MASTER'S THESIS - MSc. in International Business

THE U.S. CRAFT BREWERIES INTERNATIONALIZATION PROCESS IN CHINA

The effect of corporate entrepreneurship, regulatory focus and institutional context

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The U.S. craft breweries internationalization process in China. *The effect of corporate entrepreneurship, regulatory focus and institutional context.*

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Abstract

In the past two decades the Brewery Industry has experience many changes, reaching its maturity stage, with global players' consolidation. However, the craft breweries segment, has been able to detect new opportunities and customers' needs, offering innovative and experimental beer styles, and recognize a niche market. The U.S. craft breweries have been the pioneers in the product innovation, and from being limited to local niche markets, they have been able to reach international expansion. The global economic trends exhibit an increasing importance of Emerging Markets for the future growth of the industry, with a particular attention toward China, as the most promising market. However, little research has been investigating the internationalization of U.S. craft breweries, focusing only on the industry global players' international expansion. This study aims at investigating the U.S. craft breweries internationalization process in China, guided by the application of the EIR framework. The variables tested consists of external factors, as the institutional context, and managers' and firms' internal factors, as the corporate entrepreneurship and institutional context. Based on the result of the empirical research, it is expected to detect the preferable internationalization process for U.S. craft breweries in China in terms of entry mode, level of commitment and managers' decision-making processes.

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1. Introduction

The Brewery industry, in the latest two decades has changed greatly, becoming a global industry (Gammelgaard and Dorrenbacher, 2014). The consolidation process has potentially narrowed down the opportunity for new players to enter the market. However, a new trend is changing the industry and the consumer behaviors: craft beers.

Craft beers are becoming increasingly popular with beer consumers around the world. The movement started serving local niche markets, therefore, a local consumer base creating strong network connections with the local community. Most of the craft breweries entrepreneurs have started their production as home brewers, driven by a great passion for the product and the willingness to offer more flavorful alternatives to customers. Today, craft breweries are the only brewery segment growing with double digits volumes and sales (Marketline, 2015). The so called craft beer revolution, as it brought into the market revolutionary products and new styles, is spreading globally, and most of the pioneers and key players in the production of these beers are U.S. breweries. The strong beer culture in the U.S. and the ability of craft beer entrepreneurs to build a community around their products, have strengthen the product identity and its commercial potential also outside the U.S. (Wieber, 2013).

The connection of craft breweries with Emerging Markets (EMs) has become an interesting and relevant research topic in the context of the new economic global trends. In particular, China is one of the most promising markets for the beer industry, as being the largest beer producer with the largest number of beer drinkers in the world (Chen, 2013).

The literature on internationalization processes has extensively covered the topic of EMs entrance, however, most of the attention has been directed toward global multinational enterprises (MNEs). Instead, U.S. craft breweries are characterized as small and medium-size enterprises (SMEs), therefore, the internationalization strategies to be pursues in international markets differs greatly compared to MNEs, and requires a deep understanding of the internal firm characteristics and external environment.

The aim of this study is to analyze the opportunities of U.S. craft breweries in the Chinese market in terms of their internationalization process, in order to maximize their international strategy exploitation. Therefore, what is the U.S. craft breweries internationalization process in the Chinese market? And the EIR framework will be applied to guide the investigation.

In the second chapter of the study, a contextualization of the brewery industry characteristics, a brief history of its consolidation and a glance in the future growth opportunities for its players in international markets is presented through an international business literature review. This section is particularly important as it introduces the U.S. craft breweries international operating environment, and how they have been able to rise in this particular industry dominated by global players.

This section then goes more into details, describing the U.S. craft breweries international entry mode: exporting. There are numerous possibilities for an exporting firm to conduct its operations and the focus of this section is also to display the advantages and disadvantages of two different exporting modes, relevant for U.S. craft breweries: indirect and direct exporting. This analysis also constitutes the basis for the two hypothesis that will guide the research analysis, where alternative exporting methods will be evaluated applying the EIR framework (Li and Gammelgaard, 2014).

Then, global trends and emerging markets section exhibits the changes that are occurring specifically in emerging countries, which constitute the most promising economic global trends. Particularly relevant, the expectations for the future of their economic development and consumption levels compared to the rest of the world. This section is a general overview and an introduction of the Chinese market as one of the most promising EMs, to detect the feasibility for U.S. craft breweries operating in EMs, and particularly in China.

The opportunities for US craft breweries are displayed in the context of the Chinese market, building on the concept of EMs and, more in details, to the prominent trends within the Chinese market. Here, the concept of customer preferences, institutional effect, corporate entrepreneurship and regulatory focus are introduced in order to evaluate the possibility of direct exporting in the Chinese institutional context. In particular, the two hypotheses arising from the international business literature review are related the relevance of the EIR framework to study the U.S. internationalization in China. The EIR framework will be applied to detect how the managers' tendencies affect their firms' strategic choices in China and, if there is a positive correlation between direct exporting and the EIR framework outcomes.

In chapter 4 and 5 the EIR framework is reviewed to conduct the analysis of internal and external factors affecting the internationalization process of U.S. craft breweries in China. Chapter 4 deals with the institutional context, where the customer preferences, rules and regulations, distribution channels and negotiating practices in China are presented and compared to those found in U.S.. This section aims at presenting the cultural and geographical distance between the two countries, and the potential consequences on the U.S. internationalization process in China.

Chapter 5, deals with corporate entrepreneurship and regulatory focus, shifting the object of analysis from the external factors to the firms' internal factors, the managers' characteristics and bent. Starting from the craft breweries classification, their general characteristics, and the role of the American Brewers Association (ABA) with its Export Development Program for U.S. craft breweries internationalization. This section, then, continues with the analysis of the managers' decision-making and entrepreneurial mind-set. First, U.S. craft breweries exporting in China and included in the sample are reviewed, from their inception to their internationalization expansion. Second, a more detailed section deals with their current mode of exporting in China. Finally, relevant insights from the study of corporate entrepreneurship and regulatory focus are reviewed.

In chapter 6, the negotiation in China, one of the possible outcome from the combination of managers' attitudes and the institutional context, is reviewed. The negotiation process has been chosen because of its importance in creating business relationships and its importance for firms conducting their operations directly in China.

Finally, in chapter 7, after a short overview on the current internationalization process of U.S. craft breweries, further perspectives are presented. Based on the EIR framework outcomes managerial implications, policy making implications and literature research implications are highlighted. Managerial implications deal with the future of U.S. craft breweries involving managers' decision-making. In the literature research implications further possibilities of analysis are proposed for future researches, while in the policy making implications opportunities for governments to facilitate the U.S. craft breweries operations in China are suggested.

2. Literature Review

The following section includes a broad overview on the Brewery Industry relevant research, then, an analysis of its characteristics, consolidation and growth opportunities. The review continues with the analysis of the internationalization strategies pursued by the industry global players and a focus on exporting as the most relevant strategy for craft breweries in foreign markets.

The subsection on exporting is divided between direct and indirect exporting, in order to exhibit the multiple possibilities for craft breweries to operate in international markets. In particular, the indirect and direct exporting modes advantages and disadvantages are presented and compared, as they will be important for further analysis and the research of this study.

Finally, Emerging Markets (EMs) characteristics and their role in the future economic global trends is presented to contextualize the specific markets dynamics and future opportunities for craft breweries. An introduction of the Chinese market is proposed to understand the specific nature of the market. In effect, positive global trends in EMs and the Chinese future economic potential constitute the preconditions for a successful internationalization of U.S. craft breweries in China.

2.1 Brewery Industry research overview

The brewery industry complexity has become an important object of study for International Business researchers (Gammelgaard and Dorrenbacker, 2013; Geppert et al., 2009; Chen et al., 2005; Geoppert et al., 2013; Schmitt, 2007, Slonski and Daszynska-Zygadlo, 2010; Karrenbrock, 1990).

Most of the research is focused on the industry's global players and how they have changed the industry in the course of two decades (Gammelgaard and Dorrenbacker, 2013), while less attention has been directed toward the internationalization of craft breweries. Given craft breweries smaller size and, consequently, their limited impact on the industry, research has been focused on the consolidation of global breweries dominating and reshaping the industry through Mergers and Acquisitions (M&A).

However, craft breweries, particularly in the U.S., are becoming the cornerstone of the industry growth and development. At the moment, they are the only enterprises in the beer industry registering strong growth in developed markets through their ability to innovate a product, that in the past decades has seen little changes. Therefore, U.S. craft breweries are becoming a global success, due to their innovative products, packaging and marketing campaigns. From being limited to a small and local niche market, these breweries are now pursuing a global expansion, playing a central role in the Brewery Industry's future development.

Given these premise, the study of U.S. craft breweries internationalization processes constitutes a relevant and interesting topic for International Business research. In the following sections, a review on the literature on the industry characteristics and consolidation, international opportunities and craft breweries' internationalization strategies will be presented to contextualize the breweries within their industry and their international role. Moreover, global trends and Emerging Markets (EMs) literature introduces the characteristics of China and its importance in the global economy, to justify the decision to investigate U.S. craft breweries internationalization in the Chinese market. Finally, the EIR framework is reviewed from a theoretical perspective, in order to prove its relevance in studying the U.S craft breweries internationalization in China and have an academic starting point for its application in the study empirical research.

2.1.1 Brewery Industry Characteristics

The following section deals with the Brewery Industry characteristics, as being global, oligopolistic and mature, in order to contextualize the general industry environment in which craft breweries are operating.

The Brewery Industry is characterized by being global and oligopolistic, and it has reached a maturity stage in European and American developed countries. International business theory defines global industries as environments where competitive rivalry crosses national boundaries and, consequently, businesses might need to change their patterns of strategic behavior (Ohmae, 1985; Prahalad and Doz, 1987; Reich and Mankin, 1986). Many industry players, especially global breweries (AbInbev, Heineken, Carlsberg) compete on a global scale and, as the growth in developed countries has consistently being reduced, these players are changing their strategic behavior, tapping into new developing markets, where they still have the opportunity to grow their business.

Moreover, as global brewers operate in the context of globalization, interdependency across national boundaries exposes businesses to interdependent competitive environments, thus, strategic actions taken in another country affect competitive situations taken in other countries (Hout et al., 1982). The recent acquisition of SABMiller, the second largest global brewer, by ABInbev, the global industry leader, is an example of the strategic behavior adopted by global breweries to tap into new markets. In effect, the acquisition was a strategic move by AbInbev in order to enter emerging markets in Africa, where SABMiller was the first mover, hence leaving restricted opportunities for its competitors to acquire market shares (Khumalo, 2016).

However, the interdependency across national boundaries does not really apply to craft breweries, as each entry does not take away significant market shares from global breweries or other craft breweries. In effect, craft breweries usually have really limited market shares compared to the industry global leaders. Regarding the internationalization path of craft breweries, for example in

U.S., they have started entering less geographically distant markets, such as Canada, to later expand in some geographically further Western European markets, culturally more similar to the U.S. because of their shared strong culture of beer, and then reach global expansion with both culturally and geographically distant markets, such as Asian countries. This global expansion was pursued only by few and well-established breweries in the U.S.. In addition, internationalization was facilitated by a collaborative approach between the craft breweries as the limitations that characterize all of them, enhanced this collaborative approach. The internationalization was coordinated and eased by the American Brewers Association (ABA) expansion programs, which will be discussed more in details later in this study (ABA.com).

The second characteristic implies, based on the oligopolistic industry theories, taking into account the strategic moves of key players in oligopolistic industries, the industry characteristics, the competitive forces and mutual interdependence that shape the behavior of the industry players (Hoenen and Hansen, 2015). Again, even if this theory does not apply directly to craft breweries, they still operate within the brewery industry, which constitutes their domestic and international environment. Therefore, it is expected that key players' strategic moves would affect the whole industry, for example, in terms of new market entries.

Finally, the brewery industry is mature, meaning that it has already been through the emerging and growth phase of the "industry growth stages". These industries are usually characterized by the presence of few dominant enterprises, high entry barriers and low rate of entry (Hoenen and Hansen, 2015). These industry features suggest that new enterprises, such as the craft breweries, are unlikely to enter an industry at its mature stage. This is primarily due to the high costs related to gain market shares against the competition of already established and strong companies.

On the contrary, Swaminathan (1998) study shows that in mature industries there is often an increase in the number of firms. The study is based on niche market formation theory and illustrates that endogenous factors, such as changes in consumer behavior, create opportunities for new organizational models. Therefore, this research can be used as a basis to justify and illustrate how the craft breweries phenomenon has started and, hence, has become popular and successful. Swaminathan (1998) shows that these models arise due to the ability of some entrepreneurs to detect and foresee a new market and the needs of an emergence segment of customers. This is a first introduction to the entrepreneurial mindset of craft breweries managers/owners. In effect, most craft breweries have been founded by capable entrepreneurs, but first, by great beer enthusiastic who had the courage to innovate and start changing the industry from the bottom. The novelty introduced by craft breweries has been fundamental, especially because beer had not seen product innovation in decades. The craft breweries experimentation with flavor, ingredients and mixes, has been able to identify a need that was not satisfied by global brewers and, from a niche market, craft breweries have conquered increasing relevance within the industry (ABA.com).

2.1.2 Brewery Industry Consolidation and Craft Breweries International Opportunities

The following section, in the first part, introduces the brewery industry consolidation process at the level of global players, as a result of their international entry mode strategies. The second part, deals with the different internationalization opportunities for craft breweries to undertake international operations, as a result of the industry current dynamics.

Brewery Industry Consolidation

The brewery industry increasing consolidation has pushed its key players to look at new markets for growth opportunities. In particular, global players (AbInbev, Heineken and Carlsberg) have reached out to fast growing markets to balance the declining sales and volumes they have to back in developed countries. At the same time, even if craft breweries are experiencing growth in developed countries, they also foreseen, in the foreign markets, additional opportunities of growth and revenues. In effect, they have started to gradually enter new market to establish their brand as an innovative and interesting alternative to the globally well-known beer brands. Foreign market entry strategies in the International Business literature illustrates many different internationalizations approaches: exporting, licensing, franchising, subcontracting, and FDI, including mergers and acquisitions (M&A) and greenfield investments.

The international business research offers multiple studies on internationalization based on these different approaches. The early literature of the cost based-view suggests that the firm competitive advantage is necessary to overcome the cost of foreignness incurred when entering a foreign market (Hymer, 1976; Kindleberger, 1969). In the same years, the Product Hypothesis suggests an initial exporting phase, then followed by market-seeking FDI and cost-oriented FDI (Vernon, 1966). Buckley and Casson (1979) highlight two independent decisions involved in the licensing entry mode: location and mode of control. They focused on market-base versus firm-based solutions to differentiate the possible entry mode solutions: the exporting is located domestically and controlled administratively, foreign licensing is located in the foreign market and controlled by a contract, while FDI is located in the foreign market and administratively controlled. Then, the Uppsala school (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) suggests a stage model for foreign entry mode, a pattern where the firm gradually increases its commitment to each market based on the “psychic distance”, a measure of cultural distance between the firm’s domestic and foreign countries and markets (Hallen and Wiedersheim-Paul, 1979). Cultural barriers are also examined for foreign market entry (Bakema, Bell and Pennings, 1996) as well as the cultural learning process (Benito and Gripsrud, 1994) in order to explain the expansion of FDI. Moreover, Hofstede (1980) cultural classification assesses the cultural distance between countries and, even if the model’s limitations have been extensively criticized, is attempting to evaluate the effects of national cultures and values on internationalization.

An additional stream of research, deals with non-production activities, considered important in the context of internationalization strategies, particularly in terms of marketing and distribution entry. These studies are based on the transaction cost framework (Davidosn and MCFetridge, 1980). A number of studies have also been focusing on the entry mode through takeovers, when this entry mode typology became more common in the 1980s. The main focus has been on cost of adaptation and cultural integration after a merger (Svensson, 1996; Meyer, 1997).

However, in the brewery industry, two different internationalization patterns have historically occurred. First, global breweries have entered new market through green field investments, that later were replaced by M&A, in order to expand quickly, making use of their large financial resources to buy directly local breweries in foreign markets. On the other hand, craft breweries, due to their lack of resources, have primarily internationalized thorough exporting. Consequently, a particular focus on exporting seems necessary in order to conceptualize the craft breweries internationalization and future expansion possibilities in foreign markets.

