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Cutting the Middleman

- Establishing direct relations with Chinese suppliers,
a case study from a Swedish perspective

Bachelor Thesis

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Abstract

Background: China's economy is developing significantly and attracts Swedish companies within all business areas. When business transactions are increasing in size and quantity it might be profitable for importing companies to establish direct relations with their Chinese suppliers. The process of establishing these relations is affected by both differences in culture and business culture, which must be understood in order to create successful co-operations. This is a case study of a Swedish company, within the general merchandise field, that is importing non-food goods from China.

Purpose: The aim of this study is to, from the perspective of a Swedish company that is characterized by small transactions in China, increase the understanding for a possible way of how to proceed when establishing direct relationships with Chinese suppliers.

Method: For this thesis we have used an abductive scientific approach where theories and empirical material have been conducted simultaneous. A qualitative study has been performed and empirical data collected through semi-structured interviews with three persons engaged in the study object and one person working at the Swedish Trade Council in Shanghai.

Theory: The theoretical framework derives from theories that describe international supplier relations, culture and business culture. The aspiration is to explain contextual and social cultural differences between China and Sweden. Further, we will explain the specific characteristics of Chinese business culture and how business relations can be created between companies from Sweden and China.

Result and conclusion: Through this study we have identified factors that we believe will facilitate the process of establishing direct relations with Chinese suppliers. One needs to be aware of these in order to make this transfer profitable and successful. Two conclusions regarding culture have been made. An understanding of fundamental differences within the cultural context is essential. Further, social and personal relations are not as important as described in the presented theories.

Key words: China, Sweden, Direct relations, International purchasing, Culture, Guanxi.

Preface

Initially we would like to thank the respondents who have participated in this study. They have all given us interesting information and insights regarding the problem area. Further, we would like to thank our supervisor Vedran Omanović, who along the way has contributed with valuable supervision and sound advice, which has facilitated this study.

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1. Introduction

In this chapter we will give an introduction to the recent development in China. We will present the background to our thesis and explain its aim and the questions we strive to answer through this study.

1.1 Introduction and background

According to the International Monetary Fund, China's purchasing power will surpass the United States in 2016, making the country the world's largest economy (MarketWatch). The country's development has put China in the spotlight and they are no longer an economy that can be ignored. A high entrepreneurial spirit and rapid changes contributes to the view of China as a country where everything is possible. The combination of a high knowledge base and cheap production together with the scale and the productivity (Tse 2010) makes China a growing and attractive market for corporations within all kinds of businesses. Large Swedish corporations such as Ericsson, IKEA, Volvo and H&M have established presence in the country and now Swedish companies of all sizes want to make a profit from the possibility of versatile production and cheap labor (Fang 2005).

In the early process of importing goods from China, a company usually engages and consults an import agent that takes care of the transactions and eventual problems that emerge during the process. However, when the transactions are increasing in numbers and size and profound market knowledge is achieved, it might be profitable to establish direct relations. This implies that the company itself handles the contact with the suppliers (Carl & Tim, interview, 120416). Previous research (e.g. Salmi 2006, Lee & Humphreys 2006, Tang, Olsson & Sporrang 2004) point out that it is important to develop an understanding for the Chinese culture to be able to establish successful and profitable co-operations with suppliers. China is a country with a long cultural history where Confucianism, a philosophical system characterized by hierarchical relations, authority and loyalty to the family, has had a significant impact on the society for the last 2500 years. The philosophy has in many ways influenced the Chinese people and even though it is not as present today it is still affecting their way of thinking, interacting and living (Fang 2005). Personal relations and networks, guanxi, and mutual dependency characterize the business culture in China. However,

according to Fang (2005) there is an increasing interest in Western culture due to the growing presence of foreign companies. Guthrie (1999, as cited in Milington, Eberhardt & Wilkinson 2006) further adds that industrialization and modernization has decreased the importance of guanxi. Though, we still believe that China's strong cultural background is affecting how one should proceed when establishing direct relations with Chinese suppliers.

This study emanates from the perspective of a Swedish company, importing non-food products from China, which recently ended their co-operation with import agents and chose to deal directly with its Chinese suppliers. We have chosen to perform a case study that gives a more profound understanding of this process. Our study will be relevant for companies of comparable sizes within the general merchandise industry and we hope that our research will contribute to an explicit understanding of possible aspects to consider when establishing direct relations with suppliers in China. We wish that this study could be used as a practical manual and that it will constitute the base for further research.

1.2 Aim and research questions

From the perspective of this Swedish company characterized by small transactions¹ in China, our aim is to increase the understanding for a possible way of how to proceed when establishing direct relationships with Chinese suppliers.

To fulfill the aim of this thesis we strive to answer the following research questions;

- How can Swedish companies, with small transactions in China, proceed when establishing direct relationships with Chinese suppliers?
- Whether cultural factors could be relevant for understanding the process of establishing direct relations?

¹ Approximately 4000 transactions worth 30 000 – 200 000 SEK each, per year

2. Method

In this chapter we present the design of our study. First we give a brief introduction to the study object. Then, we define the scientific approach and method used to collect the empirical data. Lastly, the restrictions of our study are presented.

2.1 Study object

Our study is based on a case study of a Swedish company operating within the general merchandise field. The chosen company has wished to remain anonymous and will therefore be called *Company X* throughout our empirical chapter as well as the analysis and conclusion. Among other things, the company sells non-food products available in several stores all over Sweden. This company is suitable for our study since it just recently established direct relations with Chinese suppliers. Company X has been operating in China since the early 1960's but has previously consulted agents for all import activities. Hence, they are still engaged in the process of creating direct relations and can contribute information that is both up to date and relevant for our study.

2.2 Scientific approach

There are three different options of how to relate the theoretical and empirical data to each other; deductive, inductive and abductive (Patel & Davidson 1994). Firstly, the *deductive* approach is based on an existing theory from which the researcher finds hypotheses that later are examined and tested. Secondly, an *inductive* study strives to discover something new and the researcher will collect empirical data previous to finding relevant theories. This kind of study is impartial but there might be a problem to find enough suitable theory. Thirdly, an abductive approach is a mix of both a deductive and inductive study where the knowledge is developed throughout the process and the approach may change over time. When using this option the researcher might be influenced by the many sources of information and not be able to look at either the theory or the empirical data in an unprejudiced way, which is possible when using a deductive or inductive method (Patel & Davidson 1994). Even though an abductive study has some drawbacks we find this method most suitable for our study since it makes it possible to collect information both from previous studies and theories as well as from empirical research. When starting from a theoretical base we could identify interesting

perspectives relevant for our interviews whereas the empirical information later on could be used to identify new theoretical aspects.

2.3 Qualitative study

When collecting empirical material and information for a study one can either use a quantitative or qualitative method. The two methods differ in how one generates, processes and analyzes information. Patel and Davidson (1994) describe the quantitative method as being of more statistical nature often providing further widespread knowledge within an area of study. In order to receive deeper knowledge regarding the subject, the authors stress that a qualitative method is more adequate. To understand the complexity of the import process and cultural differences between countries, we believe that a more profound knowledge is required. Qualitative studies also give the researcher a possibility to analyze and interpret information to a further extent. Due to the scarcity of exact and specific information within our study area, *establishing direct relations*, we believe that a more comprehensive study is most suitable. Hence, for the purpose of our thesis we have chosen to perform a qualitative study.

