

## **Registration procedure model for establishing a WFOE in the People's Republic of China**

Boštjan Polajžer  
University of Primorska Slovenia

Mirko Markič  
University of Primorska Slovenia

### **ABSTRACT**

The purpose of this article is to present research outcomes and to compare the establishment of a limited liability company in the European setting and China, and, hence, design a uniform model that could serve to future investors as a framework or instructions for registering a fully foreign owned enterprise in China.

A comparative theoretical study of company registration models in the selected European countries was used, on the basis of which we observed that registering a limited liability company in the European setting does not differ significantly from country to country. All national and local legislation as well as the procedures in the EU countries are relatively similar, the only difference in the European setting can be observed in the amount of the start-up capital required and the time for establishment that can take from 1 to 30 days. The research enabled us to set up a uniform theoretical model of establishing a limited liability company in the European setting.

On the basis of the research, we established a uniform model that should serve as guidance to future foreign entrepreneurs who intend to establish a wholly foreign owned company in China. The research contributed towards the clarification of some important issues faced by European as well as other international investors who plan to establish a wholly foreign owned company in China, or a company resembling those they establish in their own countries, in their full ownership. The mentioned research and the model of establishing a wholly foreign owned enterprise can serve a guidance or instruction to foreign investors planning to establish their own company in China.

Keywords: China, entrepreneurship, management, WFOE.

## 1. Introduction

Globalisation can be defined as a process in which the role of geographical distances in international and regional economic, political, socio-cultural relationships is becoming less significant, which influences the potential borderlessness and internationality of relationship networks and co-dependence (Lubbers and Koorevaar, 1999). In the past decades, the role of geographical distances diminished also in China, which is a result of the globalisation process, which left its mark in China in the field of economy, politics, culture, society and security. From the economic perspective, globalisation often means a rapid growth in international trade and exchange of goods, currencies, technology, and capital, in an increasingly open, integrated and borderless international world of economy (Intriligator, 2001).

China remains a great, though multi-layered, opportunity for the world. On the one hand, the developing Chinese market with 1.3 billion inhabitants offers infinite business opportunities, while on the other hand, the country as a whole remains gravely undeveloped, and consequently, the price of its workforce low. Numerous Slovenian companies should seriously consider both alternatives if they wish to survive and win in the global competitive game. Companies operating in global industries that are multiplying are being forced to internationalise their activities from the strategic point of view (Kotler, 1997).

Through the process of economic reforms, China has succeeded in achieving something that the western world required more than hundred years. Economic reforms modelled on the capitalist states have transformed China into an important power in the world economy. From the beginning of the reforms in 1979, which aimed at opening up the market, and until today, China has become one of the fastest developing economies. From 1979 to 2004, China's GDP grew at an average rate of 9.3%, and China has the second largest economy in the world, following the USA, measured in purchasing power parity; nevertheless, per capita GDP is still relatively low (Fishman, 2005).

Small and medium-sized companies are increasingly included into international exchange. This is particularly evident in small countries such as Slovenia, where it is very difficult to attain any visible advantages brought about by the economy of scale and maintain efficiency and competitiveness without expanding beyond the national boundaries (Trtnik, 1999). Moreover, there is high constraint concerning labour market as the level of flexibility is very low, which also influences companies to expand abroad (Franca, 2007). In addition, studies covering Slovenia (Nastav and Bojnec, 2008) reveal that within-country factors of rigid legislation, high tax wedges, and transaction/administration costs, hamper the development of small and medium-sized companies – pushing them to look for business opportunities both within (i.e. shadow economy) and outside of domestic markets (i.e. internationalizing). Studies of Slovenian companies have revealed different levels of internationalisation of companies from various regions and branches (Glas, et. al., 1999). As opposed to small enterprises in large countries, new dynamic companies in small countries cannot develop for long within their own countries, as they soon become limited by small national markets. Therefore, they should focus on international markets, where modern technologies, fast and available communications and changes on the international market enable them to have a more active role in global operations. Even in large developed countries, such as the USA, the report on small exporters (SBA, 2008) reveals that their export share tripled between 1987 and 1997, and in 1999 already amounted to 31% of the total export, with a tendency of further growth.

Internationalisation can be described as a process of increasing involvement in international operations (Welch and Luostarinen, 1988).

Fletcher (2001) notes that companies wishing to internationalise have certain characteristics in common, of which, the most important are: readiness to develop a product for other markets, technological advantages, readiness to enter foreign markets, focusing on research and development and the nature of products.

China has developed special principles of foreign trade that are a base for commercial cooperation with foreign countries. Nevertheless, new circumstances and an increasingly liberal legislation, particularly after China has joined the WTO, have forced China to operate in a totally different direction, and its foreign trade is based on special principles (Dezan & Associates, 2006).

