t work, the Chinese investor believed that UDI has political prejudice towards them, makes trouble to them, and therefore it is impossible to do business in Norway. Besides, the Chinese investor thought that it is very unreasonable that Norwegian immigration authorities and local government officials did not advise them about the rules of using Chinese labor.

“Guanxi” is an important cultural and social element in China and has been embedded in every aspect of Chinese social and organizational activities for centuries. Chinese firms develop guanxi as a strategic mechanism to overcome competitive and resource disadvantages by cooperating and exchanging favours with competitive forces and government authorities, and utilize guanxi to manage organizational interdependence and to mitigate institutional disadvantages, structural weaknesses, and other environmental threats (Park & Luo, 2001). For example, firms in China use “guanxi” to overcome administrative interventions by the Chinese government. Furthermore, the relational network under “guanxi” contains implicit mutual obligations, assurances, and understanding (Park & Luo, 2001). This is why the Chinese investor thinks that the local government officials in Stange should have given advice about the regulation of using Chinese labour in Norway.

However, in Norway, there is no culture of “guanxi”. Norway is a country ruled by law. When it comes to legal issues in Norway, you must use legal means to solve the problem, rather than using “guanxi” to solve the problem. Besides, the law is the same for everyone in

Norway. These are the Norwegian culture. The UDI and police were doing regular foreign check on Malungen. Therefore, the UDI and police neither have political prejudice to the Chinese investor nor make trouble to the Chinese investor. Moreover, the Norwegian immigration authorities and the local government officials in Stange have no responsibilities to give advice to the Chinese investor about the regulations of using Chinese labour in Norway. It is the Chinese investor's own responsibility to be aware of and obey the rules of labour regulations in Norway.

In summary, lack of related legal knowledge and lack of related knowledge of cultural difference ultimately led to the failure of Malungen Gjestegård. Therefore, the legal factor and cultural difference are the key success & failure factors for the company. However, more specifically, the cultural factor is more critical than the legal factor in this case because the UDI and police didn't close the Gjestegård or shut down its business, but deported five Chinese within a limited time and imposed a two-year entry ban on them. Without these five people, the Chinese investor can operate the Gjestegård as usual and make a profit. Labour market crime is a priority area in Norway, and UDI is very strict at following it up.

### **Organizational Capabilities**

*"Business strategies are about how to compete in a marketplace"* (Johnson, 2017, p.209). For example, a hotel has to decide a range of issues such as decoration, price, quality of service according to local competition from other hotels. In this case, it involves business strategies in pricing, staffing, and marketing. Verkshotellet AS had problems with pricing, staffing, and marketing.

#### 1) Pricing

Generally, hotel room price of all hotels in the same area with Verkshotellet is almost the same. But in the peak tourist season, all the other hotels increase price, while Verkshotellet doesn't, which means its price is lower than its competitors' price. However, During the peak season, the competition is weak because hotel rooms of all hotels in this area are in short supply. All the hotel rooms will be fully booked anyway. Lower price does not create competitive advantage in such market circumstance and in fact, causes the hotel lower revenue. Furthermore, in the off-season, all the other hotels lower their price, while

Verkshotellet doesn't, which means that the price of Verkshotellet is higher than its competitors' price. However, during the off-season, the competition is strong because hotel room supply exceeds demand. At this time, lower price can create competitive advantage, which can cause Verkshotellet lose customers and then lose income.

If the Verkshotellet also raise the room price during the peak tourist season and lower the room price during the off-season as its competitors do, then it will increase its revenue. Therefore, it is very important for the Verkshotellet to set price appropriately.

## 2) Staffing

In the off-season, the other hotels only keep a few people working in the hotels to reduce cost, but the management of Verkshotellet keep the same amount people working in the hotel as in the peak season. It is obviously that the hotel doesn't need the same amount people working in the hotel in the off-season as in the peak season. It involves overstaffing problem here. In Norway, the various costs associated with employees are very high, such as wages. Overstaffing led to higher total cost, which reduced the annual result of the hotel. It is therefore important for Verkshotellet to solve the overstaffing problem and avoid overstaffing issue.

## 3) Marketing

During the off-season, the revenue of Verkshotellet is very low, but the management of Verkshotellet did not have any business strategy to attract customers and increase its sales revenue in the off-season. Obviously, it involves marketing issue here. *"Marketing refers to all activities a company does to promote and sell products or services to consumers. At its core, marketing seeks to take a product or service, identify its ideal customers, and draw the customers' attention to the product or service available."* (Twin, 2020) Marketing can help Verkshotellet to build awareness and promote its communication with customers (Mansoor, 2019), which thereby can help the hotel to sell its food in its restaurant and hotel room service already available and thus increase its sales revenue, and also can help the hotel to seek the new type of food and new type of hotel room service that customers demand and accordingly grow its businesses. Therefore, marketing is important for Verkshotellet, especially in the off-season. The bottom line of any business is to make money and marketing is an essential channel to reach this goal. In summary, lack of related knowledge of business strategy in

pricing, staffing and marketing eventually caused Verkshotellet AS unprofitable. Therefore, business strategy is the key success & failure factor for the company.

#### 4) Market Knowledge

In the case of SiChuan Road & Bridge (Group) Corporation Ltd, the head office in China arranged administrative staff to an office in Norway to conduct in-depth market research. But these administrative staff do not have the professional knowledge or ability to do the market research. In the end, the market research could not be done, and the office became a reception desk.

Market research is a systematic process of collecting, analyzing and interpreting information (data) about your target market, customers, competitors and the industry as a whole (Markus, 2019). Since the company didn't conduct market research in Norway, therefore, the company lacked related knowledge of the Norwegian market and the Norwegian construction industry. Furthermore, it caused a series of various problems.