2.4 Case-study

According to Merriam (1994), driving factors behind case studies are questions regarding processes and understanding. Considered that we aim to answer how Swedish companies can *proceed* when establishing direct relationships with Chinese suppliers and whether cultural factors could be relevant for *understanding* the process of establishing direct relations, a case study is a suitable method for us. Furthermore, we are aware of the complexity of our study object and according to Backman (1998) a case study is argued to be the proper choice when the objects are highly complex. Case studies can either take the form of multiple cases or a single case (Yin, 2003). We have chosen a single, in-depth case. In agreement with (Voss et al. 2002), this option gave us the opportunity of gaining a profound understanding as well as it allowed us to scrutinize the complicated and specific nature of the previously mentioned import process and culture. However, we are aware of the drawbacks of our chosen method, such as lower possibility for generalization (Voss et al. 2002) and the risks of misunderstanding a single event (Leonard-Barton 1990, as cited in Voss et al. 2002). Therefore, we have taken precautions regarding this in our conclusion.

2.5 Primary data

The process of collecting data has been accomplished through e-mails and telephone interviews with the respondents. Personal interviews would have been preferred in order to be able to read body language but due to our respondents frequent travelling, personal interviews were not possible. Even though three out of the four interviews have been conducted by phone it gave us the opportunity to describe and explain the questions that were being asked which could increase the respondents' understanding, and according to Saunders, Lewis & Thornhill (2003) the telephone interview is considered as a high value approach. The fourth interview that was implemented by e-mail aimed to further compliment the information collected from the phone interviews. Conducting a survey is another possible method for collecting primary data, which makes it possible to reach more people, and additionally, draw more general conclusions (Stukát 2005). Due to the fact that we have chosen to perform a single case study, we already have a weak foundation for making generalizations and therefore a survey study felt inappropriate. Furthermore, in order to acquire understanding of and to recognize the complexity regarding our study object, we believe that interviews are the most appropriate model for collecting data and according to Dexter (1970, as cited in Merriam 1994) the interview is preferred when it, to a lower cost than other methods, gives better or more information.

2.5.1 Interviews

The interviews were performed with three different persons engaged in the enterprise. All of them have a direct connection to the business activities in China and have actual experience of working with Chinese suppliers. Further, one interview was performed with a representative from the Swedish Trade Council in Shanghai. Since all our interviewees wished to remain anonymous, we have given them fictitious names; *Anna*, *Carl*, *Tim* and *Peter*. A more detailed presentation of each interviewee will be presented in the empirical chapter.

Altogether, four interviews were carried out. Our initiative goal was to conduct 5 interviews, although since some of our respondents did not have the possibility to participate further, this could not be achieved. The first one was held with Carl and Tim, the second one with Anna and the third one was a follow up call with Carl. All three interviews have been conducted by phone and have ranged from 30 to 60 minutes. The reason that both Carl and Tim were

present for the first interview was that they both were located in Shanghai. The third interview was made with Carl since we felt that he had additional information that could be relevant for our thesis. Prior to the phone interview the respondents were informed regarding the purpose of our thesis and also sent the interview guide with the written questions (see Appendix 1,2 and 3 for interview guides). The fourth interview was made through e-mail with Peter. For this interview the questions were sent to the Swedish Trade Council. Peter, who appeared to be the most suitable respondent due to his relevant knowledge, replied to them with a returning e-mail, containing 2 pages of text. Merriam (1994) writes that the interview can have three different designs; structured, semi-structured and unstructured. We used a semi-structured approach together with predetermined questions. This allowed us to ask follow up questions during the interview, resulting in more accurate information. In order to avoid yes or no answers, we chose to keep the questions more open and therefore gave the respondents an opportunity to elaborate regarding the subject.

Initially we were focusing on how to build *sustainable* and *long-term* relations with suppliers in China. Consequently, we are aware that some of our questions might be inadequate when put into the present context but here it is important to bear in mind that our thesis had a different angle in the beginning. During the first interview we realized that the respondents had more comprehensive and interesting information regarding our present subject. According to (Svensson & Starrin 1996), qualitative studies can be unpredictable and there can be several surprises during an interview. Also we realized quickly after the first interview that some questions were more open and better designed than others, hence giving more profound answers. This was mitigated though, since we had the possibility to ask follow up questions subsequent to the interviews. For the following interviews we could correct and keep mistakes made during the first one in mind. Kvale (1997) argues that in order to be a good interviewer you need experience from it.

The risk of missing valuable information as well as essential parts of the respondents overall picture was mitigated since all the interviews were recorded, which all the respondents gave their admittance to. At one point only one of us could attend the interview. The recording then gave a support since it allowed the one not attending to interpret the respondent's answers. However, we perceive that the interview was performed in line with the other two and that it did not have any impact on our understanding of the information. Parallel with the recording, notes were taken to remember especially important quotes and parts of the

interview. All the data that was collected from the interviews were summarized immediately afterwards. The first interview resulted in eight typed pages, the second one in three pages and the third one in seven pages. All interviews were performed in Swedish and then translated into English. This might have affected the clarity of the information presented by the interviewees.

2.6 Theoretical material

To broaden our knowledge base, secondary data has been gathered from scientific articles, literature and previous studies within the subject. This information is used in the theoretical framework. Merriam (1994) says that information gathered through other channels than interviews and observations are called documents. The author further stresses that when estimating the value and credibility of these documents one should ask two questions; does it provide relevant information within the subject of matter and can you access this information in a practical and systematic way? With these questions in mind it has been easier for us to remain critical of documents from which we acquired information. When searching for literature and previous studies GUNDA, the library catalog of Gothenburg University, has been used, which also guided us to other more specific databases. The searching for scientific articles has been accomplished through Google Scholar.

2.7 Limitations

We have restricted our study to a Swedish company that operates within the general line of merchandise. Though the company participates in transactions worldwide we have chosen to focus on its business in China and import of non-food products. Since we only studied one company and focused on a small part of its business, we cannot make any general assumptions. Neither to what extent our findings will apply to corporations of other sizes, nor companies active within another line of business. The conclusions adopted through the analysis will only be applicable to firms of a comparable size that are active within the same business category. Furthermore, legislation and regulations, specific to establishments in China, have not been taken into account. Most companies do only face such problems once, when they first enter China. They usually consult organizations such as the Swedish Trade Council to handle the administrative process.

3. Theoretical overview

In this chapter, relevant previous research and theories, regarding culture, business and supplier relations in China, will be presented. Firstly, a general view of international supplier relations will be given. Secondly, we believe that an understanding of the cultural background is fundamental when co-operating with foreign partners. Hence, information about relevant Chinese cultural factors, that we argue influence the business in China, will be presented. We are writing from a Swedish perspective and will therefore not elaborate on Swedish culture since we assume that the reader has an understanding of this. Thirdly, we are giving an overview of both Chinese and Swedish business culture to increase the understanding from a professional perspective. Lastly, theories regarding supplier relations within the Chinese context will be presented. The chosen theories will help to create and gain a deeper understanding for differences between China and Sweden. This chapter forms the theoretical framework for our thesis and the material will be used for the analysis of the empirical data.

3.1 Supplier relations

Today price is not the only factor emphasized when discussing purchasing strategies but also the quality of products, cost-efficiency and co-operative relationships (Salmi, 2006). To ensure an efficient supply the author stresses that the interaction in relationships and moreover the skills of the interacting personnel plays a vital role. This is due to the fact that these relationships connect the company's internal structure of supply to the external resources of its suppliers. That the "human factor" plays a critical role when managing foreign suppliers is further stressed by Handfield and Nichols (2004). In their scientific article *Key issues in global supply base management*, the authors argue that culture, language and communication, human resources and personal relationships are factors out of utmost importance when doing business with foreign suppliers.

