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## **Cultural Intelligence in the Sourcing Process**

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# Sammanfattning

**Uppsatsens titel:** Cultural Intelligence in the Sourcing Process

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**Författare:** Kate Bockasten och Dana Chen

**Handledare:** Christer Kedström och Elisabeth Kjellström

**Företag:** Flash AB och Fuda Industrial Ltd.

**Fem nyckelord:** Outsourcing Process, Relationship Management, Transaktionskostnader, Kulturella skillnader och Kina.

**Syfte:** Vårt syfte är att analysera vilken inverkan kulturella skillnader har på kontrollfaktorn som är en del utav transaktionskostnader i den operationella fasen av outsourcing processen.

**Metod:** Vår metodologiska process består en abduktiv, kvalitativ och etic ansats. Informationskällorna består av främst intervjuer och litteratur.

**Teoretiska perspektiv:** Vi har använt oss av outsourcing modellen, transaktionskostandsteori, Hofstedes 2:a och 5:e nationella kulturdimensioner och kompliterat detta med Fangs tolkning av Hofstedes 5:e nationella kulturdimension. Vi har också använt oss av Kraljics inköpsportfölj och McQuistons modell; att bygga och upprätthålla relationer.

**Empiri:** Flash AB, en svensk detaljhandlare och Fuda Industrial Ltd, en kinesisk tillverkare, har blivit intervjuad för att ge oss ett kulturellt perspektiv angående deras relationshantering.

**Slutsatser:** För att kunna hantera kulturella relationer mellan två skilda kulturer, som den svenska och kinesiska, måste båda ta hänsyn till varandras värderingar, beteende och attityder. Kulturell intelligens är ett sätt att uppnå detta. Resultatet av en stark integrerad relation i den operationella fasen i en outsourcing process, har direkt påverkan på transaktionskostnader. En stark relation kan stå emot både intern och extern osäkerhet, minimera potentiella investeringsspecifika kostnader samt minska intensiva kommunikationsutbyten. Genom att bygga och bevara en sund kulturell och integrerad relation i den operationella fasen är ett sätt att försäkra sig om sina konkurrensfördelar och hålla ner transaktionskostnader.

# ABSTRACT

**Title:** Cultural Intelligence in the Sourcing Process

**Seminar date:** June 2<sup>nd</sup>, 2005

**Course:** Bachelors thesis in Business Administration, 10 Swedish credits (15 ECTS)

**Authors:** Kate Bockasten and Dana Chen

**Advisor/s:** Christer Kedström and Elisabeth Kjellström

**Key words:** Outsourcing Process, Relationship Management, Transaction Costs, Cultural Differences and China.

**Purpose:** Our purpose is to analyse the impact of cultural differences on the control factor of the transaction costs in the operational phase of the outsourcing process.

**Methodology:** Our methodological process consists of an abductive, qualitative and etic approach. Our information sources include interviews with two companies and complementing literature.

**Theoretical perspectives:** We have applied the outsourcing process model, the transaction cost theory, Hofstede's 2<sup>nd</sup> and 5<sup>th</sup> national culture dimension and complimented this with Fang's added interpretation of Hofstede's 5<sup>th</sup> national culture dimension as well as Kraljic's purchasing product portfolio and McQuiston's model for building and maintaining relationships.

**Empirical foundation:** Flash AB, a Swedish retailer and Fuda Industrial Ltd., a Chinese manufacturer, have been interviewed to provide us with cultural perspectives regarding their sourcing process.

**Conclusions:** Cross-culture relationship management is a layered activity as two separate cultures, like the Swedish and Chinese cultures, must consider their respective values, behaviours and attitudes. Acquiring cultural intelligence is a mean of achieving this. The outcome of a strong cross-cultural relationship in the operational phase is a positive impact on the transaction costs. A sound relationship can weather internal and external uncertainties, minimize potential investment specific costs and decrease communication intense exchanges. Building and maintaining a sound cross-cultural relationship in the operational stage is a matter of ensuring one's competitive advantage and keeping transaction costs low.

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# 1. INTRODUCTION

*The following section provides a brief overview followed by a problem discussion, our objective and the purpose of this paper.*

## 1.1 CHINA TODAY

*“A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross border trade and investment; by distance, time zones and language; and by national differences in government regulations, culture and business systems. We are moving toward a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking and national economies are merging into interdependent global economic systems.”*

(Hill, 2005, p.4)

The global market is changing and this is particularly visible in China where dramatic changes are a daily occurrence. Napoleon once stated, *“China is a sleeping giant. Let her sleep for when she wakes, she’ll take the world by storm”* (Barner-Rasmussen, 2001). This is the western perception of one of the world’s oldest and most tightly populated countries<sup>1</sup>. Since Deng Xiaoping (China’s former president) welcomed foreign trade in the late 1980’s, international companies started racing to get a piece of the action. Reforms were put in place, further contributing to China’s rapid growth. China adapted their restrictions and regulations to be eligible to enter the World Trade Organization (WTO) and on December 11th, 2001, their membership was secured. Foreign trade increased, doubling every four years while the country’s GNP<sup>2</sup> has been doubling every five years. Today, 80% of the world’s direct investment is in China and for the last three years, China has been responsible for 30% of the world’s GNP growth (Dagens Arbete, DN, SvD och Svenskt Näringsliv, 2005).

As Mari Pangestu, Indonesia’s Trade Minister, stated, *“China (has) become the factory to the world and a prosperous market”* (Shameen & Balfour, 2005). The garment industry in China is a perfect example of this. What was once sourced to Eastern European and Southeast Asian markets is now being sourced to China due to the significantly lower production and labour costs. Today, 17% of the world’s

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<sup>1</sup> China’s population is reaching approximately 1.3 billion people.

<sup>2</sup> GNP= gross national product

textiles and garments are produced in China (Davidsson, 2005). Increased western sourcing means increased foreign direct investment to China leading to increased expertise and tying back to increased sourcing. This cyclical chain strengthens China's prosperity and popularity. In 1994, China had a 2.2% share of the global manufactured exports and by 2003; this figure grew to 5.3% (Shameen & Balfour, 2005). Today, China is the largest production base for many western countries.

Importing and exporting between countries is a multi-faceted activity from an economic and cultural point of view. When deciding an effective sourcing strategy for a specific commodity, careful planning and evaluation is required. The type of sourcing strategy impacts the number of desired suppliers, the level of relationship the partnership requires and type of contract to negotiate (van Weele, 2005, p.15). Outsourcing is one type of business strategy that is common in today's sourcing practices. The main incentive for outsourcing is to gain a strong competitive advantage. By focusing on core competencies and outsourcing non-core activities, peripheral costs are reduced and flexibility increased (Kjellström, 2004). Swedish companies, like their western counterparts, are taking advantage of the economic opportunities in China. In fact, China is Sweden's largest trading partner in Asia with 2.6%, 38 billion Swedish kronor, of Sweden's total foreign trade in 2003 (Swedish Embassy, 2005). It is an exchange that has only just begun. In 2003, trade with China increased by 19% compared with Sweden's overall trade a mere 2% increase. Imports from China primarily consist of production parts and consumer goods like textiles, garments, shoes and sports equipment resulting in 21 billion Swedish kronor worth of business.

## **1.2 PROBLEM DISCUSSION**

Since China dismantled its trading barriers after December 11th, 2001, therefore making importing and exporting activities easier, there are still a number of factors that companies must address. Considerations like distance, time zones plus differences in language and government regulations are obvious factors that must be taken into account. However, the more intangible factors like different business and cultural systems are equally vital considerations. When American companies negotiate contracts with Chinese companies, it is noted that one must be prepared for the cultural challenge that exists (Schuster, 2005, p 69).