Because the company did not conduct market research in Norway, thus, the company did not know the prices of materials, and only consulted its subcontractors for the prices, so that the company could not accurately quote, which led to unusually low quotations. This was one of the reasons that the project price quoted by the company was too low to make profit.

The company did not have its own construction equipment in Norway. Then, it has to either rent equipments, such as mechanical bulldozers, excavators, underwater pile driving equipment, or outsource this part of the project to the local subcontractors. Both equipment rental costs and outsourcing costs are very high in Norway which increase construction costs. In addition, the company must pay all employees who are working in Norway in accordance with Norwegian wage regulations, which results in very high labour cost. However, the company didn't know about these when estimating the project quotation because the company didn't conduct the market research.

Furthermore, due to lack of related knowledge of the construction companies in Norway, it is difficult for the company to determine fixed partners in Norway, and then the company has to outsource to unknown subcontractors. However, during both projects, there were

subcontractors that went bankrupt and could not continue to complete the contracted process. In a project, it is a process after a process. If one process is not completed, it results in that all the following processes cannot be carried out, which is a big reason for the delays of both projects. Project delays will lead to increased costs, fines and other problems, which is very unfavorable for the company.

#### 5) Organizational structure

Organisational structure defines employees' roles, responsibilities and who they report to (Johnson, 2017, p. 439). In this case, the organisational structure is very hierarchical and bureaucratic. Power is centralized. The management of the Norwegian subsidiary do not have real power. Everything is decided by the head office in China. And the interests of all parties intersect. Thus, this organisational structure caused a number of consequences, such as slow decision making. The problems and solutions proposed by the management of the Norwegian branch cannot be directly communicated to the decision maker. It takes time for management decisions to percolate through the various levels of management and eventually be enacted. It is time consuming.

This way, it caused the Norwegian subsidiary often has no overall and specific plan, thereby the division of labor is often not clear, and the responsibilities are not implemented. For example, the handling of the steel case during the Beitstadsundsbrua project (see case presentation). Therefore, the Norwegian subsidiary is unable to deal with the problems encountered in Norway in a timely manner. However, the construction volume of the company's construction projects in Norway is large, the scope is wide and scattered, the construction strength is relatively insufficient, and the construction period is tight, which requires lightning-fast decision making. Thus, the inefficient organisational structure is one of the main reasons that caused the delays of both projects and also one of the main reasons that caused the unprofitability and failure of the Norwegian subsidiary. Therefore, it is success critical for the company to have an efficient organisational structure which can provide fast decision making.

## **CONCLUSIONS AND DISCUSSION**

Several factors have been responsible for the failure of Chinese firms in Norway as the cross-case analysis has shown. The aggregated key success & failure factors of Chinese companies in Norway identified from the four cases include legal factors, cultural difference, business strategy, organisational structure and selection of people. See table 8.

<b>Cases</b> <b>Key success &amp; failure factors</b>	<b>Malungen Gjestegård</b>	<b>Verkshotellet AS</b>	<b>SRBG Norway</b>	<b>China Liangste Wellness AS</b>
Legal factors	✓			✓
Cultural difference	✓			
Business strategy		✓		
Organisational structure			✓	
Selection of people			✓	

**Table 8** Comparison of similarities and differences of the key success & failure factors across the four cases

The legal factors are the key success & failure factors for the cases of both Malungen Gjestegård and China Liangste Wellness AS (hereinafter referred to as CLWA). In both cases, the legal factors involve labour regulation on work permit and residence permit, but the case of Malungen Gjestegård also involves regulation on tourist visa. Regarding to the extent of criticality of legal factors in these two cases, the smaller for the case of Malungen Gjestegård, the larger for the case of CLWA because the labour regulation handicapped CLWA, not Malungen Gjestegård.

The legal factors are involved in the case of SRBG Norway, including overtime in labour law, HSE, welding requirements, etc. But the legal factors are not the key success & failure factors of this case. Verkshotellet AS is the only one that does not involve legal factors. This is because the Chinese investor EMPERY keeps the local management of Verkshotellet AS after

the acquisition. The local management are familiar with local legal framework and regulatory environment, which can avoid legal issues.

It is success critical for Chinese companies to be aware of and adapt to related legal factors in Norway. And Norway is very strict at following them up. It is important to conduct related legal due diligence and consultation before coming to Norway to invest.

### **Cultural difference**

Cultural difference is the key success & failure factor only for the case of Malungen Gjestegård, not for the other three cases. The Verkshotellet AS has local management who are familiar with local cultural environment, which can avoid cultural issues. Both SRBG Norway and CLWA are aware of, respect and adapt to the cultural difference in Norway (SRBG Norway & CLWA, personal interviews, March 2020).

It is success critical for Chinese companies to be aware of, respect and adapt to Norwegian culture difference. There is no culture of “guanxi” in Norway. “Guanxi” does not work in Norway. Norway is a country ruled by law and treats everyone equally before the law. When legal issues are involved, you must use legal means to solve the legal issues, not “guanxi”.

### **Business strategy**

Business strategy is the key success & failure factor only for the case of Verkhotellet AS, not for the other three cases. The business strategies in pricing, staffing and marketing of Verkhotellet AS are neither in the light of making the company profitable nor in the light of the local market circumstance. But the business strategies of the other three cases are in the light of both making their companies profitable and their local market circumstances.

It is success critical for Chinese companies to have business strategy in the light of both making profit (increasing revenue and decreasing costs) and the local market circumstance.