According to Gadde and Snehota (2001) supplier relations may differ depending on the nature of business, the kind of technology used and the context in which a company operate. The supplier side is also affected by continuous changes in these relationships. Firstly, *the scope of supply*; the decision to source and product characteristics, is modified over time. External suppliers are relied upon to a varying extent. For some companies, procurement is responsible

for the largest share of the total cost, whilst for others it is only a smaller part. Secondly, buying firms change *the configuration of the supplier base*; the number and type of a company's suppliers. Companies range from having thousands of suppliers whereas a limited number of suppliers may be sufficient for others, all depending on their operational use of different items. Lastly, *postures of supplier relationships*; how supplier relations are handled and dealt with, are developed differently. Some relationships involve close interpersonal contacts, in others suppliers are kept at an impersonal distance.

Johansson and Vahlne (1977) developed a model of a firm's internationalization process where they argue that experience is of utmost importance. According to the authors, companies' knowledge regarding a foreign market is learned incrementally. Hence, their commitments to foreign operations as well as their presence in the country are increased gradually in order to reduce business risk. This study is from the perspective of a firm that is selling goods. However, we opine that it could be applied on a firm purchasing internationally since this model analogically can be seen as a more general strategy of internationalization.

3.2 Chinese culture

We are aware that the concept of culture has a tendency towards generalization. There is no accepted definition of culture that is used world wide, but one that has been cited since the late nineteenth century is this definition offered by Edward Tylor; "*that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society*" (1871, as cited in Ferraro 2010). Ferraro defines culture as "*everything that people have, think, and do as members of their society*" (2010). There are many systems that are affecting the culture of a country such as; economic system, marriage and family system, educational system, social control system and supernatural belief system. All these factors are contributing to the fact that culture is not something static and permanent. Cultures undergo constant and continual changes, hence, it is impossible to understand and master all cultural aspects of every country in the world (Ferraro 2010).

In the Chinese society there are a number of general values of particular relevance to management and organizational behavior, which can be traced back to the country's past and its cultural tradition. Due to the geographical size of China, there might be cultural differences even within the country. We have not studied specific regional areas and will therefore

present aspects of culture that we believe could be applicable on the entire society.

China's culture is characterized by collectivism where there is a substantial difference between those who belong to one's group and those who do not. This has an obvious importance for business since corporations ideally are based on moral ties, comparable to those within a family, rather than contracts (Tang & Ward 2003). Moreover, there is an ubiquitous deference to authority that, together with collectivism, stems from the Confucian philosophy. Confucianism is distinguished by hierarchical relations, called the five cardinal relations; emperor and subject, father and son, husband and wife, older brother and younger brother and, lastly, friend and friend (Tang & Ward 2003). These relations and hierarchical levels are still influencing the way Chinese people view authority. They are built up from childhood, through school and remains in adult life (Tang & Ward 2003). Collectivism and authority are according to Bond and Hwang (as cited in Tang & Ward 2003) said to be the key to understanding Chinese social behavior where one strives to accomplish social harmony. Another value that stems from the Confucianism is the need for personal relations and networks, *guanxi*, which will be discussed in the following section.

3.2.1 Guanxi

According to Luo (2000, s.2), *guanxi* in general terms means "interpersonal linkages with the implication of continued exchange of favors". This includes reciprocal commitments when being requested of assistance. The exchange itself is implicit, has no arrangement in time and is only bound socially. The favor is not always equivalent, that is referring to Yi and Ellis (2000) saying that favors must be repaid with an increased value of the favor received. These factors are significant when arguing that *guanxi* and inter-firm networking in the West have different implications.

Edward Tse (2010) argues that *guanxi* might not be as important and viewable today as it was a couple of decades ago. However, he believes that it according to the Chinese culture, where complicated connections and ties are natural phenomena, still is an essential part of the Chinese business culture. To recognize the importance of *guanxi* and how it operates we must once again study the Confucian legacy where it is essential for an individual to be a social and relational person. Differentiated relationships between individuals, that, as mentioned before, are hierarchical in nature, create stability and social order. Butterfield (as cited in Luo 2000)

mentions that the basic reason why guanxi plays such a significant role in the Chinese society is due to their tendency of categorizing people and treating them in accordance with their relationship with one another.

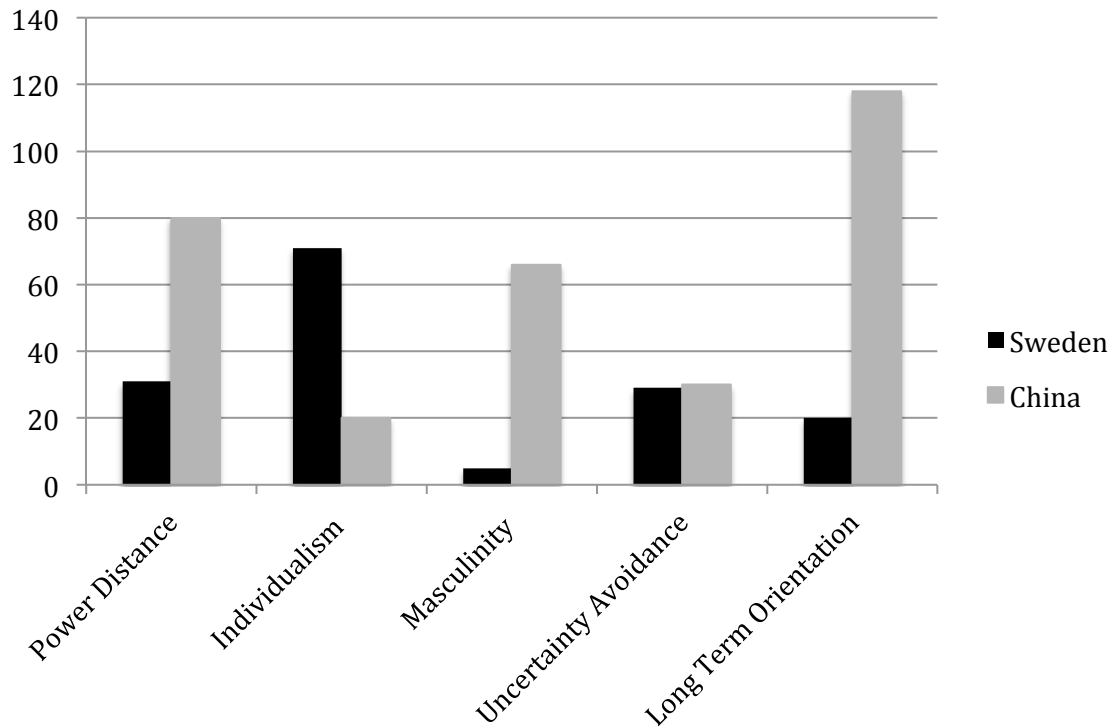
An essential aspect of guanxi is the expression *face*. China expert Joan Turley, with many years of experience from the Chinese business world, elaborates in her article “Worth all the tea in China” (2008) that face, *mianzi*, is deeper rooted in the Chinese society than the western expression “*to lose one’s face*”. Being a good representative for face that is shared with all members of a family, company or organization is essential to sustain one’s reputation and relations. According to Leung and Chan (2003), one’s social accomplishments and successes are reflected in the acquired respect and dignity, which represents that person’s face. This denotes one’s prestige and reputation and it is a social asset through which favors can be gained. People involved in the same organizations are influencing the face of other members and are not solely responsible for their own representation (Leung & Chan 2003). When you share face with someone, you are mutually depending on each other and therefore trust is established (Tang & Ward 2003).

To avoid unnecessary misunderstandings we believe that it is essential to be aware of existing differences when co-operating with people from different cultures. In the following section, the dimensions of both Chinese and Swedish culture will be discussed.