Price, quality and delivery are hard, quantifiable criteria that are often used to evaluate business performance yet; it is the soft, non-quantifiable and intangible criteria like management compatibility, strategic commitment and communication which have a greater impact on performance (Kannan & Tan, 2002). Managing relationships is the key to a successful partnership yet, when two parties have such different backgrounds of languages, cultures and perspectives, how does one ensure a harmonious co-operation? Essentially, how do cultural differences affect the outsourcing relationship? What are the economic costs of these cultural differences on the relationship? How can a company minimize these costs?

In order for the supplier and buyer to function effectively in their outsourcing relationship, a greater understanding of one another is needed. Western studies are

unavoidably focused on the western perspective since a majority of western companies outsource to Asia. For the sake of equal representation, the Asian supplier's perspective needs to be addressed.

The Chinese-Swedish exchange is just beginning and in order to develop this union, location-specific factors must be addressed. Cultural factors need to be considered. Both Swedish and Chinese cultures have traditions and values that are intrinsic to their society. For example, a Chinese visitor may be baffled if they were to attend a "*midsommar*" celebration and see everyone dancing around a decorated pole pretending to be frogs. Similarly, a Swedish visitor may find the morning ritual of *Tai chi*, performed by large groups of senior citizens, to be a foreign concept. The business environment is also influenced by cultural differences. While Swedish employees are accustomed to honest and direct communication, a Chinese employee may deem this as abrupt and disrespectful. Common practices become foreign in different settings.

China is a growing economy with expansive production capabilities and a booming sales market. Establishing oneself in a new market involves a number of challenges. A competitive advantage cannot be obtained unless all aspects of the outsourcing process are adequately addressed. Cultural intelligence<sup>3</sup> is one such aspect and an integral ingredient. With this in mind, relationship management is relevant to analyse since many Western companies are outsourcing a considerable percentage of their production to China. Insight into the cultural interplay in the outsourcing activity is of interest with relation to both sides of the transaction. For this reason, we have interviewed a Swedish buyer and a Chinese supplier<sup>4</sup>. Though the former does not outsource their production, but rather sub-contracts<sup>5</sup>, parallels can be drawn upon their relationship exchange and management with their suppliers. Both companies' collective insights are applicable in adding to a better understanding of how their cultural backgrounds affect the relationship management, which is present in the last phase of the outsourcing process. In turn, we are also interested to see how this influences the level of transaction costs.

## 1.3 OBJECTIVE AND PURPOSE

Our purpose is to analyse the impact of cultural differences on the control factor of the transaction costs in the operational phase of the outsourcing process.

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<sup>3</sup> Cultural intelligence refers to the understanding of one's own cultural dynamics as well as the cultural dynamics of the other. It is a form of cultural sensitivity.

<sup>4</sup> The Swedish buyer and the Chinese supplier have no business connections with one another.

<sup>5</sup> When a company has not previously handled production and sources out their production to a supplier, it is known as sub-contracting.



## 2. APPROACH AND SOURCES

*This section explains which method best supports our thesis and the types of information sources and models we will acquire for our analysis.*

### 2.1 METHODOLOGICAL PERSPECTIVE

Gathering information can be a fascinating yet scattering activity therefore it requires a systematic approach that supports one's choice of topic. To structure the approach, one must decide between a *Positivistic*<sup>6</sup> and a *Hermeneutic*<sup>7</sup> method (Jacobsen, 2000, p.38). The former method centres on an ontology of laws with a theory of knowledge that is general, objective and cumulative while the methodology is deductive, distanced, objective and quantitative. The Hermeneutic method however, is removed of fixed laws and instead applies a unique and local theory of knowledge while the methodology is inductive, close, subjective and qualitative (Ibid, p.38). Our interest lies in both the buyer and supplier's experiences therefore we will explore their subjective interpretations using qualitative information. For these reasons, this paper is primary shaped by the Hermeneutic method. Each approach is briefly described complimented by a rational for our selections.

#### 2.1.1 INDUCTION VS. DEDUCTION

To work from an inductive or a deductive approach depends on which perspective one takes. To choose an inductive approach involves beginning with empirical data that is then applied to a theoretical framework while the deductive approach starts with a theoretical base and tests the validity of that theory with empirical sources (Rienecker & Jørgensen, 2002, p.160).

We will apply an abductive approach as it involves a continuous exchange between empirical data and theory and is therefore, a combination of the two approaches. The inductive method is of use when drawing general conclusions based on the empirical data provided. These observations point us in the appropriate direction when deciphering a suitable theoretical framework to apply.

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<sup>6</sup> Explanatory method

<sup>7</sup> Interpreting based method

No matter how carefully planned, outsourcing always entails risks. Based on the interviews and lecture, China is undoubtedly an increasingly attractive market to foreign investors yet it is not without complexities. Cultural differences require further understanding and by applying a theoretical structure, we can test its merits to see if it is of commercial relevance. This plural approach is best suited to our thesis since it examines a situation from more than one vantage point thus creating a more realistic picture of the situation and concerns of today.

### **2.1.2 QUALITATIVE VS. QUANTITATIVE**

Depending on if one chooses to numerically or verbally substantiates one's thesis determines whether a quantitative or qualitative approach applies. Oftentimes, a study is a mixture of the two.

As our thesis revolves around the impact of cultural differences on the control factor of the transaction costs, we are primarily concerned with qualitative information. Culture is not a static entity but rather dynamic and ever changing. Placing a quantitative interpretation would imply that culture and thus cultural difference is polarised and exclusive. This however would minimize the reality of culture in one's consciousness and actions. Culture is a layered and contradicting paradoxical experience, particularly with today's globalisation. For this reason, cultural differences must be analysed and appropriated using qualitative measurements. Simply put, a qualitative method is best suited since it provides a platform for the experiential.

### **2.1.3 ETIC VS. EMIC**

*"[...] the importance of the cultural origin [...] is a powerful illustration of how fundamental a phenomenon culture really is. It affects not only our daily practices: the way we live, are brought up, manage, are managed, and die; but also the theories we are able to develop to explain our practises. No part of our lives is exempt from culture's influence."* (Hofstede, 1991, p.170)

A co-operation between two countries of different cultures can be challenging. Sapir's cultural methodology is an effective means of illustrating which point of view one is taking. 'Etic' and 'emic' are Sapir's two approaches. Etic relates to an outside perspective when comparing a culture and emphasising the similarities and differences while emic involves an internal cultural perspective of how the society functions therefore focusing on what is unique within that culture (Mårtenson, 1998, p.45). It is important to understand the origins from which the cultural variance derives. How does it influence the way people interact? What is the effect on working life? In some cultures, working is a means of achieving one's goals and in others; it is working that is the goal (Ibid, p.46). We intend to generalize Swedish and Chinese culture with regards to their professional relationships. To effectively achieve this, an etic view that is supported by literature and articles will be applied. Traces of the emic approach will appear thanks to the interviews with our Chinese respondent at Fuda Industrial Ltd. and

the first-hand experiences of Tony Fang from his lecture. Though we choose to apply both perspectives, our emphasis is clearly on the etic approach since a stronger emic view would require time spent in China as well as closer observation.

The abductive and qualitative measurement constitutes our choice of methodology. Illustrating our cultural perspective is also added to the methodology so as to further articulate our perspective. Using these approaches, we hope to better understand the influence of cultural differences in the outsourcing process.