### **Organizational structure**



Organizational structure is the key success & failure factor only for the case of SRBG Norway. SRBG's organizational structure is very hierarchical and bureaucratic, and power is centralized, which cannot provide fast decision making. But in the other three cases, organisational structure is less hierarchical or flat, and power is decentralized, which can provide fast decision making.

It is success critical for Chinese companies to have less hierarchical or flat organisational structure which can provide fast decision making in Norway.

### **Selection of people**

Selection of people is the key success & failure factor only for the case of SRBG Norway, not for the other three cases. The organisation structure of SRBG is very hierarchical and bureaucratic, and the interests of all parties intersect. It is difficult for people who really do things to have promotion opportunities, but it is easy to be promoted when they are close to the leader (SRBG Norway, personal interview, March 2020). But in the other three cases, the companies are staffed with the right people assigned with proper responsibilities. It is success critical for Chinese companies to be staffed with highly skilled locals with proper responsibilities in Norway.

### **Managerial implications**

The classification scheme developed here builds on and extends earlier models of key success & failure factors of Chinese OFDI (e.g., Ai & Tan, 2020; Chen, Werle, & Moser, 2016), with direct managerial implications summarized with recommendations in Table 3.

Insert Table 3 About Here

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<b>Entity in Norway</b>	<b>Malungen Gjestegård (Yang Yang AS)</b>	<b>Verkshotellet AS</b>	<b>SiChuan Road &amp; Bridge (Group)</b>	<b>China Liangtse Wellness Norway AS</b>
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			<b>Corporation Ltd. (Norway)</b>	
<b>Year completed</b>	2015	2016	2014	2016
<b>Industry/Sector</b>	Tourist resort (Service)	Hotel (Service)	Construction	Health massage (Service)
<b>Entry mode</b>	M&A	M&A	Greenfield investment	Greenfield investment
<b>Management</b>	Chinese	Local Norwegian	Chinese	Chinese
<b>Chinese investor</b>	Beijing Guotong Baoyuan Investment Co. Ltd	Empery	SiChuan Road & Bridge Corporation Ltd	China Liangtse Group

**Table 1.** The four selected cases in Norway

<b>Chinese investor</b>	<b>Beijing Guotong Baoyuan Investment Co. Ltd</b>	<b>Empery</b>	<b>SiChuan Road &amp; Bridge Corporation Ltd</b>	<b>China Liangtse Group</b>
<b>Year founded</b>	2005	1999	in the early days of the founding of the People's Republic of China	1997
<b>State-owned or private</b>	private	private	State-owned	private
<b>Business scope</b>	Investment management	a wide range of businesses across industries, including health and beauty (fundamental and core industry), cosmetics research and development, hotel operations, manor and commercial real estate, etc.	Mainly investment, design, construction and operation of highways, railways, bridges, tunnels in the "big civil" infrastructure areas, and also clean energy, mineral resources, new materials, modern services, financial securities, etc.	Health care in traditional Chinese massages and therapies.
<b>Organisational structure</b>	Less hierarchical	Less hierarchical	very hierarchical and bureaucratic	Less hierarchical

<b>International experience in Europe</b>	No	Yes	Yes	Yes
<b>Motivation of FDI in Norway</b>	Market (profit) driven	Market (profit) driven	Responding to national policy of “infrastructure going abroad” and the “Belt and Road Initiative”	Brand internationalization
<b>Ownership in Norwegian entity</b>	100%	100%	100%	100%
<b>Size of Acquisition (NOK)</b>	12 million	20 million		

**Table 2** An overview of the four Chinese investors

<b>The reasons for the failure</b>	<b>Recommendations</b>
Malungen Gjestegård Use tourist visa to work or engage in business activities in Norway and lack legal knowledge of Norway’s regulation on tourist visa and labour regulation on work permit and residence permit.	Be aware of and adapt to legal factors that matters for the cross-border investment (such as regulation on tourist visa and labour regulation) before coming to Norway to invest.
Use “guanxi” to deal with legal issues in Norway and lack knowledge of cultural difference between Norway and China	Be aware of and adapt to cultural difference before coming to Norway to invest. There is no culture of “guanxi” in Norway, and Norway is a country ruled by law. Must use legal means to solve legal issues in Norway.
Verkshotellet AS Compared to the competitors, hotel price is lower in peak tourist season, and higher in off tourist season.	Set price in the light of local market circumstance and local competition from other hotels, for instance, raise the room price during the peak tourist season and lower the room price during the off-season as its competitors do.
Overstaffing in off-season	Solve the overstaffing problem in a prompt, cost-effective, and professional manner, for example, instead of maintaining complete staff of full-time employees, the hotel can employ some part-time staff or full-time temps which is called “vikar” in Norway. Both options provide the business with low-cost labor when needed. This way, in the off-season, these part-time or temp employees can be reduced or eliminated

	without having to conduct layoffs and pay severance packages (which is legal in Norway), and it can avoid both understaffing and overstaffing and thereby keep the company operating smoothly.
Lack marketing	Conduct marketing to attract customers to sell the food and hotel room service already available and seek new food and hotel room service that customers demand, especially in the off-season.
SRBG Norway Selection of wrong people resulted in that the market research in Norway was not conducted, which led to the company 1) lack knowledge of material prices, machinery usage fees, outsourcing cost, labour cost and various other costs in Norway; 2) lack fixed and trustworthy partners in Norway; 3) lack related legal knowledge in Norway such as labour law, HSE, etc.	Selecting the right people to get market research done in Norway in order to 1) know about the various costs so that the company can give an appropriate project quotation to make profits; 2) get fixed and trustworthy partners to complete the project on time; 3) be aware of and adapt to the related legal factors (which Norway is very strict at following up) to complete the project on time and avoid fines, increased costs and other consequences.
Very hierarchical and bureaucratic organisational structure resulted in slow decision making, which led to project delays.	Having a decentralized organizational structure which can provide lightning-fast decision making.
China Liangtse Wellness AS The health massage employees from China cannot obtain work visa in Norway because they don't meet the requirements for education/qualifications. Lack legal knowledge of Norway's labour regulation on work permit and residence permit.	Do related legal consultation to be aware of the labour regulation in Norway before coming to Norway to invest, especially for the company that wants to bring/depends on bringing its own labour from China to Norway.