According to the Asian Development Bank, by 2020 China will become the largest commercial partner in the eastern Asia and will replace the USA as the most important foreign trading partner of Japan. In the trade balance with Asia, China will show deficit, while it will show trade surplus with the rest of the world (Asian Development Bank, 2007).

The EU is the second largest partner of China (immediately after the USA) in the exchange of goods; however, according to the National Bureau of Statistics of China, the EU should soon become number one Chinese partner (European Commission, 2006). At the beginning of 1980, the EU enjoyed trade surplus with China, however, according to Eurostat, the EU is now facing trade deficit with China, and in 2006, the deficit amounted to EUR 131 billion (Eurostat, 2003). This is the largest bilateral trade deficit of the EU.

Considering all of the above mentioned facts and an increasing internationalisation of companies and globalisation of markets, all large companies are striving to penetrate this enormous market. However, the market is full of traps we should be aware of, and, at the same time, we should familiarise ourselves with the Chinese business environment, local rules, regulations and customs, if we wish to successfully enter and perform on the market.

In our research paper we wanted to define a process of establishing a new company in the PRC. When investigating the process, we identified all basic elements that influence establishing a company in China, as well as specific features that are a result of political and social environment, and compared this to Europe. We then set up a model that can serve as a basic tool for other enterprises wishing to establish their own company in China.

Business process can be defined as a set of logically related implementing and supervisory procedures and activities, which result in a planned product or service (, or, in our case, a model for establishing a company in China. It can be defined as an integrated set of activities and tasks, the purpose of which is add value to input elements in the process at the output part of the process for the client or buyer (Harrington, 1997; Smith and Fingar, 2006). Project Management Institute (1996) defines a project as a target-oriented, unique activity, consisting of a number of inter-related activities; a project has a defined beginning and an end, and is limited by time, business elements and costs.

The purpose of our research was to compare the establishment of a company in the European setting and in China, and thus set up a uniform model that could serve to future foreign investors as a framework or a guide for registering a limited liability company in China. A project objective is precisely defined, financially limited and has a deadline; the project objective is specific (Keeling, 2000).

With the help of interviews we collected information from the selected respondents, and this information served us to examine and compare the European and Chinese ways of company

registration. The data obtained in this manner was analysed and served us to set up a model of registration procedure in China. A wholly foreign owned enterprise is a type of a company most commonly used by foreign investors in China. This form enables foreign investors to perform independently on the Chinese market, and gives them a complete control over all company operations (Invest in China, 2006).

## **2. Theoretical background**

The focus of the paper is to define a process of establishing a new company in the People's Republic of China (PRC). The PRC is one of the fastest growing markets in the world. China has clearly become a major participant in world economy. It is virtually certain it will become even more important in the future due to its size, dynamic economic growth, and continuing policy reforms (Lardy 1994, VII). Consequently, foreign investors are ever more present in the PRC and its growing economy. From this point of view it was necessary to carry out this research because foreign investors do not have enough information regarding the establishment of a company in the PRC. A wholly foreign owned enterprise is a type of a company most commonly used by foreign investors in China. This form enables foreign investors to perform independently on the Chinese market, and gives them a complete control over all company operations (Invest in China, 2006).

After a record 14 years of consultation, China's long awaited new Property Rights Law was finally passed on March 16, 2007, and came into effect on October 1 of that year. Referred to as "China's next revolution" by The Economist, the law offered equal protection to socialist public property and private property, stated explicitly for the first time. This was a huge step in reforming secured lending and building a modern secured transactions system (Marechal et. al. 2009, 12).

When investigating the process, all basic elements that influence establishing a company in China have to be identified, as well as specific features that are a result of political and social environment, and this subsequently have to be compared to Europe. A model was then set up that can serve as a basic tool for other enterprises wishing to establish their own company in China. As Fernandez and Shengjun (2007, 100) suggest, it is nearly impossible to propose a general model on how to organize international operations valid for every type of company. It is true that it is impossible to carry out a general model of establishing a wholly owned enterprise in the PRC, but our research has revealed that it is possible to make an approximate model of establishing a Wholly Foreign Owned Enterprise (WFOE) in the PRC. This model cannot be applied to any type of business due to fact that each business is unique, and foreign entrepreneurs must pay attention to these distinctions when registering their own company in the PRC.

The main purpose of our research was to compare the establishment of a company in the European setting and in China, and thus set up a uniform model that could serve to future foreign investors as a framework or a guide for registering a Limited Liability Company (LLC) in China. A project objective is precisely defined, financially limited and has a deadline; the project objective is specific (Keeling, 2000). Likewise, the establishing of the company in the PRC has its own deadline and must be carefully defined, particularly one needs to have a lot of information relevant for establishing a WFOE in the PRC. This project is costly and time consuming. It cannot be compared to any European system of establishing an LLC in the European environment. Thus the main purpose of the research was to analyze and present the

establishment of companies in the PRC. The European economy shows a huge interest in doing business in China, but at the same time is not familiar with the discussed establishing of an LLC.