Craft Breweries Internationalization Opportunities

Starting from the research regarding SMEs and their advantages for internationalization, part of the literature is focused on the firm's reason to internationalize. Rodriguez (2007) highlights the role of managers in the decision of internationalization as well as the presence of push and pull drivers. The *push drivers* are defined as internal stimuli from the company or home country level, while the *pull drivers* are defined as external stimuli from the target market. A common push driver is the willingness to exploit the full production capacity, while common pull drivers are attracting growing overseas markets and customer demand.

The decision of SMEs to rely on an exporting strategy is connected to the nature of these type of enterprises and the typical liabilities in which they could incur when operating in international markets: resource-constrain, lack of market power, lack of knowledge and lack of resources (Fujita, 1995; Coviello and McAuley, 1999; Knight, 2000; Hollenstein, 2005). In reality, these liabilities, that should impede SMEs to operate viably due to their small size and foreignness, do not essentially influence the opportunity of SMEs to internationalize. In effect, an increasing number of SMEs are entering foreign markets (Reynolds, 1997; Rugman and Wright, 1999; OECD, 2000). The mitigating factors of SMEs liabilities can be included in the broad concept of technology advancement, which has helped reduced the costs of doing business in foreign markets, enabling SMEs overcome their structural limits and allow an easier entrance in international markets than before (Reynolds, 1997; OECD, 2000). This concept of technology advancement is not limited to the innovations in firms' internal operations but, as applicable to the craft breweries, includes easier access to information and increasing ease of network connections creation in international markets. In particular, advancement in long distance communication have facilitated these interactions and increase the availability of information on distant markets (Reynolds, 1997; OECD, 2000).

Similarly, Oh and Moon (2011) discuss the four global trends occurred in the latest years that have created incentives for more firms to become global players, including SMEs. First, markets have become saturated and competition has become intense (Katsikeas, Piercy, and Ioannidis 1996). This trend has particularly affected the brewery industry in developed markets, such as West Europe and North America. However, craft breweries are the only players not suffering in terms of sales and volume growth in these countries, but the increasing number of craft breweries in the country, more than 4,000, has certainly enhanced the local craft beer market competition. Second, free trade agreements, customs unions, common markets and economic unions have progressively brought a removal of trade barriers and increase international business opportunities (Lazer and Shaw 2000). In effect, the brewery industry has benefited, as many other industries, from the opening of an increasing number of important developing countries in Africa and Asia, where there still is a great growth potential. For example, in recent years, China has opened its market to international player in various industries, even if the government still executes a strict control over the most strategic ones, and China reinstatement in the World Trade Organization (WTO) in 2001 has been an important facilitator. Third, the evolution of large emerging markets (Brazil, Russia, India, China) made domestic markets less attractive for many firms and shifted firms' strategic focus towards these fast-growing markets, as being first mover can enable firms to gain a long term competitive advantage. Craft breweries are especially benefiting from this evolution, since emerging markets' new middle class is acquiring an increasing purchasing power and EMs consumers are willing to spend extra money on high-quality import products (Marketline, 2015). Fourth, governments have encouraged firms to export through export programs because of countries' trade-deficit problems (Leonidou, Palihawadana, and Theodosiou 2011). For example, U.S. craft breweries have been greatly encouraged to start exporting in more distant market through the ABA promotion of its Exporting Development Program (EDP), specifically established for the promotion of U.S. craft breweries around the world. The role of the ABA and the EDP will be discussed more in details in Chapter 5.

Relevant Findings

The maturity stage reached by the brewery industry in developed markets, such as the USA, has certainly been the most relevant characteristic for the inception of the U.S. craft breweries. In effect, people with entrepreneurial mindset, have been able to take advantage of the situation and tap into new niche markets. Therefore, the industry overview permits to identify a first important characteristic of U.S. craft breweries managers, that will be analyzed more in details within the EIR framework: the entrepreneurial mind-set.

Moving to the internationalization opportunities, the literature detects two different modes of entry depending on the firms' characteristics. The green field investments and M&A for the MNEs and the exporting for the SMEs. Therefore, U.S. craft breweries are expected to internationalize through exporting strategies. A focus on the exporting strategies will follow in order to obtain a theoretical overview on the different exporting modes U.S. craft breweries can undertake in international markets.

2.2 Craft Breweries Internationalization: Exporting Strategies.

Given the different entry modes available for firms' and the specific SMEs characteristics reviewed in the previous section, which at some level limit SMEs choice of internationalization strategy, this section offers an overview of the expected optimal entry mode for craft breweries. In effect, the craft breweries financial constraints and small size suggests for a mode of entry that ensures low risks. Different exporting methods will be analyzed to illustrate and compare their advantages and disadvantages and to provided evidence of the most effective exporting strategy for U.S. craft breweries in China.

In the broad context of the previously listed global trends, exporting has been particularly attractive for SMEs as it requires small resource investments and provides great flexibility (Czinkota and Ronkainen 2007). Small investments can be withdrawn more easily and assure a limited exposure to risks, especially in EMs, due to political uncertainties (Agarwal and Ramaswami 1992). Similarly, in the Uppsala school (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) study, the choice of exporting is an effective first step for firms' internationalization, because it requires a smaller commitment compared to other entry strategies. Then firms, after they have started exporting, can decide to increase their commitment to a foreign market switching to another entry mode. However, an alternative to the Uppsala model is the "Born Global" theory (McKinsey&Co., 1993; Knight and Cavusgil, 1996; Madsen and Servais, 1997), regarding an increasing number of firm, which become internationalizing shortly after their inception. In particular, Born Globals are defined as firms that reach, within three years from the start of their operations, the 25% of total turnover from export. These firms usually operate in niche markets and they simultaneously serve multiple international markets to reach a sustainable growth.

Additionally, Brouthers and Brouthers (2002) often found a superior performance of exporting compared to other entry modes. Export strategies can bring numerous benefits to firms such as increasing capacity utilization, which can result in increasing economies of scale, in lower costs and higher profits (Piercy, Kaleka, and Katsikeas 1998). Moreover, exporting entails a diversification of risks through which firms can gain greater financial stability, and the opportunity to exploit marketing and technological advantages (Agarwal 1990). Exporting can also possibly result in the acquisition of intellectual knowledge and the development of superior capabilities, thus resulting in a competitive advantage (Day 1994). The acquisition of these capabilities is connected to the fact that exporting firms are operating in a foreign market and need to adapt to new customers, markets dynamics and face competition from both domestic and international firms. The difficulties firms face in international markets increase their internal capabilities.

Fernandez-Olmos and Diaz-Vial (2014) analyze the firms' decision of becoming an exporter with their study based on agri-food firms, showing that firm-specific factors play a predominant role in increasing the likelihood of exporting. The factors that have proven to be more significant predictors of export internationalization, among intangible factors, are those related to technological and human resources. In particular, human resources refer to the international experience of the firm's managers, which influence managers' decision-making based on their skills and motivations. For agri-food firms, the study points out that direct exporting become more likely when these firms develop international experience and increase their size.

Once a company has chosen the exporting strategy, this decision opens further possibilities for managers and owners. In effect, companies can choose between two types of exporting: direct exporting or indirect exporting. In the following sections the two distinct exporting strategies are presented, and direct comparison is performed.

2.2.1 Indirect Exporting

Indirect exporting consists in the firm decision to rely on local and foreign intermediaries to commercialize its products in international markets. With indirect exporting, firms pledge exporting, sourcing or distribution agreements with intermediaries that then manage the firm's transactions and sales in the foreign market (Fletcher, 2004 p.290). The use of intermediaries presents both advantage and disadvantages for firms. On one hand, intermediaries permit to overcome the lack of knowledge and their liability of foreignness, find customers and reduce the usual risks and uncertainties incurred while operating in foreign markets (Terjesen et al, 2008) but, most importantly, intermediaries are chosen because firms incur in lower cost compared to exporting directly (Balabanis, 2000). In effect, costs related to search and negotiation in distant market is highly important for SMEs and can be reduced with intermediaries.

On the other hand, indirect exporting presents disadvantages related to extra costs associated to the collection of information and evaluation of potential local intermediaries sustained prior to exporting, in order to lower information gaps (Hesselss and Terjesen, 2008). These costs are connected to transaction costs and rent extractions (Acs and Terjesen 2006). Additionally, firms could incur in a loss of control relying on intermediaries (Blomstermo et al. 2006).

Consequently, according to Bernard, Grazzi and Tomasi (2011) intermediary exporters, compared to direct exporters, are more likely to export in countries with high fixed export costs and to smaller markets. In addition, firms choose intermediaries to export in markets where contracting environments are weak and when products are more homogeneous, where there are higher sunk costs and lower relationship specificity.

Furthermore, Oh and Moon (2011) study provides results suggesting that the current economic trend has provided incentives to firms to develop successful international markets networks through export-ventures, especially when firms have limited resources available. Intermediaries connect with buyers and sellers in the foreign market through partnerships or export-ventures characterized by close, collaborative, fast-developing and short-lived relationships. However, the establishment of export-ventures does not guarantee positive results itself, they depend on a successful development of close relationships. In their study, Oh and Moon (2011) discuss five basic categories that are expected to influence export-ventures positional advantage:

Table 1 - Categories expecting to influence export-ventures positional advantage

1.	Exporter-specified resources (Manufacturing capabilities, brand awareness)
2.	Export intermediary-specific resources (Export market knowledge, export market experience, relationship building capabilities)
3.	Partnership related resources (Partnering experience, number of partnership-dedicated personnel)
4.	Relationship-enhancing factors (Interfirm communication quality, role clarity)
5.	Relationship-destroying factors (Opportunism, conflicts)

The study points out the importance of export intermediaries' knowledge and experience for the success of the partners' firms. This collaboration can create strong synergies when the firm and intermediary possess complementary knowledge and experience, which implicates the gain of a competitive advantage in the marketplace.

The Trabold (2002) study on export intermediation applies the choice of some variables to the decision of export directly or indirectly. The variables studied include geographic distance, psychic distance, familiarity and commodity content, however, a positive correlation has been found only between geographical distance and the use of intermediaries.

Ahn, Khandelwal and Wei (2011) model, based on the study of intermediary technology, investigate why intermediaries emerge in the economy. The motivations are related to their role of facilitating the marching between buyers and sellers and their role of mitigating the adverse selection, acting as guarantees of quality. Furthermore, Ahn, Khandelwal and Wei (2011) study the role of intermediaries in facilitating trade of exporting firms in the context of China. Intermediaries tend to export a wide variety of products that tend to be more homogeneous compared to the products of firms directly exporting, moreover, intermediaries tend to adapt a relative country focus. Finally, Ahn, Khandelwal and Wei (2011) framework suggests that SMEs choose endogenously to export through intermediaries, that is because intermediaries could serve as a vehicle for SMEs to learn their potential in foreign markets, in terms of productivity and foreign demand.

2.2.2 Direct Exporting

Direct exporting consists in the firm directly controlling the international commercialization of its products, with a direct interaction between the firm and its customers, and the firm direct responsibility over all the related operations. Part of the literature regarding direct exporting focuses on the firm-specific and owner-specific variables. Top management team international experience (Eriksson et al. 1997), the product uniqueness (Cavusgil and Nevin 1981) and R&D activity (Lefebvre and Lefebvre, 2002) are considered important variables in order for firms to choose direct exporting against indirect exporting.

The connection between productivity and direct exporting have been extensively studied. More productive firms enter new foreign markets to fully utilize their production capacity, where direct exporting ensures higher control over their overseas operations. Melitz (2003) standard model shows that firms can directly export in foreign market incurring in fixed costs and trade costs, then only the most productive firms are expected to be able to afford or willing to pay the fixed export costs of direct exporting. These fixed export costs are costs to enter a foreign market, which are related to establishing a distribution network, enforcing contractual agreements, or the uncertainty of dealing with foreign bureaucracies (Roberts and Tybout, 1997; Melitz, 2003; Bernard and Jensen, 2004; Bernard et al., 2007; Eaton et al., 2011).

Krugman (1979), Jovanovic and Lach (1991) highlight an enhanced productivity when exporting firms learn the best international production, distribution and management methods while receiving feedbacks from international customer, supplier and competitors. The benefits of directly operating in international markets are the resulting knowledge spillovers, as studied by Clerides et al. (1998) within the 'learning-by-exporting' hypothesis. Other studies support the theory that the access to international markets provides incentives to invest in innovation and skills, since exporting firms have to face international competition (Yeaple 2005; Atkeson and Burstein 2007; Bustos 2007, 2008; Costantini and Melitz 2008; Verhoogen 2008; Aw, Roberts, and Xu 2008; Lileeva and Trefler 2010).

2.2.3 Direct versus indirect exporting

Table 2 – Exporting Overview

Exporting	• *Small resources investment (Czinkota and Rankainen, 2007)* • *Great flexibility (Czinkota and Rankainen, 2007)*	• *Limited exposure to risks (Agarwal and Ramaswami, 1992)* • *Increase firms' internal capabilities (Fernandez-Olmes Diaz-Vial, 2014)*

	Advantages	**Disadvantages**
Indirect exporting	• Overcome the lack of knowledge and liabilities of foreignness. • Lower cost of negotiation	• Loss of control over international operations.
Direct exporting	• Higher control over operations • Enhanced productivity • Learning-by-exporting	• Sustain fixed and trade costs • Higher commitment of resources to manage directly operations and to acquire data.

Starting from the Exporting overview (*Tab. 2*), the study of Czinkota et al. (2011) underlines the different impacts of direct and indirect exporting on firm productivity. The results show that indirect market entry could potentially not result in growing management and management commitment to international markets or in an increase capability of serving them. Instead, direct exporting requires closer interaction between customers and firms in international markets and, thus, is expected to have a stronger impact on firms' productivity and enhance their managerial capabilities.

Similarly, the results of Yasar (2015) study on Brazilian manufacturing, applying the OLS method, supports the notion that the productivity effects of exporting are associated with the direct exporting method. The results suggest that productivity increases when a firm has a greater interaction with international firms and customers. Studies on export channels have shown their importance in affecting the firm allocation of resources and enhancing the firm's competitive advantage (Johnson & Vahlne 1977; Campa & Guillen 1999; Hessels & Terjesen 2010). Additionally, different export channels entail also different levels of control.

As mentioned previously, the 'learning-by-exporting' hypothesis is particularly important in the decision of exporting. Most of the literature shows higher impact of the hypothesis for firms that decide to export directly in foreign markets. Bai, Krishna and Ma (2015) discuss the 'learning-by-exporting' hypothesis within the environmental context of China, where direct exporters seem to have learned more compared to indirect exporters, and this difference in learning then affects the firms' future profits.

In the context of SMEs, managers/owner are fully engaged in the internationalization and play a fundamental role in its success. Equally important are also firm specific factors such as learning, social capital and ownership (Hessels and Terjesen, 2008). However, there are also external factors influencing the internationalization of SMEs.

As seen so far, exporting minimizes the costs of entry, commitment and involvement. The exporting mode also influences the choice of the distribution method for SMEs, which is particularly important in the brewery industry as it influences the type and number of customers' breweries can reach with their products. Brady and Bearden (1979) study aims at determining the effect that manager's attitudes toward the different aspects of direct and indirect exporting methods have on the distribution method selected by SMEs. First, the study underlines the three fundamental differences between SMEs and large firms: the managerial characteristics, operating methods and decision making. The findings suggest that there are differences in managerial attitudes toward the distribution methods.

Table 3 - Direct distribution

When is direct distribution more likely to be employed?	
1	Control the distribution activities is considered important.
2	Information about the foreign market is essential.
3	Selling costs are desired to be minimized.
4	Foreign intermediaries provide more sales support than domestic intermediaries.
5	Paperwork and documentation are not considered to be an obstacle to exporting.

Source: Brady and Bearden (1979)

Consequently, the incentives to switch from indirect exporting to direct exporting increase when the attributes change in the direction listed, the same applies for non-exporting executives to start indirect exporting.