Table 3: Reasons for failure and recommendations

## Appendix 1: Description of the Cases

### 1 Malungen Gjestegård

The Chinese investor is Beijing Guotong Baoyuan Investment Co. Ltd. (hereinafter referred to as BGBI) which was established in Beijing in 2005. Its business scope is investment management (the company's website is not available). The company owns a number of hotels in China and Asia and has also invested in Australia.

Malungen Gjestegård is in the municipality of Stange. The area of the Gjestegård is 46 000 square meters, which consists of 2678 square meters of building mass, spread over nine buildings, among them, including: Jaktstøtten, an old hunting castle with fireplace built in

1898, has four accommodation rooms with a total of 9 beds, where it can be covered for up to 45 guests; Kvitbygningen, the oldest part dates from the 1860s, has now 6 guest rooms with a total of 16 beds, well-equipped conference room with space for up to 25 guests and two adjoining group rooms; Gildehallen, built in 1959, has modernized kitchen and wardrobe / toilet as well as winter insulated in 1994, accommodates up to 150 guests, and in summer season also outdoor seating for up to 60 guests; Bjørkhaug, built in 1937, has been a forestry dwelling and camp school, and currently has 9 guest rooms with a total of 24 beds (Therese, 2012). Malungen Gjestegård is a great place for wedding, baptism, company conference, Christmas celebration, etc.

BGBI was looking for a place like Malungen Gjestegård which was not far away from Oslo. When the decision makers saw the site on the internet, became fascinated, travelled here, and bought it. The acquisition was completed in July 2015 with an acquisition price of 12 million NOK (Christensen, 2017).

The motivation of the acquisition is optimistic about the market prospects of Norwegian tourism industry for profit. The target group is mainly rich Chinese. Since 2017, Norway has become the favourite country for Chinese to travel in Nordic. More and more Chinese tourists have travelled to Norway each year. Chinese tourists want to come here to play golf, fish, ski and hunt. In 2022, China will host the Winter Olympics. Winter activities such as downhill and cross-country skiing will be very special for Chinese tourists. Everything is right here in Malungen Gjestegård. And it is only about one and a half hours drive from Oslo, which is in perfect location. Malungen is a fantastic starting point for looking at the countryside, green forests, nature and its most popular sights. With its unique theme of country resort hotel with Norwegian forest, the Gjestegård is a great place to attract Chinese tourists. In Norway, there are not many country resort hotels with Norwegian forest as its theme and short distance to Oslo. This Uniqueness is the great competitive advantage of this Gjestegård. In addition, the market demand is large enough. The Chinese investor already has enough potential customers.

After the acquisition, the management of Gjestegård are all Chinese. The local general manager is a Norwegian Chinese who has lived in Norway for many years.

The Gjestegård has the potential, but it is a long way to make a lot of money here due to its small passenger capacity. However, BGBI wants to invest and participate in the development. Malungen can be a good place to be, but it needs refurbishment. In addition, good accommodations with four-star hotel standards (according to Chinese standards, suitable for Chinese people) are needed. The plan is to expand 50 cabins with a total of 300 accommodations. Expansion focuses on high-comfort log-style cabins, and the guest rooms in the cabins should be 25-30 square meters (Malungen Gjestegård, personal interview, March 2020).

BGBI have had frequent interaction with the local government, local media, and local communities to promote, enhance understanding and trust. Therefore, the local impression is good, and there is no exclusion. The local community in Stange are actually incredibly supportive and view the Chinese investment in Malungen Gjestegård as a huge opportunity for Stange. The development and construction investment projects of the Chinese investor BGBI here are good for the local economy, business development and employment. BGBI has brought Stange's business community with good, financial muscle to build up a tourism industry to showcase Norwegian nature. The local community sees incredible potential in attracting Chinese tourists to Norway, and then huge amounts of money would be generated



in the local community. It is an exciting scenario. To help the success of the project, all local companies that have been involved in Malungen agreed that all involved contractors who were involved from the start should invoice their services at cost price without making so much money on the two viewing cabins. The plan for 50 cabins has been fascinating, especially with regard to the effects of subcontracting and business. Meanwhile, construction partner Øst gave consultant assistance on guiding the developer and provided tips on Norwegian construction rules and regulations on, for example, insulation requirements. Øst controlled the construction to ensure it complying with Norwegian construction rules and regulations.

BGBI also faced many challenges here. Before coming to Norway to invest, the Chinese investor did not do related legal consultation on the Norwegian side. Various legal requirements are different between Norway and China, such as construction law, labor law, etc. Although the construction partner Øst provide consultant assistance on Norwegian construction rules and regulations, however, in many ways, due to the culture difference, the Chinese understanding is very different from the Norwegian understanding, which made the cooperation difficult.

