Entry Mode Selection for Multinational Corporations: the case of entry in China of Johnson&Johnson- mainly focus on Xian-Janssen Pharmaceutical

Lu Yubin

Dissertation submitted as partial requirement for the conferral of

Master in Business Administration

Supervisor:
Prof. Nelson António, ISCTE Business School,
Departamento de Marketing, Operações e Gestão Geral

November 2018

- Spine -

Entry mode selection for multinational corporations: the case of entry in China of JOHNSON&JOHNSON- mainly focus on Xian-Janssen Pharmaceutical

Lu Yubin

ISCTE Business School
Instituto Universitário de Lisboa

Abstract

In the process of economic globalization, Multinational Corporations (MNCs) are an important force to promote globalization. China, since its reform and opening-up in 1978 and joining in the World Trade Organization in 2001, has been attracting foreign investment. During the last decades, a great number of foreign-funded enterprises had the opportunity to enter the Chinese market. Therefore, particularly important is which mode of entry strategy to choose.

The purpose of this dissertation is to identify the characteristics of entry mode strategy by literature review and correlate them with a case study of the company Xian Janssen in order to clarify which entry mode strategy this company used to establish and obtain prominence in the Chinese markets. For this purpose, it is used a qualitative analysis method with primary and secondary data. After the case study, it was concluded that Janssen pharmaceutical entered the Chinese market by means of establishing a joint venture. After that, the advantages and disadvantages of the joint venture were discussed. And the obstacles that Janssen pharmaceutical faced after entering the Chinese market, the importance of market research, and the reasons for Janssen's success in the Chinese market were also introduced. The author's main intention in writing this dissertation is to investigate and analyze the entry mode strategic of foreign-funded enterprises to enter the Chinese market. And hopes to provide some references for foreign-funded enterprises that are preparing to enter the Chinese market, and also provide the reference for Chinese enterprises "go out".

Key Words: MNCs, Internationalization, Entry Mode, Pharmaceutical Enterprises

JEL Classification: M0, M1

Resumo

No processo de globalização econômica, as Corporações Multinacionais (EMNs) são uma força importante para promover a globalização. A China, desde a sua reforma e abertura em 1978 e a sua adesão à Organização Mundial do Comércio em 2001, tem atraído investimentos estrangeiros. Durante as últimas décadas, um grande número de empresas financiadas por estrangeiros teve a oportunidade de entrar no mercado chinês. Portanto, é particularmente importante escolher o modo de estratégia de entrada.

O objetivo desta dissertação é identificar as características da estratégia de modo de entrada pela revisão de literatura e correlacioná-las com um estudo do caso da empresa Xian Janssen, a fim de esclarecer qual estratégia de entrada esta empresa usou e obteve destaque nos mercados chineses. Portanto, utiliza-se um método de análise qualitativa com dados primários e secundários. Após o estudo de caso, concluiu-se que a farmacêutica Janssen entrou no mercado chinês por meio da criação de uma joint venture. Depois disso, as vantagens e desvantagens da joint venture foram discutidas. E os obstáculos que a farmacêutica Janssen enfrentou após entrar no mercado chinês, a importância da pesquisa de mercado e as razões para o sucesso da Janssen no mercado chinês também foram apresentados. A principal intenção do autor ao escrever esta dissertação é investigar e analisar o modo de entrada estratégico de empresas de capital estrangeiro ao entrarem no mercado chinês. E espera-se fornecer alguma referência e ajuda para as empresas de capital estrangeiro que estão a preparar-se para entrar no mercado chinês, e também se espera fornecer a referência para as empresas chinesas "sair".

Palavras Chave: EMNs, Internacionalização, Modo de Entrada, Empresas Farmacêuticas

Classificação JEL: M0, M1

Acknowledgements

First of all, I would like to thank my supervisor Prof. Nelson António, for his patient guidance and support. Prof. Nelson is often on a business trip in China and around the world, working extremely busy, but always taking valuable time to give advice and guidance on my dissertation. Simultaneously his erudite knowledge, extensive international perspective, rigorous academic style and the pragmatic guiding method left a deep impression for me, which is benefit for my whole life.

Secondly, I would like to thank Dr. Gu Lihong from Xian Janssen Pharmaceutical for providing me with selfless help, not only helping me to arrange interviews with company executives, but also actively providing some internal information and documents for me as the reference for my dissertation. I am also very grateful to several executives of Xian Janssen Pharmaceutical, who took time out of their busy work and accepted my interview. Without their help and support, my dissertation would not be completed.

Finally, I would like to thank my parents and family for their unselfish love and support. Whether it is economic or spiritual support, let me overcome many difficulties and completed the writing of this dissertation.

Index

Chapter 1: Introduction

1.1 Research Background

After the end of the Second World War, western countries have achieved great growth in their economy and developed huge increase in outbound foreign direct investment(FDI). Also, the Carrier of Internationalization and International Direct Investment – Multinational corporations(MNCs) have developed rapidly and profoundly, being a profound impact on the development of the world economy and increasingly attracting people's attention. Under such conditions, globalization has become a trend in the world's economy. In an increasingly highly globalized world, due to the differences between countries in their customs, traditions, religions and cultures, consumer demand inevitably varies greatly. Therefore, in the process of making FDI, particularly important is the choice of entry mode strategy. This dissertation will focus on pharmaceutical companies' entry mode choice for entering Chinese market.

In the process of economic globalization, MNCs are an important force to promote globalization. After China joined in the World Trade Organization in 2001, more foreign-funded enterprises had the opportunity to enter the Chinese market. At present, foreign-funded enterprises have entered almost every sector of Chinese industries, to name a few, like food, clothing, housing, transportation and health-care, bringing new market elements and new technologies in China. In the process, in order to win the Chinese market, companies in various countries has continually been adjusting their market strategies based on the requirements of Chinese policies (Haiyan,2017).

China is a country with a vast market where it urgently needs funds, technology, talents and management experience from all over the world to drive the economic development. Coupled with China's policy of reform and opening up, and the welcoming of foreign investment, a large number of MNCs have entered the Chinese market one after another. Facing the increasingly fast development of the world economy, China needs to further integrate itself into this process. At this time, China continues to attract multinational investment as one of the important means to its economic development, intending to bring vitality and opportunities for China's economy (Nana, 2015).

As to multinational pharmaceutical enterprises, they began to enter the Chinese market in the early days of China’s reform and opening up. Afterwards, slowdown was showed in the growth of pharmaceutical markets in developed countries, but in emerging markets like China, huge growth potential arose; the broad prospects in Chinese pharmaceutical market has attracted world-renowned pharmaceutical companies one after another. However, the further depth the multinational pharmaceutical enterprises enter in Chinese market, the more increasingly unconvincing the characteristics of multinational pharmaceutical enterprises show in practices in China. Particularly in recent years, with China’s modification of its healthcare policies, the improvement of people’s living standards and their awareness in health, and the rise of Chinese domestic indigenous pharmaceutical enterprises, multinational pharmaceutical enterprises acting and wanting to act in China are facing new requirements and challenges.

The medical product industry consists of two major components: medical devices and drugs. In the past decade, the pharmaceutical market reached its peak of development. China will become the second largest medical device and pharmaceutical market in the world after the United States. The huge market has attracted the attention of many multinational corporations (Haiyan,2017). Companies in various countries are thinking about how to enter this important battlefield and get more benefit. Therefore, the choice of entry mode becomes more and more important, and the choice of entry mode is an important strategic decision for the internationalization of the multinational corporations. When a multinational corporation decides to conduct an international operation, at least two important strategic decisions should be made: one is the location choice, or, which foreign market to choose; and the other is the choice of entry mode, which is, whether to directly invest in the host country or choose a contract mode, or choose the original way of export. These three different entry modes have different and important effects on the economic benefits for multinational corporations and host countries. From the point of view of multinational corporations, different modes of entry decide the allocation of resources, the level of risk, the degree of technology transfer, the distribution of control and the income situation to overseas subsidiaries, which directly affects their operating activities and the operating performance of their subsidiaries. These, in turn, affect the realization of their global strategic objectives. From the point of view of the host country, different modes of entry will have different effects on the technology transfer effect, the local market structure and the realization of the host country's economic interests such as taxation. Since multinational corporations and host governments sometimes have conflicting interests, the entry modes become an important content for host countries, especially for developing countries. Because of this, entry mode selection is an important research topic in international management, and it has always been one of the key elements and hot topics for academic research on internationalization.

Chapter 2: Literature Review

2.1 Internationalization and Related Concepts

2.1.1 Definitions of Internationalization

Al-Shammari and AlBusaidi et al.（2013）thought that in recent decades, the internationalization of enterprises has attracted much attention of many researchers, mainly in the field of international business, strategic management and entrepreneurship. However, Andersen (1997) thought the definition of the internationalization does not lead to a broad agreement.

Ruzzier et al. (2006) thought internationalization has been studied from the perspectives of organizational theory, strategic management, international management, marketing and small business management. Due to the complexity of the concept of internationalization, Ruzzier et al. (2006) characterized internationalization from three ways: internal, external, and cooperative.

For Gjellerup (2000), in the 1920s, internationalization gradually became the main acceptable principle of cross-border interaction between market-economy countries, and after the Second World War until the early 1970s, the process of internationalization accelerated considerably. According to Welch & Luostarinen (1988), internationalization refers to the process of participating in international operations. For Korhonen (1999), the company's interaction with international markets may come from buying or selling abroad or from working with a foreign company.

In several definitions of internationalization, Calof and Beamish (1995) thought that internationalization is an evolutionary procedure of adapting strategies, structures, and resources into the international markets. Mort & Weerawardena (2006) thought that the internationalization is defined as the company's consciousness of the direct and indirect impact of international transactions on its future, and the process of establishing and leading agreements with other countries. Other scholars like Johanson and Vahlne (1977) regarded internationalization as a continuous step of international development, internationalization can be considered as an evolutionary business activity, and internationalization can be considered the procedure by which firms enhance their participation in international business.

Melin (1992) argued that internationalization is an evolutionary process in which a company continually enters the international markets from domestic markets, and internationalization is a major aspect of the ongoing strategic procedure in most commercial enterprises, while Calof & Beamish (1995) characterized internationalization is the measure of strategy, structure, resources to the international business environment. On the other hand, Andersen (1997) argued that internationalization is directly related to international market choices and foreign market entry strategies. Therefore, Andersen (1997) defined internationalization as the process of adapting exchange patterns to international markets.

Johanson (1975) and other researchers, according to the theory of international stages of business, argued that internationalization is a procedure of constant participation of enterprises in international markets. As the investment in the international markets continues to increase, the company continues to expand its participation in international business both in depth and breadth. Williamson (1975) believed that internationalization is an investment model for foreign markets, analyzing the advantages of ownership, internalization and geography from an economic point of view. Welch and Luostarinen (1988) considered the internationalization of a firm as internal and international. Internal internationalization involves attracting foreign investment, introducing technology and importing products, while external internationalization involves the export of agents, direct export, and joint ventures. Internal internationalization is the premise and condition of external internationalization. Stephen Young (1989) believes that the company's internationalization covers all the overseas operations of multinational corporations and all the multinational business models of an enterprise.