The decision between direct and indirect exporting for craft breweries is driven by a trade-off between the size of the investment and their brand value as ownership advantage in foreign markets. For example, U.S. craft breweries competitive advantage consists primarily of their brand identity and image, representing a cultural movement and lifestyle strongly linked to their local communities (Wieber, 2013).

Therefore, even if on one hand indirect exporting can be viewed as less risky and advantageous, on the other hand, for U.S. craft breweries in particular, it can not necessarily the best long term option, given their specific characteristics. The indirect exporting can consequently limit the breweries' international expansion and connection with the local markets also in terms of network relationships. Instead, direct exporting permits a direct engagement with the local distributors and customers, in order for U.S. craft breweries to shape their image and directly spread their unique values and brand identity in foreign countries. However, direct exporting requires a greater commitment from craft breweries, which could not be easily managed given their small size and limited resources, both in terms of human and financial capital.

Relevant findings

The literature on exporting shows its general characteristics of requiring a small investment and allowing great flexibility, permitting a smaller commitment compared to other internationalization strategies. Moreover, the literature argues that exporting assures superior performances, compared to other entry modes, due to capability utilization and diversification of risks, and constitutes a firm' competitive advantage, as exporting firms develop superior capabilities.

U.S. craft breweries are SMEs, and the internationalization literature on these companies suggest the exporting as the optimal internationalization strategy. However, a more complex decision concerns the choice between indirect and direct exporting.

Indirect exporting consists in a firm relying on intermediaries to commercialize its products. The role of the intermediary is to overcome the firm's lack of knowledge and reliability of foreignness, therefore, reducing the risk of operating in a foreign market. Through indirect exporting, firms can learn their potential in foreign markets, while reducing the risks of internationalizing. Therefore, indirect exporting is expected to be chosen by firms first entering in new foreign markets, where they have matured a limited experience. The intermediaries can constitute the starting connection for an eventual higher commitment, when the firm's operations will be more established in the foreign market and

On the other hand, direct exporting requires a higher commitment from the firm as it is directly controlling the international commercialization and directly interacting with customers. Direct exporting, then, is expected to be chosen by companies with higher internationalization experience, able to sustain higher costs and directly deal with foreign bureaucracies, distribution networks, etc. The additional costs and commitment, compared to indirect exporting, is rewarded by higher knowledge spillovers, for example for distribution and management methods, and a higher impact on the firms' productivity utilization.

The empirical study of the EIR framework is therefore expected to provide some insights on the U.S. craft breweries internationalization experience to evaluate their exporting mode testing the framework variables.

2.3 Global trends and Emerging Markets

In this section, global trends are presented to describe and highlight, from an academic point of view, Emerging Markets characteristics and their role in the current economic global trends. In effect, defining emerging markets aims at displaying their increasing global relevance and justifying the decision of analyzing the U.S. craft breweries in the context of China.

Focusing on one global trend, that Oh and Moon (2011) have identified as creating incentives for more firms to become global, emerging markets (EMs) are becoming increasingly important, especially, for their future profits potential. Oh and Moon (2011) sustain that the evolution of large EMs is making domestic markets less attractive for an increasing number of firms. However, U.S.

craft breweries are still experiencing high sales and volume growth in domestic market and, consequently, seem to feel less pressure for expansion in EMs, compare to global breweries. In effect, only a limited number of U.S. craft breweries have tapped into EMs, while the majority remains more focused towards North American and European markets. In effect, based on the data available through the ABA, at the moment there are not more than six US craft breweries exporting in China, while there are more than 4,000 U.S. craft breweries operating in the U.S..

However, the U.S. craft breweries exporting in EMs are developing a global presence and have strategically decided to establish their brands in these markets, in order to benefit from the first mover advantage when more competitors will expand in EMs. In chapter 5, a more detailed analysis of U.S. craft breweries exporting in China is provided, to present their current internationalization processes.

The specific characteristics of EMs influence foreign firms' entry mode. Hoffman and Schmederjans (1994) identify multiple issues arising from global expansion. First, in international markets, firms have to deal with different environment (political, economic, legal, social and cultural) and with economic and social conditions and sovereignty, which make business interactions more complex. Second, the communication becomes more difficult because of the different business practices and the cultural and geographical separation. Third, the analysis of present and future competitors is obstructed by the difference in industrial structure and business practices. Finally, the information of significant economic measures cannot be available, depth and reliable.

These issues arise for enterprises from developed economies decide to internationalize in EMs, because these are markets with unique characteristics and knowledge is fundamental to effectively conduct their international operations.

In effect, EMs can be identified through their five specific characteristics (Mody, 2004):

Table 4 – Emerging Markets characteristics

1.	Per capita income of less than $4,034 (World Bank)
2.	Rapid growth compared to developed countries

3.	High volatility due to natural disasters, external price shocks and domestic policy instability
4.	EMs capital markets are less mature than those of developed countries
5.	EMs offer higher than average returns for investors

Source: Mody, 2004

On the other hand, related to the rapid growth characteristic, Zhou et al. (2013) sustain that an overemphasis of growth on EMs can lead to growth fetish, where growth is seen as an end of itself, in opposition to sustained profitable growth. The study shows that sustained profitable growth can be reached when the growth is driven by firm's existing competences and it aims at enhancing them. This type of growth is also what is expected from SMEs, with limited resources, therefore, probably more concerned with a long-term and sustainable growth to overcome EMs entry costs.

When looking at pattern FDI in EMs, Aizenman (2002) identified a trend within industries with a costly capacity, where enterprises tend to invest in more stable EMs. Mitra et al. (2015) highlights the problems related to decision support system in EMs and the insufficient understanding of operational risk in EMs due to limited studies and inadequate data available. The study shows that the operational risk is higher in EMs than in developed countries and that the most dominant factor regarding operational risk is market development. The high uncertainty in the actual future market development of EMs comes from the lack of clear information, but also, from the difficulty of predicting the policy and institutional developments of those countries, constituting an unpredictable operational risks for foreign firms. This concept will be further discussed in chapter 4, in the Chinese institutional context, where the operational risks of the Chinese market will be presented with the relevant data from the Doing Business Report and World Bank rankings.

As the reviewed international business theories show, going global is becoming more and more important for SMEs. Firms need to tap into new opportunities knowing that cross border activities are challenging. The companies' focuses are minimizing costs, maximize revenues while contemporarily challenged to exploit international opportunities and building their knowledge of foreign markets. These focuses must be integrated in their overall strategy and decision-making process. In EMs particularly, fully localizing many elements of the product can be fundamental (Schaffmeister, 2015). Cavusgil, Knight and Riesenberger (2007) distinguish the food and beverage industry competition as, commonly, on a country-by-country basis. In this industry the multi-domestic approach is usually chosen by companies in order to localize product development and marketing to the specific tastes, distribution channels, culture habits, income levels and local market needs.

Relevant Findings

The current global trends provide new incentives for firms to become global. Particularly important, in the global economy, are the EMs with their rapid economic growth, constituting a new pool of consumers with increasing purchasing power. The challenges for U.S. craft breweries to exploit these new market opportunities is building knowledge of these markets in terms of tastes, distribution channels and local market needs to effectively sell their products.

In the following section a Chinese market's overview is presented while a more detailed analysis of the institutional context, with customer preferences, rules and regulations, and distribution channels is found in chapter 4.

2.4 The EIR Framework and the Research Question

This section presents the opportunities for U.S. craft breweries in the Chinese beer market. It follows the more general analysis of EMs characteristics and aims at giving more specific information on the market present and future trends. A more detailed analysis based on empirical data will follow in chapter 4, with information on the beer preferences, rules and regulations, and distribution.

A theoretical review of the EIR framework included in this section, collects the literature on the corporate entrepreneurship, regulatory focus and institutional effect, which will guide the empirical research of the study.

The Chinese Beer Market

Within the EMs, China is one of the most promising markets for the future of global breweries. In effect, China is the world's largest beer consumer and its incomes growth has increased the number of consumer pursuing better quality imported beers (Chen, 2015). In effect, global breweries have already entered the market and are leading in terms of market shares in the more developed urban areas, while local breweries still leading the beer market of rural China. At the same time, an increasing number of U.S. craft breweries have entered the market, relying on international facilitation programs promoted by the American Brewers Association. However, the research aims at finding internationalization alternatives to permit U.S. craft breweries fully exploit the Chinese market potential (see chapter 5).

In particular, the opportunity for U.S. craft breweries of shifting to direct exporting refers to potential advantages of this export method compared to indirect exporting, while taking also into consideration all the criticalities related to this decision. It is expected that the unique characteristics of U.S. craft breweries products, organizational configuration and strong identity can be enhanced through a direct exporting strategy in the context of China.

In order to study the feasibility of exploiting this opportunity for U.S. craft breweries, the research is conducted applying the EIR framework, which consists in the identification of relevant internal and external aspects influencing internationalization (Li and Gammelgaard, 2014).

2.4.1 The EIR framework

The purpose of the EIR framework is to integrate into the classical internationalization theories of the OLI model (Dunnning, 1977) and the Uppsala international process (UIP) framework (Johanson and Vahlne, 1977), managerial and psychological concepts, which influence the decision of internationalization. The concepts include: the corporate entrepreneurship process, the host country institutions and the regulatory focus.

Corporate Entrepreneurship

The corporate entrepreneurship consists in the firm growth through recognition and exploitation of resources (Teng, 2007). It is achieved through innovation, built from the theories of creative destruction (Schumpeter, 1934) with internal and external resources combined in new ways, resulting in new product, services, markets or organizations. The pursuit and exploitation of opportunities in international markets (Dew et al, 2004) and the high uncertainty and resource constraints of the utilization of these business opportunities, such as new distribution channels, marketing strategies or relationships with new customer segment, (Abernathy and Clark, 1985; Teng 2007) are the possible outcomes of corporate entrepreneurship.

According to Gangwar and Vishwakarma (2013), an entrepreneur is a person developing new ideas and taking the risk of setting up an enterprise to produce a product or a service to satisfy customer needs. However, not all business people are entrepreneurs. An entrepreneur is looking for new ways to improve and grow and, as shown by Swaminathan (1998), they consequently have the ability to detect and foresee new market needs. Therefore, innovation is a crucial concept in relation to entrepreneurship.

According to Lazaer (2005) entrepreneurs are individuals with balanced skills and superior ability to assemble human, psychological and information resources factors creatively. The dominant theory of entrepreneurship is the ‘opportunity recognition’ theory, where the entrepreneur has the role of discovering new opportunities already existing, and develop them (Chell, 2013). In addition, Sarasvathy (2009) emphasizes the role of networking in entrepreneurship, as a collective and iterative process.

The literature on entrepreneurship has developed studies on the skills that entrepreneurs should possess in order to be successful:

- Identify customer needs, technical opportunities and market opportunities (Hayton, 2015)
- New opportunities creation (Alvarez & Barney, 2007)
- Recognition of social and market needs (Hunter, 2012)

- Successful entrepreneurs find/create an opportunity and then develop skills to capitalize on the opportunity.

In addition, Michelmore and Rowley (2013) suggest an action-oriented framework, which identifies six entrepreneurial competencies, including the identification and definition of a viable market niche, development of products and services appropriate to the firm's market niche and product innovation, new ideas generation, environment scanning, recognition and envision of new opportunities and strategies formulation to take advantage of the opportunities.

Instead, the OECD (2010) suggests a new set of entrepreneurial skills, different from other traditional business management competences. These skills include strategic thinking, a positive attitude to change and innovation, the ability to network and create strategic alliances, risk assessment, opportunity identification and motivating others around a common goal.

Chell (2013) tries to include and collect in a single framework the particular behavior and traits associated with 'being entrepreneurial', summarized in *Table 5.*

Table 5 – Categories of entrepreneurship skills

Idea Identification/creation	**Capitalizing on ideas**
• Idea generation/envisioning • Opportunity recognition and analysis. • Ability to acquire information about a potential opportunity, domain knowledge and associated skills. • Recognition of a social/market need.	• Awareness of environment and factors conductive to opportunity exploitation. • Ability to garner the necessary material resources. • Ability to convince others of the value of an opportunity. • Networking and social endebbing.
Traits/behaviors	**Managerial/leadership skills**
• **Self-belief**, self-awareness and trust in own judgement. • Ability to manage risks and shoulder responsibility. • Ability to endure and cope with difficulties with energy, motivation and persistence.	• Ability to manage others. • Ability to overcome institutional and other constraints. • Ability to develop an idea as a commercial opportunity. • Decision-making capabilities.

Source: Chell (2013).

Moreover, there are factors associated with high entrepreneurial skills, for example, the international exposure of SMEs managers to new ideas is a factor associated with the development of entrepreneurial skills at the local and international level (Rodriguez-Pose & Handy, 2015), and can be found in SMEs exporting in foreign markets.

In the context of acquisition of entrepreneurial skills, the educational attainment is positively related to opportunity recognition (Singh & Gibbs, 2013), while cognitive skills have been found to be crucial to the entrepreneurial growth for translating the opportunity recognition into information in order to transform a market opportunity into a business (Chell, 2013).

Swaminathan (1998), describes the entrepreneurial-mindset of craft breweries managers, detecting new customer needs and, therefore, being able to tap into a market at its maturity stage. U.S. craft beer entrepreneurs have been able to detect a need in the market, as an increasing number of consumers was expecting higher varieties of beers, tapping into a fast growing niche market.

The analysis of the four U.S. craft breweries included in the sample would highlight a strong drive toward innovation and opportunity recognition. In particular, craft breweries strength is linked to the more sophisticated flavors and ingredients in their beer, compared to global brewers and the recognition of a niche market.

Consequently, U.S. craft breweries managers are expected to show an entrepreneurial mind-set which also affect their decision-making process of internationalization. The empirical analysis in chapter 5, will provide some relevant insights on managers' tendencies in operating in international markets.

Applying the EIR framework, it is possible to connect the role played by corporate entrepreneurship with the managers' regulatory focus in U.S. craft breweries. In effect, managers' decision making in internationalization is influenced by the institutional context as well as by the managers' personal attitudes and believes, which depend on their regulatory focus.

Regulatory Focus

The regulatory focus is applied to fully understand what motivates managers in their decision of internationalize (Li and Gammelgaard, 2014). In effect, according to Reid (1981), who examines export behavior, the decisions on internationalization through export depends on manager's beliefs and attitudes toward foreign countries and the customers, export process and the resources committed to the process.

The regulatory focus is what motivates managers in their decision making and is based on available information and external contingencies. When the decision-maker is examined within the classical export behavior, mangers have found to be likely to achieve goals that they consider important at personal level and at the firm level (Reid, 1981). The integration of managerial psychology based on the tendency of managers to achieve positive outcomes or avoiding negative outcomes relates to the distinct regulatory focuses, promotion focus and prevention focus, respectively. These tendencies are directed toward foreign countries and customers, and export processes and resource commitment to that processes. Furthermore, the regulatory focus arises from the Triandis et al. (1985) idiocentric (self-centered activities) and allocentric (other centered activities) orientations, which are related to national cultures (Triandis and Suh, 2002). Therefore, managerial decisions regarding internationalization are related to the manager's personal regulatory focus.

The regulatory focus aims at analyzing the managerial psychology involved in the exploitation of international strategies. The basic assumption is that individuals are motivated to seek pleasure and avoid pain (Brockner & Higgins, 2011). However, depending on the regulatory focus, people behave differently to reach this same goal.

According to Brockner and Higgins (2011), the regulatory focus depends on the following factors: people's needs, the goal they wish to realize and the psychological situation that has the greatest importance to them.

Therefore, within the managers' regulatory focus it is possible to distinguish between promotional-focus and prevention-focus (Higgins, 1998).

The promotion focus highlights the importance of advancement, in terms of improvement, growth and change of the status quo, while the promotion focus highlights the avoidance of losses, related to the maintenance of the status quo and a safety orientation.

These two different focuses impact the managers' international strategies, with promotion-focused managers following a more eager approach and prevention-focused managers pursuing vigilance strategies (Higgins, 1998, 2000).

Promotion-focused mangers are more experimental, have an entrepreneurial mind-set and are willing to initiate change. Consequently, they are more oriented toward the creation of exchange relationships and taking advantage of the opportunities that these relationships might create. Then they pursue a network-oriented logic for internationalization.