## **2.2 SOURCES OF INFORMATION**

Information gathering should be adapted to the problem one has chosen to explore. Data should lie as the foundation for further analysis and theoretical applications therefore increasing one's understanding and contributing to the result. Primary and secondary sources are the pieces that build the cumulative body of knowledge.

### **2.2.1 PRIMARY SOURCES**

Primary sources are built on the combined information directly derived from a respondent (Jacobsen, 2002, p.152). The researcher obtains first-hand information from interviews, observations and questionnaires.

#### **Choice of Company**

We have chosen to interview two companies of different cultural backgrounds. Though both companies are in the garment industry, it is not the type of industry but rather their cultural reference point that is of central interest to this paper. The first company is a Swedish retail firm that sub-contracts their production to China. They are Flash AB which we will continue to refer to as Flash. The second company is a Chinese manufacturer who supplies manufacturing services to outsourcing companies. They are known as Fuda Industrial Ltd. and we will refer to them as Fuda Industrial. As we previously alluded to in our problem discussion, Flash does not outsource yet we feel their cross-cultural insights on relationship management with China are equally applicable for the purpose of this topic in outsourcing. As outsourcing is a part of the sourcing strategy, we will use the terms interchangeably.

#### **Interviews**

To obtain a greater understanding of the buyer-supplier's reality, we relied primarily on interviews. The interviews of Flash and Fuda Industrial were conducted on separate occasions. In both cases, open-ended questions were asked.

Our meeting with Flash was a face-to-face interview with Carin Terins, the Design and Buying Manager. This interview was conducted at the end of February, a couple of months prior to the writing of our bachelor's thesis. The

intention of the interview was to understand their purchasing process and the potential benefits and risks of this sourcing strategy. The results of this interview were summarized in an earlier essay; *A Cut Above The Rest: An Analysis of Flash AB*. As illustrated in the analysis, the outcome of the interview extended beyond the concrete elements of their sourcing process and focused largely on the relationship with their suppliers. Due to its relevance, it is applied to this paper.

Our second respondent was Kevin Hyy, the Hong Kong sales executive at Fuda Industrial. We conducted four e-mail interviews in May. This choice was based on the great geographical distance, language difficulties and time changes that existed. E-mailed interviews were especially suited to our study as it provided the respondent with thinking time when answering the questions. The focus of our four interviews was as follows: background information on the company, client and contracts, added questions from the first two interviews and relationship management. The combined information was then paraphrased so as to improve the language and clarity of the answers.

### **A Lecture**

We attended a lecture by Tony Fang and chose to include this in our theoretical framework, though we are aware of its empirical qualities. The body of knowledge was an extension of his theories where he applied examples and explanations of China today. Mr. Fang has worked and studied extensively in China and Sweden. His consultancy work lies in bridging the cultural gap between China and Sweden and his academic work focuses on understanding the cultural differences and similarities between the two countries. His observations in this paper are exclusively derived from the lecture we attended.

### **Summary**

Interviewing both a buyer and supplier in the same industry offers a multifaceted perspective that strengthens our focus. The lecture provided by Mr. Fang adds further dimension to the cultural dynamics at play between Sweden and China.

## **2.2.2 LIMITATIONS OF PRIMARY SOURCES**

The neutrality is always in speculation when evaluating primary data. Individuals are not without their professional bias or their cultural heritage. No matter how neutral one may attempt to be, one cannot erase the cultural values that lie in the subconscious. "*Cultural sensitivity is subtle, and bias is always looming around the corner.*" (Hofstede, 1991, p.233).

### **Interviews**

The interview with Flash was face-to-face and therefore, we had the opportunity to interpret both the verbal and non-verbal communication yet, this was not possible with our e-mailed interviews to Mr. Hyy's.

Both interviewees are strongly tied to their position within the company and in the case of Mr. Hyy; he is not only an employee of Fuda Industrial, but also a member of the owner family. This attachment is both positive and negative since he could

give us considerable information about the company yet, his perspective may have been bias at times.

### **Lectures**

Mr Fang has spent over a decade in Sweden yet was born and raised in China. Due to his multi-cultural background, he is one of our more neutral primary sources.

## **2.2.3 SECONDARY SOURCES AND MODELS**

Literature, academic papers, newspapers, magazine articles and documented studies<sup>8</sup> describe different types of secondary data. We used all forms of secondary data except documented studies, like annual reports, which Fuda Industrial refused to release. We have limited our secondary data, with the exception of books, to a ten year time limit since China's economy has grown at such a considerable rate. In the garment industry alone it has grown 15% per year for the past twenty years (Roberts, Zellner & Matlack, 2005). Our intention was to obtain a general understanding and we looked at earlier studies on China and the garment industry using Lund University's database as a primary reference point.

## **2.2.4 LIMITATIONS OF SECONDARY SOURCES AND MODELS**

The cultural bias of the sources is an element that can be questioned in the secondary data and models. It must be a considered factor in the secondary sources and models. A majority of our cultural theory is derived from the work of Geert Hofstede, a Western academic. His work is extensive and influential yet, his observations and theories are coloured by his Western perspective. This is the general tendency in all the secondary data. In order to obtain a more neutral data base, we would need to source Chinese texts which are not realistic due to our limited linguistic ability.

## **2.3 COURSE OF ACTION**

Much attention has been given to the changes happening in China. Articles on China's growing economy are a regular occurrence in leading magazines like Business Week. It was at the meeting with Flash that we became aware of the importance of communication in the cross-cultural exchange. They expressed how this communication was so essential since it improved the lack of certainty. While we were brainstorming our topic for this paper and with the onset of media attention on China we decided to further explore the topic.

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<sup>8</sup> Budgets and annual reports.

During the initial stages of sourcing information we chose to immerse ourselves in current articles and journals. This was to provide us with a general overview of China's economy today. The second stage involved focusing on relevant outsourcing topics concerning the buyer and supplier. We continued to source information except now, our search focused on literature regarding different theoretical frameworks that could apply to our area of interest. This continuous exchange helped to form our objective and purpose.

The e-mail correspondence with Fuda Industrial was extended over the month of May. Added inspiration came from Tony Fang's lecture which presented some new angles and points of reference. While these sources of information have been beneficial to our study, the majority of references have come from literature.

### **2.3.1 LIMITATIONS TO OUR COURSE OF ACTION**

The course of action could have been implemented in a number of ways. Instead of just examining one buyer and one supplier, a larger population of respondents could have been included. This increase would have provided a quantitative basis for analysis. We could have also focused on different branches or a variety of company sizes to see if similar sentiments were expressed. Thirdly, we could have questioned more employees within the same purchasing or sales division to provide us with a greater perspective. Observations could have also been added to this last factor. These limitations combined address various aspects of our topic yet many of which involve greater resources than what were available to us.

## **2.4 VALIDITY**

The validity of our interviews can be argued, particularly in reference to Fuda Industrial as the language barrier was at times, an issue. We had to rephrase certain questions over again in the hopes of receiving a more clear answer only to receive the same response. For this reason, we have interpreted his answers to what we *think* he meant. Such interpretations can thus, alter the quality of empirical information.

It is important to emphasize that the information we have used in our study are the opinions of the authors. Since we have consciously sourced a wide variety of information, we have attempted to maintain relative neutrality. Our primary interest is to obtain a greater understanding of the cross-cultural realities today and for that reason, we have sourced texts from a wide range of credibility. Some pieces are highly subjective while others are more objective. We are most critical of magazine articles since the qualification and research is often minimal. Since our focus is on the qualitative approach, which involves valuing perceptions and experiences, one's personal perspective is no less valid than another's.