2.1.2 Motivation to internationalization

Some authors pointed out the different forces or motivations that lead to the internationalization of companies. Hymer (1960) pointed out three reasons why businesses would like to venture into investing in international production: eliminate or reduce the conflicts, take full advantage of ownership and promote diversity. According to Freeman and Schroder et al 's (2006) study, small domestic markets, advanced technology, and diverse forms of relationships and alliances are factors that motivate internationalization for companies.

Czinkota and Ronkainen (1993) argued that the motivation of internationalization can be divided into positive and passive motivational forces. Positive motivation (profit margins, unique products, technical benefits, proprietary information, regulatory requirements, tax incentives and economies of scale) stimulates strategic adjustment. Passive motivation (competitive pressures, overproduction, declining domestic overcapacity, saturation of the domestic market, proximity to customers and ports) has affected companies responding to environmental changes and adjusting their activities over time. In addition, Czinkota and Ronkainen (1993) also thought the international marketing behavior of companies depends on the desire of management and management commitment to work for international marketing efforts.

Menipaz and Menipaz (2011) also explain the reasons for the expansion of MNCs. They gain a conclusion that there are four main causes of international business, which are expanding their markets, boosting economic returns, strategically positioning themselves to face the threats of the future and to take advantage of future opportunities. Shenkar and Luo (2008) also put forward that there are three different motivations for conducting international business, which are market incentives, economic incentives, and strategic motives. Regarding the market incentives, the author divided that into offensive and defensive motives. The difference is that the former refers to the positive desire to seize the market opportunities in other countries while the latter one focuses more on protecting and holding the market forces of the company with the threat of competition. When the rationale for internationalization is to increase profits, economic incentives are implemented either through higher incomes or lower costs. The last reason they mentioned that strategy is forcing businesses to take advantage of the internationalization of the country's well-developed resources or capabilities. Phatak, Bhagat and Kashlak (2005) also considered that there are three motivations to stimulate companies to go abroad, which are market finding motivations, cost reduction motivations, and strategic motivations. What they mean are that in those kinds of international companies, the domestic market is already saturated, lowering input costs or making strategic decisions such as raising one's competitive position or taking advantage of the host country's knowledge and abilities. This method is very similar to

Shenkar and Luo, but there is no such a detailed method. For example, by comparing economic incentives (Shenka and Luo) and reducing costs (Phatak, Bhagat, and Kashlak), the former one is considered higher sales, while the latter one is not. There are also similar ways with Ghauri and Cateora (2010), They proposed the three main goals for a company to enter a foreign market. The first goal they mentioned is the goal of market seeking which is very similar to that of other authors. The second goal of their opinion is efficiency pursuing. For example, the search for efficiency means that businesses are going to enter the country/market where they can be differentiated. Efficiency can also be achieved by allowing an industry to come together in one place and create a conducive infrastructure such as Silicon Valley. The third goal they mentioned is that the search for resources which also combined both economic and strategic perspectives, companies are always trying to get access for raw materials or other important inputs that reduce costs.

2.1.3 Importance of international marketing research

International marketing research is an important part for entering the foreign markets. Cateora (1996) thought that the performance of a business activity that directs the flow of goods and services from business to consumers or users in more than one country. The only difference between the definition of national marketing and international marketing is that marketing activities occur in more than one country. This seemingly small difference explains the complexity and diversity of international marketing business. Kumar (2009) also mentioned international marketing research is not entirely different from domestic marketing research. He put forward that the main differences are the international research involving national differences between countries due to political, social and cultural differences, the comparability of research results, and the source of the problem in these differences.

International market research is really important, as Davis and Young (2002) proposed that many companies are expanding globally with only a small amount of market research, but marketing research methods, like products and marketing strategies, must be adapted. A minimum study that has been conducted in the host country can prevent business activities failures. The lack of international marketing can present serious problems to businesses. For example, Czinkota and Ronkainen (1993) pointed out that unsuccessful business managers or companies in international markets inactivity is often a lack of commitment and dedication to international marketing, as the international market cannot be infiltrated overnight, it requires extensive market development activities, market research, sensitivity to foreign market factors, and management commitment issues. In addition, Douglas and Craig (1983) thought due to the diversity and complexity of the international environment, coupled with unfamiliarity with foreign countries, it is better analyzing and emphasizing the target market before making a decision. The market conducting research is extremely important whether it is initial market entry decision, product positioning or camp. This is all the case for portfolio decisions, and research is needed to avoid the costly mistakes and losing opportunities for inappropriate strategies and to determine the extent which cross-border operations can coordinate international operations in order to leverage marketing in the global environment generated potential synergies.

It can be said from the above that international market research plays a crucial role in the success of the company's internationalization. But in the international market research what kind of important factors should be considered? Baack and Harris (2012) pointed out that in an international context, different languages, cultural differences, economic systems, political and regulatory systems, technological development and market infrastructure make data collection and analysis more complicated.

2.2 Entry mode

2.2.1 Definitions of entry mode

For Root (1994), over the years, different definitions of the mode of entry have been proposed. International trade researchers tend to view foreign market entry as an arrangement for the entry of a firm's products or services into a foreign market associated with the transfer of financial, human, technological or other resources. Some researchers like Anderson and Gatignon (1986) focus on aspects such as control defining a mode of entry as a governance structure that gives a firm control under its international business.

Multinational corporations decided to enter an overseas market, the first issue is selecting the right mode of entry. The choice of overseas market entry mode is an important aspect of multinationals' decision-making process of overseas expansion. It is an important factor that affects the operating performance of multinational corporations. Root (1987) defined the entry mode as follows: Entry mode is a way of organizing and executing international business transactions. The corporations select the most appropriate entry mode from a variety of different entry modes for investment activities (such as sole proprietorship, joint ventures, authorizations or acquisitions). Deresky (1994) pointed out that the entry mode is the process that enterprises take when they facing pressure from international competition, and the domestic market is saturated, they intend to develop new markets and operate globally. In the early stage, they are either exported or authorized and franchised, and then gradually to joint ventures, and the establishment of overseas service points, production lines, factories. In order to cope with international competition or expand new markets. Kumar & Subramaniam (1997) argued that the entry mode into international markets is a structural arrangement chosen by firms for their operations in foreign markets. Andersen (1997) argued that the foreign market entry mode is a structural layout by which firms manage international corporate transactions, such as contractual transfers, joint ventures or wholly-owned ones. For Stephen Young, James Hamill et. (1989), traditionally, modes of entry into foreign markets are considered as methods used by firms to access international markets. Modes of entry into the foreign market can be classified as export, contractual and investment modes. Export entry patterns include direct and indirect exports through distributors or sales subsidiaries. Similarly, contractual entry modes refer to various contractual arrangements such as licensing, franchising, manufacturing contracts, service contracts, contractual joint ventures, and so on, compared with investment patterns which include wholly-owned subsidiaries and equity joint ventures.

2.2.2 Overseas Market Entry Mode Selection Theory

Research on the choice of mode of entry into the international market has been one of the focuses of the internationalization of enterprises. There are five major theories in this field. The rest of the research is based on the theories or extension of these theories, which include: Transaction Cost Theory, Compromise Theory, Bargaining Strength Theory, Internalization Theory and Decision Process Theory.

2.2.2.1 Transaction Cost Theory

The transaction cost theory was proposed by Anderson and Gatignon (1986) and is based on the transaction cost economics developed by Coase (1937) then developed by WilIiamson (1985). According to the transaction cost theory, the organizational structure of enterprises is determined by the minimization of transaction costs. From this, we can conclude that the purpose of multinationals' choice of a particular entry mode is to minimize transaction costs and maximize long-term risk-return efficiency. The transaction cost theory classifies the entry modes according to the degree of control. It considers that wholly-owned subsidiaries and majority ownership joint ventures are access control modes with a high degree of control. However, the contract entry mode and minority ownership joint ventures are modestly controlled entry modes. Usually, MNCs choose the degree of entry mode of low access, and then gradually adopt a high degree of control as needed access mode. According to this theory, market failure is the primary reason for generating a Hierarchical Mode: the existence of the special-purpose assets (Transaction specific Assets) is the most normal cause for the market failure (the so-called special assets refer to a specific material or human capital investments in productive activities); in order to maximize the benefits derived from these specific assets and to prevent competitors from exceeding the competitive advantages brought by these specific assets situation, MNCs should choose to enter a high control degree of modes, such as a wholly owned subsidiary or joint ventures with majority ownership.

After Anderson and Gatignon established the theoretical framework of transaction costs, many scholars made a new development of this theory. Hill, Hwang and Kim (1990) incorporated environmental and strategic considerations into transaction cost analysis framework; Klein et al. (1990) extended the framework of transaction cost theory in combination with production costs and external uncertainties; Erramilli and Rao (1993) applied the transaction cost theory to the analysis of service industry entry mode selection and correcting this theoretical framework; Lu (2002) uses Institutional

Theory to analyze the theory of transaction costs. As he believes that the theory of transaction costs is a static theory that cannot explain the evolution of entry patterns. Brouthers (2002) further extends the theoretical framework of transaction costs to the theory of "institutional, cultural and transaction costs," arguing that the system factors are the basis for the degree of intellectual property protection and the level of market transaction risk, while cultural factors affect the management costs of MNCs in the target markets and the assessment of the uncertainty of the local market.

2.2.2.2 Internalization theory

The theory of internalization holds that when enterprises engage in productive activities, upward integration is carried out in order to avoid unstable supply of raw materials in the upper reaches. When enterprises engage in overseas trading activities, MNCs often choose directly incomplete products or raw material markets investment way to replace the export trade. Coase (1937) put forward the theory of transaction costs, pointing out that when enterprises create or utilize the internal market to replace the external market, they will be more efficient and cost-saving. For the first time, Buckley & Casson (1976) applied the concept of transaction costs to internalization theory, arguing that some sources of advantage (such as patent rights, human capital.) are unstable and make these advantages less expensive and relatively costly. Internalization of these advantages can ensure a stable interest. Theory of internalization is cut from all aspects, the enterprise's own behavior as a starting point, the point of view for the product or raw material market is incomplete, so when enterprises engaged in overseas investment or production activities, it is better to choose the direct investment. When the market's internalization activities cross borders, companies should invest directly in overseas markets.

Buckley & Casson (1976) proposed that internalization theory is the internalization of an incomplete market, in which there are three basic assumptions: 1) The enterprise in the imperfectly competitive market, pursuing of maximum profit; 2)

When the market for intermediate products is not complete, the enterprise will replace the external market with the internal market and manage business activities in a unified manner; 3) International companies will emerge when internalization crosses national borders.