Prevention-focused managers are less experimental as they are focused on avoiding losses, not entailing in exchange relationships to avoid opportunistic partners and, since changes can potentially lead to failure, they safeguard the status quo (Kumar and Gammelgaard, 2016). Then they pursue an internal-oriented logic for internationalization in order to minimize transaction costs.

Moreover, Bingham and Eisenhardt (2008) find that prevention-oriented managers seek to secure the firm's competitive position by strengthening the linkages among the company's existing resources and its activities. Promotion-oriented managers, instead, experiment and engage in spontaneous and improvisational actions and prefer the learning by doing process. These is also connected, according to Bingham and Eisenhardt (2008), to two distinct strategic logics: prevention and opportunity.

Therefore, expecting the U.S. craft breweries managers to have an entrepreneurial mind-set, it is more likely that they will exhibit a promotion-focus and opportunity logic in their internationalization decision-making.

However, Kark and Van Dijk (2007) distinguish between a chronic and a situational regulatory focus. Where with chronic is intended a regulatory focus with biological origins, as the preferences originate from the childhood (Gamache et al., 2015). The situational regulatory focus, instead, is affected by the environment in which managers are operating. The distinct behavior builds on the differences between a stable and predictable environment and a dynamic and uncertain one. According to Shamir and Howell (1999), managers choose to be preventive-oriented in stable environments.

The possibility for U.S. craft breweries managers to possess a situational regulatory focus introduces the fundamental role of the institutional context in determining the “rules of the game” and, consequently, the managers’ decision-making process.

Institutional Effect

According to Westney (2005), the institutional context affects the firms’ internationalization, since organizations are not shaped by purely technical rationality. A firm internationalization will be affected by host country’s rules and regulations, supranational institutions and host societies’ norms and values (Scott, 1995). Firms need to adapt to institutional pressures (Kostav and Zaheer, 1999). Li et al. (2007) show that foreign companies entering the Chinese market, have shaped their entry mode decisions based on the institutional pressure.

As already mentioned, strong or weak institutions have a different effect on firms’ choice of internationalization strategy. Strong institutional systems imply low transaction costs, while weak institutions usually lead to high transaction costs (McDonald and Burton, 2002). Moreover, institutional context can have both direct and indirect effects in the internationalization processes. The indirect effects, for example, can increase transaction costs or create legitimacy problems, while direct effects can result in firms imitating each other’s practices as the state produce correspondence through, for example, regulations imposing organizational patterns (McDonald and Burton, 2002).

Research Question

All the EIR framework variables influence the decisions of U.S. craft breweries in foreign markets. Consequently, the research question “what is the U.S. craft breweries internationalization process in China?” will be answered guiding the research with the following sub-question:

Do U.S. craft breweries managers have an entrepreneurial mindset and a promotion oriented focus? How do these factors affect the specific strategic choices in the institutional context of China? Is there a positive correlation between direct exporting and the EIR framework outcomes? Therefore, should U.S. craft breweries, based on the EIR framework application, consider the opportunity to export directly to the Chinese market?

In the following sections, through the application of EIR framework, it is expected to get a comprehensive idea of the future feasible opportunities for U.S. craft breweries in the Chinese market, based on their current operations.

3. Data and Methodology

3.1 Data

The study includes the use of secondary data for the analysis of the institutional context of U.S. against China, and for the analysis of the corporate entrepreneurship and regulatory focus of U.S. craft breweries’ managers. The secondary data were primarily collected from:

- World Bank Organization, the Doing Business report and World Bank database.
- The World Trade Organization (WTO) official reports and data.
    - USDA Foreign Agricultural Services official reports and the Alcoholic and Tobacco Tax and Trade Bureau official reports for U.S. brewery industry and beer products rules and regulations.
- Euromonitor and Marketline industry reports by country.

- Craft breweries official websites.
- News articles on U.S. craft breweries and interviews of the sampled U.S. craft breweries managers and ABA managers.
- Phone interview with F.X. Matt Brewing Co. president Fred Matt.

3.2 The sample characteristics

The U.S. craft breweries included in the sample are the pioneers that first entered the Chinese market between 2007 and 2009, through the trade facilitating program (EDP) sponsored by the American Brewers Association (ABA), and are currently still indirectly exporting their products in the market. The enterprises, exporting indirectly in China, chosen to be included in the sample are F.X. Matt Brewery Co., Brooklyn Brewery Co., North Coast Brewery Co., and Rogue Ales. These breweries have been recognized as craft brewers based on the ABA classification and the product typologies they produce, the innovations and experiments with ingredients and brewing techniques. Moreover, they have been founded in the United States of America, where they still have their main production plants, business operations and headquarters.

The choice of including only the pioneers' breweries in the Chinese market is related to the possibilities they had to grow and increase their market knowledge in China, which could suggest for a willingness to increase their commitment in the Chinese market. In effect, these breweries have probably matured a higher market knowledge and learning stage compared to the later incoming U.S. breweries in the market.

3.3 Methodology and Limitations

The research is conducted applying the EIR framework (Li and Gammelgaard, 2014). The three concept that compose the framework are analyzed in depth, first, the institutional effect and, then, the corporate entrepreneurship and regulatory focus, considering all different relevant components that they include.

Institutional effect

The institutional effect section include the analysis of the Chinese customers' preferences, rules and regulations, and beer distribution.

Customers' preferences are relevant in order to highlight the market potential for the U.S. craft breweries in China and their target customers. It follows a general introductive analysis of the Chinese environment and, particularly, the challenges in terms of regulations that U.S. craft breweries have to face in their local market introduces the comparison between the U.S. craft breweries local environment and the Chinese environment. Rules and regulations are fundamental for companies operating in international markets, as they delimit the firms' operations. Moreover, great differences between firms' local rules and regulations and foreign market ones can create barriers for SMEs that must adapt to the new market. These differences can also subject SMEs to extra costs of internationalization and are particularly important for the U.S. craft breweries possibilities of directly exporting in China.

For the customer preferences section, the Chinese consumer preferences and beer trends are analyzed through the use of secondary data collected from the official USDA Foreign Agricultural Services report on the U.S. craft beers in the Chinese market (Chen, 2015), where the relevant social and economic trends are presented. Then, the data collected from the USDA China beer market report provides insights on the market current and future opportunities, through the application of the SWOT analysis and an overview of the market future potential.

The comparison analysis between rules and regulation in U.S. and China is conducted through secondary data with a general overview on trade, doing business and a more specific focus on beer distribution. In terms of trade, the inclusion of both U.S. and China in the WTO implies some facilitations in rules and regulations for mutual trade between the countries. The doing business report offers a direct comparison between the ease of doing business in the two countries, to investigate the institutional effect at the macro level. The Doing Business report is published annually by the World Bank and provides objectives measures of business regulations for firms in 189 economies.

The relevant dimensions for U.S. craft breweries in the context of China have been identified in the time to import and the cost to import, both in terms of border compliance and documentary compliance. These are indicators of the level of efficiency U.S. craft breweries should expect when exporting their products in China. Moreover, this section also deals with labelling requirements, trade specifications and tariffs applied to the products exported in China. These requirements impose specific actions for the U.S. craft breweries and imply additional costs for exporting their products, which needs to be taken into account when deciding to enter the Chinese market. The distribution system is also a fundamental aspect for the brewery industry, therefore, a comparison between the U.S. and Chinese beer distribution system is included. The eventual congruencies or differences in distribution systems would require specific actions from the U.S. craft breweries, that would need to adapt to the new system and its regulations. In addition, the choice of Chinese local distributors would determine the potential geographical reach of the U.S. craft beers in China.

It was planned to collect interview data scheduling a short phone interview to the U.S. craft breweries included in the sample. Only F.X. Matt Brewing Co. president, Fred Matt has accepted to collaborate to the study. Part of the interview on the institutional context included insights on the decision to internationalize in China based in specific institutional factors. Therefore, it was possible to determine the institutional factors that U.S. craft breweries managers have personally detected as critical in operating in China.

Corporate entrepreneurship and Regulatory focus

The analysis of the corporate entrepreneurship and regulatory focus is based on the sampled U.S. craft breweries and their entrepreneurial and decision-making processes. First, the U.S. craft breweries characteristics and their different segments are presented in order to contextualize further analyses. Second, the American Brewers Association and its Export Development Program are explained in details, as they have created important international opportunities for U.S. craft breweries. Then, the top export markets analysis follows to highlight the international presence of craft breweries. Finally, a focus on the U.S. craft breweries currently exporting in China, starting from their entrepreneurial history to their exporting in China, is expected to provide additional insights.

The use of primary data, though a direct contact with the U.S. craft breweries managers, would provide the most valuable information. First, to contextualize their internationalization in China in terms of corporate entrepreneurship and regulatory focus to detect the managerial decision-making process and how managers' personal inclinations have influenced their choice of market and mode of entry. Second, to understand the market and institutional effects the U.S craft breweries detected and have considered important, at the firm level, at the moment of their internationalization in China. Finally, to gain a business perspective over the market, with the U.S craft breweries exporting volumes and revenues in the Chinese markets and an outlook over the market and their commitment plans.

However, given the small number of breweries included in the sample, due to the fact that there is a really limited number of U.S. craft breweries exporting their beers in China, and the unwillingness to participate in a short interview by many firms' managers included in the sample, there has been the opportunity to collect interview data only from F.X Matt Brewing Co. president, Fred Matt. Moreover, a questionnaire has been sent out to U.S. craft breweries managers not participating in the interview, to minimize the time they would have to employ while still providing some valuable insights. There has not been a significant number of respondents participating in the questionnaire, consequently there has not been the possibility to collect valuable information directly from the managers' of the other craft breweries in the sample.

Another exploited opportunity to collect data, related to the corporate entrepreneurship and regulatory focus, has been through the American Brewers Association, which collaborates with the U.S. craft breweries operating in China through its Export Development Program. Nevertheless, the ABA internal policy implies not to share confidential data and information of its members to external persons. They only provide data through their general reports on the U.S. craft breweries Export Development Program Growth, annually edit. This report includes the global growth of U.S. craft beers exports only for specific countries and geographical areas (Canada, Brazil, Western Europe, Japan and Asia Pacific), where the Chinese market is not listed as a single country but within the Asia Pacific geographical area. Therefore, the impossibility to collect relevant and specific information for the Chinese markets from the ABA secondary data.

The third opportunity exploited in order to collect interview data on U.S. craft breweries operating in China, consisted of a direct contact with brewery industry experts on the segment of the U.S. craft breweries. The data collection would consist in a short interview on the U.S. craft breweries exporting in China (volumes and revenues) and the tendencies of their managers in terms of entrepreneurship and decision-making processes. However, the refusal to collaborate by the relevant ABA managers and the limited business specific knowledge of the consulted members of the North American Guild of Beer Writers has not provided valuable data and information for the scope of this research.

The use of interview data combined with secondary data has been applied in order to investigate the corporate entrepreneurship and regulatory focus variables. The primary source of secondary data on U.S. craft breweries has been their own website, where a short introduction of their inception and history is provided. In addition, articles featuring the sampled craft breweries managers' interviews and ABA managers have been used to detect the entrepreneurial spirit and the craft breweries managers' and owners' main drivers. The data on the U.S. craft breweries exporting in China has been collected from craft breweries specialized websites, and USDA Foreign Agricultural Service reports.

However, the data collection has not been able to segment the exporting volumes and revenues for the each sampled U.S. craft breweries, hence, only giving a general overview of the current operations in China. The data collected refers to export growth in the Asia Pacific area and the promotional activities carrier out by the collaboration between U.S. craft breweries and the ABA.

Negotiation in China

The negotiation in China has been included as a relevant outcome arising from the combination of the Chinese institutional context and the managers' attitudes. It is expected to facilitate defining the opportunities and constraints for U.S. craft breweries operating in the Chinese market. In effect, the different negotiation approaches between U.S. and China can greatly affect the effective and efficient management of the U.S. craft breweries operations in China, influencing in particular the contractual environment. The application of the Scott's three-dimensional framework is used to describe the Chinese environment, as what firms can or cannot do and the country's dominant values, that also shape the business environment. In addition, the North institutional dimension framework is applied to detect the weak or strong character of the Chinese institutions. The knowledge of the dimensions described by Scott and North are important for U.S. craft breweries, in order to avoid negotiation mistakes when operating in China. Then, the cost of negotiating implies the application of the two theoretical frameworks to the day-to-day business, exhibiting the negotiation best practices in the Chinese context. This is particularly important to detect eventual opportunities for U.S. craft breweries to directly export in China, as it is expected to require higher negotiating and local business knowledge to operate directly in the foreign market.

4. THE INSTITUTIONAL EFFECT

In the EIR framework, *host country institutions* consist in the way in which institutions affect processes in the firm, leading to ownership advantages, and will affect later decisions of internationalization. The importance of the institutional context has been emphasized (Becker-

Ritterspach et al. 2010) as the role of the nation-sate and its influence on international production (Ietto-Gillies, 2007).

In this section, the study of the institutional effect is conducted from the analysis of customers' preferences, rules and regulations and distribution channels. The analysis also includes a comparison between U.S. and Chinese market based on these variables. In effect, comparing the two environments, it is expected to highlight the effect of the host country on U.S. craft breweries internationalization processes.

4.1 Customer preferences

The Chinese beer market shows a great potential, not only for global macro breweries, but also for craft breweries. Particularly in urban regions, consumers' income is continuing to grow, they are pursuing better quality and better flavors and imported beers are becoming more and more popular. (Chen, 2015)

In 2013, according to the American Brewers Association, U.S. craft breweries exports reached 202,206 liters with a value of $1.15 million in China. In 2014, there is an estimated growth of 30% by value of approximately $1.48 million. Given the growth potential, U.S. craft breweries require a more aggressive entrance in the Chinese market, starting from promoting their brands image and convey product know-how to beer trade, bars, restaurants and Chinese beer consumers (Chen, 2015).

The market outlooks are very optimistic with a proactive three-year market promotional plan, U.S. craft beer in China could have a year-to-year growth of 50% and reach an annual sale of $5 million by 2017. The factors at the basis of these outlooks are linked to the environmental characteristics of the Chinese market. First, China is the world's largest beer producer and consumer but its domestic production growth is slowing down and the market of mass-production beer is becoming saturated.

Second, the continued growth of income has made Chinese consumers pursue better quality and various flavors, thus imported beer are gaining popularity. On the other hand, Chinese consumers and beer trade professionals are lacking the basic know-how about U.S. craft beers (Chen, 2015). Craft beer producers are then challenged to plan market promotions to significantly raise brand image, increase product awareness in order to enable fast growth sales in China. (Chen, 2015)
In effect, specialty beers and the ales, stout and bitters categories account for roughly a 0.5% of the total Chinese market value. (MarketLine, 2015) There is surely great potential in the Chinese market that still has to be exploited by U.S. and other craft beer producers around the world. In effect, U.S. craft breweries are not the only craft breweries operating in the Chinese market. For example, Mikkeller Brewing, a Danish brewery globally famous in the craft segment for its innovate products, is also exporting in China through a distributor located in Shanghai (mikkeller.dk/distributors/).
Imported beer sales grow fast as Chinese middle class urban residents start preferring imported beers for better quality. In 2013, China imported 182 million liters of beer (increased by 66% from 2012) worth $232 million (increased by 61% from 2012) with Germany being the leader with 59% of the market share and Belgium second with 7%. In 2013, the U.S. ranks 6th with 3.8% with China purchasing 4.8 million liters of U.S. beer worth $8.8 million. The U.S. has seen an increase of 49% in volumes and 68% in value from 2012, showing an increase in high-end and specialty beer exports to China. (Chen, 2015) The higher German market shares can be related to the styles of beer they produce, lager beers, the most popular style that is also produced by the Chinese biggest producer, Tsingtao Brewery. In addition, German beers entered the Chinese market years before U.S. craft beers and have reached higher popularity and recognition by the Chinese consumers (Chen, 2013). This data refers not only to the imports of craft beer but all the imported beers from the listed countries. The relevance of this data on imported beers is based on the fact that Chinese consumers display a preference over imported beers independently from them being craft beers. In effect, the Chinese consumers are not experienced beer drinkers and believe that imported beers are, as a

whole, high quality or specialty beers. The challenge of U.S. craft breweries in China is also connected to these consumers' perception, therefore, they are expected to create awareness and educate the consumers on why and how they are different.