By October 2016, two viewing cabins had been completed. The Chinese investor started to prepare a Norwegian-Chinese cultural exchange Christmas evening party with the Stange local community. “Malungen Gjestegård invites everyone to a real Chinese winter party with lights, artists, and ice sculptures. Add this year's Christmas table to spectacular surroundings at Malungen Gjestegård. offer an exotic Christmas table with Chinese party food made by renowned Chinese chefs, and entertainment with some of the foremost artists in China”, written on its webpage. About 2,000 people were registered for these Christmas parties (Christensen, 2017). In order to run this cultural exchange Christmas party well and show the Chinese culture to the local community, more than 50 people from China have been invited here, including investors, artists, chefs, actors, and people from all walks of life (Malungen Gjestegård, personal interview, March 2020).

When setting up the venue, UDI and the police came, saying that five of the Chinese were illegal workers, confiscated the passports of these five people, questioned them, and deported them within a time limit. They are not allowed to return to Norway within two years. The general manager himself has been fined NOK 15 000 after five Chinese expulsions by UDI (Christensen, 2017). The expulsion occurred in the wake of the Immigration Section of the Inland Police District conducting a routine check aimed at foreign workers in the serving industry in Stange. On day one, they were on a routine check and discovered that four worked illegally with kitchen and civil engineering work. Everyone had a valid tourist visa, but not a work permit. The next day, namely, day two, the crew returned for a closer chat. Immigration Section asked the Chinese if they had a contract of employment, who was the employer, salary-and working conditions and to what extent they were taken care of, including social benefits. The Norwegian Labor Inspectorate carried out a check in parallel with the police and revealed shortcomings here. On day two, another person worked illegally in the kitchen, who was a family member of the proprietor, had also only a valid tourist visa, but not a work permit, violated Norwegian law and observed working on par with the other four. According to the UDI's assessments, this was considered gross. On day two, the five Chinese's passports were seized, and they were deported within a time limit by UDI.

But the Chinese investor argued that these people are not here to earn money or work. And they are all invited by Stange municipality as a guarantee. BGBI believed that UDI misunderstood, and this issue can be solved by the Chinese logic, namely, explaining

everything, if it doesn't work, then using "Guanxi" to solve this issue. They tried to explain to UDI, but it didn't work. Then, they asked the Chinese embassy in Norway for help, but the embassy didn't help. The Stange municipal government also negotiated with the Norwegian Ministry of Foreign Affairs, but it didn't work, either. Meanwhile, the Chinese investor also hired a lawyer to call the police to cancel the deportation decision on the involved family member of the proprietor, but the deportation decision did not change. After that, the Chinese investor believe that the risk to invest in Norway is too high, and lost trust in continuing to invest. Therefore, all the rest construction projects stopped. And they are afraid that UDI and police will make trouble again, so they have no interest to run this tourist resort, either. They all went back to China.

Since the acquisition, the Gjestegård had been under renovation and construction, and had never opened, so there was no revenue or profit. In December 2018, the Chinese investor rent out one part of the Gjestegård to some Norwegian who do not use this part as a tourist resort. Till now, the Chinese investor still have no confidence or plan to operate the Gjestegård because they cannot understand or accept what happened.

## **2 Verkshotellet AS**

The Chinese investor EMPERY, established in 1999, is headquartered in Shenzhen. After 20 years of development, the company now has a wide range of businesses and regional international group with more than 2,000 employees (EMPERY, 2020). It has formed cross-industries, including health and beauty, cosmetics research and development, hotel operations, manor and commercial real estate, film and television media, electronic instruments, bars, and aviation, yacht, and famous car clubs, which has formed an industrial chain with independent characteristics of EMPERY, covering Asia-Pacific, North America and Europe. EMPERY is a modern multinational enterprise group.

Health and beauty is the fundamental and core industry of the Group, and also the starting point and trend of the Group's development. Because EMPERY pioneered China's healthy breasts project, it is hailed as an advocate of China's "breast revolution" and a leader of healthy breasts. EMPERY Healthy Breast has become one of the most well-known beauty brands in China. The market network includes 31 first-tier provinces and cities nationwide (except Taiwan, Hong Kong, and Macau). The number of terminal outlets is 20,000, and the annual sales amount reaches nearly 10 billion U.S. dollars (EMPERY, 2020). In terms of hotel operations and real estate, EMPERY owns many hotels not only in China, but also abroad, such as Norway, France, and United States, etc. The hotel estates acquired overseas are high-end industries with historical culture, family heritage, high-end taste, deep heritage, and ancient colours Noble and classic fashion, and enjoy beautiful scenery configuration.

The Verkshotellet, built in 1911 by the cornerstone company Stålverket, has 28 bright and comfortable hotel rooms, own restaurant, conference room & banquet room (Verkshotellet, 2020). It is a historic, famous, and homely hotel in Jørpeland. The history of Stålverket is still oozing in the walls, and much of the original architecture and style is still preserved. It is the nearest hotel to Preikestolen which is one of Norway's most visited attractions and most spectacular photo motifs and was awarded as one of the world's most spectacular vantage points by both CNN Go and Lonely Planet (Preikestolen.no, 2020).

By New Year (2016), the Chinese group EMPERY acquired Verkshotellet in Jørpeland for NOK 20 million (Dagbladet, 2016). Meanwhile, EMPERY also made several other

acquisitions in Rogaland, and purchased a house at Oanes ferry dock in Forsand municipality. Everything went smoothly. The motivation of the acquisition is that EMPERY fancies the tourism resources of Preikestolen. And Verkshotellet has the competitive advantages of the closest to the Preikestolen, and it is the only hotel close to Preikestolen. Nearly 300 000 tourists visit the Preikestolen annually (Dagbladet, 2016), which can bring high profit to the hotel. Another competitive advantage of the hotel is historic. Many locals have family traditions and company traditions to eat at this hotel, such as birthday parties, company meetings and dinner. In addition, as Norway is now the favourite country for Chinese tourists in the Nordic region, EMPERY is optimistic about the prospects of Chinese tourists traveling to Norway and plans to attract wealthy Chinese elite tourists to Rogaland and Preikestolen.