Rugamn (1981) pointed out that internalization is an enterprise in order to overcome the incompleteness of the currency market. The so-called incompleteness of the currency market is mainly due to the government's control of barriers to tariffs and non-tariff trade. In order to enhance the competitiveness of their products in the local market, MNCs evade the disadvantages of high tariffs or other obstacles to trade by means of direct investment influences. The incompleteness of the factor market comes from the daily production activities of modern enterprises, including marketing, research& development and labor training. These activities are linked to each other through key elements (human capital, professional skills, knowledge of marketing), but because of these elements, there is a high transaction cost in the market. In order to overcome the high transaction cost of the market, put those business activities under common ownership and control, transactions in the external market are replaced by the flow of internalized market to external market transactions.

2.2.2.3 Compromise Theory

The compromise theory was put forward and established by Dunning (1980). Based on the theory of monopoly advantage and internalization theory, he incorporated "location advantage" as an independent variable into the analysis framework of MNCs, and proposed a strategy that takes the advantage of ownership, location advantage and internalization advantage based on the comprehensive analysis framework. Because of this, the compromise theory is also called-OLI theory (O is ownership；L is location; I is Internalization). Ownership advantage refers to the competitive or monopoly advantage of MNCs, such as the size of enterprises, international experience and product differentiation; location advantage refers to the market potential and country risk; internalization advantage refers to the contractual risk. According to this theory, the more the business has the advantage of OLI, the more likely it is to choose a more controlled mode of entry. The compromise theory initially used only FDI as a model of entry, explaining how MNCs choose between exporting, licensing and FDI modes of entry. Until Agarwal and Ramaswami (1992) extended Dunning's analytical framework so that it could also be used to analyze the model of sole proprietorship and the joint venture in FDI entry. The compromise theory is widely used to analyze entry mode decisions, and their arguments are supported by much empirical evidence. However, this theory is still a static analysis. But they still used in those aspects: 1) It is applicable to the microscopic analysis of the behavior of multinational corporations, but it does not consider the cost difference, income difference and risk difference regarding different modes, and only measure the choice of the international market entry mode from the superiority point of view; 2) Tries to explain all the important factors that influence the choice of entry pattern but does not truly complete an explanation of the choice of entry pattern by ignoring the strategic factors, the contingencies around the decision maker, and the competitive factors; 3) There is no subdivision of the direct investment mode, nor does it explain the choices between joint ventures and sole proprietorships in the direct investment model. which was later improved in the expansion framework.

2.2.2.4 Decision Process Theory

The main representative of decision process theory is Simon (1995), March (1996), Kumar (1997), which is based on Simon's (1995) theory of Bounded Rationality. The theory think that entry mode is the result of a decision, which was formed in the decision-making process. In the decision-making process, due to the internal and external environment constraints, policymakers often make only satisfactory decisions, rather than the optimal decision-making under ideal conditions. Kumar & Subramaniam (1997) argued that the decision-making process of MNCs is influenced by: 1) the personal characteristics of policymakers such as decision maker’s knowledge, ability, and motivation; 2) decision-making problems, such as the strangeness, ambiguity, complexity, and instability of the problem; 3) the nature of decision-making tasks. A simple and easily-defined decision-making task can be easily solved by a simple strategy that contains very few information. On the other hand, a complex and indefinable decision-making task contains a variety of information and formal rules, policymakers must evaluate the nature of the decision-making task and the decision-making environment has a clear understanding in order to choose the best decision. 4) Decision-making environment, such as irreversibility, importance and causality of the environment.

2.2.2.5 Bargaining Strength Theory

The bargaining strength theory can also be called bargaining power theory, which was proposed by Fagre and Wells (1982). According to this theory, entry mode is the result of a bargaining game between the MNCs and host country partners. The comparison of the bargaining power of the two parties determines the entry mode choice of MNCs. The strength of the MNC's negotiation mainly comes from its advantages in technology, capital, management and intangible assets, namely ownership advantages. The huge scale of production, the global strategy of MNCs and the strong support from the home government will also further strengthen the bargaining power of MNCs. The strength of the negotiation power of the host country partners depends mainly on the following factors: the degree of centralization of the host government, the size of the domestic market, the rate of economic growth, the level of local infrastructure, cheaper labor, the demand for foreign capital and technology, and the government's use of foreign investment strategy. The mode of bargaining strength has evolved from the mode choice of MNCs entering developing countries, therefore this theory is more applicable to explaining the economic phenomena in developing countries. Since this theory assumes that the bargaining power of both parties can be measured by the proportion of ownership, it is basically used to explain the choice of equity entry mode. The weakness of this theory is that the proportion of ownership is the result of bargaining by MNCs and host countries, but the fact is that the ownership ratio does not adequately reflect the strength of the bargaining parties. First of all, the theory implicitly assumes that MNCs tend to prefer to choose a more controlled mode of entry. But this assumption is not always true. Secondly, the theory is still only a static analysis of the bargaining power relations between MNCs and host countries. However, as the host country's technological advances and the investment of MNCs becomes a precipitating cost, the balance of power between the two parties will no longer be constant. Finally, ownership and control are always separated. An important intrinsic feature of the entry mode is the degree of control. The focus of negotiation between MNCs and host countries is more on controlling subsidiaries overseas. However, MNCs have many ways of controlling their overseas subsidiaries and do not always necessarily need ownership to control.

2.2.3 The way to enter in a foreign market

When the company begins internationalization process and analyzes the attractiveness of a country and decides to enter it, which needs to make an important decision: how to enter a foreign market and what kind of strategy to adopt?

Sherrie E Zhan (1999) thought there is no single entry mode for each potential markets. In order to choose appropriate market entry mode, companies may need to take into account the risk, return, control and market share of each strategy and other related factors, taking into account the target markets and its own goals.

Root (1998) put forward that there are mainly two ways to enter overseas markets: exporting products from overseas production bases to target markets; transferring resources such as technology, capital and human resources to foreign countries, selling products directly to consumers or cooperating with local resources integrated with selling products on the local market.

Therefore, the most common types of entry modes are as follows:

2.2.3.1 Exporting

Root (1998) put forward that exportation is the most common entry mode in the international market, which include direct exportation and indirect exportation. Generally, this is the first step in a company's internationalization procedure, which is the development of a company's internationalization strategy. In this mode of entry, only physical products are considered, which means that the company's final product or intermediate product is produced outside the target country and then transferred to the target country. Viana and Hortinha (1997) put forward that one of the main advantages of exportation is economies of scale, while the main disadvantage is the risk of the product will not be accepted by foreign markets.

Viana & Hortinha (1997) considered that exportation can be direct, through an agency or subsidiary (when the company sells directly to a foreign distributor or customer), or when the product is sold through a local foreign broker. Direct export involves higher commitment, the company responsible for most of the export business, which allows more business control, better market information, As a result, it gains more international operation experience. On the other hand, indirect exports do not involve any action on the international market. The company does not have any relevant control over the intermediaries of foreign markets and therefore lacks the value creation of companies with a lack of international experience and awareness.

2.2.3.1.1 Direct exportation

For Hollensen (2007), direct exportation refers to the exporter of the manufacturer or foreign sales channel, the distributor responsible for the distribution, or the agency through the establishment of a contact network, market research, design of the marketing mix, set shipping agreement. In this process, the distributor is responsible for the buyer until the product is shipped and the agent tries to find the possible buyer by using their market skills and network information. Both of them play an important role in direct export and highly responsible for the transaction process, therefore companies tend to look for credible people. According to the study of Root (1994) direct exports are riskier than indirect exports.

2.2.3.1.2 Indirect exportation

For Hollensen (2007), Indirect exports occur when the organization is independent of its location and completely independent of the product manufacturer and is responsible for export and strategic process. This international approach may test initial stages of internationalization for firms that have little or no prior knowledge of their business strategy or for under-resourced firms that export innovation or for making decisions involving higher risk and effort to enter new markets, this may be worth recommending.

For Root (1994), indirect exports provide fewer control over the manufacturer, lower benefits to the internationalization process, fewer techniques and less information, as this part of the process is achieved by another, low growth results may mean companies will take longer time to prepare themselves for internationalization. At present, indirect export is used to test the target market because it offers fewer control and lower revenue opportunities, normally prices are similar to those used in the country of origin. The flow of information is also intermittent, and the access to local information is limited. The company is seen as an outlander in the target market and enters very slowly, maximizing the size of the activity because of the use of existing facilities. Indirect exporters themselves are not an active exporter. By contrast, companies use middlemen to sell their products and use middlemen abroad. Indirect exports greatly reduce the input resources, which is the risk of this entry mode.

Root (1994), compared with indirect exports, direct exports means higher levels of commitment. In this mode of entry, the establishment of foreign markets through international distributors or sales subsidiaries. The sales potential of direct export is often higher than indirect exports. However, direct exports represent more allocation of time, resources and costs. To a certain extent, these factors make direct exports a riskier mode of service over indirect exports, direct exports being even riskier than indirect exports.

2.2.3.2 Contracts

The most relevant types of contracts are:

2.2.3.2.1 Franchising

For Hollensen (2007), Franchising is the franchiser's practice of giving franchisees the right to operate by receiving payment/concessions. This is the case for many retail stores owned by investors, but using the brand owner's brand name, copyright, design, trade secrets, geographical exclusivity, patents, physical concepts, resources and techniques. This concept has a certain degree of risk, and most of them are related to brand image, and may also result in brand degradation due to franchise errors in day-to-day operations.

2.2.3.2.2 Licensing

For Terpetra and Yu (1988), Licensing refers to the enterprise (licensor) and another foreign business (licensee) signed a license agreement to authorize each other to use the company's patents, copyrights, trademarks and proprietary technology or products in the production and sales, then charge each other license fee. The main advantage of licensing which include: bypassing the barriers set by the host country to entry foreign markets; enabling a minimal amount of capital investment, doing business in foreign markets with low investment risks; making full use of technology no longer used by the enterprise and transferring to outside; can protect the company's existing industrial property from infringement. While the major drawbacks for licensing include: Lack of effective control of licensees' marketing programs; lack of absolute revenue from licensed operations compared to exports and direct investment; easy to establish new competitors; leakage of proprietary technology secret. Arona and Fosturi (2002) mentioned that using licensing requires small investments. Later on, licensing may lead to large returns on investment.

For Lafontaine (1999), in contrast to licensing, franchising represents more comprehensive cooperation with partners. Franchising is a contractual agreement in which franchisors provide not only branded and know-how but also franchisees for local exclusivity, management support, financial assistance and joint advertising. All services are provided for a fee, and partners are required to pay a usage fee. Franchising and licensing may have similar characteristics and used under similar circumstances. Although franchising may offer franchisors greater control and profit potential, they may also be riskier than licensing.