Craft beers currently exist mainly in the large cities, where the presence of expats is higher than in the rest of China. The high price of craft beer targets senior white-collar workers in larger cities, as Beijing and Shanghai, where craft beers satisfy higher-level consumer needs amongst beer lovers.

Moreover, imported beers are believed to experience a consumer-driven growth and are expected to rise faster, if the economy warms up after the current slow-down.

The distribution channels for imported beers are the usual retail stores and bar/restaurants. In a retail store imported beers are 100% to 200% more expensive than Chinese domestic mass-production beers as they are priced $2-4 per liter against around $1-2 per liter of domestic beers. Instead, specialty beers as U.S. craft beers are priced up to $8-15 per liter. (Chen, 2015)

The consistent difference in pricing requires raising awareness of the quality of U.S. craft beers in China and educate consumers on the craft beer unique flavors to legitimize their value.

E-commerce indirect exporting on Chinese platforms, with online sales booming in China, has seen imported beers as one of the most popular commodities purchased through this platform. U.S. craft breweries should be aware of the potential of this platform for sales growth. In effect, U.S. craft beer sales have a big room for improvement in China as the imported beer market is expected to enter soon a period of explosive expansion.

According to Chen (2015), the keys to succeed is create awareness and expand the knowledge of U.S. craft beers, and the following:

- Crate awareness of the unique culture and characteristics of innovation of the products
- Differentiation of U.S. craft beer products from competitors
- Education over the taste, the drinking rituals and the pairs with cuisines
- Promotion through Chinese social media to promote the U.S. craft beer culture and products

The awareness can be created, as it has been done at the beginning of the craft beer revolution in the U.S., educating the consumers of the unique characteristics of the product compared to other imported beers. This would be more a project on improving the beer knowledge among customers, trying the localize the product and, through the distributors/sellers, which have greater market knowledge, suggest combinations with the local cuisine and how to maximize the consumption of a craft beer. Given the increasing number of companies entering the Chinese beer market, the differentiation from the competitors is important, in order to establish a strong brand in the market and differentiate themselves from other countries craft breweries or beer producer in general. The uniqueness of the U.S. craft brewery culture is linked to the social aspects of beer drinking including innovative and audacious beer drinkers, who are seeking for new flavors and new styles of beers to gain additional pleasure while enjoying beer. This is also the philosophy behind the U.S. craft beer producers, to be innovative and fully exploit the opportunities of beer production (Wiebe, 2013).

The increasing interest and rapid development of U.S. craft beer in China is shown by the involvement of the American Brewers Association (ABA) in the Chinese market with the promotion of U.S. craft beers. The ABA is particularly involved in the Export Development Program (EDP) to promote U.S. craft beers exports and has targeted the Chinese market for promotional activities since 2006 and continues to try to maintain an annual presence to support market growth. The EDP generates exposure for U.S. craft beer through trade shows, festivals, seminars and media outreach. The ABA also offers a point of contact in China for trade, media and U.S. government officials in China that are interested in connecting with the Association or with the brewery members (see chapter 5).

Most of the U.S. brands entered the market between 2007 and 2009 as the ABA's EDP has started targeting the Chinese market with its promotional activities in 2006 (Wang 2013/2014). In particular, the first mixed container was sent to Shanghai by the ABA in February 2007 and this initial shipment included craft beers from: Brooklyn Brewery; North Coast Brewing Co.; and Rogue Ales (Beverage

Industry, 2007). The performance measures have been really positive, with U.S. craft beers exports more than doubling between 2010 and 2012 in China. However, the decision to export their products is, in large part, subordinated to the local demand. A strong local demand plays an important role in the export decision. Many craft breweries struggle to keep up with local demand but several have been are able to meet their domestic demand are seeking out to foreign markets. According to Bob Pease (Wang 2013/2014), the ABA COO, an increasing number of U.S: craft breweries are exporting internationally, not only in China, as they see a long-term potential. The Chinese market surely raises many concerns and is perceived as a difficult market to tap in, due to language barriers or lack of clarity with import regulations or because craft breweries are concerned their products will not be properly cared for under refrigerated storage and transport conditions (Wang, 2013/2014).

China is getting a taste for craft beers, now being a fast growing trend in China, not just in Shanghai and Beijing but also in smaller cities around the country. Imported beer is a luxury buy for locals looking to show off their good taste, just as much as a wine, travel and cars. The Shanghai International Beer Fest drew 40,000 people ready to try a wide variety of different beers in 2014, proving the great interest of Chinese consumers toward craft beers (Kanthor, 2014).

However, the United States only rank 18 in the China's beer imports by volume, with U.S. products accounting for less than 1% of all imports. The small market share highlights the need for the industry to do more to increase its market share in China. As a niche product targeting specific consumers, American craft beer exporters need to carefully select their marketing activities to gain increasing market shares (Han, 2010).

The market entry techniques suggested by the USDA report are promotion tools:

- Sample promotional items in popular expat locations;
- Develop relationships with key F&B managers and bartenders;
- Hire sales staff in bars and restaurants to push sales, and to introduce new or premium imported American craft beer and ale to Chinese consumers
- Continued education to the targeted group.

According to the SWOT Analysis in *Table 6*, U.S. craft breweries opportunities in the Chinese market is related to the favorable market environment for international beers, due to a graduate removal of market barriers and trade restriction. At the same time, these opportunities are also creating an increasing competition among domestic and foreign partners. The Chinese market is potentially lucrative for U.S. craft breweries that can position their products in a country with huge population, together with the market's initial maturity stage, continuous growth, openness to new products, and small market share for imports.

Table 6 - SWOT Analysis for American Beers/Craft Beers:

Strength	**Weaknesses**
▪ New to Chinese consumers. ▪ Attractive labeling. ▪ Distinctive taste, unlike the traditional brands. ▪ More choices. ▪ Convenient packaging at half dozen or loose, perfect for party or karaoke consumption.	▪ Price relatively high. ▪ Short shelf life. ▪ Glass bottles are not easy to transport during distribution and for consumers.
Opportunities	**Threats**
▪ Bar and restaurant growth allows more products to be selected. ▪ Expat community is well established and growing in China. ▪ Chinese consumers are willing to try different beers. ▪ Chinese RMB continues to increase against the US dollar. ▪ Niche market.	▪ International competition. ▪ Domestic competition. ▪ Government regulation and future tax increases.

USDA China beer market report by Han, 2010

A recent article published on the New York Times by Tsang and Lijuan (2016) discusses premium imported beers entering the Chinese market more than a decade ago, at the beginning they did not obtain a great success but the Chinese customers have changed. First of all, they have money and can afford to buy imported beers that can cost up to 100 yuan, compared to 2 yuan for regular mass-produced beers. Second, the tastes have changed and an increasing number of Chinese is swapping toward imports and local craft beers. Moreover, the growing customer base will potentially bring strong profits to imported beers' producers. The Chinese middle class is willing to spend money on brands and, since it has experienced travelling, is looking for a taste of other countries at home.

China is an escape route for the maturity stage reached in the West, especially for global breweries, and the market premiumization and trading up is the revenue driver and very relevant for the industry giants, as ABInbev China president has recognized. Between 2009 and 2013, the imports have grown from 335 million yuan to 1.4 billion, corresponding to $200 million, even if the total volume of beer has declined.

Many Chinese consumers believe that buying imported beer is more about a lifestyle than a drinking choice, and they would rather spend more money on fewer quality beers than buying a lot of the cheap beer. This shift in consumer preferences has also pushed for an increasing number of Chinese craft breweries. In Beijing there are around six, while many others have opened in other cities across China. For example, Jing-A Brewery Co. in Beijing is producing many American inspired beers with a local flair, such as Pale Ale, Double IPA and Wheat styles.

The U.S. craft beer styles are not impossible to imitate by competitors but, the uniqueness of the U.S. craft breweries has always been their ability to personalize their American styles, adding new ingredients and flavors for a potentially infinite number of variances. This was certainly facilitated by the fact that U.S. styles do not have strict rules on their composition, as for example is the case for German beer styles. Therefore, craft breweries have the advantage of a continuous experimentation and innovation within their American beer styles.

Relevant insights

The Chinese higher income has shift the customers' preferences toward imported beers with a consequent premiumization of the market. However, U.S. craft breweries are only limitedly consumed by Chinese customers compared to other countries imported beers, such as German beers. As mentioned by Fred Matt, president of F.X. Matt Brewing Co., the attractiveness of the

Chinese market is its size, which also facilitates the possibility to find a relevant segment of consumers interested in your company's products and willing to buy them.

The great market potential must be exploited by U.S. craft breweries, starting from effective promotional campaigns to better present their products to the Chinese customers. First, educating the Chinese beer drinkers on their specialty beers and styles and how they are different from the competition. Education does not only have to be on beer quality and styles, but also including the U.S. craft breweries philosophy and craft beer unique culture. The emotional and social aspects of beer drinking are also an important part of the product, and should be exported with the product, to create a connection with customers and make them feel as part of the unique U.S. craft beer community (Wiebe, 2013).

4.2 Rules and regulations

In this section, U.S. brewery industry are briefly presented in order to contextualize the U.S. beer industry also from a policy perspective. The section continues with general information about Chinese rules and regulations, introducing the country through international rankings and indicators. Then, a more specific section including documents and registrations required, as well as taxes and tariffs on the exported products. The overview on rules and regulations is important for the study of U.S. craft breweries internationalization because they can constitute a barrier to operate in the market or, alternatively, governments can create incentives to foreign companies to enter the market launching promotional policies through them.

4.2.1 U.S. rules and regulations

According to Mitchell and Koopman (2014), craft brewing entrepreneurs face a unique set of challenges, which both undermine the consumer welfare and privilege in the industry at the expense of competition and innovation. In effect, in the U.S. brewers are regulated at different levels of government: federal, state and local levels.

Among the least efficient regulations advised by Mitchell and Koopman (2014) there are the “franchise laws”. These laws restrict the brewers’ ability to sell beer directly to customers, forcing them to sell through distributors and dictating their contacts. For example, some grant distributors have exclusive territories, while others limit the ability of a brewer to choose to work with someone else. In most cases, these rules make the consumers worse off. The founder of Brooklyn Brewers, Steve Hindy, said that some small brewers refuse to enter certain markets because of the local distributions reputation. Therefore, this negatively affect consumers, limiting the territorial availability of craft beers (New York Times, 2014).

Mitchell and Koopman (2014) found two explanations for this excessive, and unusual number of regulations in U.S., a country known to incentive the individual business initiatives. The first explanation is that regulators have little incentive to take into account the combined effect of the multi-level regulations (federal, state and local) have on craft brewers. The second explanation, is based in what Bruce Yandel calls the “bootlegger and Baptist” theory of regulation, a coalition of publicly-minded activists concerned with excessive alcohol consumption (Baptists) and privately-motivated firms (bootleggers) which stand to gain from rules limiting competition. The final effect is then to privilege existing firms at the expense of newcomers and consumers. The “bootlegger and Baptist” theory explains why the three-tier system persists.

Given the growing popularity of craft brewing, many policy makers have attempted to propose targeted assistance, exemptions, subsidies and other privileges to help them enter the market. However, a more direct and effective solution would be to clear the part of regulations given the chance to brewers to succeed or fail based on their ability to craft quality beer.

4.2.2 Chinese rules and regulations

China was readmitted into the WTO organization at the 11th of December 2001, after having quit the organization shortly after the Communist Revolution of 1949. The re-entry has seen China to loosen over 7,000 tariffs, quotas and entry barriers. Even though the initial fear that foreign competition would uproot farmers and upend rusty state-owned enterprises (SOEs) somewhat has realized, overall, China has enjoyed one of the best decades in the global economic history. Many foreigners also prospered, with China imposing lower tariffs on average than Brazil or India. (The economist, 2011)

Ching et al. (2011) study results show that, from 2002 to 2008, the Chinese entry to the WTO increased China's real economic growth rate by 2.4%, its export growth rate by 13.2% and its import growth rate by 18.89% a year.

Through removing trade barriers and opening its market to foreign companies, the entry of the WTO has affected every facet of China.

For example, the entrance in the WTO requires a more transparent share of information regarding trade, enabling exporters and investors to gain a clearer and simpler access to data and information over trade policies and markets. This is particularly important in order to facilitate a narrower information gap toward foreign market for firms in general, and SMEs in particular. As seen previously, SMEs lack of resources impedes the access to foreign market information, therefore, more transparent sharing of data and information by the Chinese government becomes extremely important for SMEs (Ching et al., 2011).

The Doing Business report, is useful to analyze the institutional effect at a macro level. The ease of doing business greatly affects exporters in the Chinese market and implies rules and regulations that apply to domestic companies and foreign traders (World Bank).

Indicator	China	East Asia & Pacific	OECD High Income
Time to import: Border compliance (Hours)	72 H	59 H	9 H
Cost to import: Border compliance (USD)	$790	$421	$123
Time to import: Documentary compliance (Hours)	54 H	70 H	4 H
Cost to import: Documentary compliance (USD)	$150	$148	$25

China, in the indicators of import considered by the Doing Business report, perform worse than the mean of the East Asia & Pacific for border compliance, while better than the East Asia & Pacific for documentary compliance. On the other hand, China is still way behind the OECD high income countries in all four the import indicators, still showing a big gap with developed countries.

Overall, China ranks 84th in the 2016 Doing Business rank. In the topics related to foreign firms trading in China, the country ranks worse in the paying taxes (132nd), trading across borders (96th), while it ranks better than the overall rank for resolving insolvency (55th) and enforcing contracts (7th). Compared to the USA, which ranked 7th in the Doing Business report 2016, China is still behind in terms of ease of doing business. This can constitute a barrier for US exporters that must confront with longer time to market their products and barriers to operate in the Chinese business environment, where rules and regulations are more restrictive than their home market.

In effect, a barrier mentioned by Fred Matt, president of F.X. Matt Brewing Co., in exporting in China has been boarder compliance. They had problems with timely exporting their products in China and the restrictions imposed by the government regulations have created problems which ended with the decision of the Chinese boarder officials to send back the breweries' products. Therefore, the boarder compliance is seen as time consuming and not always worth it all this work in relation to the actual profit produced with exporting.

Table 6 - Labelling requirements overview

	USA	CHINA (IMPORTS)
LABELLING	Brand name, class, name and address, net contents, alcohol content, name and address of importer (if applicable), name and address of the bottler or packer (if applicable), statement that the product contains FD&C Yellow No. 5, statement that the product contains product additives, declaration of sulfites, declaration of aspartame.	In Chinese: name/brand product, ingredients list, net volume (ml), alcohol content, product date (yy/mm/dd), producer/distributor/importer name and address, country of origin, minimum durability date, product type, sugar content (g/L), mandatory warning statements.

Source: FDA.com

After the Chinese overview over rules and regulation, a more specific comparison between the USA and Chinese legislative environment is expected to show in more details differences between the two countries.

U.S breweries, in order to brew beer for sale, are required to submit a Brewer's Notice application to qualify as brewers with TTB. Beer, then, is required to be sold in packages that are marked, branded, and labelled in conformity to the specific regulations. However, for exporters to People's Republic of China, there are specific labelling requirements (*Table 6)*.

Moreover, required documents, licensing, import procedures, taxes and tariffs apply to companies exporting in China.

The required documents certify the provenience and the features of the product exported for sales, while licensing is required in order for firms to be added to the list of approved importers in China.

Table 7 – Documents and registration overview

	China
Required documents	Commercial invoice, customs value declaration, freight insurance/documents, packing list, insurance certificate, certificate of origin, certificate of health/sanitation, certificate of authenticity/free sales

Licensing and registration	Application review and if approved, the importer is assigned a Serial Number and added to a list of approved importers.

Source: FDA.com

For labelling requirements, China's General Administration of Customs (GCA) can require a pre-import analysis if warranted. All products must be inspected and receive clearance certificate by the Customs authority. The label is required to be accurate, truthful, and non-misleading, as the same that applies in the US, but must be presented in Chinese.