The quality of the Chinese statistics, though sparingly used in the paper, is also questionable. Bremner and Roberts report that Beijing has been in suspicion for doctoring consumer spending and retail sales statistics so as to positively

influence the GDP (Bremmer & Roberts, 2005, p.22). The validity of these facts is therefore relative.

## **2.5 RELIABILITY**

We chose to interview respondents who are directly connected to the buying and supplying process. They are also part of the top management within their respective companies and as such their reliability increases.

Another way of increasing reliability was if we could observe a Swedish buyer and a Chinese supplier negotiate and manage their cross-cultural buyer-supplier relationship. This however, is an unrealistic proposal for our study due to the fact that the two companies would likely request a certain level of privacy when discussing professional affairs.

Due to the geographic distance it is also difficult to observe the extensiveness of Fuda Industrial's outsourcing connection. If we had full access to their client files and their annual report, the reliability and extensiveness of their involvement in the outsourcing chain could increase.

## **3. CONCEPTS AND MODELS**

*This section presents the chosen theories and models that are of interest to our topic. We have combined certain theories, building a model for which we will apply as the theoretical framework for our analysis.*

The fundamental question for any company is whether it is more advantageous to make or buy a product/service. Whether a company intends to gain flexibility, increase innovation or obtain a competitive advantage through outsourcing, one must analyse the costs of the operation. The costs are comprised of cost drivers depending on the phase of the outsourcing process. For the purpose of this essay, the operational phase of the outsourcing process and the incurring transaction costs will be the central focus of our paper with relation to the cultural differences between companies.

### **3.1 PURCHASING PORTFOLIO ANALYSIS**

Before the outsourcing process can be put into action it is wise to ascertain a differentiated strategy using Kraljic's Purchasing Portfolio analysis. This differentiated strategy entails defining a one's commodities and buyer-supplier relationship therefore illustrating the balance of power between a company and its key suppliers (van Weele, 2005, p.148). Once a company is aware of the different interests, the company can use it to their advantage thus, developing the appropriate relationship.

There are four basic segments that are determined by the level of supply risk and profit impact (see figure 3.1). One can analyse these segments from either a buyer or supplier perspective. Leverage products are products with a high degree of substitution and standard quality grade. These products are in a buyer dominated segment where the increased competition between suppliers provides an excellent platform for competitive bidding. Routine products are identified as having small value per item with an extremely high substitution level. They are products with minimal supply risk and therefore, it is also a buyer dominant segment. Bottleneck products are the least buyer friendly thus having a high supply risk. These types are products are characterized as being items with only one supplier therefore, high prices, long delivery times and bad service can be expected (Ibid, p.151). The last segment includes strategic products. There are minimal suppliers and it



is here that the buyer and supplier have more of a balanced relationship; functioning as partners when developing a product. This segment often consists of high-tech products which have a great value to a company's core competency and therefore, a mutually beneficial buyer-supplier relationship is essential.

**FIGURE 3.1** Purchasing Product Portfolio and Supplier Portfolio

<b>IMPACT ON FINANCIAL RESULTS</b>	High	LEVERAGE PRODUCTS  <i>Buyer-dominant</i>	STRATEGIC PRODUCTS  <i>Mutual alliance</i>
	Low	ROUTINE PRODUCTS  <i>Buyer-dominant</i>	BOTTLENECK PRODUCTS  <i>Supplier-dominant</i>
		Low	High
		<b>SUPPLY RISK</b>	

Source: van Weele (2005, p.150)

The type of product one buys or supplies influences the type of relation to expect. The power balance affects the outsourcing processes since it determines how vulnerable the buyer or supplier is with a given product. If it is a case of strategic products, then communication and interaction will be prioritized while innovation and quality become incentives for mutual investment. With regard to routine products, the opposite may be true. In this scenario, the communication will be through standardized orders resulting in little contact between the buyer and supplier.

Understanding where Flash and Fuda Industrial's product line lies provides greater insight into the type of power relationship they experience. This is also of use when analysing the subsequent consequences a power dynamic plays on the cultural differences and consequently the costs in outsourcing.

### 3.2 THE OUTSOURCING PROCESS

The outsourcing process comprises of three general phases as is illustrated in figure 3.2.

#### **The Strategic Phase**

This first phase focuses on three central elements; competence analysis, assessment and approval as well as contract negotiation. A company begins by considering *why* they want to outsource and analyse their competence. Then, the assessment and approval involves questioning *what* activities to outsource while

the final element revolves around *who* to outsource to and what supplier criteria is required.

**The Transitional Phase**

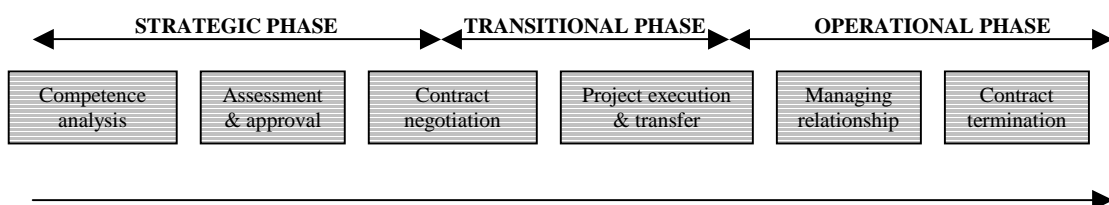
The transitional phase encompasses the contract negotiation of the outsourced order and *how* it will be processed. It is at this stage the basic building blocks of the relationship are formed as a thorough contract reduces potential conflicts and misunderstandings. As van Weele states, *“It allows both organizations to maximize the rewards of the relationship, while minimizing the risk”* (van Weele, 2005, p.129). Once the terms and guidelines have been established, the order is issued and the project is executed.

**The Operational Phase**

The last phase is concerned with *how* the company manages the relationship and contract termination. *“Managing the buyer-supplier relationship management is one of the, if not the, critical stage in the outsourcing relationship”* (van Weele, 2005, p.131). This phase has the potential to make or break the outsourcing relationship. Poor cooperation or miscommunication due to poor relationship management can result in significant costs for a company.

In a survey performed by the American Management Association, *“[...] cost reductions are the most frequently cited rationales for outsourcing, followed by time reduction and quality improvement. But outcomes fall short of expectations: in most cases, fewer than 25% of respondent firms say those goals have been fully realized”* (Greaver, 1999, p.300). With price being a primary motivation, all costs associated with the exchange must be identified. As van Weele implies, managing the relationship during the operational phase is fundamental to the success of the outsourcing relationship. *“To build the relationship effectively, the relationship manager and the organisation should be active in monitoring and evaluating performance and in addressing issues. “If this doesn’t occur, the provider’s performance is likely to suffer”* (Ibid, 1999, p.269). This relationship is challenging in its own right however, when you include cultural differences between companies, it becomes a far more complex and greater challenge. It is for this reason we have chosen to analyse the cultural impact on relationship management in the operational phase.