2.2.3.3 Foreign Direct Investment

For Hill (2000), this occurs when the company decides to invest directly in the foreign country, either through the acquisition of a foreign firm or by investing in new facilities to produce and/or sell their product in the foreign country. The acquisition is the fastest and most common adapted way to invest abroad, providing the company with details of local situations. On the other hand, investment in new facilities located abroad will provide economies of scale, reduce transportation costs, and can be benefit from government incentives and promote business control over production and processing marketing.

This mode of entry requires a high degree of commitment to the foreign market where it intends to enter and requires a significant investment in the resources of the company. Also, it will support the total investment and process risks. Moreover, it requires high recognition of the overseas markets, as well as significant investment in company resources to support the total investment and reduce process risks.

2.2.3.4 Joint Ventures

Hill, Peter and Chan (1990) put forward that a joint venture is a partnership that has been established for a limited duration of specific projects or long-term partnerships to gain wide competitive benefits. There are five common goals for using joint ventures: 1) market entry, 2) risk and benefit sharing, 3) high technology sharing, 4) joint product development and 5) product or service adaptation to government rules. Joint ventures can also provide other benefits, such as political relations or access to distribution channels. These two factors are very important, and in most cases they are dependencies.

Erramilli and Rao (1990) thought joint venture as an entry mode, high import barriers can be avoided without losing control of the business. In some countries, foreign ownership of some companies may meet legal restrictions and a joint venture may be the appropriate way to avoid such a situation. If the target market has a high political risk and high cultural differences, the joint venture is one of the best ways to properly adapt to foreign markets. In some situation where the target market is different from the domestic market, such as culture, local companies can provide valuable knowledge of technology, resources and distribution networks and may be a suitable brand name.

For Karel (1991), from another perspective, if the partners have similarities, the joint venture may have a synergistic effect. Both may or may not have similar goals. Learning potential can represent a valuable asset in a joint venture, especially when it combines the resources of two companies with highly complementary capabilities and strategies. By contrast, Mazur and Hogg (1993) proposed the joint venture may have some conflicting characteristics. At the same time, partners are trying to maximize the value of their joint ventures while also striving to ensure and increase their competitive position in the marketplace. Joint ventures try to develop shared resources, but all partners want to protect their core competencies in order to gain a competitive advantage. Joint ventures are controlled by negotiations between partners and agreements, which can be difficult to manage.

According to Araujo (2008), a joint venture is a strategic alliance between two or more different parties. An international joint venture will be considered as two-nation partnerships from different countries. Viana and Hortinha(1997) thought this is a form of foreign direct investment(FDI), which happens when two or more companies share their assets and create a new organization to develop production and/or business activities.

Grant (2008) put forward that by establishing strategic alliances between investors and entrepreneurs, joint ventures have become common tactics for entering foreign markets. Joint ventures have been formed through informal agreements, shareholdings or cross-shareholdings. Or through the development of non-equity cooperation in the case of strategic alliances (Hollensen, 2007).

For Grant (2008), governments from emerging markets are more bullish about internal investment and entrepreneurship, may view joint ventures as a chance to attract foreign capital, technically and strategically help local businesses.

2.2.3.5 Acquisition of subsidiaries

Hitt, Ireland and Hoskisson (2003) thought an acquisition is a business where one company takes over one hundred percent control of another company in an attempt to make the acquired company a subsidiary of its portfolio. One acquisition provides the fastest entry mode possibility to the target market, which may be the most resource demanding. The acquisition of subsidiaries, the development of foreign direct investment (FDI), can be regarded as the riskiest entry mode.

Chang and Rosenzweig (2001) thought the main reason for taking acquisitions as a potential entry mode is to overcome barriers to entry. Other reasons to acquire and use subsidiaries economies of scale can be achieved by centralizing production facilities or by establishing a strong, long-term relationship with a centralized production facility or acquiring customers from a subsidiary. A customer base can often be the most valuable asset for a business entering a new market. If the industrial sector is in its early stage, where total consumption cannot grow at an acceptable rate or the market is hard to infiltrate, then acquisitions may be one of the few ways to succeed in the new market.

2.2.3.6 Greenfield investment

Shenkar and Luo (2004) considered greenfield investment as when a company builds a new production or service facility from scratch. Woods (2001) pointed out that greenfield investment is a slower mode than acquisitions when entering foreign markets, the costs and risks are also higher than the acquisition. However, Shenkar and Luo (2004) also thought when establishing a new enterprise, it's core technology, manufacturing and marketing processes will be protected. As a disadvantage, probably it takes a long time to generate cash flow. In addition, Daniels and Radebaugh (1995) argued that if a company needs local financing, it may be easier to acquire capital at its inception. Another reason Kotler et al. (2001) considered establishing a new enterprise is that the company has complete control over the investment.

2.2.3.7 Brownfield Entry

Meyer and Estrin (2001) suggested that the concept of brownfield is a process that foreign acquisition establishing a local business. From the state, its resources and capabilities are mainly offered by investors, replacing majority of the resources and capabilities of the acquired company. This definition focuses on the process of combining the newly created subsidiary with the necessary resources for its operation.

Most acquisitions include restructuring of acquired company, dissolution or disposal of assets, as well as application of new management style. They also think that most affiliates would also complement their own new resources and capabilities from the long period of time. On the other hand, the Brownfield project combines the commercial resources with the latter in the first integration after the acquisition, and radically changed the companies that acquired them from the beginning. This includes all investments based on the integration strategy established prior to the termination of the transaction and based on an initial comprehensive assessment of the purchased acquirer.

Antal-Mokos (1998) proposed that brownfield investors are able to decrease costs by considering broader potential targets. However, as restructuring affects their interests, they may trigger more conflicts when negotiating with local stakeholders outside the homeowner.

2.2.4 Entry Mode for Internationalization

Jones (2001) thought that in export modes, products are manufactured in the country of origin or in a third country, and then sold in the host country. Thus, the focus of exports is only on product sales in the target country. By contrast, the contractual modes involve not only the transfer of products beyond national borders, but also the transfer of intangible assets, skills and techniques to national companies in their national markets. Finally, FDI modes of entry can be achieved with full ownership and control of foreign operations through wholly-owned subsidiaries or by sharing ownership and control with partners using equity joint ventures. Overall, this mode classification emerged from the analysis and comparison of the types of individual modes of entry, mainly from research on multinational manufacturing companies.

For Anderson and Gatignon (1986), at present, various modes of entry determine to a certain extent the degree of control over the external business activities of the enterprise, (Hill, Hwang and Kim, 1990) the level of risk and the commitment of resources in the foreign market, (Buckley and Casson, 1985) the level of fixed costs, variable costs and return on investment and (Johanson and Vahlne,1977) the level of organizational commitment and the degree of market participation. Hill et al. (1990) proposed, in addition, the traditional view of entry mode in foreign markets also indicates that the initial mode of entry may be changed over time, although it may require a considerable investment of time and funds. Therefore, Agarwall and Ramaswami(1992) thought the choice of the appropriate mode of entry is a strategic and potentially long-term decision for the international enterprise.

Harzing (2002) considered a new establishment is a lengthy operation that allows the company to exercise maximum control and offers above-average profit potential. This potential can be seen especially among companies that have strong intangible capabilities. While Brouthers and Brouthers (2000) thought a new establishment is a risky operation in which techniques and knowledge about the local market can still be gained by hiring nationals or consultants.

Root (1994) put forward that a new institution can be characterized by high start-up costs, a long payback period and a very difficult time to reap the business in case of failure or change of strategy. In a new institution, prior knowledge of the target market and its local characteristics are essential, as the entry process is mainly based on the prior knowledge of the company's employees. A new institution is an appropriate mode of entry for markets, which are developing rapidly and where there is no capacity to create joint ventures or acquisitions.

Chapter 3: Methodology

This chapter presents the methodology of this dissertation, this dissertation will mainly use the qualitative research methodology, including the research design, the data collection and interview questions. Then it will present the case study of Xian Janssen Pharmaceutical.

3.1 Research design

This dissertation mainly uses qualitative analysis methods to gather data. Telephone interview were given to four high level executives of Johnson & Johnson's joint venture company Xi'an Janssen in China, who are Mr. Shao, Ms. Li, Mr. Zhang, Ms. Lu respectively. Via the interviews, information about related subjects and topics were gathered.

Through the form of case study analysis, it intends to explore the market entry mode of Johnson & Johnson's company Janssen in China, the motivation of Janssen 's entry into the Chinese market and related processes, and the challenges and opportunities during entering the Chinese market; particularly, more is the focus on the entry mode of joint venture, about its the advantages and disadvantages, as well as its situations for application and implementation, and the reasons why Janssen used this form to succeed in the Chinese market.

3.2 Data collection

The source of information for the case study is mainly to consult relevant literature on related topics in internationalization, international business, international management, foreign market entry modes; to search for second-hand information about Johnson & Johnson from the Internet and their official website (e.g. the 2017 annual report of Johnson & Johnson) and the books, materials related Janssen; and also to conduct direct interviews and gather first-hand information from the interviewees.

Such interviews were performed by mobile phone or voice calls via social network. Interviews were interviewed by answering the prepared questions and each interview lasted for around thirty minutes, but the exact time for each interviewee varied slightly. The interview is recorded and the structure of the prepared questions can be found in Annex 1. After conducting the interview, it was made a transcript using the recordings. The analysis of the interviews aims to explore a complete vision of the entry mode strategy for the case study of Xi'an Janssen with a particular focus on the form of a joint venture. In the following sections, some of these points are discussed and compared with previous literature review.

3.3 Interview questions

1	Why did Janssen enter the Chinese market by establishing a joint venture (Xi'an Janssen) when entered the Chinese market in the last century? Looking at it now, do you think this market strategy is correct?
2	What kind of factors will be considered when establishing a joint venture in China?
3	What do you think the advantages and disadvantages of this form of joint venture?
4	What are the main reasons and motivations for Janssen to entered the Chinese market in last century? Why did they choose to enter China at that time?
5	What are the main challenges and opportunities that Janssen faced when entered the Chinese market at that time?
6	Did Janssen have investigated and evaluated the Chinese market before entering the Chinese market? Do you think market assessments and surveys are important?

7	When Janssen entered the Chinese market, did they regard China as a big market or separate into different markets and choose different market strategies?
8	What are the main reasons for Janssen's success in the Chinese market?

Chapter 4: Case study of Johnson& Johnson

4.1 Introduction of Johnson& Johnson

Established and Incorporated in the State of New Jersey in 1887, Johnson & Johnson has become a holding company with more than 260 operating subsidiaries conducting business in virtually all countries of the world. Now Johnson & Johnson and its subsidiaries have approximately 134,000 employees worldwide engaged in different business activities like the research and development, the manufacturing and the sale of a broad range of healthcare products. Its primary focus is the products related to human health and well-being.