For products destined to export markets, the U.S. regulations required the container to be marked, while the import procedure in China imply a commodity inspection. Exporting applies additional taxes and tariffs, specifically VAT and consumption tax in China.

Table 8 – Trade, taxes and tariffs overview

	Specifications	**Imports**
Trade	The brewer shall mark the word "export" on each container or case of beer, before removal from the brewery of any exportation authorized (in addition to the marks and brands). This applies when the beer is directly exported by the brewer to a foreign country; when cased beer is transferred from a brewery to a foreign-trade zone for export or for storage pending exportation; when cased beer is exported to the military.	Import commodity inspection of the beer received.
Taxes/Tariffs	All beer, brewed or produced, and removed for consumption or sale, is subjected to taxation, for every barrel containing not more than 31 gallons, and at a like rate for any other quantity of for the fractional parts of a barrel.	Beer and malt beverage products are subjected to VAT and Consumption tax.

However, the procedure of export and the required documentation are additional taxes that brewers have to support. However, as Fred Matt president of F.X. Matt Brewing Co. mentioned in the interview, the U.S. government provides incentives to firms exporting as the breweries do not have to pay state taxes on the profits they make in China.

Relevant insights

The rules and regulations for imported beer in China often create barriers for U.S. craft breweries. In particular, F.X. Matt Brewing Co. president Fred Matt, mentioned the difficulty to market their products and ensure their quality while being compliant to China's rules and regulations. For example, Fred Matt mentioned the requirements of 18 months' shelf life for beers imported in the Chinese market. However, due to their composition and production process, Saranac craft beers have only a 12 months' shelf life, to assure their high quality standards. Therefore, F.X. Matt Brewery Co. has experienced problems in their exporting process, seeing their products being rejected by the Chinse boarder authorities. Therefore, Chinese rules and regulations are often seen by the U.S. craft beer producers as barriers for an efficient exporting process, particularly becomes they are time consuming, requiring special precautions by the producers.

An important consequence, mentioned by Fred Matt, are the limited volumes of beer sold and the limited revenues from exporting in China. Consequently, beer producers believe that time consuming custom compliance it is not even worth the potential revenues from exporting in China, as the supply are limited to one container per year.

4.3 Beer Distribution

Beer distribution in U.S. has been regulated after the end of Prohibition, with 21th Amendment a key tenant was the establishment of a third tier that kept alcohol producers from selling directly to the public or retail outlets. According to the report of Markets, Enterprise and Resilience Initiative of the New America Foundation in 2012 the breweries are still somewhat protected by this three-tier system (Crowell, 2013).

The three-tier distribution system requires all beer producers to pass through a middle-man, the distributor or wholesalers. The distributors than take care of the marketing and the on-the ground sales for the beer producer, selling their beer to retailers. The system implies that beer producers do not sell directly to retailers, while distributors are not allowed to purchase shelf space or exclusivity, furnish equipment like draft coolers, offer loans or create a feeling of obligation, or offer discriminatory promotional pricing.

The system carries benefits, providing temperance, ensuring orderly market conditions, and raise revenues, since distributors contribute to transparency in taxations collecting taxes. The system, according to distributors, benefits particularly small producers. Since the global breweries could be able to undercut small producers offering more competitive prices directly to retailers.

However, beer producers complain about the systems as it unnecessary inflates beer prices, interfere with efficient distribution and possibly violates international free trade agreements. In effect, even if distributors have to be independent, a small brewery has almost no chance to reach many markets within the U.S. One example is Brooklyn Brewery, which has a strong international presence, but it is still not present in all U.S. states. Small distributors are forced out of business because in many large distributors global macro breweries are claiming ownership. Many large distributors self-identify as “large brewery Distributors”. The Federal Trade Commission (FTC) stated through a report that the current system limits consumer options and increased the price of alcoholic beverages (Spiess, fermentaroum.com).

The global breweries have tried to vertically integrate, however, the three-tier system is still somewhat independent. In effect, in most consumer goods markets in U.S. today, two or three players dominate and new entrants struggle to remain independent because the distribution systems are managed by the key players in the industry. Instead, in U.S. beer market there are still more than 3,000 small distributors, which have been extremely effective in promoting innovation and variety in the market (Crowell, 2013).

Over the past ten to twenty years, distributors and wholesalers were challenged to adapt to the rapidly growing craft beer industry in terms of market shares. Now craft beer has an increasingly large scale distribution by traditional and specialty distributors, and breweries themselves. An increasing number of large distributors are including craft beers as part of their portfolio, but outreach and consumer education over craft beers remains crucial (Weaver, 2012).

If in the past there has been a consolidation among distributors driven by economies of scale, today there are increasing distributors entering the market, given the low entry cost barriers. Moreover, given the extraordinary growth of craft breweries, craft-centric and specialty distributors are emerging in the market (Crowell, 2013).

However, related to the past distribution in the beer market, the ABA has published statements regarding the best practice for craft breweries in terms of distribution *(Appendix 3)*.

The analysis of the beer distribution in the U.S. is important to make a comparison with the beer distribution in China and detect eventual congruencies or discrepancies between these two systems. Distribution is fundamentally important in the brewery industry and detecting the differences between domestic and international distribution is necessary to effectively tap into new markets. Similarities with the U.S. distribution could be beneficial for U.S. craft breweries, as it would be easier to adapt to the foreign standard. On the other hand, changes in the distribution between countries can potentially create both advantages and disadvantages for U.S. craft breweries, mostly related to the ease of getting their products to the final customers or being force to adapt to a new system.

In the following section, the Chinese distribution system is analyzed and compared with the U.S. system, to understand the potentialities of the U.S. craft breweries distribution reach in China and detect eventual barrier to their expansion.

4.3.1 Beer distribution in China

The three-tier distribution system in the U.S. is highly regulated at the federal level, with slightly differences at state level. Instead, in China, the system varies among brands and regions, where producers usually directly serve a number of distributors (Dai and Zhou, 2008). However, just like in the U.S. system, there are bigger distributors selling their products nationally, but always with a distinction between the Chinese rural and urban areas.

Distributors are usually licensed by local beer producers through public bidding to represent their brands in specific regions, and distributors are required to commit to a certain annual sales goal in order to become licensed.

Unlike in U.S., where each brand of beer can only be licensed to one distributor in one state, multiple distributors can be designed for each brand of beer in a single province in China. Distributors purchase beer from producers or other distributors and sell them to a number of wholesalers or act as a wholesaler, directly selling products to retailers. In small cities, each distributor represents only one producer, but in cities as Beijing and Shanghai there is one distributor carrying multiple brands from different beer producers. In addition, some distributors also support marketing for the producers, such as product and service policy training programs, customer relationship management, complaint resolution and promotional activities. This is also the case for the U.S. craft breweries, as mentioned by Fred Matt president of F.X. Matt Brewery Co., as they recognize a $1-2 feeon each case of beer sold to their Chinese distributor for marketing accounts in China. In effect, U.S. craft breweries exporting through the ABA Export Development Program, all rely on a Chinese distributor, Daxtel Imports, which is also in charge to detect Chinese customers' preferences, run promotional activities and provide reports on the Chinese beer market for its suppliers.

Wholesalers purchase products from multiple beer distributors, they carry a broad variety of beverage products, providing high level service to retailers, and are geographically close to the market. The typical beer retailers in China are hotels, restaurants, KTV's, supermarkets, bars, clubs and numerous convenient stores (Dai and Zhou, 2008).

In China, producers rarely bypass distributors to deal with wholesalers or retailers. Exceptions of direct sales mode exist but are a result of very close personal relationships between producers and retailers, when they are in the same geographical location. In effect, wholesalers in China are necessary for producers because they provide the marketing force in the channel to a very large set of small retailers but, at the same time, they erode producer’s profit. Wholesalers play a fundamental intermediary role in the off-trade channel, while in the on-trade channels, the higher retail fee and the limited number of high volume retailers permits a successful penetration of beer producers without wholesalers. However, this is not the case of U.S. craft breweries as they are not directly involved in the Chinese market, but they limit their interaction with the ABA within the Export Development Program. As mentioned by Fred Matt during his interview, the U.S. craft breweries relying on the ABA for their export activities are limitedly involved in the process of exporting to China but simply supply the Chinese distributor chosen by the ABA with the products and quantities it orders.

Retail fees vary greatly in terms of amount and presence across regions. For example, an upscale restaurant in Beijing may charge up to 100,000 Yuan annual retail fee to its distributors or, eventually, to beer producers if the brand wishes to get exclusive representation in the restaurant (Dai and Zhou, 2008).

The number of distributors and wholesalers in a city or a state in China is greater compared to U.S.. In Shanghai there are over 100 wholesalers for different brands and in general, distributors are quite small. However, these large number of wholesalers offer the opportunity for the U.S. craft brewers to be sold in specialty bottle shops, brewpubs and restaurants, specialized in the craft beers segment.

The middle tier prevalence is mainly due to the huge consumer behavioral and taste differences across geographic regions in China. In effect, the lack of understanding to different marketplaces, loosely controlled distribution network and network management inefficiency, encourage a prevalent middle tier. Producers rely on distributors and wholesalers that have local market knowledge and connections, which tends to be an efficient and effective solution to penetrate the foreign market. However, distributor or wholesaler monopoly exist in certain market regions.

Chinese logistics system today is “fragmented”, or termed “cottage industry” with a multitude of small wholesalers. At present, wholesalers in China are an indispensable link to beer producers’ sales channels. First, because marketing and sales channels are very important and producers have to rely heavily on channel marketing and wholesalers to become successful in the market. Second, wholesalers provide the natural human network of marketing forces, and also provide the value added services such as dispute settlement.

Distribution channels in China resemble the distribution channel in the U.S. market but this is not necessarily constituting an advantage for U.S. craft breweries. In effect, in US craft breweries have encounter many difficulties related to distribution, as many distributors have exclusive contracts at the national level with global breweries and are not willing to carry craft beers and invest on their promotion. For example, Brooklyn Brewery is exporting and distributing its products on a global scale, however it has still not been able to reach many North American states. This is because many local distributors have no interest in adding craft breweries in their portfolio as they are more focused on managing global breweries products.

Therefore, U.S. craft breweries exporting in China take a chance to face the same difficulties, with the additional obstacle of the liabilities of foreignness and outsidership. The best opportunity is to create a local network within the Chinese market and the assistance of the ABA, currently providing a preferential channel with its large Chinse distributor, is helping these companies with their product distribution. However, the ABA has a promotional function, not really involved in the recruiting of new customers or exporters for U.S. craft breweries, but only dealing with awareness creation and promotion of U.S. craft breweries’ products (see chapter 5).

Relevant insights

The rules and regulations for imported beer in China often create barriers for U.S. craft breweries. In particular, F.X. Matt Brewing Co. president Fred Matt, mentioned the difficulty to market their products and ensure their quality while being compliant to China’s rules and regulations. For example, Fred Matt mentioned the requirements of 18 months' shelf life for beers imported in the Chinese market. However, due to their composition and production process, Saranac craft beers have only a 12 months' shelf life, to assure their high quality standards. Therefore, F.X. Matt Brewery Co. has experienced problems in their exporting process, seeing their products being rejected by the Chinse boarder authorities. Therefore, Chinese rules and regulations are often seen by the U.S. craft beer producers as barriers for an efficient exporting process, as it becomes time consuming requiring special precautions by the producers. An important consequence, mentioned by Fred Matt, are the limited volumes of beer sold and the limited revenues from exporting in China. Consequently, beer producers believe that time consuming custom compliance it is not even worth the potential revenues from exporting.

The Chinese distribution system, as the U.S. one, consists of a three-tier system. The great number of distributor for each Chinese area, could be an advantage for craft breweries. U.S. craft breweries have the opportunity to find a distributor specialized in their segment and, at the same time, limiting the possibility to be turned down by macro brewers exclusive distributors, as often happened in the U.S.. On the other hand, the negotiation with multiple distributors can increase the cost of internationalization to gather the needed information in order to choose the right distributor.

The U.S. craft breweries currently taking part in ABA Exporting Development Program, rely on a Chinese distributor chosen by the association, Dextel Imports, as Fred Matt, president of F.X. Matt Brewing Co., explained in his interview. The distributor is in charge of picking up the products at the brewery warehouse, ship the products in containers and distribute them in the Chinese market. The distributor is also in charge of marketing activities in China, for which the breweries recognize a $1-2 fee per case of beer they supply. The distributor is the most knowledgeable about the local market, therefore, it is the one choosing the craft beers in its portfolio, based on the local customers' preferences. However, the U.S. craft breweries in the sample are not directly involved in the exporting process, as Fred Matt mentioned, the craft breweries involved in the EDP are passive exporter, as they leave all the decisions on the export strategy to the ABA with the Chinese distributor.

In the following chapter, the U.S. craft breweries export mode is evaluated from the managers' decision-making and entrepreneurial spirit. This analysis is expected to show relevant insights on U.S. craft breweries managers' tendencies and inclinations toward their internationalization in China.

5. CORPORATE ENTREPRENEURSHIP AND REGULATORY FOCUS

In the EIR framework, *corporate entrepreneurship* consists in the firm growth through recognition and exploitation of resources (Teng, 2007). It is achieved through innovation, built from the theories of creative destruction (Schumpeter, 1934) with internal and external resources combined in new ways, resulting in new product, services, markets or organizations. The exploitation of opportunities in international markets (Dew et al, 2004) and the high uncertainty and resource constraints of these opportunities, such as new distribution channels, marketing strategies or relationships with new customer segment, (Abernathy and Clark, 1985; Teng 2007) are the possible outcomes of corporate entrepreneurship.

In this section, the study of the corporate entrepreneurship is derived from highlighting the U.S. craft breweries characteristics and their importance in forging the entrepreneurial opportunities. A brief analysis of the role of the American Brewers Association (ABA) and its Exporting Development Program role in shaping the entrepreneurial opportunities of US craft breweries. Finally, a focus on the breweries included in the sample and their example of entrepreneurial processes that made them successful, is presented.

5.1 U.S. Craft breweries characteristics and the American Brewers Association.

The American Brewers Association (ABA) defines an American Craft Brewers as small, independent and traditional. Small refers to the annual production of 6 million barrels of beer or less (approximately 3 % of US annual sales). Independent means that less than 25% of the craft brewery is owned or controlled (or equivalent economic interest) by an alcoholic beverage industry member that is not itself a craft brewer. While traditional refers to a brewer that has a majority of its total beverage alcohol volume in beers, whose flavor derives from traditional (American styles) or innovative brewing ingredients and their fermentation (ABA.com).

Similarly, craftbeer.com lists the attributes of the craft beer and craft brewers. Craft brewers are small brewers and their hallmark is innovation as craft brewers interpret historic styles with unique twists and develop new styles that have not precedent. Moreover, craft beers are generally made with traditional ingredients like malted barley, and non-traditional and interesting ingredients are often added for distinctiveness. Craft brewers are unique, not only in terms of ingredients, but also because of their involvement in the local communities and the distinctive, individualistic approaches to connecting with their customers. Finally, craft brewers maintain integrity by what they brew and their general independence, free from substantial interest by a non-craft brewer.

The craft breweries attributes aroused from the abilities of some beer lover and entrepreneurs, which recognize new opportunities in the beer industry and were able to fully exploit their resources. In effect, craft brewers were the one pushing the industry toward innovation in terms of products, and tapping into a niche market that is now growing fast and globally. Consequently, corporate entrepreneurship played a significant role in determining the today's craft breweries success and product innovation.

Four distinct craft beer industry segments can be identified within craft breweries: brewpubs, microbreweries, regional craft breweries and contract brewing companies.

A *microbrewery* is a brewery that produces less than 15,000 barrels (17,600 hectoliters) of beer per year with 75% or more or its beer sold off-site. Microbreweries distribution methods include: the traditional three-tier system; the two-tier system; and, directly to the consumer through carry-outs and/or on-site tap-room or restaurant sales.

A *brewpub* is a restaurant brewery that sells 25% or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar.

A *contract brewing company* is a business that hires another brewery to produce its beer. It can also be a brewery that hires another brewery to produce additional beer. The contract brewing company handles marketing, sales and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery.