**FIGURE 3.2** The Outsourcing Process.



Source: van Weele (2005, p.125)

### 3.3 THE TRANSACTION THEORY

*“A transaction cost is the amount the buyer and the seller must pay in addition to the cost of the core service in order to participate in the exchange,”* (Hougaard & Bjerre, 2003, p.100). The incurring transaction costs should be taken into account when a company determines whether to insource or outsource. If the transaction costs exceed the expected savings, outsourcing becomes a disagreeable alternative. Keeping transaction costs low is one of the primary objectives of an outsourcing relationship. *“The (potential) costs associated with establishing, monitoring and enforcing the contract, as well as the costs associated with managing the relationship with the external party, are all considered to be part of the transaction costs as well as the costs associated with the transaction itself”* (van Weele, 2005, p.125)

Transaction costs are determined by three cost drivers; the frequency of transaction, the level of the transaction specific investment and the external and internal uncertainty. The frequency of transaction relates to the level of exchange between the involved parties while the transaction specific investment can involve an investment made by a supplier or the time invested by a firm to create a proposal to secure a contract. The external uncertainty pertains to the market environment and the internal uncertainty concerns the internal dynamics of the organisation. The 3C's of transaction costs are illustrated in figure 3.3 and are termed contact, contract and control respectively. The first two cost drivers will be briefly addressed to provide the reader with an overall view yet the focus of this paper lies in the third transaction cost; the control factor.

#### 3.3.1 CONTACT

Contact is known as a pre-exchange cost as it relates to information gathering when sourcing new partners. The more exchanges between the buyer and supplier, the higher the transaction costs at this level. For example, when a company is seeking new suppliers, the cost will be considerably higher than if the buyer chooses an existing supplier. A company must carefully weigh the costs and benefits of seeking new suppliers for their outsourcing activities. If cost is the primary motivation then perhaps it is wise to stick with existing suppliers yet, if innovation and risk management is of greater concern then sourcing new suppliers is a cost worth incurring.

#### 3.3.2 CONTRACT

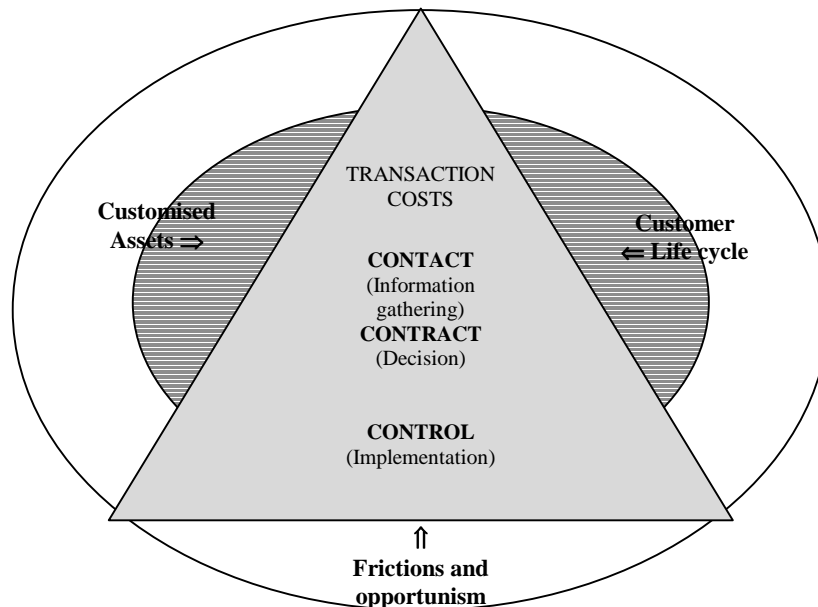
Once the information is gathered and analysed, the decision to outsource proceeds to the next dimension of the transaction costs. It is at this level that costs are incurred during the contract negotiation. Important ingredients to address are scope of service, terms of the agreement, service level, rates, fees, incentives, termination plan, conflict resolution, communication, management and control as well as any other relevant details (van Weele, 2005, p.130). The more attention and detail allocated to the contract, the less possibility for misinterpretation. The

contract provides an opportunity for both partners to negotiate a mutually satisfying agreement and can create a solid groundwork for a successful relationship.

### 3.3.3 CONTROL

The final cost incurred is found in the post-exchange or control cost. It is here that relationship management plays a central roll. The importance of this stage is found in the ability to cooperate and communicate towards a common goal during an extended period of time. Greco stated that, “[...] *the true value of outsourcing comes after the relationship has had time to develop and additional synergies have emerged. Creating a sustaining, long relationship with a supplier is exciting; it’s where the win-win is really beginning to show*” (Greco, 1977, p.54).

**FIGURE 3.3** Business Economics – Basic Principles and Transaction Costs.



Source: Hougaard & Bjerre (2003, p.101)

The above model illustrates how customized assets, the existence of frictions and opportunities and customer lifecycle influence the 3C’s of the transaction costs in the physical system.

## 3.4 BUILDING AND MAINTAINING RELATIONSHIPS

To establish a win-win situation between the buyer and supplier, six core values and four supporting factors (see figure 3.4) are deemed critical purports Daniel H.

McQuiston. These core values are inter-organisational in nature and the supporting factors are interpersonal in nature. If applied effectively, the constructs can determine the success of a business relationship. Though these constructs are based on the relationship between manufacturers’ representatives and their principles, the knowledge can easily relate to the outsourcing relationship. The constructs will be addressed separately in more detail.

**FIGURE 3.4** Core Values and Supporting Values of an Outsourcing Relationship

CORE VALUES	SUPPORTING FACTORS
<ul style="list-style-type: none"> <li>● Shared goals and objectives</li> <li>● Mutual dependence</li> <li>● Open lines for communication</li> <li>● Concern for others profitability</li> <li>● Mutual commitment to customer satisfaction</li> <li>● Trust</li> </ul>	<ul style="list-style-type: none"> <li>● Personal relationship</li> <li>● Professional respect</li> <li>● Investment of effort by top management</li> <li>● Continuous improvement over time</li> </ul>

Source: van Weele (2005, p.131)

### 3.4.1 SIX CORE VALUES

The core values exist collectively between the supplier and the buyer.

#### **Shared goals and objectives**

This value involves the communication of goals and objectives between the two parties. Defining one’s objectives and conveying these ambitions is a means of increasing stability. It also offers the opportunity of exchanging ideas and collaboration. If both parties share similar goals then the divergence of preferences are minimized and a stronger alliance is built. To achieve this, McQuiston suggests “pre-screening” prospective partners according to standardised procedures.

#### **Mutual dependence**

When two partners engage in a balanced power relationship, a level of mutual dependence is obtainable. Mutual dependency is expressed in a number of ways. It can entail interdependency in achieving their individual goals and it can emphasise mutual support. The result of mutual dependence is, “[...] *you have to understand and know what is good for each other –when you do this the manufacturer will be willing to concede points that they may not have been willing to do in the past [...].*” (McQuiston, 2001, p.172)

#### **Open lines for communication**

McQuiston sums up organisational communication research as such: 1) a definite objective, 2) an understanding of the needs of the audience it is communicating to, and 3) the communication is supplied in a form and amount that keeps the

attention of the audience (McQuiston, 2001, p.172). Without a doubt, effective communication is the key to any relationship. He states that increased communication between two parties' results in shared trust and involvement. Open communication is both critical in understanding one's partner and in resolving conflicts. Initial communication should be quickly followed up and information should be frequently exchanged though this is relative to the parties involved. The communication loop should also include all relevant parties.

#### **Concern for others profitability**

In order for both parties to be equally motivated, the financial benefits must be satisfactory for the buyer and supplier. To be concerned with the other's profitability relates back to shared goals and objectives and is a means of building a strong alliance. As so poignantly stated, *"It's very basic –there has to be a recognition that both sides need to make money and each must allow the other to make a profit. If you beat up the rep, or the rep beats you up, it ends up hurting the relationship. Each party needs to understand that the other person needs to make money."* (McQuiston, 2001, p.175)

#### **Mutual commitment to customer satisfaction**

Understanding the needs of the customer is paramount. If all levels of both parties have customer satisfaction as their primary concern, then everyone is working towards a common goal. This involves sharing knowledge of the customer and building a combined strategy towards customer satisfaction. Again, consistent communication is a key ingredient.