The Executive Committee of Johnson & Johnson is the principal management group responsible for the strategic operations and allocation of the resources of the Company. This Committee oversees and coordinates the activities of the Company's three business segments: Consumer, Pharmaceutical and Medical Devices. Within the strategic parameters provided by the Committee, senior management groups at the U.S. and international operating companies are each responsible for their own strategic plans and the day-to-day operations of those companies. Each subsidiary within the business segments is, with limited exceptions, managed by residents of the country where located.

The business of Johnson & Johnson is conducted by more than 260 operating companies located in more than 60 countries, including the U.S., which sell products in virtually all countries throughout the world. The products made and sold in the international business include many of those described above under the main three segments of its business: namely “Consumer”, “Pharmaceutical” and “Medical Devices.” However, the principal markets, products and methods of distribution in the international business vary among countries and cultures. The products sold in international business include those developed in the U.S. and by subsidiaries abroad.

Investments and activities in some countries outside the U.S. are subject to higher risks than those comparable activities in the U.S. because the investment and commercial climate can be influenced by financial instability in international economies, restrictive economic policies and political and legal system uncertainties.

4.2 Introduction of Janssen Pharmaceutical

In the 1960s, the American healthcare company Johnson & Johnson was scouting around and looking to buy pharmaceutical R&D companies which had a promising future. While visiting Dr. Paul Janssen's laboratory, they discovered a young scientist with great potential with a rather vast number of new molecules. Johnson& Johnson dispatched Dr. William H. Lycan, the director of the J&J research division in America, went to Beerse for exploratory talks with Dr. Paul Janssen. He got acquainted with the work of Dr. Paul Janssen by contacting Prof Corneel Heymans in Gent. Johnson & Johnson, a company with rich experience in management of multinational companies, paid close attention to the promising young company in Beerse.

After several months of negotiations, a private contract was drawn up between Johnson & Johnson and the Janssen family, on July 17, 1961. Under the term of this contract, the two research companies in Turnhout and Beerse merged with Johnson & Johnson, on October 24, 1961. Dr. Paul Janssen was given a formal guarantee that the Belgian company would be permitted to retain its identity and independence within the international group.

Dr. Paul Janssen described the J&J agreement as a sort of "life insurance contract". For Janssen Pharmaceutical, the agreement provided financial security and additional resources to invest in research. For Johnson & Johnson, the merger was "an investment and a very lucrative one".

Dr. Paul Janssen’s new drugs were used in many different diseases. Infestations by fungi and worms, all sorts of mental illness, cardiovascular diseases, allergies and gastrointestinal disorders: the research spanned branches of clinical medicine of the most varied kinds. The research workers at Beerse also turned their attention to the health of animals and plants, and this new direction again led to commercial products.

During this period of rapid growth, an average of 120 people joined the company each year. Janssen Pharmaceutical passed the milestone of 4,000 employees in 15 Belgium alone and had more than 10,000 employees working in 34 foreign affiliates. Since the merger with Johnson & Johnson, Janssen’s sales had grown at a compound rate of 28% annually.

4.3 Entry mode strategy of Janssen in the Chinese Market

4.3.1 Establishing a Joint venture – Xian- Janssen Pharmaceutical

In 1985, Dr. Paul Janssen, the founder of Johnson & Johnson's Belgian Janssen Pharmaceutical Company一one of the Johnson & Johnson's subsidiary, came to western China and cooperated Xi'an Janssen Pharmaceutical Co., Ltd., the first joint venture of Johnson & Johnson in China. Xi'an Janssen Pharmaceutical Co., Ltd. which is a large-scale modern pharmaceutical enterprise jointly established by Belgian Janssen Pharmaceutical Co., Ltd. and Shanxi Pharmaceutical Corporation, Shanxi Hanjiang Pharmaceutical Co., Ltd., China Pharmaceutical Industry Corporation and China National Pharmaceutical Foreign Trade Corporation. After many times negotiation, Belgium’s Janssen accounted for 52% of the shares. Shanxi Pharmaceutical Corporation, Shanxi Hanjiang Pharmaceutical Co., Ltd., China Pharmaceutical Industry Corporation and China National Pharmaceutical Foreign Trade Corporation accounted for 48% of the shares.

4.3.1.1 Reasons for establishing a joint venture

Ms. Lu said in the interview: "in the 1980s, due to the restrictions of Chinese policies, it was not allowed to be a wholly-owned subsidiary in Shanxi Province at that time, so it entered the Chinese market only by means of a joint venture."

Mr. Zhang said in the interview that "in the pharmaceutical industry including Janssen at that time, the entry mode was still limited to the form of joint ventures. With the promotion of some industries, such as the automobile industry, some other entry mode like wholly-owned subsidiary began to use. However, most of the enterprises must adopt the joint venture form at the policy and legal level. This is one of the forms in which most foreign-funded enterprises entered the Chinese market at that time."

Mr. Shao also mentioned in the interview that "in the early 1980s, when reform and opening up policy had just begun, China's market was still a planned economy. Foreign-funded enterprises really hard to understand the situation in China. At that time, the sales channels were all from the provincial pharmaceutical companies selling to local hospitals, pharmacies. If it is a wholly-owned subsidiary, which will really difficult to start selling their product in the Chinese market. Although the Chinese market is huge, if you do not understand the Chinese market very well, it will become quite risky to enter. Therefore, most foreign-funded enterprises entered Chinese market adopted the form of a joint venture."

These views correspond to some of the points covered in our previous literature review: Erramilli and Rao (1990) thought in some countries, foreign ownership of some companies may meet legal restrictions and a joint venture may be the appropriate way to avoid such a situation. Hill, Peter and Chan (1990) put forward that there are five common goals for using joint ventures: 1) market entry, 2) risk and benefit sharing, 3) high technology sharing, 4) joint product development and 5) product or service adaptation to government rules. Joint ventures can also provide other benefits, such as political relations or access to distribution channels.

To sum up, why Janssen Pharmaceutical entered the Chinese market in the form of a joint venture? Firstly, it was mainly because of the restriction of Chinese policies and laws at that time. Secondly, considering the lack of understanding of the specific situation of China for foreign-funded enterprises, the joint venture can make better use of the Chinese enterprises, better understanding the local market, better use the Chinese resources in the local area, and reduce the risk.

4.3.1.2 Pros and cons of the joint venture

Advantages of the joint venture: Mr. Shao said in the interview that “joint venture pharmaceutical companies have introduced advanced drugs into China. Chinese people can take new drugs, save many people's lives, bringing the pharmaceutical industry and the world's leading level closer. And the efficacy of these drugs is very significant. If the Chinese R&D that by themselves, it will be very difficult and the study cycle will be very long. Therefore, from the perspective of joint ventures, it is really a lot fewer detours, which has brought the Chinese pharmaceutical industry closer to the world.”

Mr. Zhang also said in the interview that “the advantages of the joint venture have great advantages in terms of policy landing and localization. Because each place has different degrees of openness to the outside world, the local policy is different. Each locality has different policies for foreign-funded enterprises. In the early stages, there are some regional differences such as taxation, financial subsidies, and preferential policies. The local partner will make it easier to understand local conditions and maximize local resources. On the other hand, medicine is an extremely special industry affected by the policy. As a pharmaceutical company, they can provide good products and after-sales service, and the transfer of professional knowledge, but let this all maximize his effects and ultimately benefit patients, the policy plays a very important role. Some policies such as reimbursement policy, the policy of entering medical insurance, the policy of drug administration and the policy of low-cost medicine, to a large extent, will affect product strategy and channel strategy. Therefore, it needs the help of local enterprises, local enterprises can understand better for the Chinese situation, and the judgment of the future trend is more accurate and professional than the foreign enterprises. Therefore, the advantages of joint ventures are particularly evident in these areas.”

Ms. Lu also mentioned in the interview: “the foreign enterprises can use the Chinese side to better understand the Chinese policy, better adapt to the local environment, communicate more effectively with the Chinese government, and better use of local resources. At the same time, the Chinese side can also make full use of the advantages of the foreign side. For example, the advanced management experience of the foreign enterprises can effectively help the company's operation and management. Therefore, both sides have exerted their respective strengths, which is the benefit of the joint venture enterprises.” These views correspond to some of the points covered in the previous literature review: Grant (2008) put forward that governments from emerging markets are more bullish about internal investment and entrepreneurship, may view joint ventures as a chance to attract foreign capital, technically and strategically help local businesses.

Disadvantages of the joint venture: Mr. Shao said in the interview that “although it is a joint venture, the core technology cannot be mastered by the Chinese side. The core technology of large-scale joint ventures is still controlled by the foreign side. For example, the core of the drug is actually the drug substance, but the drug substance is normally controlled by the foreign enterprises. If there is no drug substance, drug production is difficult to continue. This is the most obvious shortcoming.” This point is very similar with we mentioned in the literature review, Mazur and Hogg (1993) proposed that joint venture try to develop shared resources, but all partners want to protect their core competencies in order to gain a competitive advantage.

Mr. Zhang said in the interview that “the way of joint ventures increases the uncertainty of internal communication, in other words, the efficiency of communication is relatively low. Usually, there will be a joint venture committee under the joint venture. The committee has a rotating chairman and plays different roles according to the shares held. Some issues such as major investment, major decisions, the change of manager, etc. will be decided by voting. There are also some uncontrollable human factors that slow down the decision-making process. And it will bring some negative effects to the cultural construction, internal communication and work efficiency of the joint venture enterprises." Ms. Lu also mentioned in the interview that "because of the composition of equity, the distribution of benefits may affect the efficiency of daily operation, and the launch of new products may also be slower."

To sum up, the advantages of the joint venture for the foreign side are mainly better to interpret the local policies and localization, as well as to communicate more effectively with the local government and make better use of local resources. For the Chinese side, it is mainly able to learn advanced technology and the introduction of advanced management models, as well as the introduction of foreign capital and the use of foreign brand advantages. The unfavorable aspects of the joint venture are mainly the relatively low efficiency of internal communication, the relatively long time to market for new products, and the cultural conflicts between the two parties as well as the confidentiality of their respective core technologies.

4.3.2 Marketing research before entering the Chinese market

As early as 1984, when the Xi'an Janssen project was not approved, Belgian Janssen began to conduct market research in China in accordance with the experience of Western market development in order to conduct sales forecasting, raw and auxiliary packaging material procurement forecasting and production scale planning. At that time, they got a conclusion that the living standards of the Chinese people was still very low, if they had sold at the price of drugs sold in Belgium, the Chinese people could not afford it.

Mr. Paul, the first marketing manager of Xi'an Janssen, led the product manager of Janssen, Belgium, to conduct market research in China. They went to major hospitals in China, Beijing, Shanghai, Guangzhou and other places to discuss, visit, and collaborate with experts on gastrointestinal and epidemiological experts to conduct clinical trials, such as attending international academic seminars through various channels. This also include finding a leader in the academic field in China to consult and collect information on the pharmaceutical market. The research covered many large and medium-sized hospitals, teaching and non-teaching hospitals, with the aim of assessing the potential of the Chinese market and the prevalence of disease in China.