A *regional craft brewery* is an independent regional brewery with a majority of volume in the "traditional" or "innovative" beers. A regional brewery is a brewery with an annual beer production of between 15,000 and 6,000,000 barrels.

A *large brewery* is a brewery with an annual beer production over 6,000,000.

The pursuit and exploitation of opportunities in international markets for U.S. craft breweries, has been facilitated through the Export Development Program (EDP) sponsored by the American Brewers Association. The Program began in 2004 with grants from the United States Department of Agriculture's Market Access Program to achieve the following objectives:

- Educating international trade and media about the quality and diversity of products offered by the US Craft beer industry and about the US craft beer culture**.**
- Informing member breweries about opportunities for their products in key international target markets.
- Complementing the industry's own efforts to increase international distribution.

The Export Development Program objectives are expected to be achieved by member breweries through the participation in the following events (*Fig. 8)*:

Table 8 – EDP Promotional Events

Trade shows	Brand exposure through shows in Europe, Asia, North America and South America
Competitions	Craft beers participation in international Awards, Challenges and Competitions
Seminars	Export receptions and seminars at GABF and CBC
Reserve trade missions	Key buyers brought to BA events in the US
Export resources	Market research studies and dedicated export guidance.
Promotion of American craft beer	International media exposure and education

Source: ABA.com

Basically, the Export Development Program sponsors booths at festivals are expected to enhance international trade and media awareness of American craft beer. Member breweries have the opportunity to send their beer to the showcased at these events. In addition, the ABA covers the cost of a consolidated shipment and entry fees for Export Development Program members in international markets.

Since these benefits are reserved only for Export Development Program member breweries, in order to become a member, breweries pay an annual Export Development Program fee, based on brewery production, to offset administrative costs. The annual fees are as follows:

a.	$500 for breweries producing less than 5,000 barrels
b.	$895 for breweries producing between 5,000 and 50,000 barrels
c.	$1,195 for breweries producing greater than 50,000 barrels.

The achievements related to the Export Development Program alternatives consist in:

a.	Craft beer export volume increase by 36% in 2014, with a value estimated at $100 million
b.	U.S. member breweries gaining new distribution agreements throughout Europe, Asia, North America, and South America.
c.	EDP member breweries winning numerous awards in international competitions.
d.	The generation of media exposure for the BA and individual breweries in leading industry, news, and lifestyle publications.

The Export Development Program has facilitated several craft breweries in entering European markets, with two craft breweries that have also decided to build brewing facilities in Europe. Brooklyn Brewery in Sweden, in partnership with distributor D. Carnegie & Co and Carlsberg

Sweden, while Stone Brewing Co. is building its own brewery in Berlin. (Rotunno, 2015). In effect, top export markets for U.S. craft breweries, in terms of market share, include Western European countries, Sweden with the 14% and UK with 13% (*Appendix 1*). They are second only to Canada, the leading export market especially because of its geographical proximity to the U.S. and consequent ease of exporting.

However, looking at the top export markets by volume growth, the leading countries are Brazil and Asia-Pacific (excluding Japan), which together make up more than 50% (*Appendix 4*). Consequently, the future growth of the craft beer segment is expected to be driven by EMs like Brazil, China and other Asian countries. The great future potential of these market has to be exploited by U.S. craft breweries.

At the moment, only a limited number of U.S. craft breweries have already tapped into these markets, for example Brooklyn Brewery Company has expanded its presence to Brazil and Asian markets, such as China, to benefit from the future profit expected and creating an advantage establishing a strong brand in the market.

There is no shortage of international opportunities for US craft breweries, they just have to recognize and fully exploit the market potential of these international markets to build their future profits.

5.2 U.S. craft breweries exporting in China

In the following section, the U.S. craft breweries included in the sample, will be presented with their history and strategic decisions, which brought their products acquire a global presence in the most important international markets. The breweries already exporting in China are: Brooklyn Brewery Co., F.X Matt Brewing Co. with its Saranac beer line, North Coast Brewing Company and Rogue Ales.

Brooklyn Brewery Co.

Brooklyn Brewery Co. was founded in 1984 by Steve Harvy and Tom Potter in the Brooklyn area raising $500,000 from family and friends to build their microbrewery. They started brewing their now iconic Brooklyn Lager at the F.X. Matt brewery Co., created by the brewmaster William M. Moeller. Steve Hindy and Tom Potter, simultaneously started educating their new potential customers to their flavorful beers. Throughout their whole history, Brooklyn Brewery Co. has been greatly involved in the beer innovation with specialty seasonal beers, Reserve releases and new recipes such as the Black Chocolate Stout and the East IPA. (Brooklynbrewery.com/history)

In 2003, the Brooklyn Brewery Co. signed a distribution agreement with Carlsberg for the distribution of Brooklyn Breweries beers in Scandinavia. This has been the beginning of the brewery building and consolidation of a strong international reputation.

Today, Brooklyn Brewery Co. is exporting in approximately 30 countries. The European countries are Austria, Belgium, Croatia, Denmark, UK, Estonia, Finland, France, Italy, Germany, Ireland, Lithuania, Luxemburg, Netherlands, Norway, Serbia, Slovenia, Spain, Sweden and Switzerland. In 2016, Brooklyn Brewery Co. has opened a new production plant in Sweden to serve its European countries, but particularly Scandinavia. In effect, the distribution agreement with Carlsberg in Scandinavia, has made these foreign markets the most important for the American brewery.

The brewery also serves American countries, in addition to their local U.S. market, Canada and Brazil, Oceanian countries as Australia and New Zealand and also United Arab Emirates. They are also serving countries in Asia: China, Hong Kong and Japan. The company currently has sells its products directly to customers in three locations in China: Beers 89tap in Beijing, Hops Craft Beer Bar in Changqing and Tap House (Yongkang) in Shanghai (ratebeer.com/brewer/distribution).

F.X. Matt Brewing Co – Saranac

F.X. Matt Brewing Company is a family-owned brewery in Utica, New York, and the fourth oldest family-owned company in the USA, founded in 1888. The brewery produces also non-alcoholic products, as the company switched to soft drinks during the Prohibition to stay in business.

In the 1980s the company started an innovation path that brought the firm to become one of the first to produce a specialty beer at the inception of the craft beer movement. However, at the beginning, F.X. Matt Brewing Co. has become famous for contract brewing many of the most successful craft beer brands in the U.S., such as Brooklyn Brewery Co., New Amsterdam and Doc Street. The beer contracting was really important for the brewery to gain additional knowledge on the brewing process for craft beers.

In effect, the choice to focus the brewery business on craft brewing came only in the 1990 from Nik and Fred Matt, introducing the Saranac line, and today the company is ranked as the 6th largest craft brewing company in the U.S.. Innovation has also been part of the history of F.X. Matt brewing, as in 2012 they launched one of the first White IPAs in the market. They continue to innovate with their seasonal beers and the new Cold Brew Beer, recently launched in the market. The company has also expanded its operation acquiring some important U.S. craft breweries as the Flying Bison Brewery Company (saranac.com).

According to the president, Fred Matt, the company is exporting in multiple countries, starting from Canada and later expanding in Europe, where they have their most successful operations in Scandinavia. Finally, through the Export Development Program, they have decided to export their products also in China and other Asian countries. However, their involvement in the Chinese market is really limited as the company supplies its Chinese distributor with only one container per year. More insights from the interview with F.X. Matt brewing Co. will be discussed in the following section on the Corporate Entrepreneurship and Regulatory Focus.

North Coast Brewing Company

The North Coast Brewing Company is another pioneer in the craft beer production in the USA. The brewery opened in 1988 as a local brewpub in the historic town of Fort Bragg, in California.

The brewery has developed a strong reputation for their quality productions and innovation, with many awards winning beers in international competitions. The brewery is commercializing its beer in 47 U.S. states and exporting globally. Their beers are exported in in Canada and Chile, and many European countries such as Belgium, Croatia, Denmark, UK, France, Germany, Greece, Italy, Netherlands, Norway, Poland, Spain and Sweden. They also have operations in Asia, limited to China and Hong Kong. In China, North Coast beers are sold at Beer Station and Tasty Life in Fujian, Hops Craft Beer Bar in Chanagqing, Tap House (Yongkang) in Shanghai (ratebeer.com/brewery/distribution).

Rogue Ales

Rogue Ales was founded in 1987 and started as a brew pub, while the brewery officially opened the next year. The brewery produces handcrafted beers, and its values are fundamentally linked to being revolutionary, doing things differently, changing the industry status quo and innovate with quality. The company also aims at entering new business and territories, and the internationalization process is certainly important for the company's expansion. Rogue Ales has started exporting in America, in Canada, Chile, El Salvador and Brazil. In Europe, they sell their products in Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, UK, Estonia, France, Germany, Greece, Italy, Lithuania, Netherlands, Norway, Poland Slovak Republic, Slovenia, Spain, Sweden, Switzerland and Ukraine. Other countries are Thailand, Israel, Russia, Singapore, New Zealand, Malaysia, Japan, Hong Kong and China. In China, they sell their beers at the Beer Station in Fujian and The Bull & Claw tap in Shanghai (ratebeer.com/brewery/distribution).

5.2.1 Exporting in China

U.S. craft beers are having a great popularity in China (Riley, 2014) and the distribution of American-style craft beers has been first of all facilitated by the ABA with its Export Development Program. In particular, Brooklyn Brewery, Rogue Ales, North Coast Brewing Company and F.X. Matt Brewing Co. were the first U.S. craft breweries exporting their beers in China. In effect, the Export Development Program facilitated the transportation, taking on all the costs and guaranteeing an efficient transportation to maintain the product with its original characteristics.

Moreover, given the increasing popularity of the U.S. craft beers in China, detected in the customer preferences section, U.S. distributors specialized in the craft beer segment have entered the business of exporting facilitators and intermediaries for distribution in China. In effect, the main concern raising from U.S. craft breweries interested in exporting their product in China is the guarantee and maintenance of the beers quality through their transportation, mentioned during the interview with F.X. Matt Brewing Co. president Fred Matt. The distributors specialized on craft beers are aware of these difficulties and guarantee a refrigerated transportation and, since distributors undertake the marketing aspects of the products, they assure to guarantee the U.S. craft breweries revolutionary brand image into the foreign markets. However, U.S. craft breweries involved in the Export Development Program are relying on the ABA for the choice of distributor in the Chinese market as the breweries are not directly and particularly involved in the exporting process. However, the opportunity to rely on U.S. distributors could be an alternative way of exporting their craft breweries in China, with more control over the overseas operations.

In China, the main sellers of U.S. craft beers are specialty bars, bottle shops and restaurants, such as Beers89 and Tap House (Yongkang), all located in the Eastern coastal areas of the country, the urban China. The cities with major craft beers scene in China are Beijing, Hangzhou, Shanghai, Shenzhen, Suzhou, Wuhan and Xiamen (ratebeer.com). However, there is not specific information on the four U.S. craft breweries in the sample, in terms of revenues and volumes in the Chinese market.

Moreover, promotional activities carried out by the BA together with the U.S. Agricultural Trade Office (ATO) Guangzhou opened the retail distribution for U.S. craft breweries. In 2012, the ATO Guangzhou promoted U.S. craft beer brands in high-end retailers stores in China through a national retail promotion in Olè supermarket chain (Chen, 2013).

Olè supermarket chain is the leading and largest national high-end imported food retailer in China, the promotion was also an important test in order to collect details about local consumer preferences and guide the introduction of U.S. craft beer brands in the Chinese retail sector (Chen, 2013).

5.3 Corporate Entrepreneurship and Regulatory Focus

Entrepreneurship

The analysis of the four U.S. craft breweries taken into consideration highlight a strong drive toward innovation. In particular, craft breweries strength is linked to the more sophisticated flavors and ingredients in their beers, compared to global brewers and other foreign craft breweries. The experimentations take place throughout the year, with the introduction in the market of seasonal beers and new flavors studied also with partnerships with companies operating in other industries. For example, F.X. Matt Brewing Co. has been involved in a new important project with a partnership with a coffee producer for a new Cold Brew Coffee beer. This is just one example of the continuous research of U.S. craft breweries in innovating their products with new ingredients and brewing techniques. Moreover, these entrepreneurs have been able to detect a need in the market, as an increasing number of consumers was expecting higher varieties of beers, that before the inception if craft breweries, nobody was proposing in the market.

A constant research on new ingredients, mixes and techniques are the drivers for U.S. craft breweries growth and international expansion and firm growth. Consequently, U.S. craft breweries managers are believed to possess an entrepreneurial mind-set, which also affect their decision-making process of internationalization.

Applying the EIR framework, it is possible to connect the role played by corporate entrepreneurship with the managers' regulatory focus of U.S. craft breweries. In effect, managers' decision making in internationalization is influenced by the institutional context as well as by the managers' personal attitudes and believes, which depend on their regulatory focus.

The regulatory focus is applied to fully understand what motivates managers in their decision to internationalize (Li and Gammelgaard, 2014). In effect, according to Reid (1981), who examines export behavior, the decisions on internationalization through export depends on manager's beliefs and attitudes toward foreign countries and the customers, export process and the resources committed to the process.

In the next section, an analysis of the regulatory focus study is provided and applied to the U.S. craft breweries exporting in China.

Regulatory focus

The regulatory focus aims at analyzing the managerial psychology involved in the exploitation of international strategies. Insights on the regulatory approach and managers' decision making have been acquired through the interview with the F.X. Matt Brewing Co. president, Fred Matt. This interview provides significant information on the process of internationalization, in which managers are involved.

The entrepreneurial mind-set of U.S. craft breweries has been tasted with their ability to continuously innovate the products and detect new market trends. However, different is the decision-making process, where managers situational approach has been detected, as they change their behavior based on the institutional context in which they are operating. As Fred Matt mentioned in the interview, the F.X. Matt Brewing Co. operations in international markets change depending on what opportunities they foresee in the specific market. For example, F.X. Matt Brewing Co. is highly involved in the Scandinavian countries where they have a good success thanks also to the two-tier systems present in these markets. When talking about the Chinese market, their involvement is really limited and their approach is not promotion oriented but more passive and subordinated to the actions taken by the ABA. This means that they are not involved in the research of distributors and supply the Chinese market only with limited beer volumes, totally depending in their Chinese distributor. This is because of the rules and regulation barriers in China, and because they have not yet established a strong brand in the market, but at the moment their main focus remains the U.S. market. Their policy on internationalization is to gain awareness on their possible international success but most importantly do not lose money, with a more preventive focus for most international markets, including China.

Therefore, besides the U.S. craft breweries managers' entrepreneurial mind-set, they regulatory focus changes depending on the effective opportunities they have available in the market. In particular, they focus on not spending too much time and money on a specific foreign market but still trying to supply as many foreign markets as possible to test their potential. These managers present a promotional-focus in the U.S., where they have their most important operations, while a prevention-focus in foreign markets, which require a higher resource commitment but are still not central to the company's operations.

Relevant insights

On the U.S. craft breweries pioneers in exporting in China, there are limited information available and data on their exporting volumes and revenues. The ABA has published a short report on the Export Development Program Growth, registering positive data at a global level and a 12.5% growth in the Asia Pacific area (*Fig. 3).*

The leading foreign market for U.S. craft breweries remain Canada, which accounts for the 51% of the total exports. The demand for U.S. craft breweries continues to grow globally and the work of the

ABA with its Export Development program has surely increased the exposure of U.S. craft beer in distant markets such as in the Asia Pacific area.

The exploitation of international strategies carried on by the U.S. craft breweries pioneers in China, can be connected to the concept of corporate entrepreneurship and regulatory focus. In effect, U.S. craft breweries characteristics (small size, limited capital and independent) can be viewed as limitations for these firms to internationalization, also given the consolidation and high competition within the industry. However, given the managerial decisions toward international expansion taken by these companies, potentially highlight a strong bent toward corporate entrepreneurship and a promotional-focus.