3.3 Cultural dimensions

Between 1967 and 1973, Geert Hofstede carried out a comprehensive study, including 76 countries, explaining how a country’s culture is affecting the climate at the workplace. The study is covering five aspects of culture; power distance, individualism, masculinity, uncertainty avoidance and long-term orientation (Hofstede 1997).

We assume that it might be difficult to explain the culture of a whole country in a specific and precise way. As mentioned earlier, culture is inconstant and experience continual changes (Ferraro 2010). However, in this thesis we use this information, provided by Hofstede, to assimilate a general comparison between China and Sweden and describe basic cultural differences.



When comparing Sweden and China we can see both large differences and similarities. The power distance dimension shows the separation between the bottom and the top layer of the hierarchy. In China, hierarchal positions are highly valued and inequality is accepted compared to Sweden, where the power is decentralized and people have an informal attitude towards managers are used. China is a collectivistic, group focused country where personal relations have a higher priority than contractual ones. Sweden, on the other hand, has an individualistic focus and professional relationships have a higher priority than personal ones. A high score on the masculinity index indicates that a country, like China, is competitive and success driven. Sweden, as feminine society, emphasize on compromises, discussions and solidarity. China and Sweden are highly similar on the uncertainty avoidance dimension. None of the countries try to avoid uncertainty and are not threatened by unfamiliar situations. The dimension where China and Sweden differs the most is long-term orientation. Countries with a history containing Confucian philosophy, such as China, tend to be more long-term focused than other countries. Perseverance and long-term projects are common features for countries with high long-term orientation compared to cultures with short-term orientation where people strive to see quick results and to keep up with the current development. (Hofstede 1997) The cultural dimensions can be further explained by taking the context level of each culture into account.

3.4 High and low context culture

Edward T Hall, American researcher and the author of the book *Beyond Culture* (1976), is partly known for his study on high and low context cultures. This exploration is widely accepted in the world but has been criticized for a lack of actual observations (Kim, Pan & Park 1998).

Hall claims that there are many subconscious parts and dimensions of every culture, that are not visible to others, which affect the members' way of thinking and acting and what they appreciate. He points out that one must accept this prior to trying to co-operate with and understand someone originating from a different culture. Hall defines that culture is a dimension that fundamentally affect our understanding for and level of context in life. Moreover, the culture can either be high context (HC) or low context (LC) (Hall 1976). China is known as a HC culture and Sweden as a LC culture (Kim, Pan & Park 1998) Loyalty is central in HC cultures and people tend to be very involved with each other, a lot is taken into account and people expect much from one another. This results in high levels of commitment and sustainable, long-term relations. (Hall 1976) A country that has a history of strong hierarchy and social structure tends to have a higher context culture (Kim, Pan & Park 1998). In LC cultures people are more individually focused and people do not have such strong bonds tying them together. People are used to relying on the system and do not feel as much personal involvement and responsibility as people from a HC culture. Groups are not as clearly defined as in HC cultures where it is important to draw a line between insiders and outsiders. Through communication we can easily define high and low context. In LC cultures, the important thing is what has been said and not in what way or in what setting. All the information is included in the message. The message in HC cultures is on the other hand just a small part of the whole context. Information lies in the physical context and in the person itself instead of in the verbal part. Therefore, it is important to understand the surrounding context (Hall 1976).

When individuals from cultures with different contexts are cooperating they have to change their way of approaching things. A HC-person will have to lower their creativity and move down on the context scale while a LC-person will have to increase their creativity but also be more detailed and specific (Hall 1976).

Both the cultural dimensions and the level of context are affecting a country's business culture.

3.5 Chinese and Swedish business culture

On the basis that Sweden is an individualistic and China a collectivistic country we can find clear dissimilarities regarding business culture. Tony Fang (2005), researcher on cross-cultural management and Chinese business studies, describes that Swedish business culture is characterized by a confidence in the social system while the Chinese trust in their own ability and people around them to solve problems. Furthermore, the Chinese put more value into the reputation of the other company and strive to co-operate with well-known, famous corporations. For Chinese businessmen there are very small distinctions between work and leisure time and one could say that their whole life is a mixture of business and social life (Fang 2005). The collectivistic philosophy has clearly affected the business culture since managers rather do business with people they know than with the ones that offer the best price. Performance factors are not as important as a long-term relationship. In contrast, managers from individualistic countries, such as Sweden, try to obtain effective business and deliveries as planned (Williams et al. 1998, as cited in Cannon et al. 2010 p.509). Tang and Ward (2003) further evaluate this by saying that Western people are building relationships based on successful business-operations while people from China are creating business based on a great relationship that is built up in advance. They also stress the importance of understanding the Chinese way of structuring meetings and negotiating. Chinese businessmen try as much as possible to minimize and prevent conflicts and confrontations to avoid tension. Not showing any feelings and controlling all facial expressions maintain the social harmony and no unnecessary misunderstandings take place (Tang & Ward 2003).

In the next section we will further explain how the culture and business culture are affecting business relations in China.

3.6 Business relations in China

Joan Turley (2008) describes how relationships with Chinese businessmen can be established. She argues that there are three key principles of good relationship practice; character, communication and protocol. When referring to character; in China you are the brand and the

Chinese take an interest in you as a person. Your position, name and presentation are very important. Long-term relationships are sought and people value integrity, trustworthiness and the ability to think in terms of *we*. When it comes to communication, there is no need for unnecessary words. Being concise and not using vague expressions are valued. Finally, to increase the opportunity for a sustainable relationship, it is important to understand the social norms and rituals, *the protocol*, that exists in China, which coincide with business meetings and dinners (Turley, 2008).

According to Luo (1997, as cited in Humphreys, Shiu & Lo 2003) *guanxi* relationships is a key business practice where *face* is an essential part of the *guanxi* relationship. For European companies, which often are relatively small players in the Chinese market, personal relations are argued to be even more important (Salmi 2006). However, even though there are extensive literatures supporting this argument there are also studies showing that *guanxi* does not play such a central role in Chinese business anymore. In a study conducted by Milington, Eberhardt & Wilkinson (2006), the authors opine that today, *guanxi* is rather based on business relations than on family or community connections. Besides this, Guthrie (1999, as cited in Milington, Eberhardt & Wilkinson 2006) emphasizes that the importance of *guanxi* has been reduced due to modernization and industrialization.

Salmi (2006) claims that long-term business and personal relations are evidently appreciated within the Chinese business culture. It is also stressed that a high level of commitment from the Western partner often results in the Chinese partner aiming for win-win situations. The author points out that tighter links to Chinese partners will make it possible to manage relations more explicitly and thus, cultural distance will be mitigated as a result. Discussing difficulties with Chinese suppliers might be problematic if there is not enough trust and sufficiently close personal relations, nor if local language skills are inadequate. Hence, exchange of information and communication is fundamental and often requires a local presence (Salmi 2006). Fang, Gunterberg & Larsson (2010) argues that sourcing in China is becoming increasingly expensive and that companies who purchase from China purely based on lower costs should consider leaving the country. Instead, companies with a long-term strategy together with a high level of business ethics and corporate social responsibility (CSR) practices will maintain all or most of their sourcing activities.

4. Empirics

In this chapter we present a summary of the information that we conducted through our interviews. Firstly we will introduce the company and the interviewees. Then, we provide a description of the import process followed by relevant statements and explanations regarding the cultural aspect, guanxi and personal relations and how to create direct relations. Lastly, in we introduce the Swedish Trade Council and present the information given by the interviewee.