In order to make a good choice of the products, China first discussed with Belgian Janssen to choose the most suitable medicine for Chinese people from the products they have proven to be safe and effective in clinical trials abroad. They first organized experts to translate the manuals and related materials of these products, and distributed a thousand research forms in major hospitals in Beijing, Shanghai, and Guangzhou, they also consulted experts and held several expert seminars. After analysis and discussion were made. Many experts have helped the inquiry of a large amount of professional information, the extensive information collection, and the batch of products that were most determined to enter the Chinese market. Then, after more than ten years of practice, most of these products are safe and effective, and are deeply received by the Chinese market, and greatly welcomed by health professionals and patients.

The survey itself also helped to raise the concept of Xi'an Janssen Pharmaceuticals employees and a market-oriented attitude. These views can verify the importance of international marketing research proposed by many scholars in the previous literature review. For example, Douglas and Craig (1983) thought due to the diversity and complexity of the international environment, coupled with unfamiliarity with foreign countries, it is better to analyze and emphasize the target market before making a decision. The market conducting research is extremely important whether it is an initial market entry decision, product positioning or camp. Davis and Young (2002) also mentioned that a minimum study that has been conducted in the host country can prevent business activities failures. In the following years of development, there is a clear consensus within Xi'an Janssen that it is impossible to make important business decisions without conducting market research and without direct dialogue with customers.

4.3.3 Reasons and Motivation to Enter the Chinese Market

On the one hand, it was the heyday of Janssen's development. Every year, one or two new products were launched, and their production capacity was saturated. So strategically, Janssen wanted to transfer their production line to other countries. Moreover, Janssen faced the unfavorable factors such as the increasing approval time of new drugs and the shorter and shorter patent period. For Janssen, it is necessary to build several production bases around the world to improve production efficiency and develop the market so that it can get payback in the shortest time， and then invest in the development of new drugs. For example, Janssen of Italy, Janssen of Ireland, Janssen of France and Janssen of Puerto Rico were all built or put into production at that stage. On the other hand, Belgium has a small population and a small market size, Janssen was eager to find a large consumer market to sell their medicines. And one of Dr. Paul Janssen's dream was to transform all the drugs he invented into a populous country where produced medicines and developd bigger markets, stronger Janssen pharmaceutical, and benefits patients. The Chinese side hoped to learn and introduce advanced production technology, more comprehensive pharmaceutical technology and management model. Introducing new products and marketing strategies into China and establishing pharmaceutical companies in China that meet international standards is something that China urgently needed at the time, so China was eager to cooperate with the Belgian side.

Mr. Lu said in the interview: “in fact, the Janssen team came to China at the beginning to deal with drug infringement problems, then discovered China's huge potential market and turned to seek cooperation.” Mr. Zhang said in the interview that “China began to reform and opening up in 1978 until the mid-1980s. Some foreign pharmaceutical companies, such as Johnson & Johnson, Pfizer, MSD, and AZ etc. are actually relatively conservative with a certain tentativeness， the scale of investment is rare.” He thought that the important motivation here is Dr. Janssen himself because Dr. Janssen is a Belgian and one of the most invented scientists in the 20th century. He is very passionate about Chinese culture, especially for Xi'an ancient culture, which led to the establishment of Xi'an Janssen and the first Johnson&Johnson’s joint venture to be born in China.

Mr. Shao also said in the interview that “the Janssen has done a lot of research on the Chinese market in the early stage. At that time, most of the medicines used by the Chinese were medicines of the 1950s and 1960s. Their medicines will have great market potential in China and they also saw the future of China's reform and opening up and the future trend at that moment, so they chose to enter China at that time.”

To summarize, the reasons for foreign enterprises internationalization and enter the Chinese market: expanding production capacity, improving production efficiency, taking advantage of China's labor cost advantage, using local government preferential policies, such as tax breaks, and obtaining the greater consumer market sells their products to obtain greater profits, and uses China's geographical advantages to better enter other Asian countries; While China's main reason for attracting foreign investment is to attract outstanding talents to work in China and introduce foreign funds and experience, increase local employment, ease employment pressure, increase government tax revenue, and then promote local economic development.

4.3.4 Obstacles of Entering the Chinese Market

Shanxi province is located in the interior part of China, so the transportation and communication are extremely inconvenient, and the economy was not developed very well. There were very few international flights. At that time, only Air France came to China on international flights, four times a week. The planes from Beijing to Xi'an were often delayed. Sometimes they had just taken off for half an hour and passengers were told that the plane had the mechanical failure. It was common to wait another day or two. At that moment, the communication was also very backward. It was difficult to fax and make international calls. Moreover, according to China's regulations at that time, enterprises could not directly contact foreign investors. Any problems must be passed through import and export companies. This undoubtedly caused great obstacles to the communication between both sides.

Drug promotion was really difficult. At that time, because there were no promotion and promotion of medical representatives in China, and the academic exchanges between doctors were rarely carried out in primary hospitals. Therefore, the promotion of a new drug from a large comprehensive hospital to a primary hospital sometimes took up to almost ten years. If there was any adverse reaction in the process of using the new drug and it was not promptly guided, and then the drug would stop being spread.

The biggest problem was the price of medicine. Because the Belgian Janssen Pharmaceutical Company is a new drug research and development company, the invention of a new drug sometimes costs almost 300 to 500 million US dollars and costs about 10 to 15 years. Therefore, the price of the new drug during the patent protection period was more expensive. In addition, the average income level of Europeans and Americans were dozens or even hundreds of times higher than that of Chinese. Therefore, from the perspective of market research at the moment, it was too difficult for Chinese patients to accept Janssen 's drug price.

Recruiting talent people was really hard. Despite the large number of colleges and universities in Xi'an, the level of education in China was still not high at that time, and there were relatively few highly educated talents. It was also difficult to recruit high-quality and highly educated talents from the society. For example, it took a long time to recruit a marketing manager who knew both the pharmaceutical industry and the Chinese market as well as the Chinese management system.

The period from the late 1980s to the early 1990s was the most difficult period for Xi'an Janssen, facing difficulties and pressures from many sides:

1) At that time, China's relevant laws and regulations on opening up to the outside world were not yet perfected. The regulations on which the joint ventures were being improved; 2) The lack of infrastructure materials, even the purchase of gasoline was difficult; 3) At that time, China was moving from a planned economy to a commodity economy, market mechanism was still not perfect, which also brought great difficulties and risks to market development; 4) frequent changes of senior management, affecting the continuity and effective implementation of policies. For example, in just six years, the company changed four foreign vice chairman and five general managers. 5) China and foreign enterprises had many problems in business management, especially in cultural management, including employee concepts, leadership communication methods, and the relationship between manager and subordinates. These issues created a major obstacle for the development of the joint venture.

Mr. Lu said in the interview that “in the 1980s, there was no political policy on joint ventures. Because Xi'an Janssen is the first large-scale joint venture company in Shanxi Province, many things are a precedent, so some things are difficult to communicate, the big political environment and social environment also a challenge.”

Ms. Zhang said in the interview that “because China was just opened up, the overall quality, supervision, research and development, distribution system, etc. of the pharmaceutical industry are relatively backward at that time. There were also recruitment problems. At that time, many staff in the pharmaceutical industry were still junior school and high school graduated. In China, there was a lack of professional talents in medicine, and also lack of talents in management and marketing. In the mid-1980s, established a pharmaceutical joint venture, we can say the challenges existence everywhere."

To sum up, the difficulties faced by entering the Chinese market in the early stage of the Janssen are mainly: Shanxi province was located in the interior part of China; the transportation was inconvenient; the international flights were a few; the communication was also very backward; there was no fax; the international telephone was not popular, which seriously hindered communication. Due to the planned economy, the promotion of drugs was very resistant. The prices of medicines developed by foreign enterprises were too high, and it was really difficult for Chinese people to accept them; the recruitment of professional talents was difficult; at that time, the relevant laws and regulations on China's opening up to the outside world had not been perfected, and the laws and regulations on the basis of joint ventures were still in the exploration phase; many problems faced in the management of Chinese and foreign parties in terms of cultural management, including employee concept, leadership communication, and subordinate relationship, there were huge differences between Chinese and foreign parties, which posed great obstacles to the further development of the company.

4.3.4.1 Summarize

	Pros of the joint venture	Cons of the joint venture	Motivation to enter the Chinese Market	Obstacles of entering the Chinese Market
Mr. Shao	Introduced advanced drugs into China	The core technology is still controlled by the foreign side	Janssen's medicines will have great market potential in China	Sales channel problem; Foreign exchange shortage
Mr. Zhang	Policy landing and localization	Increases the uncertainty of internal communication	Dr. Janssen is very passionate about Chinese culture; China began to reform and opening up in 1978	Pharmaceutical industry were relatively backward; Recruitment problems

Ms. Lu	Better use of local resources; Better adapt to the local environment	The distribution of benefits may affect the efficiency of daily operation	Deal with drug infringement problems, then discovered China's huge potential market	The political environment and social environment are challengeable

4.3.5 Reasons for success of Janssen in the Chinese market

4.3.5.1 External reasons

First of all, the Chinese government and the Shanxi provincial government agencies have strong support for Xian pharmaceutical joint venture projects. For example, at the end of 1989, the State and Shanxi Provincial Medical Administration even used the "red-headed documents" to encourage pharmaceutical companies and consumer to prioritize the purchase of medical products from joint ventures. The government's support and correct marketing strategy have enabled Xi'an Janssen to develop rapidly.

Secondly, the correctness of the company's location. Xi'an has dozens of universities, hundreds of scientific research institutions, and a group of high-level medical colleges, and the follow-up talent recruitment is guaranteed. Mr. Shao said that Xi'an has many high-level universities with high scientific research level which can guarantee the recruit of talent. Then Xi'an is a hub of northwest China with convenient transportation, fast developed economy, abundant resources and huge market potential. Third, Xi'an Janssen has seized the great opportunity for China's reform and opening up. The big market for China's 1.3 billion people has a huge development prospect. Mr. Shao said in the interview that during the late 1970s and 1980s, most of the incoming joint ventures were selected in places with relatively developed coastal areas, and few of them came to invest in the mainland. In the long run, the coastal markets in the coastal areas have all been occupied while the mainland market will be built sooner or later, and the Shanxi Provincial Government, as well as the Xi'an Municipal Government have given strong support from many aspects. Xi'an Janssen has fully seized such a good opportunity. In 1979, China began to implement the reform and opening up policy, there are seldom Sino-foreign joint venture companies. As an entrepreneur, Dr. Janssen has insight into the huge potential market that China has in this big country. He believed that with the reform and opening up, China's economy will have a faster development, and the profit is only a matter of time.