The corporate entrepreneurship tendency of these managers, shown by the type of products they commercialize, innovative and experimental, while their willingness to improve and grow (Swaminathan, 1998) is also shown in their decision to internationalize despite a consistent lack of information (Lazear, 2005) for particular international markets. In effect, entrepreneurship decisions are greatly driven by their business instinct and personality level. As Antonio et al. (2013) study has shown, there is a significant correlation between the personality level and entrepreneurship. An example, for willingness to learn and motivation, is given by the founder of Brooklyn Brewery Co., Steve Harvy and Tom Potter. At the beginning of their business nobody wanted to carry their beers, so they personally drove around Brooklyn area to educate their potential customers on their product from the bottom up, convinced that they would grow a new generation of flavor beer drinkers (Brooklynbrewery.com/History). The same they have been doing in international markets, to educate local customers on their beers and promote their brand, personally participating in local festivals and trade shows (Conick, 2016).

An entrepreneurial mind-set is also at the basis of promotion-focused managers, in addition to being experimental and the initiators of change (Higgins, 1998, 2000). U.S. craft breweries managers certainly possess these characteristics as they were the initiator of the so called craft brewery revolution (Wiebe, 2013). In effect, most of the pioneers in exporting in the Chinese market were also the pioneers in the craft beers movement started in U.S. in the 1980s, when the first craft breweries started their production and initiated a new way of brewing and innovating the America beer styles (Wiebe, 2013). The promotional aspects of managers are strictly connected to their corporate entrepreneurship character, as entrepreneurs have a natural tendency to initiate change in order to improve and grow and to be innovative and experimental. Moreover, the creation of network relationship, characterizing promotion-oriented managers, has been shown in their involvement in the local communities and their ability to spread the breweries' culture throughout the U.S., connecting with craft beer lovers and more experimental customers (Wieber, 2013).

However, the internationalization process in China can not necessarily viewed as following an opportunity-logic. The passive exporting approach undertaken by U.S. craft breweries in China, through the Export Development Program, suggests a limited risk taking approach in this market and a prevention-focus. In the context of China, given the current internationalization strategy pursued by U.S. craft breweries and the findings from the application of the EIR framework, the expectations are toward a more independent and direct engagement with local customers and partners through the creation of exchange relationships, in case U.S. craft breweries want to fully exploit the Chinese market growth potential.

In effect, for U.S. craft breweries internationalization, the creation of network relationships is fundamentally important in order to increase their commitment in the Chinese market. However, the creation of a network of Chinese partners must take into consideration the cultural differences between China and the U.S., which also impact the negotiation with the Chinese business partners. An additional analysis on negotiation in China is presented in the following section, in order to highlight the role played by culture in conducting business in China. The analysis also aims at exhibiting an additional variable for U.S. craft breweries must take into consideration to take on the opportunity to increase their direct engagement in China.

6. Negotiation in China

The combination of the three EIR framework variables produces multiple interesting insights on Chinese market institutions and their managerial implications. The negotiation in China is certainly one interesting outcome of the application of the EIR framework of the Chinese context in combination with the U.S. craft breweries managers' entrepreneurship and regulatory focus. In effect, the negotiation depends both on the personal manager's inclinations and the institutional context in which he/she is operating. Therefore, the negotiation in China combines all the variable empirically studied and can provide some interesting insights, for managers to create business relationships in the Chinese market. The difficulties of creating these relationships could also have affected the decision of the firm's commitments, mode of exporting and managerial "situational" regulatory focus.

The nature of institutional environment varies between countries, as different markets follow different "rules of the game" (North, 1990) and foreign firms can encounter both possibilities and constrains (Ingram and Clay, 2000). Scott (1995) described the institutional environment as composed of three elements: the regulatory, the cultural-cognitive, and the normative environments.

The Scott (1995) three-dimensional framework can be used to analyze the Chinese institutional environment, to give a general idea of its specific characteristics and, consequently, contextualize opportunities and constrains of U.S. craft breweries.

The regulatory dimension, which is defined as what a firm can or cannot do, in China has seen a great opening of the country toward international trade and FDIs (Kumar and Worm, 2011). However, a number of concerns remain. The internal tension between the Central and the provincial authorities (Blackman, 2001) as policies implementation is managed locally, while the policies formulation is managed centrally. Therefore, it is perceived a lack of transparency, which causes higher transaction costs for firms operating in the country. The problem related to Intellectual Property Protection and the lack of an independent jurisdiction, with the power concentrated at the Central or provincial level (Blackman, 2001).

The normative and cognitive dimension analysis of China, highlights the Confucianism as the shaping force of the countries' dominant values and the Chinese liberalization policies toward foreign investment and international trade. In effect, the normative and cognitive environmental component is defined as the standard operating procedures to which foreign firms must comply to. The normative values are based on order maintenance, as individuals follow a set of rules depending on their place in the social hierarchy. (Scott, 1995). The duties and obligations that follow the social role of each individual have the objective of maintaining the social order. Of fundamental importance for the Confucianism are face, harmony, hierarchy and relationships (Earley 1997; Worm, 1997). The role of relationships in fundamentally important in China, as a collective society, and is known as 'gaunxi'. These network relationships crate an important distinction between the ingroup and outgroup, and the belonging to such network is important to promote and develop trust, which is crucial in the Chinese culture (Chen, Chen, Meindl, 1998). Finally, the Chinese culture is also characterized by a holistic way of thinking and, therefore, accepting ambiguity and being highly pragmatic.

An additional analysis, important to frame the Chinese institutional context comes from North (1990) institutional dimensions in terms of strong and weak institutions. The study describes Chinese institutions weak when taking into consideration the lack of an independent judiciary and the endemic corruption spread throughout the country, which cause problems for foreign firms in terms of transparency (Kumar and Worm, 2011). On the other hand, China shows strong institutions as policy makers substantially have autonomy and can quickly change policies without extensive consultation. The advantage consists in creating good relationships with a firm's Chinese counterpart, however, if the counterpart changes also rules and regulations can be easily changed by the policy makers.

These three dimensions characterize a country's institutional environment and, foreign firms, should be knowledgeable about all these aspects in order to avoid negotiations mistakes when doing business in China. In effect, Kapoor (1974) highlights some negotiation mistakes that can be easily be avoid if foreign firms are aware of the country's three institutional elements dimensions. In particular, in China foreigners must be aware that negotiators approval is often not enough and frequently an approval from a governmental or quasi-governmental unit is necessary. In effect, the relationship between a negotiators and a governmental decision maker are not easily identified by Western companies.

The Cost of Negotiation

The favorable regulatory and cultural-cognitive dimension toward foreign investments and foreign investors implicates that contract negotiation in China requires lower transaction costs.
The normative dimension shows that Chinese, during negotiations are inclined to be honest and loyal to the person they know (Worm and Frankenstein, 2000). Therefore, relationship building can take time and extensive sense making, increasing the negotiation costs. In addition, Chinese have a holistic mindset and seek for the 'pragmatically ideal' solutions (Kumar and Worm, 2004).
Formal and informal institutions in China operate differently in the country, but a key aspect is the 'guanxi', which has the role of facilitating stipulation of agreements. In effect, with a low level of trust, informal institutions play an important role (Kumar and Worm, 2004). Informal institutions create a more flexible environment but also increase the cost of doing business.
Since institutions are weak in China, contracts have not the same value as in Western countries. In effect, authorities can arbitrarily change contracts' terms and conditions unilaterally enhancing operational ambiguity and uncertainty for foreign firms. Therefore, this can constitute a limitation for U.S. craft breweries operations in China.

7. Conclusion

The international process of U.S. craft breweries in China is mostly driven by a passive involvement of the breweries in their indirect exporting mode. In effect, the international expansion in China is subordinated to their operations in the U.S., still the main focus for most craft breweries, and other international markets, which require less effort in terms of rules and regulations compliance and network relationships building. The institutional context constitutes both advantages, in terms of customer preferences shifting toward imported beers and new flavors, and disadvantages, with strict rules and regulations colliding with the beer characteristics which, due to their production process and ingredients, have a limited shelf life creating problems with quality assurance. In addition, as emerged from the section on negotiation in China, the network relationships are fundamentally important in China, but the 'guanxi' could constitutes a barrier for new comers.

The U.S. craft breweries managers have been tested to have an entrepreneurial mind-set, often launching new and innovative products to constantly growth and improve their business. Seasonal beers and special collaborations for new beer styles are an essential part of their business. On the other hand, the regulatory focus tested detects a different approach of managers' decision making to the different international markets, therefore, a situational regulatory focus. The Chinese market, in particular, does not seem to be fully exploited by the U.S. craft breweries, which have decided to undertake a prevention-focus. This approach has been chosen to prevent additional cost and maintain the U.S. craft breweries operations profitable in the Chinese market, with limited efforts from the companies. In effect, most of these U.S: craft breweries are primarily focused on their domestic market where they have most of their operations, where they are expected to apply a promotion-focus.

Perspectives

Managerial implications

The study results show preventive focused managers, not really willing to take on extra risk to expand in the Chinese market. This is assumed to be a condition arising from the great success U.S. craft breweries are having in their local markets. However, the long-term success of these breweries is expected to be also connected to the exploitation of international opportunities, in order to grow their business. Therefore, managerial implications of increasing breweries' commitment in the Chinese market, due to its huge growth potential, should be evaluated.

First, more consideration toward the Chinese market should be given by the U.S. craft breweries, as it is expected to become the largest market for beer in the next years. The direct involvement from the breweries in the market is fundamentally important, as the ABA has not incentives to expand a craft breweries' operations in the market. Given also the Chinese business environment, where network connections are extremely important and require large efforts and long time to be established, U.S. craft breweries managers should become directly involved in order to start creating a valuable network in China.

Second, given that rules and regulations of China create some barriers to trade, higher attention toward transportation quality assurance could be developed through research and development. I believe this is important also because these are the problems that also competitors are facing, and being able to overcome these barriers should imply a significant advantage for the firm and also against its competition.

Therefore, the expectations are on managers' skills to direct part of their resources to establish more significant operations in China and directly exporting their products in the market. In effect, as also mentioned during the interview of F.X. Matt Brewing Co. president, direct commitment guarantees more efficient and effective operations. In addition, the strong image and lifestyle that U.S. craft breweries represent can be brought to the Chinese customers and making them feel part of a global community sharing the craft beer lifestyle, linked to quality and community building.

Direct exporting is also suggested in order to make international operations more efficient than the Export Development Program of the ABA, which seems more an obstacle for the U.S. craft breweries expansion and entrepreneurship. This is because it requires a limited involvement of the craft breweries managers' in the exporting process decision-making, also limiting their opportunities of enhancing the firms' internal capabilities.

Future literature research

Given the results provided from the application of the EIR framework, there are further opportunities of research based on the high importance of network relationships in the Chinese context. Therefore, a new stream of research on U.S. craft breweries could consist in the application of the revised Uppsala model (Johanson and Vahlne, 2009) dealing with the internationalization process through a business network model of the internationalization. The firms follow this network stage path in order to increases their commitment in specific foreign markets, strengthening their network position. This investigation would certainly provide additional insights on the U.S. craft breweries opportunities in China and their possibility to further increase their commitment in the market, beyond exporting.

Moreover, the literature research should develop more on the role of regulatory focus in the internationalization process of firms, as there is still room for investigation with only limited studies investigating this managerial impliction. The expectations are not only limited to the theoretical aspects of the regulatory focus, but mostly on the empirical research to detect the multiple decision-making processes in which managers are involved.

Finally, the current literature on internationalization is mostly generic, dividing the internationalization processes between the MNEs and SMEs. However, a more specific industry perspective would be more beneficial as every industry differs in terms of rules of the game and internationalization opportunities. Moreover, the international business literature does not seem to be involved in the study of the craft breweries in general, this is certainly due to the lack of information and data available on this brewery industry's segment. On the other hand, the craft breweries increasing importance within the industry, and the interest raised by their innovative approach and their outstanding performances, could be of great interest also for other segments of the Food & Beverage industry producing specialty products and with similar organizational characteristics.

Policy making implications

The rules and regulations, as the analysis has showed, often creates a trade barrier for U.S. craft breweries exporting in China. Therefore, Chinese authorities should work on creating some incentives, for example, collaborating with the American Brewers Association. In effect, the ABA could work as an intermediary between the U.S. craft breweries and the Chinese institutions to detect the craft beers peculiar characteristics and ease their exporting process. In effect, U.S. craft breweries are concerned by quality assurance, a collaborative approach between brewers and institutions could bring special agreements for craft beers importing compliance. On the other hand, a more effective result could be facilitated by the U.S. federal government.

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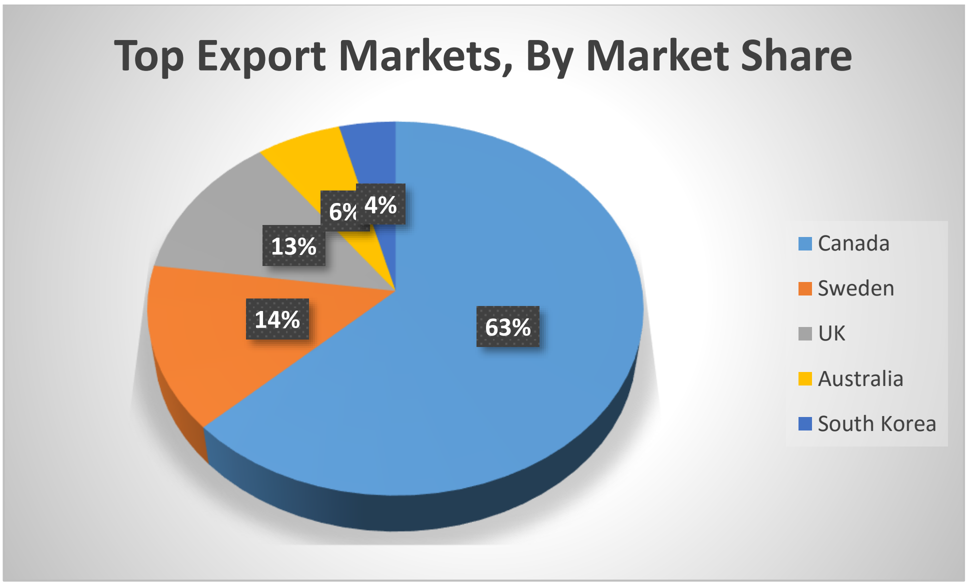
Appendix

Appendix 1 – U.S. craft breweries top export markets, by market share.



Appendix 2 – U.S. craft breweries top export markets, by volume growth

Appendix 3 – ABA distribution statements

ABA craft breweries distribution best practice

Transparency in brewer-distributor relationships	Our desire is for transparency so that a brewer entering an agreement with a distributor is aware of any direct or indirect ownership interest in any other brewery.
Independent three-tier beer distribution system	BA supports laws that respect and enhance beer drinkers' choice in the marketplace. State laws should support an independent distribution tier that is unencumbered by undue influence, ownership or control by the largest brewers and ensures access to market for all brewers.
Brewery direct to customer sales	The success or failure of a beer should depend on consumer demand, rather than on artificial barriers to distribution. BA believes that to provide the greatest ongoing choice for consumers, small brewers should have the right to sell beer directly to qualified consumers. For Small Packaging Breweries. The ability to sell beer directly to qualified consumers from a packaging/bottling brewery's premise would enhance customer loyalty and help increase sales within the three tier distribution system. Such right is not intended to bypass the three tier distribution.
Franchise laws/access to market	BA believes that small brewers and wholesalers should be free to establish enforceable contracts between the parties that both parties agree are fair and equitable. Franchise laws were enacted to protect wholesalers from the undue bargaining power of their largest suppliers. Applying those laws to the relationship between a small brewer and the wholesaler is unfair and against free market principles. Where franchise laws exist, the BA believes that any brewer contributing a small percentage of a wholesaler's volume

	should be exempted from those laws and free to establish a mutually beneficial contract with that wholesaler. Thus, the BA recommends that brewers who represent a small percentage of a wholesaler's volume be exempted from franchise laws, and that "small percentage" be defined within each state
Independent wholesalers	The BA supports the independence of wholesalers and believes independent wholesalers are wholesalers who are contractually and economically free to allocate their efforts among the brands they sell without the undue influence of their largest suppliers.

Source: ABA.com

Appendix 4 - Export Development Program Growth

Source: ABA.com