4.1 Company X

The company is active in several areas within the general line of merchandise and is a large importer of different types of articles. Much effort is put into creating and managing an efficient and profitable purchasing function and to provide a broad range of articles from its own brand. Imports are made from multiple places in the world, and we have chosen to focus on its business in China. During the latter part of 2000, an office was established in China with the mission to increase the company's presence, to closer follow the development in the market and to ease the communication and co-operation with Chinese suppliers. To establish the first physical presence in China, Company X consulted the Swedish Trade Council for legal advice and for help with founding the local office. The office is staffed by Chinese employees and keeps close contact with the head office in Sweden.

4.1.1 Interviewees

Anna has worked at the company for 10 years and has for the last 6 years been involved in the company's business with China. She was a part of the team that formed the investigated line of business. From the start she has been a part of establishing the presence in China and is now responsible for the import from China and the rest of Asia. Previous to this she had no experience in the Chinese market. She is also involved in import transactions in other parts the world. The position involves daily contact with the employees in China and 3-5 visits each year.

Carl was previously, as purchasing manager and chief representative, responsible for the Chinese market and for establishing the company's presence in the country. He held that

position for seven years. From previous work in other corporations he had gained a lot of knowledge and also had previous experience in importing from China. The position involves much contact with the employees in China and regular visits in China, approximately 6-8 times per year.

Tim has recently acceded the position as purchasing manager and chief representative and has undertaken the same responsibilities and assessments that Carl previously had. He had no previous experience from the Chinese market but has been working in different positions at the company for several years.

4.1.2 The import process

To give us a better understanding of the import process Carl describes how the procedure differs between China and Sweden. Swedish companies are used to dealing both with international, national, regional and local producers. The national suppliers can offer short lead-time, deliver directly to the store or the warehouse with no extra fee and they often offer 20 to 30 days credit. Until the goods are delivered at the company's loading dock, the supplier is responsible. When importing from international suppliers, such as those from China, a company, importing non-food products, has to presume a lead-time of approximately 90 to 100 days. The exporters usually want the importer to pay the whole amount of money in advance or to make a payment prior to the production or in connection with the delivery. When ordering products with such long lead-time it is very important to order the right amount of items since the lead-time restricts the company to only place one order per product.

When you have a lead-time of 90-100 days you cannot realize in July that you need more summer items because then you will have them in the end of September. [Carl, interview notes, 120509, p.1]

Carl further explains that when an order size is confirmed and a suitable supplier is found, contracts including all specifications, such as price, design and delivery, will be formed. It is common that the supplier delivers the goods FOB, *free on board*, and that the buyer arrange for transportation between the harbor and the warehouse. The supplier is responsible for packaging the goods and sending it to the ship. Copies of the shipping receipt, the invoice, delivery note and certificate of product origin will be sent to the buyer. However, the

proprietary will not accrue to the buying company until it has transferred the money to the Chinese supplier and paid custom duties on the goods. Then the company will receive the certificate of ownership and it will be possible to collect the goods.

This process is definitively more complicated than ordering from a Swedish supplier. [Carl, interview notes, 120509, p.1]

4.1.3 The cultural aspect

The differences in cultural context between Sweden and China create interesting situations when it comes to doing business with suppliers from both countries. Carl mentioned the following example in order to make this clear;

Sweden is a culture with a low context. When ordering a plank that is 110 cm long and 3 inches thick until Friday, that is what you get and it will be delivered on time. In China, on the other hand, there is a high context. Even if you leave the same specifications it is not certain that you will get what you want. It is not even sure that you will receive the plank on Friday because someone that needed it more than you might have requested it and if this person has a higher priority within the supplier's network he will get it.

[Interview notes, 120516, p.3]

Anna also emphasizes the importance of being precise when dealing with Chinese suppliers by saying:

It is an on-going process of confirming and verifying your order and you need to control everything to a hundred per cent. Usually, if there has been a silence from the Chinese supplier for over a week, you know that something is wrong.

[Interview notes, 120417, p.2]

She further stressed that in China, you have the opportunity to make your own designs and the suppliers tend to be very creative when finding ways of producing all kinds of demanded items. This is not possible when dealing with suppliers in Europe due to their standardized production. However, to acquire the desired specifications it is of utmost importance to

control everything and use a simple and direct language when dealing with the suppliers. There are a lot of things that we perceive as obvious while the Chinese, on the other hand, might never have used that kind of product and therefore have no idea of how it should be designed. They only produce it, thus to avoid any surprises you need to be very clear regarding the specifics of the goods.

The local office in China has the purpose of compensating this contextual difference and the employees are all Chinese people.

If you have an office in China, the purpose is not to send a lot of Swedish people there but rather taking the business closer to the local production market.

[Carl, interview notes, 120416, p.5]

To employ Chinese people can also be explained from a cost focused perspective:

The benefit of hiring local people is that you can employ six college-educated Chinese, who all are fluent in English, for the same cost as one Swedish person.

[Carl, interview notes, 120509]

Carl explains the local staff members' three main tasks as surveillance of and optimizing orders, quality control of the products that are manufactured and sourcing of new products. Furthermore, one employee is hired full-time to work with social audits. In order to establish whether the supplier satisfy Company X's social requirements or not, that person studies the work environment within the production.

When working together and communicating with the Chinese employees, Tim perceives that you need to use a high level of explicitness. However, none of the interviewees believe that there is a need for mastering the Chinese language, Mandarin, since English is the language used both when communicating with the local staff and with the suppliers. Thus, Carl stresses that Mandarin might be useful when monitoring and observing the daily work at the office since it makes you more involved in the operations.

Company X experienced that Chinese suppliers often need help with understanding what you request as a buyer; Anna gives the following explanation to this:

If you get a grill with no legs it is not due to their incompetence, they might actually have no clue what it is. If you have not informed them correctly, the product you receive will therefore not be properly manufactured.

[Interview notes, 120417, p.3]

The office in China plays an important role regarding order specifications. The Chinese employees coach the suppliers to get the right information and specifications, all this to make sure that they will reach the same level of quality as Swedish suppliers. In the end, Carl stresses that price and quality are the only crucial factors and the Chinese suppliers deliver to a price that is between 35-40 percent lower than their Swedish counterparts. Furthermore the local office in China make sure that Company X's interests are taken care of. In order to always ensure priority they are in constant contact with the suppliers to make sure that the company will not be ignored. Carl describe the company's business tactic in China as follows:

What we do is to nag on our suppliers so that if they have to prioritize, we should not be the ones without goods thanks to our nagging.

[Interview notes, 120416, p.3]

As well as the culture, Anna and Carl, stress the importance of historical knowledge. Keeping the big picture of China's historical development in mind is essential for understanding the cultural aspect. The period from the beginning of the 20th century until now is more of a contemporary downfall in their development curve. After the difficult period when the Maoists ruled China they have now found a way forward and they are eager to catch up. China has emerged from an agricultural country to an industrial one in an incredibly short time.

These changes have occurred in a very short time. Since the Chinese people have experienced such large changes during their lifetimes they have become more incline to changes than Swedish people are. We are more conservative.

[Carl, interview notes, 120509, p. 6]

When it comes to business meetings with the Chinese suppliers, it is, according to Carl, not necessary to avoid risking their Chinese counterparts losing face:

I can make a scene, they only think that you are a weird foreigner!

[Interview notes, 120509, p.5]

Since they know that we are foreigners there is no need to act like we are not. If something is not working as it should, we have to be able to say this and not pretend otherwise. This is even more essential when dealing in this problematic context with different cultures. The Chinese people have their society, their culture and their context and therefore we have to be precise and explain things that are not acceptable according to our preferences. Carl emphasizes that an important point to keep in mind is that Swedish people do not like conflicts either and sometimes the differences are smaller than we think and expect.