#### **Trust**

Without trust, a relationship cannot endure. Trust can be many things to many people. Some define it as having credibility and benevolence while other define it as, *"[...] a willingness to rely on an exchange partner in whom one has confidence"* (McQuiston, 2001, p.175). Trust secures a future relationship and is the cornerstone of building and maintaining a successful relationship.

### **3.4.2 FOUR SUPPORTING FACTORS**

The supporting factors are constructs that exist between individuals.

#### **Professional respect**

Mutual respect for both the organisation and the individual is a fundamental criterion for a successful business relationship. This respect lies in an appreciation for one another's credibility, abilities, and distinct competencies. It is due to professional respect and professionalism that both parties are open to negotiation and can reach a basic level of understanding. The opposite of professional respect is unprofessional. It is this quality that McQuiston finds equally interesting as it is the fastest way to destroy a relationship. Thus, professional respect is embodied in professionalism and should be cultivated at all costs.

**Personal relationship**

At the root of every professional relationship is the personal relationship. The former cannot exist without the latter. Buyers and suppliers are people first. Before a contact can be developed, a contract negotiated and a product produced, the parties involved must have a personal relationship. These relationships need time to evolve and it is here that bonds are often built outside of the office. This allows the social veneer to dissipate and the personal qualities to come forth. As McQuiston states, “*The firms that had taken the time and effort to go from being simply business associates and had attempted to get know the other individual on a personal level seemed to enhance the effectiveness of the relationship*” (McQuiston, 2001, p.177).

**Investment of effort by top management**

An alliance manager is one way of building a partnership between two firms. It is this representative from top management that inspires confidence and signals commitment. An alliance manager is also the one who ensures that the core values are met and the objectives are met.

**Continuous improvement over time**

Each party must be dedicated to continuous improvement if the relationship is to grow and move forward. Initiative by both parties is important in signifying mutual commitment. By implementing continuous improvement, like that seen in the Kaizan<sup>9</sup> approach, improvements become integrated into the standard operating procedures.

**In Summary**

Once these core and supporting values are imbedded in the fabric of the outsourcing relationship, innovation opportunities may increase. It is these core values that are of interest in terms of how they relate to cultural sensitivity and understanding. As McQuinston stated, “[...] *developing and maintaining relationships [...] are of paramount importance if both parties are to be successful in an increasingly competitive business environment*” (McQuiston, 2001). Yet, to properly develop and manage a relationship during the operational phase, one needs to be aware of the cultural dynamics that underlie. McQuiston’s model, though conceptual, is created from a western perspective. Our analysis will address how these values can coincide with Chinese values.

## **3.5 TRANSACTION COSTS IN THE OUTSOURCING PROCESS**

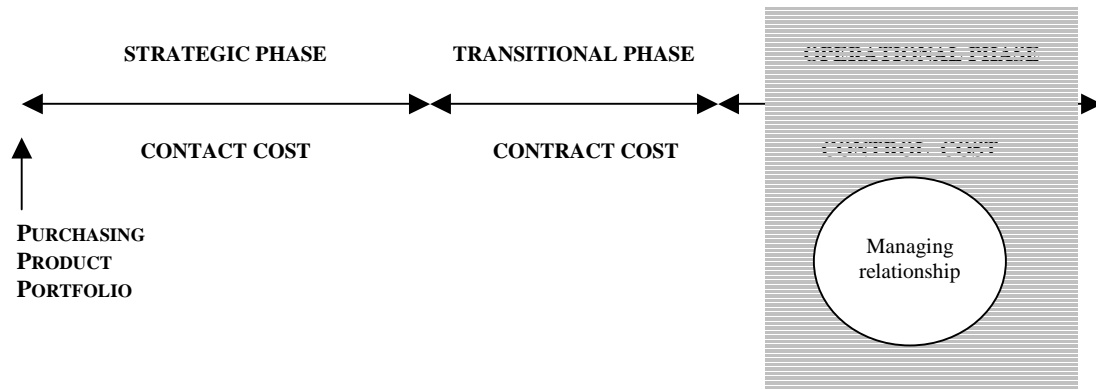
When examining the outsourcing process and the transaction costs, a parallel can be drawn between the two. Based on the descriptions provided by van Weele, Hougaard and Bjerre, one can see that the 3C’s follow in line with the three phases of the outsourcing process; contact costs are incurred during the strategic phase, contract costs arise during the transitional phase and control costs surface

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<sup>9</sup> The Kaizan method was developed in Japan and describes an incremental approach to continuous improvement. It is defined by making small, gradual improvements during the operating process.

during the operational phase. This connection will be present throughout the remainder of our study as we are primarily interested in relationship management of the operational phase where the control costs incur.

**FIGURE 3.5** Our Theoretical Area of Interest



In order to understand the cultural dynamics involved in the control factor of the operational phase, we will apply Geert Hofstede’s studies on national culture dimensions and Tony Fang’s emic analysis of Hofstede’s fifth dimension to McQuiston’s model of core and supporting values.

### 3.6 HOFSTEDE’S DIMENSIONS OF NATIONAL CULTURE

Culture manifests itself in a variety of ways. “*One of the reasons why so many solutions do not work or cannot be implemented is because differences in thinking among the partners have been ignored. Understanding such differences is at least as essential as understanding the technical factors*” (Hofstede, 1991, p.4). To analyse the cultural impact on the outsourcing relationship requires a cultural framework from which to expand upon. Hofstede’s discusses four dimensions of national culture in his book, *Cultures and Organisations*. These dimensions were derived from problems experienced worldwide and the subsequent impact they had on national societies. In his studies, Hofstede identified power distance, individualism versus collectivism, masculinity versus femininity and uncertainty avoidance as key dimensions of national culture. He later added a fifth dimension known as truth versus virtue.

The power distance refers how cultures respond to inequality while individualism and collectivism illustrates the perception of the self in one’s society. Masculinity versus femininity examines the gender-related values and behaviours of a culture. Uncertainty avoidance pertains to the extent a culture feels threatened by uncertainty. Truth versus virtue was added to explain the difference between eastern and western mentalities.



This essay examines the cultural dynamics of China and Sweden as well as its implications on the outsourcing process. Though all five dimensions are of interest to a general cultural perspective, our focus is to obtain a greater understanding of individualism versus collectivism and truth versus virtue since they directly relate to relationship management in the operational phase. By combining Hofstede's theories with our empirical data we can piece together a greater understanding of the cultural and work practices in China and Sweden.

### **3.6.1 INDIVIDUALISM VS. COLLECTIVISM: 2<sup>ND</sup> DIMENSION**

Hofstede states that “[...] *individualist societies not only practice individualism but also consider it superior to other forms of mental software (while) [...] the late Chairman Mao Tse Tung of China identified individualism as evil. He found individualism and liberalism responsible for selfishness and aversion to discipline.*” (Hofstede, 1991, p.71) One's concept of human nature is shaped by one's identity within one's respective society. Individualist societies have loose ties between individuals while collectivist societies have an integrated network between individuals. Hofstede states that individualists embrace personal time, freedom and challenge while collectivists value training, physical conditions and use of skills. According to Hofstede's Individualism Index, Sweden is ranked 10<sup>th</sup> place while China's neighbours<sup>10</sup>, Hong Kong, Taiwan and Singapore rank 37<sup>th</sup>, 44<sup>th</sup> and 39<sup>th</sup> place accordingly. This illustrates a clear difference in which Sweden relates to an individualist mentality while China aligns itself with a collectivist mentality.