4.3.5.2 Internal reasons

First of all, in order to adapt to the changing environment and competition, Xi'an Janssen Marketing Department has formulated a price strategy different from the feasibility study report, and has ruled out various objections, then has obtained the understanding and support of the relevant government departments. Using the price strategy, the leverage has played a powerful role in marketing. Simultaneously， with the love of drug scientists and the vision of entrepreneurs, Paul Janssen has advocated a strategy of entering at a low price and gradually expanding the market. Therefore, the trial sales price of Janssen products in China was only about one-tenth of that of the Janssen market in Belgium, which is the lowest among other subsidiaries in Janssen worldwide.

Secondly, the company vigorously promoted the advertising strategy and boldly decided to invest all of the limited funds in the advertising of core products within two or three months. In the Chinese market in the early 1990s, advertising was not yet popular. In Nanjing Road at Shanghai in 1989, billboards of Xi'an Janssen were everywhere. During the prime time of CCTV, advertisements of Xi'an Janssen appeared frequently. In this way, the three-dimensional advertising model has made Xi'an Janssen and its products become household names.

Thirdly, fully integrate the actual situation of the Chinese market, and fully promote its products in hospitals and pharmacies through the academic promotion activities of medical representatives. At the same time, combined with China's national conditions, carry forward the fine traditions of the Chinese nation, and create a corporate culture of Chinese and Western cooperation. The management of the company gives full play to the respective advantages and strengths of the Chinese and foreign parties and makes every effort to develop the enterprise. Dr. Paul Janssen said: "Our principle is to realize the localization management and operation of Xi'an Janssen as soon as possible. Dr. Paul Janssen particularly emphasizes localization in the management of the company. He never imposes the things of Janssen in Belgium at Xi'an Janssen. On the contrary, he often inspired the management of Xi'an Janssen to train and promote local employees and give them great management and autonomy. Xi'an Janssen combines Western modern management with Chinese traditional culture. Market-oriented, products-oriented, future-oriented, and requires every employee to continuously innovate, continuous improvement, and strive to achieve the perfect ideal. Xi'an Janssen corporate culture is the combination of the western advanced scientific management system and business philosophy and the combination of traditional Chinese ethics and morality. This kind of corporate culture that integrates the essence of Chinese and Western culture is more acceptable by Chinese employees and thus can form a great cohesive force and become the cornerstone of the success of Xi'an Janssen. Ms. Lu said in the interview that advanced management is one of the reason makes Janssen success. The management of the joint venture is very effective combined both Chinese culture and Western culture, creating a unique cultural atmosphere of Janssen, and emphasize a family culture, so that everyone feels like a family, which is very important in the early days of Janssen, employees have a high degree of work enthusiasm and passion, also have a dedication spirit, which is very important, and the establishment of corporate culture makes employees have high cohesiveness.

Fourth, full market research is oriented to customer needs. One of the most important ideas in Janssen’s marketing plan is to reverse all the concepts of production in the planned economy and truly use the needs of customers as the starting point for the development of the market. Mr.Yang, who once served as vice president of marketing for Xi'an Janssen, recalled: "Xi'an Janssen was thoroughly screened when he first screened products entering China, and truly guided the market demand with the needs of patients." Medical experts fully communicated and learned what was the product that was urgently needed in China's pharmaceutical market as well as combined with the consumption power of the Chinese pharmaceutical market at that time. Xi'an Janssen originally selected eight of the products from Jansen of Belgium, which were most suitable for China at that time. Many of these products have become "star products" in the Chinese pharmaceutical industry.

Fifth, Xi'an Janssen earnestly studied Johnson & Johnson's credo 's values and business management philosophy. In the beginning, it is confirmed that the senior management of Xi'an Janssen agrees with the credo values and believes that the credo is the organic unity of social and economic benefits. The creed is the soul of the enterprise, and it is the high unity of the business management values and the values of the employees' lives. Xi'an Janssen believes in and earnestly fulfills the credo: the first is responsible for the customer, the second is responsible for the employee, the third is responsible for the society, and the fourth is responsible for the shareholders. Today's credo has been deeply rooted in the hearts of every employee, becoming the consensus of all employees, the norm for regulating everyone's behavior, the embodiment of the company's business philosophy and values, the guide for the company to handle internal and external relations, and also the Xi'an Janssen's magic weapon for great success.

Sixth, Cost savings and constant innovation. Xi'an Janssen is very clear that every penny they spend comes from customers, saving every penny, minimizing costs, and being responsible for the specific performance of customers. Therefore, the production workshop continues to innovate and reform and realizes the localization of packaging materials; the treated wastewater for watering the grassland; the double-sided use of copy paper. Always put the needs of customers first. Mr. Zhang said in the interview that innovation is an important reason for Janssen's success. As the pharmaceutical industry, as the disease continues to evolve, Janssen continues to develop new drugs. In the business model is also constantly innovating, such as online pharmacies. Therefore, product innovation, innovation in working methods, and innovation in business models have all contributed to the continued development of Xi'an Janssen.

Seventh, Xi'an Janssen 's training system. The company promises employees that there are at least 100 hours of formal training per employee per year, and the annual training cost is as high as nearly 10 million yuan. It is precise because of such norms, systems and high-level training that Xi'an Janssen has created a highly trained and highly qualified team, which has become an important means for the company to attract and retain talents. Mr. Zhang said in the interview that Xi'an Janssen is very concerned about the training and development of employees. Janssen University was established very early, and the standardized market management model, doctor education model business management model also was brought to China very early.

Eighth, the high quality of medicines. The patented drugs produced and sold by Xi'an Janssen are mostly the most effective and up-to-date pharmaceutical products developed by the Belgium Janssen. At the same time, a large number of domestic clinical trials have been carried out in accordance with the GCP (Good Clinic Practice), the highest standard in clinical practice in the international medical community, and it has only been officially listed in China after obtaining approval from relevant national authorities. All product promotion must have a strong scientific and clinical basis. Xi'an Janssen Company not only has the hardware management equipment of the GMP standard but also has hundreds of regulations including standard procedures and standard operating methods, forms and labels in accordance with the highest international standards in quality software management. Ms. Lu said in the interview the quality and safety of the product promoted the sustainable development of Janssen. Always pay attention to the details, the products produced are in full compliance with the specifications and meet the international quality standards.

Ninth, at the same time, Xi'an Janssen also made a lot of efforts to ensure the company's sustained healthy and rapid development: speeding up the introduction of new drugs, from the development of eight varieties in the initial stage to more than 20 varieties later; increasing capital investment, and increasing investment in fixed assets later. Continuously improve the GMP level of the factory and continuously improve the factory manufacturing level; cite the world's leading high-tech information management technology, including BPCS, SAP, to greatly improve the level and efficiency of business process operations; hire excellent foreign personnel, giving employees on-the-job training guidance, and actively help solve problems in the work. Xi'an Janssen never forgets the spirit of risk-taking investment by shareholders in the past. With the basic principle of “who invests who get benefits”, the relationship between “dividend” and expanded reproduction is correctly handled. Always based on development, reducing costs, the company will increase profits in the continuous development, and shareholders can also obtain greater profits, ultimately achieve "win-win."

Chapter 5: Conclusion

Taking the Multinational pharmaceutical cooperation -Janssen pharmaceutical as the research object, the author analyzed its market entry mode selection for internationalization, mainly putting focus on its behavior in the Chinese market. The major conclusions are as follows:

First, theories about enterprise internationalization and related concepts, the motivation to internationalization, the importance of international marketing research, definitions of entry mode, overseas market entry mode selection theory are introduced, which include: Transaction Cost Theory, Compromise Theory, Bargaining Strength Theory, Internalization Theory and Decision Process Theory, The different method to enter in a foreign market, entry mode for internationalization was elaborated through literature review and summarization of pieces of literature.

Second, research methods and data collection are introduced in this dissertation. It adopted the research philosophy of qualitative analysis with a case study to verify the effectiveness. Regarding the case study firstly the author makes the introduction of Johnson&Johnson and Belgium Janssen pharmaceutical, then the author mainly explores and discuss the case study from six aspects, which are: Reasons for establishing a joint venture, Pros and cons of the joint venture, Marketing research before entering the Chinese market, Reasons and motivation to enter the Chinese market, Obstacles of entering the Chinese market, and reasons for success of Janssen in the Chinese market.

Third, the author concludes from the case study that Janssen entered the Chinese market in the 1980s by adopting the form of establishing a joint venture company, which was also the form adopted by most foreign-funded enterprises at that time. This approach not only provides a better understanding of the Chinese market and localization but also enables more effective communication with local governments. Of course, this method also has some drawbacks. Due to the conflict of cultures and the different management mechanisms, the internal communication efficiency of the two sides will be relatively low, and the time for new products to be listed will also be extended. The reasons why Janssen chose to enter the Chinese market are manifold. The main reasons we can say that take advantage of China's labor cost, expand production capacity, increase production efficiency, and obtain larger consumer market sales products to obtain greater profits. In order to succeed in the Chinese market, Janssen did a lot of preliminary work such as market research before entering the Chinese market, but even so, Xi'an Janssen encountered many challenges in the development process, such as cultural conflicts, high drug prices, and the pharmaceutical market, promotion difficulties and so on. But now, we can regard Xi'an Janssen is still very successful. The main reasons are: fully integrating the actual situation of the Chinese market, and combining China's national conditions to create a corporate culture of Chinese and Western cooperation; Adequate market research; Customer demand-oriented; Cost saving; Continuous innovation; Perfect talent recruitment and training system within the company; and the efficacy and safety of the products.

Fourth, the author's main intention in writing this dissertation is to explore and analyze the entry mode strategic of foreign-funded enterprises to enter the Chinese market. And hopes to provide some reference and help for foreign-funded enterprises that are preparing to enter the Chinese market, and also hopes to provide a reference for Chinese enterprises “go out”.

There are still some shortcomings in this dissertation need to be improved. For example, the methodology only selects qualitative analysis without combining quantitative analysis, and the case study analysis only selects a representative company without more samples are selected, and the result is relatively simple and lack of depth. In the future research, the author will continue to increase the depth and breadth of the research, and gradually improve the research in this field, hoping to provide more reference for foreign enterprises to enter the Chinese market.

Reference

Agarwal, S., and Ramaswami, S. 1992. Choice of foreign market entry mode: Impact of ownership, location, and internalization factors. ***Journal of International Business Studies***, 23 (1), 1-26.

Al-Shammari, H. A., O'Brien, W. R. & AlBusaidi, Y. H. 2013. Firm internationalization and IPO firm performance. ***International Journal of Commerce and Management***, 23(3): 242- 261.

Andersen, O. 1997. Internationalization and Market Entry Mode: A review of theories and conceptual frameworks. ***Management International Review*,** 37(2): 27-42.

Anderson, Erin and Hubert Gatignon 1986. Modes of Foreign Entry: A Transaction Cost Analysis and Propositions, ***Journal of International Business Studies***, 17, 1 - 26.