4.1.4 Guanxi and personal relationships

The experience and apprehension regarding the importance of *guanxi* varies in different ways between the interviewees. Carl's opinion is that networking in Sweden is as common as in China and that *guanxi* should not be given too much room, although it is noticed much more in China. He adds the following regarding *guanxi* literature:

Most of the published literatures on guanxi are predicated from a perspective of multinational companies where every transaction is very large.

[Interview notes, 120416, p.3]

Company X usually trades with small to medium size suppliers and due to the fact that their supplier base in China is so big it is not possible for Company X to have the same personal relations to every one of them. Tim, when explaining his reasons for meeting with the suppliers, supports this statement:

In my case, it is very rare just to meet with the supplier for no specific reason.

Most times there are a few problems to solve or possibilities to discuss.

[Interview notes, 120416, p.2]

It is further argued by Carl that the suppliers also have many different customers, which makes it hard for them to keep all the relations on a personal level.

Another point of view is stressed by Anna when saying that the Chinese do not do business with Company X, they do it with her. She perceives that there are personal relationships that have been created between her and the suppliers. This relation could be used as leverage when solving problems by appealing to the partners' conscience. When presenting new people to a business partner these people might have problems when trying to establish a name for themselves. However, Carl highlights that the Chinese suppliers, as well as the Swedish, are more eager to discuss with the people closest to the money and the decision-making. Therefore, it has more impact when moving a task to a colleague at a higher hierarchical level. As a result of this, people with the same or lower authority as the first contact person might not gain as much attention at business meetings.

When hiring Chinese workers for the office in China it is not of significance that these people have a wide network to share with Company X. If one employ people that already have a network, Carl points towards the problem of biased and subjective suggestions when it comes to finding new suppliers and this might not be optimal for Company X. Most important is the fact that the employees belong to the company's network and that they are being loyal to the company.

4.1.5 Direct relations

The decision of cutting the middlemen and starting to work directly with the Chinese suppliers was based on the possibility of lower production costs. Getting even closer to the production would realize this. Carl explained the fundamentals of this decision:

It is all about getting as much as possible while at the same time spending as little money as possible. [Interview notes, 120509, p.3]

With this considered, one have to bear in mind that the agents actually perform what they are being paid to do. Their job could include finding a supplier, identify products, export the products to Sweden, cover all the expenditures and finally deliver the goods to Company X's warehouse. The cost difference of doing this oneself or paying someone else to do it, motivated Company X to establish direct relations with its suppliers. However, this comes with the full responsibility of investing the same amount of time as the agents did. The

reduction in price that one might receive when creating direct relations is not a hundred per cent profit since the company has to reinvest its own time in this:

To understand that these changes are associated with extra costs is one of the most important things when transferring agents to direct relations.

[Carl, interview notes, 120509, p.4]

With reference to costs, expensive problems may emerge when dealing with Chinese suppliers. Previously, the agents handled such costs but when purchasing directly from its Chinese partners, the problems have to be solved by the company. Carl further describes one of these problems:

The supplier could suddenly assume that there should be 12 units in a box even though we had a procurement saying 10 units. He had not thought of this interfering with our logistic system and that we, at this point, would give away two units for free, which definitely is not good. [Interview notes, 120509, p.3]

Another challenge of trading directly with the suppliers is estimating the size of an order. When it comes to non-food products, profit maximizing is realized at a given quantity. Every sold item above this quantity results in profits for the company. Thus, long lead-time in China has its impact on this decision, making it very difficult and of great importance. Buying too much is always better than too little because that enables the opportunity of selling one extra unit. However, ending up with a stock of unsold products, specific for a certain season, is associated with extra costs. The difference between purchasing directly from the suppliers and purchasing via agents is that when using the latter, you can order any desirable amount of items and, thus, eliminate any risk of ending up with unsold quantities. Carl explicates this with an example:

Company X had a standing demand for 1000 bicycle pumps each year. When we ordered bicycle pumps from an import agent, we could order 1000 every year, at a price of 5 SEK each. When ordering directly from the supplier, the minimum order quantity was 2500 pieces but the price was just 1 SEK each. Consequently, we would spend half the amount of money but at the same time buy twice as many bicycle pumps. The mental challenge was to figure out how

the company could sell 2500 items when the standing demand was just 1000 items. I was of the opinion that you could sell 1000 bicycle pumps and then throw the other 1500 items away, howsoever, it would be cheaper. But, it is a part of the Swedish mentality that you should not throw anything away, it is associated with sin. Due to this some co-workers still thought that it would be better to consult the agent and buy 1000 items, for 5000 SEK. What one must understand is that if you buy 1000 items, you can only sell 1000. If you buy 2500 items, you have the possibility to sell more items than you usually would. It was a difficult challenge to get other people to understand this.

[Interview notes, 120509, p. 4-5]

This example shows that differences might occur both regarding price and order size when ordering directly from the supplier. In this case, even though the minimum size was more than twice as large as when the company consulted the agent, the total cost was lower.

4.1.6 Finding new suppliers

Finding and evaluating new possible suppliers requires a lot of work, and is something that previously was done by the agents. The further away from Sweden one is, the more unknown is the company. Hence, this might result in doubtful responses from Chinese suppliers that are not familiar with Company X's brand.

The most common way of sourcing suppliers is through contacts. While talking with one supplier one might as well check if he knows another one selling other products that you aim to purchase. Internet is another channel to use but here it is important to remember that anyone can create a website but it does not necessarily mean that they are able to deliver goods. A third option is exhibitions but the same problem exists here, can the person really deliver the products he shows you? Furthermore, it is important to validate the firms with which one actually establishes contacts. Are these suppliers trustworthy and able to produce the required articles? To ensure this, the company and the supplier exchange samples of the required item until the desired result is accomplished.

Company X evaluates a new supplier by "screening" where the goal is to get a profile of the supplier. A comprehensive questionnaire is used and thereafter the suppliers are rated based

on how well they perform. Later on Company X continues controls to ensure the observed result. Carl further explains this:

It is not certain that all companies control and follow up on their social requirements; many companies send out an inquiry form that the suppliers fill out themselves. It is common to just settle for this. We do extensive interviews to unravel the conditions of a working place. These social inspections require two days of observations. [Interview notes, 120416, p.5]

In the beginning, when the company started to manage the import process by itself, they started with the easier products and then incrementally continued with the more complex ones. At the same time this worked as a learning process. After a while they realized the need for more support and therefore the local office was established and a contract was signed with a local logistics partner. Company X's relation to and focus when it came to cost was further explained by Tim:

Since this business is characterized by low value goods and many transactions, there is a focus on costs. The logistics is a substantial part of the total price of the company's products. Since this is products with high price sensitivity, the company tries to affect all parts of the value-chain.
[Interview notes, 120416, p.6]

Company X has the same approach towards all of its suppliers. Regardless of country, the aim is to create long-term relations with all their partners. According to Carl, every supplier is linked to a cost and Company X avoids switching suppliers if not necessary. When changing suppliers however, this is a carefully considered decision that will affect the company in a positive way. Even though the main part of the business is built on a long-term perspective, Company X makes exceptions when there is a special product that temporary might be in high demanded:

The customers are important and therefore we have to be flexible.
[Carl, interview notes, 120416, p.5]

4.2 The Swedish Trade Council

The Swedish Trade Council is an organization that helps Swedish companies to grow internationally. With an unique market knowledge they offer professional services and strategic help when companies strive to export from unknown markets. The organization has been present in China since 1994 and has 80 employees working at 6 different offices. By possessing a well-developed local network and knowledge they can offer assistance in sourcing, evaluating suppliers and establishing local offices.