How does the individualist approach his work and colleagues in comparison to his collectivist counterpart? What level of communication is deemed as effective communication? In appendix A and B is a list of Hofstede's key differences between collectivist and individualist societies as it relates to general norms, family, school, workplace, politics and ideas. To keep our study focused we are only concerned with a handful of the key differences. From an individualist perspective, identity is based on the individual where speaking one's mind is characteristic of an honest person, low-context communication<sup>11</sup> is present, management is management of individuals, task prevails over relationships, individual interests prevail over collective interests and laws and rights are applied to everyone. This is perhaps obvious to a Swede yet, how does this differ in a collectivist society like China? “*A complete understanding of a supplier's resource base is indispensable*” (Falk & Hagman, 1991, p.121). Relationships are built by people; therefore relationship management must consider the tangible and intangible resource base that includes the cultural dynamics of both parties. This

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<sup>10</sup> China is not listed amongst the 50 countries that participated in the Individualism index. Since Hong Kong, Singapore, Taiwan, Malaysia and South Korea are somewhat similar due to a common Confucius ideology, we will use their ranking to create an approximate ranking for China.

<sup>11</sup> Edward T.Hall distinguishes cultures by their level of context communication. “*A low-context communication is one in which the mass of information is vested in explicit code*” (Hofstede, 1991, p.60)

is our intention when we take a closer look at how the individualist and collectivist react to the McQuiston's core values.

### 3.6.2 TRUTH VS. VIRTUE: 5<sup>TH</sup> DIMENSION

Hofstede added the fifth dimension of *truth versus virtue* since “[...] *there exist profound differences in thinking between East and West. In a world which can only survive through global cooperation, such differences should be explored and understood*” (Hofstede, 1991, p.159). He defines western culture as being focused on one absolute truth while eastern society is more concerned with virtue and refrain from relying on singular truths. Eastern societies choose to synthesize a variety of virtues to provide a comprehensive view. This approach refers to all aspects of life from the spiritual to the economic practices. As a related example, “[...] *the Japanese are somewhat distrustful of a single ‘strategy,’ for in their view any idea that focuses attention does so at the expense of peripheral vision*” (Pascale, 1984, p.47). Hofstede's fifth dimension studies the western versus eastern mindset where the cultural origins are illustrated. He claims that the distinct difference lies in Confucius teachings<sup>12</sup>. This resulting value system is divided into two orientations that Hofstede labels as *short-term* and *long-term*. Western society is deemed short-term while Eastern society is long-term. The short-term orientation is concerned with personal stability, protecting one's *face*, respect for tradition and reciprocation of greetings, favours and gifts while long-term orientation is aligned with thrift, ordering relationships by status and perseverance. The key differences are further illustrated in appendix 8.4. To illustrate the differences, Hofstede compared 22 countries on the long-term orientation index. China took first place with a score of 118 in comparison to Sweden who was ranked at 12<sup>th</sup> place with a score of 33 (Hofstede, 1991, p.166).

The implication of these juxtaposed orientations is of significant interest. Hofstede also stated, “[...] *our mental software contains basic values. These have been acquired early in our lives, and they have become as natural as to be unconscious*” (Hofstede, 1991, p.209) He continues by stating that, “*an increased consciousness of the constraints of our mental programs versus those of others is essential for our common survival.*” (Ibid, p.237) A common objective of the outsourcing relationship is to establish a mutually agreeable cooperation. For this to be a reality, the western and eastern mindset must be addressed. If a Chinese partner focuses on being frugal with resources or believes in perseverance to get the job done, how does that translate to the Western partner who wants to invest big and expects quick results? How do these opposing value systems affect the business relationship and how can they be harmonized so that both needs are appeased? Is it a case of one culture solely adapting itself to the other? If so, why? These questions will be addressed in greater detail in our analysis.

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<sup>12</sup> Confucius was a Chinese intellectual who taught lessons in practical ethics. His teachings were not religious but rather a set of rules for daily life. His work spread to neighbouring Asian countries and are a present in their current ideology.

### 3.7 FANG'S 5<sup>TH</sup> DIMENSION

Tony Fang is a Chinese academic and consultant working in Sweden. In his article, *A Critique of Hofstede's Fifth National Culture Dimension*, he takes a closer look at Hofstede's fifth dimension, questioning its merits and validity today.

Hofstede's national culture dimensions have been the predominant paradigm in western cultural analysis. Though widespread, his theories are not without criticism. Fang views Hofstede's polarization with particular concern as it maintains the western approach of *either/or* and oversimplifies the complexities that exist within geographical borders. While simplification is necessary, it needs to be qualified. The general assumptions give way to totalities where the Chinese are distinctively collectivists and Europeans only individualists. From an emic<sup>13</sup> point of view, Fang discusses Hofstede's philosophical flaw by examining and challenging the key principles in *truth versus virtue*, also known as short- and long-term orientation.

Fang maintains that different faces of culture can exist within the same individual. A Chinese can experience both collectivistic and individualistic tendencies at different times. He uses the *Yin and Yang*<sup>14</sup> principle of dualism to support his argument. The more extreme an element becomes, the more it leans into its opposite. It is at this moment that its opposite begins to appear (the black dot in the white area). This symbol not only explains the masculine and feminine paradox that exists within all elements of life but also illustrates how paradoxes can coexist in harmony. This asymmetrical balance pervades Chinese ideology.

**FIGURE 3.7** The Yin and Yang Principle



Source: Fang (2003, p. 356)

Fang claims the short-term orientation of personal steadiness and stability, protecting your face, respect for tradition, reciprocation of greetings, favours and gifts are allocated negative connotations by Hofstede. Long-term orientations like thrift, ordering relationships by status and observing this order and persistence are perceived as positive. This polarization of Confucian philosophies and

<sup>13</sup> As noted earlier, the emic view is an insider's view of a specific culture. Since Tony Fang is born and raised in China, he has first-hand knowledge of the language and cultural dynamic in China.

<sup>14</sup> Yin represents female elements like the moon, water, weakness, darkness, softness, passivity etc. and Yang represents male elements like: the sun, fire, strength, brightness, hardness, activity etc. (Fang, 2003, p.355)

accompanying implications are not only inaccurate but also misleading. To illustrate his point he addresses each principle and points out the discrepancy.

### **3.7.1 SHORT-TERM ORIENTATION**

Hofstede aligned short-term orientations with Western cultures and underlined a negative connotation to this orientation.

#### **Personal steadiness and stability - *Wenzhong***

The word *wenzhong* implies good decision making abilities and is associated with a cultivated personal integrity while the direct translation means prudence. In Chinese culture it is an esteemed virtue that leads to an entrepreneurial spirit while *bu wenzhong*, its opposite, relates to unreliability and untrustworthy. Fang states the values related to *wenzhong* are persistence, respect for ordered relationships and thrift which Hofstede has placed under long-term orientation. This contradiction illustrates the diverging interpretations of a western understanding of an eastern value.

#### **Protecting your face – *Yao mianzi***

To protect one's face is to maintain the reputation of one's family, social group and community. Hofstede implies it as a negative quality since it hinders one from pursuing one's objectives. Fang takes another point of view by saying that in Chinese culture, face is a "*self-regulating moral mechanism*" (Fang, 2003, p.356). He views this self-regulation as both intrinsic to interpersonal relationships but also as a motivating factor to do one's best. It is this quality that Fang sees directly contributing to Chinese economic growth since it inspires the Chinese to strive and show their strength to the world thus maintaining China's face to the international community. Tied to this concept is a sense of shame. To bring shame to one's family is synonymous with losing face. This sense of shame however, is classified as a long-term orientation according to Hofstede yet Fang claims these two qualities are interdependent.