After the acquisition, the hotel does not specifically target Chinese tourists, but all tourists. In Verkshotellet AS, the board members are all Norwegian. All plans are decided by the board of directors. The management and employees are also all Norwegian. Moreover, the chefs are all locals. Only one Chinese works in the hotel, plays the role of linking, but does not participate in management. Verkshotellet AS holds two board meetings each year. The Chinese investor EMPERY sends a representative to participate these two board meetings. In addition, the representative of the Chinese investor often comes to Norway to communicate, understand the operation of the hotel, and participate in decision-making. Because of different culture, the communication is difficult, but still works. Organizational structure of Verkshotellet AS is flat. Everyone is equal, and it maintains a Norwegian corporate culture.

The market demand for the hotel is seasonal. Winter is the off-season of tourism, with almost no tourists, and supply exceeds demand. Summer is the peak season for tourism, demand to hotel rooms is high, and supply is in short supply. In order to meet the needs of the hotel rooms during the peak season, thereby increasing annual income, after the hotel was acquired, the Chinese investor bought neighbouring properties of the hotel for the expansion of Verkshotellet, which, in the past few years, have resulted in the expansion and addition of more than a dozen hotel rooms (Verkshotellet AS, personal interview, March 2020).

Generally, hotel room price of all hotels in the same area with Verkshotellet is almost the same. But in peak season, hotel rooms of all hotels in this area are in short supply. The other hotels will raise the room price during the peak tourist season and lower the room price during the off-season tourism. But the management of Verkshotellet have decided that the price will be the same throughout the year, without raising the room price during the peak season or reducing the room price during the off-season. Moreover, in the off-season, the other hotels only keep a few people working in the hotels to reduce cost, but the management of Verkshotellet keep the same amount people working in the hotel as in the peak season. In addition, during the off-season, the revenue of Verkshotellet is very low, but the management of Verkshotellet did not have any business strategy to attract customers and increase its revenue in the off-season. All the above have resulted in the hotel unprofitable.

### **3 SiChuan Road & Bridge (Group) Corporation Ltd. (Norway)**

SRBG founded in the early days of the founding of the People's Republic of China, is a top 500 Chinese company and a top 250 international contractor (SRBG, 2020). It is a comprehensive multinational enterprise group in the domestic first-class infrastructure field. It is mainly engaged in investment, design, construction and operation of highways, railways, bridges, tunnels in the "big civil" infrastructure areas and the expansion of diverse industries such as clean energy, mineral resources, new materials, modern services, financial securities,

etc. under the jurisdiction of more than 90 wholly-owned, holding molecular companies and shareholding companies (SRBG, 2020). The company adheres to "based on Sichuan, serves the whole country, enters the world, pioneers and develops". As the backbone of promoting "Shu Road Difficulties" to "Shu Road Pass" and the model of "going out" for provincial enterprises, its market has spread to most domestic provinces, as well as more than 20 overseas countries and regions such as Africa, Middle East, Southeast Asia, Europe, Oceania, etc. (SRBG, 2020). Over the past 70 years, core competitions in deep-water long-span bridges, highway pavements, and complex geological long tunnels have been formed. Representative projects Mainly include: Wanzhou Yangtze River Bridge, the world's largest long-span reinforced concrete arch bridge when completed; The main span of 1650 meters, the world's second and China's first suspension bridge when completed -- Zhoushan Xihoumen Bridge; Micangshan Tunnel, the third longest road tunnel in the world and the second longest in China; the first large-span bridge constructed by a Chinese-funded enterprise in a developed European country -- the Norwegian Hålogalandsbrua with a main span of 1145 meters (SRBG, 2020).

Due to fierce competition in the domestic market, and responding to national policy of "Infrastructure going abroad", and then there was such a project (Hålogalandsbrua project) just in time for "the Belt and Road Initiative", SRBG got the opportunity to bid for this project, and finally won this project. On 18. February 2013, SRBG started building the Hålogalandsbrua. With a length of 1,533 meters and a free span of 1,145 meters, the Hålogalandsbrua is Norway's second longest suspension bridge after the Hardangersbrua. By building the Hålogaland bridge just over Rombaken, it makes the E6 a full 18 kilometers shorter, and the travel time to and from Narvik towards Vesterålen / Lofoten and Tromsø is reduced by 15-20 minutes (Statens vegvesen, 2020). In addition, it directs traffic away from what is a high-risk and accident-prone road.

In 2014, SRBG established a wholly-owned subsidiary (greenfield investment) in Norway, namely, SiChuan Road & Bridge (Group) Corporation Ltd. (Norway) (hereinafter referred to as SRBG Norway). The management of this subsidiary are Chinese, and the construction team are also Chinese. However, according to Norwegian law, the company must employ some Norwegian local engineers, such as contract engineers, safety engineers, concrete engineers, etc.