4.2.1 Interviewee

Peter has valuable, proper knowledge regarding business in China as well as the process of establishing relations with Chinese suppliers. He possesses 6 years of experience from Chinese business.

4.2.2 Purchasing in China

Import agents usually have wide business networks, including several distributors. *Peter* mentions the following advantages that agents can offer; access to established connections and the ability to purchase larger orders and quantities in order to reduce the price. Furthermore, they can take care of the whole import process; order the goods, perform quality controls and handle the shipping and delivery.

An agent is often useful when a company wants to import small quantities and many different products. [Peter, interview notes, 220512, p.1]

Before starting to do business in China, *Peter* stresses that companies need to be aware that it is more time consuming than they usually expect. Communication plays a vital role when dealing with Chinese partners and it is of importance to keep an ongoing dialog over time. In general, doing business in China requires more preparation and accuracy in comparison to other markets.

An agent can assist in the ongoing dialog with the suppliers. This can however, result in communication problems due to one more party being involved in the discussions. Another disadvantage when using an agent is the fact that the company might not know who is

producing their products or how the working conditions are. Peter also points out that it is difficult to know how much margin they are charging for their services.

The process of establishing direct relations with Chinese suppliers are taken step by step according to Peter. In general, the first step is to specify a profile and specify demands. Thereafter, the company search for suppliers that meet its demand. Finally, suppliers are evaluated and thereafter the most suitable are chosen. When purchasing directly from the supplier there could be some problems as well:

The two most common difficulties are quality and the support in the after sales process. [Peter, interview notes, 220512, p.1]

When establishing direct relations with Chinese suppliers, guanxi relations might not be as important as one believes. Peter mentions the following:

Relations are important in China but it is important in Sweden as well. The need for a relationship in China generally depends on the business deal and who are involved in the process. [Peter, interview notes, 220512, p.2]

5. Analysis

In this chapter we will analyze the empirical data in comparison with the theoretical framework. The intention of the analysis is to discuss the aim of this thesis and our research questions as well as establishing a foundation for our final conclusion. We will focus on the culture's impact on business in China, the importance of personal relations and direct relations impact on costs.

5.1 Culture's impact on business in China

As Hall (1976) states, China has a high context (HC) culture and Sweden a low context (LC) culture. This is reflected in the empirical data in many ways. All interviewees from Company X pointed out the importance of being clear and specific when communicating with the suppliers. If not, they might receive a product that not matches the customer's requirement. As Hall (1976) describes, LC people are used to giving exact directions that includes all the information needed while HC people are used to adding surrounding contexts into the given instructions. Peter also stresses that an ongoing dialog and accuracy is fundamental to accomplish a satisfying result. Additionally, as mentioned in the interviews, suppliers in China are highly creative which also conform to how Hall (1976) describes people from HC cultures. As a result of this, LC personnel have to increase their flexibility and at the same time be more specific in their requests. When importing items from European suppliers, most of the production follows standardized procedures. This procedure might erase the possibility of creating unique designs. Hence, by being especially detailed and precise, Company X enables the possibility of supplying their customers with creative and modern products.

Salmi (2006) stresses that one can come across the contextual differences by engaging local employees, advice which Company X is exercising to be able to adapt to local demands. According to Hall (1976), HC people have a higher commitment to one another than LC people. As mentioned by Carl, Company X has to be in constant contact with its suppliers in order to ensure higher priority if another company should request the same item. Further, this might be a consequence of Company X coming from Sweden, that is a LC country, which can result in a lower level of commitment between the company and its supplier. Hence, according to the HC culture, suppliers might not feel as personally involved when co-

operating with buyers from a LC culture country. Contextual differences derive from a country's cultural history and have been developed during a long time. It is important to bear in mind that these contextual aspects are present in every country. As Hall (1976) points out there are subconscious parts and dimensions of every culture that is not visible to others. Contextual differences are not something particular for co-operating between Sweden and China. However, we believe that it does influence each partner's attitude towards the other. It is fundamental to be aware of the existence of contextual differences and that these can affect the co-operation.

Authority and hierarchy, which descends from the Confucian philosophy and collectivism, are essential to Chinese culture, mentioned by Tang & Ward (2003), Hofstede (1997) and Fang (2005). Hierarchical relations are said to be more noticed and valued in China than elsewhere and are, according to the theories influencing all aspects of life. Our interviewees are verifying that authority and hierarchy are important in China. In Sweden, a country known to be individualistic and having decentralized power as well as informal workplaces (Hofstede 1997), hierarchy should not be as important as in China. The Chinese suppliers prefer to do business with the person closest to the decision and would not gladly negotiate with a person possessing a low hierarchical position. Carl, however, argues that the situation is quite the same in Sweden. This is contrary to the theories that claim Sweden to be a non-hierarchical country. Though, we believe that it is hard to make a general assumption and claim that all people from a specific country act and think the same way in all situations. Since culture tends to be presented in a very general way, one needs to be critical to this information. This case shows that the differences regarding hierarchy are not as large as one might think when referring to the presented theories.

Company X aims to create sustainable, long-term relations with all its suppliers. Since suppliers are combined with a cost the company strive to build as functioning and sustainable relationships as possible. However, both Hofstede (1997) and Hall (1976) emphasizes that China would be a more long-term focused country than Sweden. Hofstede (1997) opine that companies from Sweden have a short-term orientation and strive to see quick results. Hall (1976) says that Swedish companies, as a result of the low context culture, do not feel as much loyalty and commitment to its suppliers and therefore tend to have more short-term business relations than Chinese companies. Within this area, the theories and empirical material are deviating. Since Company X focuses on sustaining low costs, it is most profitable

to have long-term relations with all existing suppliers. A long-term perspective gives the opportunity of low purchasing prices. At the same time it is important to remain in business with suppliers that possess the ability of delivering goods of the demanded quality. Thus, finding a supplier with the right qualifications is preferred over realizing quick results.

5.2 The importance of personal relations

The theories and empirical data concerning *guanxi* and personal relations are deviating in various ways. Fang (2005) emphasize that Chinese companies value to co-operate with well-known, famous corporations and that the company's reputation is significantly important. Carl perceives that most of this literature is written from the perspective of large multinational corporations and that it cannot be applicable on Company X business. Since the company is involved in small transactions in China and deals with many suppliers, a personal relationship with all of them is impossible to achieve. He further states that these suppliers do also not strive to create such relationships with Company X. Peter further emphasizes this by saying that whether there is a need for a personal relationship depends on the specifics of the business deal. He opine that relations are as important in Sweden as in China and that it is not specifically related for the Chinese business culture. From this, we can assume that personal relations presumably are of less importance for companies with many small transactions compared to large corporations. There might be a shift towards business relations becoming more important than personal, *guanxi*, relations. As, Guthrie (1999, as cited in Milington, Eberhardt & Wilkinson 2006) describes, this might be due to modernization and industrialization. As the presence of foreign companies in China increase, Chinese businessmen are becoming more interested in and adjust to foreign business culture. Hence, in the long run, we can presume that this may decrease the importance of personal relations for not only small companies but also large corporations.

However, Anna believes that personal relationships can put one in favorable position when negotiating and doing business with the suppliers. Joan Turley (2008) also emphasizes this by saying that; in China you are the brand. Your name, position and presentation are very important and help one to create a trustworthy relation. When such a relationship is established, Anna says that it can be used as leverage when negotiating and doing business with the Chinese suppliers. Also, this results in a mutually dependent co-operation which Fang (2005) mentions is essential for a sustainable relation. Both the buyer and the supplier

are expecting the other part to perform its best and fulfill the agreed terms.