The Doing Business 2011 has compared data for China of starting a business to good practice and comparator economies all over the world. According to their data the average time to start a business in China in 2011 is 38 days (7, 2011). Based on relevant literature review and empirical research we were not able to compare the stated average time to starting a business in China by The Doing Business 2011 data for China. All other data are comparable with our findings.

Primarily, data was obtained from relevant literature review and content analysis of relevant documents connected with establishing a WFOE in the PRC and establishing a LLC in selected European countries. For the purpose of this research a pluralistic methodology was adopted, incorporating both qualitative and quantitative approaches, where research bias was minimised by methodological triangulation (Simon, Sohal, 1994, 34). The choice of method depends on the aim of the study (Robson 1993). Information has been gathered from several sources and data presentation can be best described through “triangulation of methods” (Simon, Sohal, 1994, 34).

To get a better validity of the research, a triangulation of respondents as sources of information was made. The first group of respondents consisted of three European managers, who were actively involved in establishing WFOE companies as subsidiaries in China. The second group of the respondents consisted of two lawyers from international law companies who are particularly involved in setting up new enterprises in China. The third group of respondents were consultants from Chinese governmental institutions who help foreign entrepreneurs to set up a WFOE company in China. A method of in-depth interview was chosen. In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation (Boyce and Neale 2006, 2). With the help of in-depth interviews information from the selected respondents was collected, and this information served to examine and compare the European and Chinese ways of company registration based on the analysis of relevant literature and sources. All collected data from primary and secondary sources were analysed and served us to set up a model of registration procedure in China.

### **3. Methodology**

We have researched a possibility of establishing a company in the People's Republic of China, as recently, an increasing number of companies have been deciding to establish production companies in this business and economic environment. For this purpose, we conducted a qualitative research – a case study. Data and information were obtained with the help of an interview. We decided to use semi-structured interview for the purpose of our research. This method was chosen mainly because of the nature of the selected topic and the realistic state in the Slovene economy. From this perspective, the use of a semi-structured interview seemed the optimum choice, as on the one hand, it helped us to learn about the experience of Slovenian companies and managers, and a manager from the European setting, who decided to register a wholly foreign owned enterprise in China, and, on the other hand, it enabled us to check the stated facts with specialised consultants who are employed by the Chinese government and work for its benefit. We then compared the diversity of answers given by officials working in specialised institutions for registering foreign companies from three

different provinces, and two entrepreneurs who have registered a company in the PRC. Information obtained in this manner was analysed with the help of the content analysis method as defined by Esterbay-Smith, Thrope and Lowe (2002); from the information obtained, we identified key characteristics and, at the same time, managed to retain the richness of the material, which was used to prove our final conclusions and to set up a model of establishing a company in China.

A semi-structured in-depth interview was used for the purpose of our research. This method was chosen mainly because of the nature of the selected topic and the realistic state in the Slovene economy. Interview is by nature a cultural and collective phenomenon. The meaning of an answer is not a straightforward matter of external or internal reference, but also depends on the local and broader discursive system in which the utterance is embedded (Wetherell & Potter, 1988, p. 169). From this perspective, the use of a semi-structured interview seemed the optimum choice, as on the one hand, it helped us to learn about the experience of Slovenian companies and managers, and a manager from the European setting, who decided to register a wholly foreign owned enterprise in China, and, on the other hand, it enabled us to check the stated facts with specialized consultants who are employed by the Chinese government and work for its benefit. In spite of being less structured, in-depth interviews are well accepted by managers and allow deeper insights into the research problem (Arzenšek, 2010). The questionnaire comprises of 12 main uniform questions (see Appendix 1). In the sample three officials from the Chinese governmental advisory offices from different provinces were included, who advise foreign investors about foreign investments, establishment of businesses and companies in the PRC. Two managers from Slovenian companies who have registered a WFOE company in the PRC were also included, and one manager from Holland, who registered a WFOE company as a subsidiary in China. These businessmen shared with us their views and experiences at registration and entry of firms on the Chinese market. The diversity of answers given by officials working in specialized institutions for registering foreign companies from three different provinces, and three entrepreneurs who registered companies in the PRC were compared. Information obtained in this manner was analysed with the help of the content analysis method as defined by Esterbay-Smith, Thrope and Lowe (2002); from the information obtained, key characteristics were identified and, at the same time, managed to retain the richness of the material, which was used to prove our final conclusions and to set up a model of establishing a company in China.