The Hålogalandsbrua was the first major bridge contract SRBG received in Norway. Price was the most important criterion in the competition and SRBG's price was the lowest with NOK 3.8 billion (Statens vegvesen, 2020). The Norwegian Public Roads Administration (hereinafter referred to as NPRA) has been very pleased with the quality of the bridge elements that the contractor SRBG has produced in China and transported by ship to Norway. The Hålogalandsbrua was supposed to be completed by the end of 2016, but it was officially opened on December 9, 2018. It was delayed for almost two years. The major challenge SRBG had was welding the bridge elements in Norway, which had not gone according to plan. NPRA cannot compromise on the quality of this work and therefore check 100 percent of the welding work. A higher percentage of errors had been discovered than normal. Then, widespread quality deviations on welding had led to much of the welding work having to be done again, and 100% X-ray of all welding work was carried out, which has led to further problems for an already strained project (Statens vegvesen, 2018). This led to delays in the project. Then, SRBG had taken on the quality challenge, and in order to increase the pace, they have staffed heavily.

However, there had been a lot to learn for a Chinese entrepreneur in an unfamiliar market. For example, the Danish company Davai AS, which was a subcontractor for SRBG, and had between 20-30 welders working on welding together the various elements of the bridge, became bankrupt during the project. It was clear that the Danish company had been very slow and was unable to do the job (Skoglund, 2018). There was no doubt that this further delayed the completion of the bridge.

In November 2017, SRBG won its second bridge project (Beitstadsundbrua) in Norway. The award criterion in this competition was also price, and the Norwegian Public Roads Administration chose the lowest price offer, which was SRBG with clearly the lowest price -- 277 million NOK that was 41 million NOK under PNC Norway, which was the next contractor on the list (Byggeindustrien, 2017).

Beitstadsundbrua is a 580-meter long road bridge over Beitstadsundet on county road 17 between Steinkjer and Malm in Trøndelag. The bridge is a steel box bridge with co-operative concrete deck in six spans. Beitstadsundbrua was scheduled to open for traffic on December 6, 2019, but it was finally opened on April 2, 2020, and had been delayed for almost four months (Kleven, 2020). There are several reasons for this. SRBG have underestimated the scope of work. Along the way, the HSE focus on diving assignments in connection with the work in the sea, which resulted in a much longer period of various work that has been carried out under the water surface than expected. There also has been a long period of construction of the bridge. SRBG has underestimated the handling of the steel case. There is a great need to work on the surface of the steel case before the last coat of paint can be applied. This has taken longer than expected. The bridge elements of the Beitstadsundsbrua were made in China. The 12 items of 3000 tonnes were transported by boat from the port city of Nantong in China to the Tjuin industrial area in Malm in Trøndelag (Kleven, 2020). Much of the work that was delaying the bridge work could have been done earlier. Part of what they were doing at the bridge site with the steel boxes could have been done in a different place, such as in Tjuin or China, before the bridge itself installation. Construction management in the Norwegian Public Roads Administration was not satisfied with the progress of the surface treatment. It's low momentum, and the work was not well coordinated. The local welding company Fosdalen Industrier, which had the task of welding together the steel elements of Beitstadsundbrua, went bankrupt during the project. Moreover, adverse weather conditions have also put off work.

The Norwegian Public Roads Administration has demanded daily fines of NOK 200 000 for both bridges (Kleven, 2020). This amount will be finally determined in the final settlement.

In addition, SRBG has been facing many problems and difficulties in operation in Norway. The head office in China arranged an office in Norway, which was originally intended to allow this office to conduct in-depth market research. However, the head office arranged administrative staff to this office. These administrative staff do not have the professional knowledge or ability to do market research. In the end, the market research could not be done, and the office became a reception desk.

Since the company didn't conduct market research in Norway, therefore, the company knows very little about the Norwegian construction industry and the Norwegian market. All along, Norwegian public opinion thinks SRBG engages in price wars, deliberately lowers prices, and engages in unfair competition. However, the fact is that the company doesn't know the prices of materials, and only consults its subcontractors for the prices, so that the company cannot

accurately quote, which led to unusually low quotations. This is one of the reasons that the project price quoted by the company is extremely low. Moreover, the company does not have its own construction equipment in Norway. Then, it has to either rent equipments, such as mechanical bulldozers, excavators, underwater pile driving equipment, or outsource this part of the project to the local contractors. Both equipment rental costs and outsourcing costs are extremely high which increase construction costs. In addition, the company must pay all employees who are working in Norway in accordance with Norwegian wage regulations, which results in exceedingly high labour cost.

Nowadays, sometimes a project is a design and construction integration. The company has a construction team, but it needs large professional design companies and subcontractors (responsible for greening, underwater construction, etc.) who can be trusted as partners. Since the company didn't conduct market research, therefore, the company has no idea about the construction companies in Norway, which caused the company unable to determine its fixed and trustworthy partners in Norway. Then it has to outsource to unknown subcontractors. However, during both projects, there were subcontractors (for example, Danish company Davai AS and the local welding company Fosdalen Industrier mentioned earlier) that went bankrupt and could not continue to complete the contracted process. In a project, it is a process after a process. If one process is not completed, it results in that all the following processes cannot be carried out, which is a big reason for the delays of both projects.

Moreover, the company does not know the relevant local laws and regulations of Norway, such as labor law, HSE, etc. For example, Norwegian law stipulates that overtime is not allowed, but the company did not know about this, and the staffs worked overtime. In result, this issue was reported. The Norwegian government forced the company to make up all the costs and expenses related to overtime work, a total of more than NOK 1 million (SRBG Norway, personal interview, March 2020).

Additionally, the management of the subsidiary in Norway do not have real power. Everything is decided by the head office in China. The organisational structure of SRBG is very hierarchical and bureaucratic, and the interests of all parties intersect, so that the problems and solutions proposed by the management of the subsidiary in Norway cannot be directly communicated to the decision maker in a timely manner. It is time consuming and inefficient. As a result, the division of labor is often not clear, the responsibilities are not implemented, and there is no overall and specific plan (which can be seen during the both Hålogalandsbrua and Beitstadsundsbrua projects process).