Face, that is known to be an essential part of guanxi relations, is said to be a certainly important part of the group-focused culture in China. To represent the face of a family, organization or company in a proper way is essential for one social reputation and prestige (Leung & Chan 2003). Further, Chinese people are avoiding to show facial expressions and feelings to evade possible disagreements and conflicts (Tang & Ward 2003). By respecting and taking this into account, Western managers could sustain the social harmony that Chinese people are striving for. Carl, nevertheless, believes that foreigners do not have to adjust to these Chinese behaviors. He says “one can never be Chinese, so there is no need in trying”. Since foreign people are already viewed as different and strange, one should use this to be able to be more demanding and goal-oriented. Though, this might not be suitable if one strives to create a mutually positive relation. At the same time, it is not efficient to lose time due to unnecessary avoidance of eventual conflicts. In such situations, companies need to consider the advantages and disadvantages combined with each option.

5.3 Direct relations impact on costs

The reason why Company X started to work directly with its suppliers was the possibility to lower the costs. According to Peter, knowing how much margin the import agents charge for their services is difficult. This is explicitly presented with the case of the bicycle pumps as Carl explained. When purchasing directly from the supplier, Company X received a price of 1 SEK each instead of the previous 5 SEK each that the agents offered. Tim explained that the characteristics of the business, low value goods and many transactions are the reason why the company has such a focus towards costs. With this in mind, as Carl mentioned, since the cost is about the same, it is still more efficient to have six Chinese employees at the office in China than one Swedish employee.

Focusing too much on costs could on the other hand be a non-sustainable strategy for a company sourcing in China. Fang, Gunterberg and Larsson (2010) argue that companies, who purchase from China purely based on lower costs, should consider leaving the country. Rather, companies with a strategy characterized by long-term thinking and a high level of business ethics and CSR practices are therefore said to be suitable for the Chinese market. As stated earlier, Company X purchase from China because it is cheap and according to Carl

there is a price difference of 35-40 per cent between Chinese and Swedish suppliers. Parallel to chasing lower costs, the company has a long-term thinking when co-operating with its suppliers and it also takes a social responsibility. According to Carl, when choosing supplier, there is no difference based on where in the world the supplier is situated. They are all linked to a cost and this strategy creates a long-term thinking because there is no reason for Company X to change supplier unless it turns out to be profitable for the company. The fact that the company performs comprehensive social inspections and has one employee whose main task is to support this work, indicates a long-term perspective. A company that does not screen their suppliers carefully, which apparently is very common according to Carl, is more likely to solely focus on costs and hence have a short-term strategy.

Today price is not the only crucial factor when deciding purchasing strategy. Salmi (2006) claims that aspects such as quality and cost efficiency ought to be considered as well. When buying products with a long lead-time, companies cannot adjust for changes in demand. Thus, the risk of ending up with unsold goods is especially high. Therefore, in order to be cost efficient, a company needs to possess a great knowledge of its domestic market. Quality, as highlighted by Peter, is considered to be one of the most common problems when dealing directly with Chinese suppliers. With this in mind, we argue that when purchasing directly it is vital to assure quality right from the start since you are the one taking all the risk. When an agent is consulted, assuring that the demanded quality is reached is their responsibility. Company X demands samples of the required product from the supplier before signing any production deals. Furthermore, as Anna argued, it is of utmost importance to control everything to a hundred per cent. Always confirming and verifying your order will assure the quality and mitigates the risk of any misunderstandings. Carl mentions an explicit example of such a problem; when the supplier put 12 items instead of 10 in a box without noticing Company X. As these problems can be very costly, we believe that a proactive pursuance is of great importance. Company X's strategy of always verifying and confirming its orders is likely to reduce the risk of problems when dealing directly with Chinese suppliers.

When purchasing internationally, it is essential to carefully analyze the advantages as well as disadvantages before deciding on what strategy to implement. From the empirics conducted, our opinion is that a focus towards costs permeates Company X's organization. Thus, the decision to cut the middleman was thoroughly evaluated and primarily based on the vision of lower import costs. With the experience of purchasing from China since the beginning of the

1960's, this has given the company valuable knowledge regarding the business climate, as well as the culture in China. Johansson and Vahlne (1977) argue that a company's commitments to foreign operations, as well as its presence in the country, are increased gradually in order to reduce business risk. Company X's purchasing strategy in China has been carried out carefully rather than hurried. Based on this fact, together with the results presented in the Uppsala study, we can imply that if a company buys directly from suppliers in China, without any previous experience of doing business in the country, this might not be the optimal strategy. Starring blindly at the opportunity of lower costs, without considering the costs that are connected to the transfer from agent to direct relations, can be detrimental for a company. For example, if you are not aware that being precise when dealing with Chinese suppliers is of great importance, you might end up with an order where all the products are produced wrongly. Therefore it is necessary that companies have to be aware of the differences in the purchasing process between China and Sweden.

6. Conclusion

In this chapter, the result of our analysis is presented. First, we once again present this aim and research questions for our study, followed by discussion and conclusion. Last, suggestions for further studies are given.

Initially, we wish to remind the reader that the aim of this study is to increase the understanding for a possible way of how to proceed when establishing direct relationships with Chinese suppliers. To bear in mind is that our study object is characterized by small transactions in China.

We aim to answer the following research questions;

- How can Swedish companies, with small transactions in China, proceed when establishing direct relationships with Chinese suppliers?
- Whether cultural factors could be relevant for understanding the process of establishing direct relations?

When a company transfer from using import agents to purchasing directly from suppliers it is essential to understand that this is usually not an easy change. One needs to be aware that this process is time consuming. Also, when replacing an agent, a possible price reduction does not create a hundred per cent profit. Assimilating local market knowledge as well as sourcing suitable suppliers and products, things that previously was possessed and performed by the agents, now have to be carried out by the company itself. However, when the purchasing process is performed properly, profits are still realized. A local presence is preferred in order to create a closer contact with the suppliers, allowing companies to control the production process and maintain an ongoing dialog with their Chinese business partners. By doing this, one reduces the risk of problems and misunderstandings within the production. When establishing this local presence companies can consult organizations, such as the Swedish Trade Council, for help. Instead of dealing with administrative tasks that are related to the start up process, one can outsource this and focus on the company's core business.

We can draw two conclusions regarding the importance of culture. Firstly, to possess an understanding of basic differences within the cultural context is indispensable. This is not

specific for China; instead it is affecting the purchasing process between all countries. The context in China requires a purchasing strategy that is more precise and monitored. Secondly, we argue that social and personal relations are not as fundamental when dealing with the Chinese suppliers as it is described in theory. We believe that these theories are not applicable on companies similar to Company X. Trading with multiple suppliers reduces the importance of establishing and nurturing personal relations. Instead, one should maintain a frequent and precise communication with the suppliers. Thus, despite what the theories say, personal relations are not something essential for this kind of companies.

To summarize our thesis, when cutting the middleman companies need to be aware of the following; the process is time consuming, carries costs and it demands precise and continuous communication with the suppliers. Further, a contextual understanding is vital but companies with the same characteristics as our study object do not have to focus on establishing social and personal relations with their Chinese suppliers.

6.1 Further studies

On the interest for further studies, we find that there is a need for a more extensive study within this problem area. This could include several companies within the same business area in order to make the conclusion more general. One can also make a study that compares different businesses in order to make it applicable on other companies to a further extent. Furthermore, it would be interesting to investigate our problem from the perspective of a Chinese supplier in order to receive the perceptions of both sides. It would also be of interest to further analyze the current importance of social and personal relations from a Chinese perspective.

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