Our semi-structured interview contained 12 research questions. The questions were set in a manner which enabled us to obtain as much information as possible about the registration procedure of WFOE in the PRC. Interviews were conducted with European managers and Chinese consultants for registration of foreign companies in the PRC, as well as in specialised institutions which offer assistance to foreign investors when opening a company or representative office in China. Our research was carried out in Guangdong, Shanghai, Zhejiang and Jiangsu provinces, where the majority of foreign investment is made and the majority of companies are registered. We decided to research different provinces in order to establish whether a uniform system of establishing a wholly foreign owned production company exists in China.

In the course of our empirical research we mainly had to overcome the limitations in the sense of contents, methodology, space, time, and language. By triangulation, i.e. examining the selected topic from different perspectives, which were represented by different respondents, we raised the credibility of our research. A Chinese consultant found himself in a double role - in the role of an official of the PRC, who has to act for the benefit of his people and their social

interest, and in the role of a consultant advising foreigners in his own country. This can bring about ethical dilemmas.

#### **4. Results**

Analysis and the interpretation of information was divided into two sets: analysis and interpretation of information collected from theoretical sources, such as, various sources and literature studied in the theoretical part, and information obtained with the help of our interviews. Theoretical information was compared to the information obtained with the interview; on the basis of this information, we then tried to set up a uniform model of establishing a wholly foreign owned enterprise in China.

From the analysis of the documents and sources, it can be concluded that a more or less uniform system of registering a limited liability company exists in Europe, which has enabled us to set up a uniform registration model. Furthermore, relatively similar statutory regulations and secondary acts for establishing a LLC exist in different EU countries, the main differences can be observed in the amount of the initial capital required, tax on revenue from capital, and publication of a company in various public documents. A limited liability company in the European economic setting can be registered within 2 to 30 working days.

On the basis of information gathered from literature and sources, a more or less uniform model of registering a limited liability company can be established, containing certain specific features that were identified in individual countries.

When examining Chinese literature and sources on establishing a company in China, we have concluded that uniform rules and regulations concerning the establishment of a company or WFOE in China exist, however, these can differ from province to province. Other secondary acts and regulations exist in certain provinces, which must strictly be observed when establishing a company.

On the basis of our research, we have discerned that local customs and rules must be observed, as these enable a smoother registration of a wholly foreign owned enterprise. If we wish to register a company, we must be well-informed about local rules and regulations; while at the same time, it is highly recommendable to hire a specialised local organisation that is not owned by the state, but working independently as a consulting firm, with experience in the field of registration of such companies; we particularly recommend an international company that has references in the field of company registration in the PRC. We can conclude that local consulting firms operating under the auspices of the state are not neutral, but operate for the benefit of the state and local authorities. At the same time, it can be concluded that the registration of a WFOE is much simpler in the economic and tax-free zones rather than outside. These zones already contain all infrastructure; we can hire already constructed premises or land and build a facility that will suit our needs, in compliance with the rules of the zone and local spatial planning regulations.

Types of foreign owned companies are universal throughout China, however, foreign investors most frequently decide to register wholly foreign owned enterprises, as this type enables them a certain level independence, as well as the protection of their interests and know-how. It is well-known that Chinese authorities want to acquire as much foreign knowledge and technology as possible, and want to utilise these for their own benefit and the development of their own capacities, as well as launch them on their national and foreign markets. There is still a great threat of technology leakage and plagiarism in China.

## **5. Registration Procedure Model for Establishing an Enterprise in the PRC**

On the basis of the carried out research, analysis of relevant literature and sources about establishing a wholly foreign owned enterprise in the PRC, we have drawn up a registration procedure model for establishing a wholly foreign owned enterprise – WFOE, which could serve as a basic framework during registration procedure of a WFOE in the PRC. The model contains all essential elements that appear during the registration of WFOE and all particularities that foreign investors should pay attention to prior to and when registering a company. The elements in the model were obtained from theoretical findings and conclusions made on the basis of the research (interview) that was carried out in China.

The set up model contains all elements that offer investors a quick and up-to-date insight into the registration procedure of a wholly foreign owned enterprise, the course of registration and foreseen costs related to company registration. The model also enables us to see the time course of the registration and its duration.

The registration procedure model of a wholly foreign owned enterprise (WFOE) is demonstrated in Figure 1, and has been divided into five main steps that lead to an official establishment of a WFOE; however, official establishment does not necessarily mean that the company may begin its operations. In order to complete the registration, several other procedures have to be carried out, some of which overlap or can be carried out simultaneously, while others cannot be carried out prior to the step ahead.

## **6. Registration procedure model of a WFOE**

We set up a model of registration procedure of a wholly foreign owned enterprise (WFOE), which takes into account all the important steps that are indispensable during registration. Our model is based on theory, practical experience and research results.