From 2014 to the end of 2018, SRBG Norway lost a total of more than NOK 200 million in Norway (according to the financial statements of SRBG Norway).

#### **4 China Liangtse Wellness Norway AS**

The Chinese investor is China Liangtse Group that was founded in 1997, and is the first health care company in China, with a new model that specialise in traditional Chinese massages and therapies. As a result of the development for the last 20 years, China Liangtse Group has established more than 300 wellness centres all over China, and has its own R&D and 3 training centres, for the purpose of improving the qualified treatments to suit the modern life, and jointly established a Chinese medicine specialty with Shandong Confucian Business School to cultivate reserve forces for the long-term development of the enterprise.

China Liangtse Group has become the market leader and has also great impact on Chinese health care industry. There are around 20,000 employees working for China Liangtse Group around China (China Liangtse Wellness, 2020).

China Liangtse is an international health and wellness brand that has spread to more than 100 cities around the world (China Liangtse, 2020). It is committed to providing diversified and multi-level health and wellness services to customers at home and abroad. The company has established a professional overseas development department to negotiate and cooperate with Germany, Japan, South Korea, Australia and other countries. In 2007, the company established the European headquarters of China Liangtse in Germany, and the first foreign branch in Bad Kissingen, Germany, and then quickly established three wellness centres in Lingdao, Hamburg and Bad Monret in Germany. In 2009, the wellness centres in Finland were opened, and branches in the Netherlands and the United Kingdom were established. Later, the company opened wellness centres in some other countries in Europe, such as Norway, Czech Republic. In 2019, wellness centres opened in Toronto, Canada, and in New York, USA as well. The company aims to lead China's health service industry to the world. The company's wide range of stress relieving and rebalancing treatments have been now well-known and popular abroad. All the treatments are based on traditional Chinese medical treatments, such as acupuncture, Tui-Na, reflexology massage, Lymph detoxing massage and many other meridian massages.

In 2016, China Liangtse Group established a subsidiary in Norway, namely, China Liangtse Wellness Norway AS. The motivation of investing in Norway is to aggressively promote its brand internationally and lead the Chinese health service industry to the world. Wellness centres invested in other European countries are also aimed at promoting the internationalization of its brand. For example, wellness centres opened in Germany, Netherlands, United Kingdom, and Norway are not profitable, only wellness centres opened in Finland are profitable. However, the Group continues to operate these wellness centres and does not close them because they are not profitable. As long as the wellness centre doesn't lose a lot, then the Group will continue to operate it.

The business model and management policy are in accordance with China Liangtse Group. The general manager is a Norwegian Chinese who has lived in Norway for many years, and the employees are all Chinese. The company has many competitors at where it is located in Norway, but its competitive advantage is that the employees' skills of health massage are very good, and the company's service is also very good, which are confirmed by the local customers. The company's market share in Norway is very small, because it has very few health massage staff here. Only five when the staff are at the most, and only three when the staff are at the least (China Liangtse Wellness AS, personal interview, March 2020).

The main reason for the failure is that the health massage employees from China cannot obtain work visa in Norway because they don't meet the requirements for education/qualifications. The company did not do related legal consultation before coming to Norway to invest. Because the investment is already done, therefore, the company has to find another way to get the employees to work in Norway. First apply for a work visa to Finland from China, and then use a Finnish work visa to work in Norway, but according to Norwegian law, only allowed to work in Norway for max three months each time, and the premise is that the Norwegian company and the Finnish company belong to the same international company. However, this is not a long-term feasible solution because most of the health massage employees who have got work visa in Finland settle down in Finland gradually, and don't

want to work in Norway back and forth. Substitutes are required every three months, which is not good for the business in the massage service industry. It is difficult to build a long-term relationship with the customers. The company doesn't have enough employees to work in Norway, which led to low revenue that is even not enough to cover all the expenses and costs. In addition, the cost for the employees to travel back and forth is very high, which led to the annual result even worse.

## **Appendix 2: Interview questions**

1. Why to establish/acquire the company in Norway? what are the drivers and motivations? (for market, brand, patent, technology, profit, natural resource, etc.)
2. What's the size of the investment to establish/acquire the company in Norway?
3. What's the business activities of the company in Norway?
4. What's the company's mission and vision? What's the goal of the company in three years?
5. Who is the management, the local talent or Chinese talent?
6. What kind of opportunities does the company in Norway have?
7. What's the company's competitive advantage and disadvantage compared to competitors? (price, quality, technology, etc.)
8. How is the demand to the company's products or services in the market?
9. What's the company's position in market? (market share, yearly revenue)
10. How has the company communicated proactively with all stakeholders (shareholders, investors, employees, suppliers, customers, etc.)?
11. How has the company promoted a positive image in local communities (considering local interests and opinions from the public, media, unions, politicians, etc.)?
12. What kind of challenges/difficulties does the company in Norway face? (such as political, economic, social, technological, ecological, legal, strategic, cultural, organizational, process, a limited knowledge of international markets, including market situation, regulations and customer base; a limited availability of managers with sufficient language proficiency, foreign culture understanding and an established social network; lack of integration effectiveness, lack of systematic process, for instance in strategy definition, roadmap development and execution, etc.)
13. Why is the company not profitable? What are the main reasons causing it? (such as low revenue, high operating costs)
14. What is the company going to do to become profitable? What are the solutions?