Araujo, J. 2008. ***The Impact of Internationalization on Firm's Performance – A Qualitative Study of Portuguese SMEs***. Unpublished master dissertation. ISCTE, Lisboa.

Arona, A. and Fosturi, A. 2002. Wholly owned subsidiary versus technology licensing in the worldwide chemical industry. ***Journal of International Business Studies***, 31: 555-572.

Antal-Mokos, Zoltan.1998. Privatisation, Politics, and Economic Performance in Hungary, ***Cambridge University Press.***

Baack, D.W. and Harris, E.G. 2012. ***International Marketing***, Thousand Oaks: Sage Publications Inc.

Brouthers, K. D. and Brouthers, L. E. 2000. Acquisition or Greenfield start-up? Institutional, cultural and transaction cost influences, ***Strategic Management Journal***, 21: 89-97.

Brouthers. Keith D. 2002. "Institutional Culture and Transaction Cost Influences on Entry Mode Choices and Performance." ***Journal of International Business Studies.*** 33(2):203～221

Buckley & Casson. 1976. The Optimal Timing of a Foreign Direct Investment. ***The Economic Journal*,** May:34-50.

Buckley, P.J., Casson, M. 1985. ***The Economic Analysis of the Multinational Enterprise,*** Selected Papers, Macmillan, London.

Cateora, P.R. 1996. ***International marketing*, 9th Edition,** Chicago: Irwin.

Chang, S. J. and Rosenzweig, P. M. 2001. The choice of entry mode in sequential foreign direct investment. ***Strategic Management Journal***, 22: 747-776.

Coase, R.H. 1937. The nature of the firm, ***Economica*,** 4, 386-405.

Czinkota, M.R. and Ronkainen, I.A. 1993. ***International marketing*, 3rd Edition,** Fort Worth: Dryden Press.

Daniels, J., D, and Radebaugh, L., H. 1995. ***International Business Environments and Operations***, 7th edition. USA: Addison-Wesley Publishing Company.

Davis, T.R.V. and Young, R.B. 2002. ***International marketing research: A management briefing in Business Horizons***, March-April 2002.

Deresky, H. 1994. ***International Management: Managing Across Borders and Culture***, New York, Wiley and Sons.

Douglas, S.P. and Craig, C.S. 1983. ***International marketing research***, Englewood Cliffs: Prentince-Hall.

Dunning, J.H. 1980.Toward an eclectic theory of international production: some empirical tests, ***Journal of International Business Studies*,** 11, Spring/Summer, 9-31.

Erramilli, M.K. and Rao, C.P. 1990.Choice of foreign market entry modes by service firms: Role of market knowledge. ***Management International Review*,** 30(2): 135–150.

Erramilli. M.K and C.P. Rao.1993. “Service Firm’s International Entry-Mode Choice: A Modified Transaction-Cost Analysis Approach,” ***Journal of Global Marketing*,** 57:19～38.

Fagre N. and Wells L. T.1982. “Bargaining Power of Multinationals and Host Governments”. ***Journal of International Business Studies*,** 12(3)21～45.

Freeman, S., Edwards, R., and Schroder, B. 2006. How Smaller Born-Global Firms Use Networks and Alliances to Overcome Constraints to Rapid Internationalization. ***Journal of International Marketing*,** 14, 33–63.

G, Sullivan Mort, and J, Weerawardena 2006. Networking capability and international entrepreneurship: How networks function in Australian born global firms, ***International Marketing Review*,** Vol.23, 549-572.

Ghauri, P and Cateora, P. 2010. ***International marketing*, 3rd Edition,** Berkshire: McGraw- Hill.

Gjellerup, P. 2000. ***SME support services in the face of globalization*.** Concerted action seminar, Opening Address, Conference Proceedings, Danish Agency for Trade and Industry, Copenhagen, pp. 16-28.

Gu Lihong. 2004. ***Dr. Paul Janssen's Dream of China***. Xian.

Harzing, A.W, 2002. Acquisitions versus Greenfield investments: International strategy and management of entry modes, ***Strategic Management Journal***, 23: 211-227.

HilI Charles W. L, Peter Hwang and Kim W. Chan.1990. "An Electric Theory of the Choice of International Entry Mode," ***Strategic Management Journal*,** 11:117～128.

Hill, C. W. 2000. ***International Business.*** McGraw-Hill.

Hill, Charles; Peter, Hwang; and Chan, Kim. 1990. An Eclectic Theory of the Choice of International Entry Mode. ***Strategic Management Journal 2***.

Hitt, M. A., Ireland, R. D. and Hoskisson, R. E. 2003. ***Strategic Management, Competitiveness and Globalization*.** Fifth Edition, South-Western: Ohio.

Hollensen, S. 2007. *Global Marketing:* ***A decision-oriented approach.*** 4th Edition, Financial Times/Prentice Hall, England.

Hymer, S. H. 1960. ***The international operations of national firms: A study of foreign direct investment***. PhD dissertation, published posthumously, 1976. Cambridge MA: MIT Press.

Johanson, J. & Wiedersheim-Paul, F. 1975. The internationalization of the Firm-Four Swedish Cases, ***Journal of Management Studies,*** Vol.12, 305-323.

Johanson, J. and Vahlne Jan-Erik 1977. The Internationalization Process of the Company: A Model of Knowledge Development and Increasing Foreign Market Commitment. ***Journal of International Business Studies,*** 8(1): 23-32.

Jonathan, L. Calof, and Paul, W. Beamish 1995. Adapting to foreign markets: Explaining internationalization, ***International Business Review*,** Vol.4, 115-131.

Jones, Marian V. 2001. "First Steps: An Examination of the First Cross-Border Business Activities of a Sample of Small, UK, High Technology Firms," ***Journal of International Management*,**7(3): 191-210. ISSN 1075-4253.

Karel, J. W. 1991. Brand Strategy Positions Products Worldwide, ***Journal of Business Strategy***, 12(3): -19.

Klein, Saul, Gary L. Frazier and Victor J. Roth.1990. "A transaction cost analysis model of channel integration in international markets," ***Journal of marketing research***, 27:196～208.

Korhonen, H. 1999. ***Inward – Outward Internationalization of Small and Medium Enterprises***, Helsinki: Helsinki School of Economics and Business Administration.

Kotler, P., Armstrong, G., Saunders, J., and Wong, V. 2001. ***Principles of Marketing***, 3rd European Edition, London: Prentice Hall.

Kumar V, V Subramaniam.1997. A Contingency Framework for the Mode of entry Decision. ***Journal of International Business Studies***,32(1):53-72.

Kumar, V. 2009. Research in International Markets: Philosophical and Methodological Issues, in Kotabe, M. and Helsen, K (Ed.), ***The SAGE Handbook of International Marketing***, London: Sage Publications Ltd.

Lafontaine, F. 1999. Survey—Mastering Strategy: 9 myths and strengths of franchising, ***Financial Times***, Vol.22, 8-10.

Lu. J. W.2002. "Intra and Inter-Organizational Imitative Behavior：Institutional Influence on Japanese Firms' Entry Made Choice." ***Journal of International Business Studies***, 33(1):16～30

Melin, L. 1992. Internationalization as a strategy process, ***Strategic Management Journal***, Vol.13, 99-118.

Mazur, L. and Hogg, A. 1993. ***The Marketing Challenge***, Wokingham, England: Addison-Wesley.

Menipaz, E. and Menipaz, A. 2011. ***International Business – Theory and Practice***, London: SAGE Publications Ltd.

Meyer, K.E./Estrin, S. 2001. Brownfield entry in emerging markets, ***Journal of International Business Studies***, 32, 3, 575-584.

Phatak AV, Bhagat RS and Kashlak RJ. 2005. ***International Management: Managing in a Diverse and Dynamic Global Environment.*** New York: McGraw-Hill.

Root, F. R. 1998. ***Entry strategies for international markets***. San Francisco: Rev. and expanded.

Root, F.R. 1987. ***"Entry strategies for international markets"***, AMACOM, New York.

Root, F.R. 1994. ***Entry Strategies for International Markets***, D.C. Heath, Lexington, MA.

Ruzzier, M., Hisrich, R., & Antoncic, B. 2006. SME internationalization research: past, present and future. ***Journal of Small Business and Enterprise Development***, 13(4): 476-497.

Shenkar, O. and Luo, Y. 2008. ***International Business,*** 2nd edition, Thousand Oaks: Sage Publications Inc.

Shenkar, O., and Luo, Y. 2004. ***International business.*** New York: Wiley.

Sherrie E Zhan. 1999. ***Choosing a Market Entry Strategy***. World Trade, 12(5), 40-50.

Simon H. A. 1995. A behavioral model of rational choice. ***Quarterly Journal of Economics***, (69):99-118.

Stephen Young, James Hamill, Cohn Wheeler, and Richard Davies .1989. ***International Market Entry and Development***, Harvester Wheatsheaf, p.2.

Terpetra, V. and Yu, C.M. 1988.Determinants of foreign investment of U.S. advertising agencies. ***Journal of International Business Studies***,19(1):3346.

Viana, C., & Hortinha, J. 1997. ***Marketing International.*** Edições Sílabo.

Welch, L.S., and R.K. Luostarinen.1988. Internationalization: Evolution of a Concept, ***Journal of General Management,*** 14(2), 34-55.

Williamson, O.E. 1975. ***Markets and Hierarchies: Analysis and Antitrust Implications***, Free Press, New York, NY.

Woods, M. 2001. ***International Business***, An Introduction. New York: Palgrave.

廖海燕. 2017. ***GZ 公司 A 产品在中国的本土化营销战略,*** Unpublished master dissertation, Shenzhen University, Shenzhen.

闫娜娜. 2015.*跨国公司在中国本土化战略研究,* Unpublished master dissertation, Yunnan University of Finance and Economics, Kunming.

Official Websites of Johnson&Johnson:

https://www.jnj.com.cn/our-company/operating-companies-in-china

http://www.jjmc.com.cn

https://www.xian-janssen.com.cn

Annex

Annex 1 -Interview Question Script

1	Why did Janssen enter the Chinese market by establishing a joint venture (Xi'an Janssen) when entered the Chinese market in the last century? Looking at it now, do you think this market strategy is correct?
2	What kind of factors will be considered when establishing a joint venture in China?
3	What do you think the advantages and disadvantages of this form of joint venture?
4	What are the main reasons and motivations for Janssen to entered the Chinese market in last century? Why did they choose to enter China at that time?
5	What are the main challenges and opportunities that Janssen faced when entered the Chinese market at that time?
6	Did Janssen have investigated and evaluated the Chinese market before entering the Chinese market? Do you think market assessments and surveys are important?
7	When Janssen entered the Chinese market, did they regard China as a big market or separate into different markets and choose different market strategies?
8	What are the main reasons for Janssen's success in the Chinese market?