The model reveals that six to eight weeks are required for registration or obtaining a business licence, however, a company cannot start operating immediately, as other registration procedures before other state authorities, for instance, tax, customs and inspection authorities have to be carried out. In order to obtain all licences and to open an RMB and foreign currency account, we need 16 to 20 weeks. Nevertheless, any procedure can get prolonged, since much depends on correct documentation submitted to individual state authority. Length of the procedure also depends on a province and local legislation.

Registration of a company in the PRC must be approached in the same manner as project work. The project of establishing a company in the PRC begins with an idea and continues with team approach that leads to company registration. As authors (Devetak, 2003; Potočan et. al., 2008; Meško et. al., 2009; Fatur and Likar, 2009) pointed out, an idea is only a step on the way towards innovation, which, in our case, men as registration of a company in the PRC.

The registration procedure model of a wholly foreign owned enterprise (WFOE) is demonstrated in Supplement 4, and has been divided into five main steps that lead to an official establishment of a WFOE; however, an official establishment does not necessarily mean that the company may begin its operations. In order to complete the registration, several other procedures have to be carried out, some of which overlap or can be carried out simultaneously, while others cannot be carried out prior to the step ahead.

The registration procedure of a wholly foreign owned enterprise can be summarised in four steps:

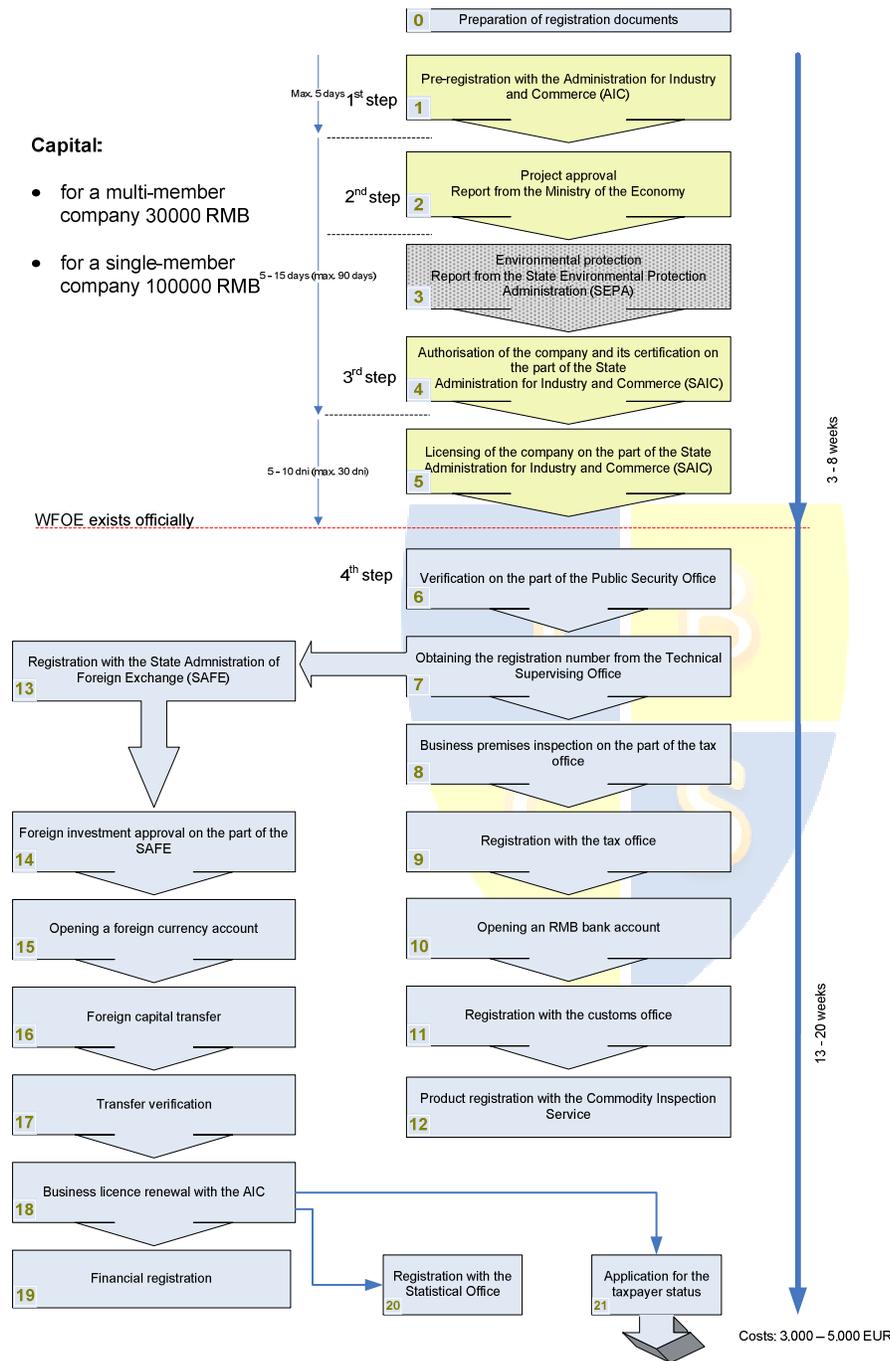
- Step 1 - Name pre-registration with the local Administrative Bureau for Industry and Commerce (AIC) After an application has been filed, name pre-registration is completed within five working days.
- Step 2 - Project Proposal should be submitted to a local approval authority where investor intends to establish a WFOE.
- Step 3 - Within 30 days, the foreign investor will need to register and apply for a business licence for the WFOE from the local AIC.
- Step 4 - After a business licence has been issued, the company must be registered with some other government authorities and obtain permits, depending on the nature and purpose of the operations. Although it legally exists, a WFOE cannot start its operations because it has to obtain all the required documents in advance. A WFOE must renew the licence with the AIC after it has paid-up the foreign capital to the foreign currency account. After paying-up the capital, the AIC will issue a business licence and the company can begin to operate within the business licence.

The model is presented in Figure 1, however, there might be some deviations regarding the time component and the procedures, as these may vary depending on the location and requirements of local authorities, as well as the nature of the activity the company will perform. Certain specific activities will require some additional documents, consents and certificates, which are not presented in this model.

The registration procedure from submitting the documents, i.e. the first step, until the start of WFOE operations can be completed within two to five months, depending on the type of the activity and documents that have been prepared for registration. Nevertheless, some procedures may get prolonged, particularly, if wrong, deficient or incorrectly filled in documents have been submitted.

The model was set up on the basis of findings from literature, sources and research work in the PRC, and can be applied to the most common type of production companies that register a WFOE in the PRC.

Figure 1: The model of establishing a WFOE in the PRC



## 7. Discussion and Conclusion

In the course of the study, we have discovered from the theory and practice - on the basis of the interview - that the best and the most common way of entering the Chinese market is through the so-called WFOEs or Wholly Foreign Owned Enterprises, where foreigners have a

total control of the company and its operations. In most of the cases, managers of these enterprises come from parent companies of foreign investors, and this is also recommended by international consulting firms dealing with the registration of foreign investors' companies in China. Furthermore, foreign managers working in China also advise registering a WFOE, in order to prevent knowledge and technology leakage of foreign investors.

The basic procedure of registering a wholly foreign owned enterprise does not differ from province to province, nevertheless, each province has its own local rules and regulations, which must be acknowledged and observed. We can set up a more or less unique framework model of registering a WFOE, which will, however, differ in certain procedures, which depend on company activity.

Interestingly, respondents did not expose the same most important factors that have to be observed when registering a wholly foreign owned enterprise. The most important factors that they exposed were: registered address of the company, environmental policy, type of production, and articles of association of the company. It thus cannot be concluded that some kind of a uniform opinion exists; however, according to the respondents who have already registered WFOE in the PRC, investors have to carefully select a consulting firm that has references from international enterprises and connections with local authorities, the so-called "Guanxi".

We have established that entering China is rather challenging for foreign investors, as all factors that could hinder the registration and further operations of the company have to be taken into account. The respondents pointed out that most traps are found outside the economic zones, since foreign investors are offered no such protection as they enjoy within the economic zones. Hence, foreign investors mostly opt for registering wholly foreign owned production companies within the economic zones, while only few register production companies outside these zones, an exception being service activities. Furthermore, territory outside the economic zones lacks appropriate infrastructure, and obtaining all the permissions and municipal utilities may prove to be rather complicated. The economic zones offer assistance in registration at a considerable price and in good time. These zones are equipped with almost all offices where all registration formalities can be carried out, customs administration and other government services.

China wishes to concentrate its industry exclusively within the economic and customs zones, as these are equipped in compliance with the country's guidelines and thus enjoy certain privileges, which are indirectly also granted to foreign investors. Certain competition can be felt among the zones, as these vie to attract more foreign investors, particularly those which deal with modern technology, the so-called High-Tech.

The findings of this study have pointed out that the registration procedure in China differs from the procedure in Europe, however, certain characteristics have been found in common, namely: articles of association, initial capital, bank account, etc. Nevertheless, investors who are not familiar with the environment may find registration procedure full of traps and barriers, specific features and cultural differences, which have to be taken into account if they wish to register a wholly foreign owned enterprise successfully and commence with successful business operations in China (Quanyu et. al, 1997). However, foreign investors must observe all the laws and regulations as well as cultural and local habits, if they wish to operate successfully on the Chinese market and successfully carry out company registration (Howard, 1997). Therefore, when registering their company, foreign investors should use an independent international organisation or a specialised organisation with international references that has completed numerous successful registrations of foreign companies in China, as this will help them to avoid nuisances that could arise during the registration procedure. Investors have to pay special

attention to language, cultural barriers and customs present on every step in daily communication and life in China.

We have demonstrated a registration of a WFOE to European businessmen intending to register a company in China in the future. With this research, we wish to contribute to a better understanding of Chinese registration procedures. The establishment process was presented from the perspective of project approach, since establishing a company is a project that begins with an idea and ends with obtaining a business licence.

Characteristics of registering a WFOE were presented through the analysis and synthesis of numerous, mainly foreign, literature and sources dealing with the registration of a WFOE, and through examining relevant legislation and local rules and regulations, which was all supported with the empirical research based on semi-structured interview.

The research helped us to shed more light on some key problems and dilemmas faced by Slovenian and European investors that have or will establish a wholly foreign owned enterprise (WFOE) in China. We believe that our research can offer additional help to companies deciding to enter China through their own WFOE companies, or a good reference material.

Before that, we conducted a theoretical research on establishing a company in the European setting and discerned that a uniform system of registering a limited liability company exists in Europe, with certain distinctive features, as seen from Figure 2. In China, we investigated the establishment of a wholly foreign owned enterprise, which has the most common features with a limited liability company in the European setting. The research pointed out that local customs and rules exist in provinces which must be observed by foreign investors when registering such company. We have observed that China has a uniform national legislation pertaining to the registration of a WFOE. The legislation has been adapted to the national interests and protects the Chinese economy.

The research gave us a deeper insight and understanding of registration processes, which had been previously analysed theoretically (Jianfu, 1999; Zeng et. al., 1999; Turner-Gottschang et al., 2000; Pittman, 2001; Deli, 2003). Prior analysis of legislation, rules and regulations, literature and sources, enabled us to carry out a high quality research. The research questions confirmed certain theoretical findings and gave us a better understanding of the registration concept.

Findings from literature, sources and our research enabled us to set up a model of establishing a WFOE in China (Haughwout et. al., 1989; Yadong, 2000; Brahm, 2002; Ambler, 2008; Wilson, 2009). The model demonstrates the entire registration procedure of such a company in the PRC.

The model can serve to foreign investors who have decided to register a WFOE in the PRC as a basic framework for registering such company, as it clearly demonstrates and describes the procedure that must be followed if we want to successfully complete company registration in China. The registration of a WFOE is very complex, and we have concluded that it cannot be compared or equalled to registering a limited liability company in the European setting. Certain similarities do exist in some procedures; nevertheless, the entire registration procedure differs greatly from the European one and is much more time consuming.

The case study enabled us a deeper insight into the registration of a wholly foreign owned enterprise in China, and is a pioneer study of such kind in Slovenia. The research itself makes a great contribution to economy and science. For the economy, the research offers a quick insight into the registration procedure of WFOE in China. For science, the research presents a base

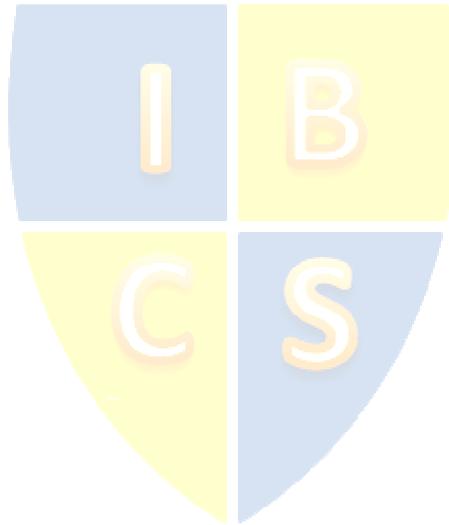
which can be further expanded through the research of registration procedures for other types of companies in China, or to compare registration procedures between local and foreign investors.

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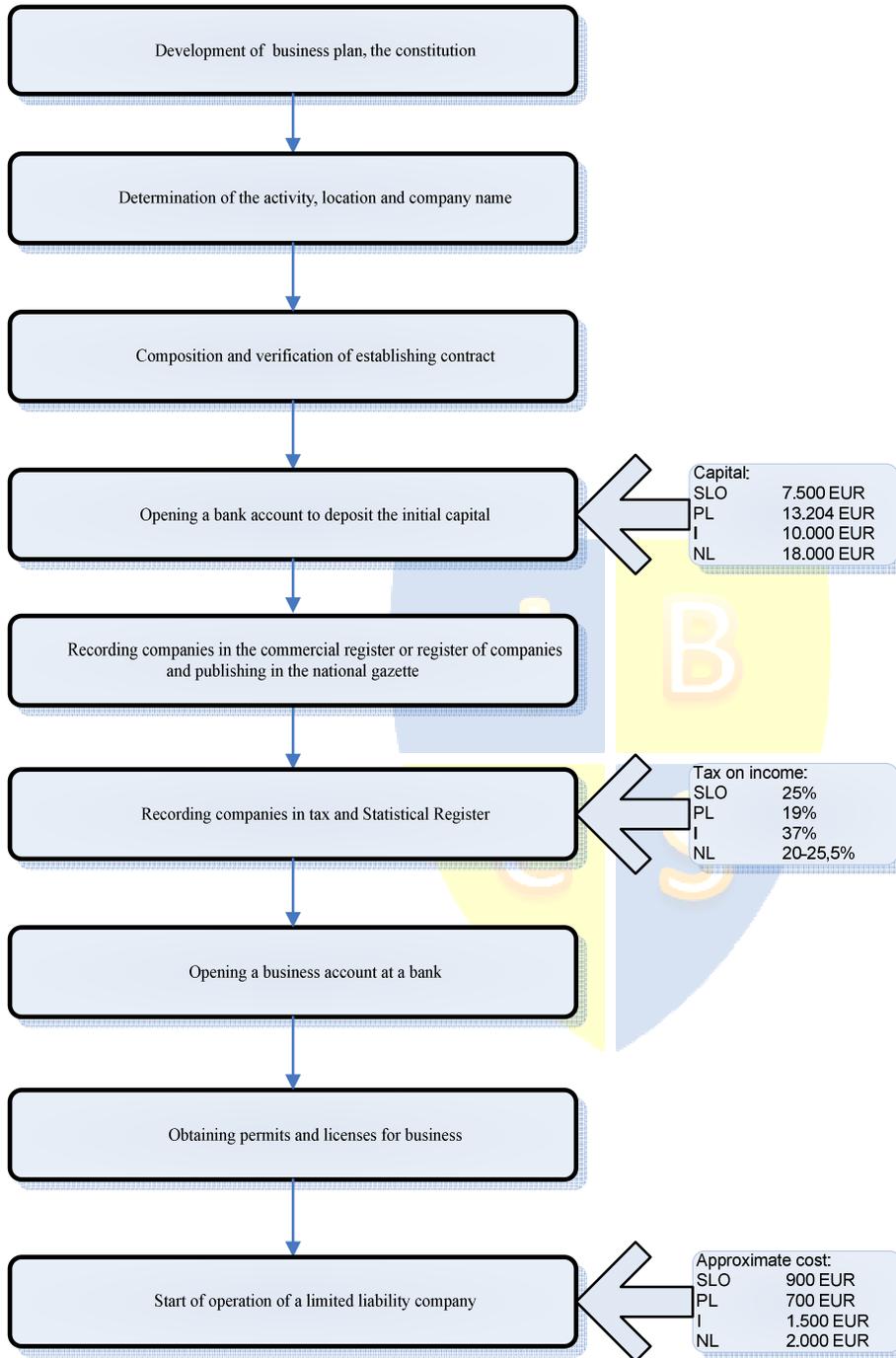
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Appendix 1: Uniformed model of registration of Limited Liability Company in Europe



Appendix 2: Uniformed questioner

1. Please, can you provide us the actual law and regulations for establishing companies in PRC? 请问您能否提供给我们有关于在中国成立公司的现行法律和法规？
2. Which are forms of companies that a foreign investor can register in China and which is a recommend form of company that foreign investor can register?  
外国投资者要能够在中国注册的话，需要是什么样的公司形式？外国投资者想要注册的话，推荐的公司形式是什么？
3. Which is the most common form of company that foreign investors choose?  
请问外国投资者选择的最普遍的公司形式是那一种？
4. Why is this form of company (WFOE) the most proper for production company?  
对于生产厂商而言，为什么这个公司形式（WFOE）是最合适的？这真的是对于外资（要设立生产公司）而言最好的方法么？
5. Do foreign investors get some benefits at registering any form of a company in PRC?  
在中国注册任何形式的公司，外国投资者是否会得到一些利益？
6. Is WFOE the most proper legal form of foreign investment for Production Company?  
WFOE是否是国外投资者创立生产型企业最适合的法律形式？
7. Can you describe a process of registration of company in your invironment?  
请您是否能够描述一下在您那里登记一个公司所需要的流程？
8. What is most important at registration of WFOE?  
在登记WFOE时，什么是最重要的事项？
9. How long does it take to register WFOE?  
注册WFOE需要多长时间？
10. How much does registration WFOE in PRC cost?  
在中国注册WFOE需要花费的金额是？
11. Where should we be espeacially careful at registration of WFOE?  
在登记WFOE时，哪些地方需要特别注意？
12. Can we expect any obstacles at registration of WFOE? (either economical or law)

在注册WFOE的过程中我们会遇到哪些可能发生的障碍（经济上和法律上的）？