#### **Respect for tradition – *Zunjing chuantong***

Respect for tradition is respect for one's culture. Fang disagrees with the negative allocation since he sees certain traditions are positive influences on Chinese society. "*A reason why the Chinese culture is so enduring is because the Chinese people are proud of their traditions and profoundly respect them,*" states Fang (Fang, 2003, p.357). Supporting this respect for tradition is a willing compliance to observe the order of relationships and perseverance, both of which are classified under long-term orientation. Again, Fang points to the interconnectedness of Hofstede's polarized qualities.

#### **Reciprocation of greetings, favours and gifts – *Li shang wang lai***

The Chinese value of *li shang wang lai* is a way of life. Fang maintains that it is impossible to give it a negative or positive quality nor is it possible to give it a short-term or long-term orientation. To observe the reciprocation of greetings, favours and gifts is a cultural system that is a way of maintaining one's social

networks. Simply put, one could not survive personally or professionally in Chinese society if one failed to observe this value.

### **3.7.2 LONG-TERM ORIENTATION**

Asian society was paralleled with a long-term orientation where positive connotations were applied.

#### **Thrift - *Jian***

High levels of savings were due to thriftiness of the long-term oriented according to Hofstede. This, he felt, was a positive attribute that resulted in the obvious economic growth of Asian societies. Fang does not deny the value of thrift yet shows its worth in another light. He says, “[...] *in China, for example, many people tend to think the opposite: westerners are far-sighted: they have the guts to spend money, since spending also means, at least in part, investing in the future*” (Fang, 2003, p.359). This point of view illustrates that thriftiness can be both positive and negative, short- and long-term oriented depending on which perspective one holds.

#### **Ordering Relationships by Status & Observing this Order – *Zun bei you xu***

Five cardinal relationships were defined by Confucius; ruler-subject, father-son, older brother-younger brother, husband-wife and senior friend-junior friend. This hierarchy illustrates the power imbalance in relationships and designates specific duties and responsibilities to each role. According to Fang, this social organisation can assist in creating a social stability and harmony yet can be equally negative in relation to innovation and creativity. It is a value with both positive and negative implications and therefore, cannot be examined in a positive light only.

#### **Persistence – *Naili (Yili)***

Fang makes a simple statement that sums up the universality of perseverance. He states, “*In any society, nothing can be achieved without persistence/perseverance*” (Fang, 2003, p.359). While he views this trait present in all societies he does support Hofstede’s notion that it has even deeper implication in Chinese culture. Fang explains that the genuine meaning of a word lies in its linguistic roots. The word *naili (yili)* refers to the word *ren* that means to bear, to endure, to tolerate; endurance, tolerance, patience; cruel, ruthless. This Chinese character of *ren* is composed of two other characters that mean “the edge of a knife” and “heart”. Essentially, persistence, “[...] *is a great Chinese virtue obtained at a great price*” (Ibid, p.359).

#### **Summery**

In Fang’s opinion, the polarisation of cultural values is the obliteration of its multifaceted meaning and interconnectedness. It removes the inherent natures of the virtues and demeans the value. By further attributing positive or negative qualifications, an added misinterpretation is applied. To properly articulate Chinese culture, Fang sees the core values of Guanxi, Yin and Yang and Wu

Wei<sup>15</sup> as being more accurate qualifications since they illustrate how opposing orientations coexist with varying degrees and within varying contexts. He sums up his analysis by also stating that when Hofstede was gathering data for this fifth dimension, a population consisting of Chinese university students was questioned. The limited range of occupations, ages and gender profiles provided an unreliable data base for Hofstede to analyse from. It is for these reasons that Fang regards Hofstede's fifth dimension with great speculation and hesitation, from a personal and scholastic position.

### **3.8 TONY FANG: LECTURE**

The purpose of Tony Fang's lecture was to provide added insight in how the face of China is changing and with this change, the shortcomings of Hofstede's 5th national culture dimension. The following consists of additional information not found in his article; *A Critique of Hofstede's Fifth National Culture Dimension* and will be included in our theoretical framework. While his lecture addressed his primary criticisms of Hofstede's polarized view, the bulk on his presentation related to examples of how cultures, like Swedish and Chinese, are both similar and different depending on the context.

Hofstede claims Sweden to be an individualistic society yet Fang uses the "sommarstuga" concept to illustrate Sweden's collectivist tendency. He alludes to an example in which a colleague referred to her longing for the holidays and going to her summer cottage. This summer cottage was without an in-door bathroom or plumbing system and was far from a town or other cottages. From a Chinese perspective, the idea of not having one's extended family and close proximity to other cottages seemed rather foreign and isolating. He then relayed this discussion to an American student who in return couldn't understand the value of having no basic comforts like running water or a bathroom. To the American student, it seemed like torture. The interesting thing about this example is that it revealed how the working life of Swedes is a collective activity in that a majority of people have their holidays during the month of July and it is not uncommon for a Swedish family to own a similar cottage, spending their holiday there. What was also interesting was the difference in opinion regarding the summer cottage. Fang presented other examples that contradicted Hofstede's studies and general stereotypes. He reminisced about a dinner party that consisted of Chinese and Swedish top management professionals. He recounted how, though Swedes are often deemed shy and Chinese are considered reserved such was not the case in this setting. Both groups took great pains to express their cultures. The Swedish guests were keen on singing "snaps visor" in unison while the Chinese performed demonstrations of ancient sword fighting. Obviously, the shyness and reservation were put aside for the festive occasion.

Fang focused his presentation on Ikea's establishment in China as it illustrates China's readiness to adapt. He uses three examples to illustrate this willingness.

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<sup>15</sup> Guanxi ('relationship', 'personal contact', 'connection'), Yin Yang, and Wu Wei ('doing nothing', 'to act without acting') as indigenous Chinese values are discussed extensively in Chinese culture and management literature. (Fang, 2003, p.364)

First, there is the issue of product line. The typical Chinese home is filled with very dark wood and furniture that has been passed on from one generation to the next. This furniture is sometimes so heavy that it has never been moved but rather stays put as generations come and gone. This attitude to furniture is in direct contrast with the Ikea way since their product line is based on the light wood of Scandinavian design. They also keep their prices at a low level so that it encourages families to maintain a continuous buying stream. While Ikea prices are often more expensive than those found in other leading Chinese furniture stores, the product line is appealing in its newness and difference. A second example involves assembly. Ikea manages keep its prices low by involving the buyer in the assembly process. This is not necessarily needed since the cost for a skilled Chinese worker is about two Swedish kronor per hour. It is also not practical as the typical Chinese home is small and in order to assemble a piece of furniture, space is needed. Finally, the last example includes delivery. When a Chinese customer buys a piece of furniture in a Chinese store, it is mutually assumed that the seller is responsible for delivering the unit free of charge. While Ikea offers a delivery service it is not free of charge.

Fang also addresses the differences experienced within the organisation. He presents two columns that illustrate how the working values of the Chinese employees were replaced by Ikea values. The following is an example of some of the key values he points out:

**FIGURE 3.8** Differences in Working Values

CHINESE WORKING VALUES	IKEA WORKING VALUES
<ul style="list-style-type: none"> <li>● Hierarchy</li> <li>● Face</li> <li>● Indirect Communication</li> <li>● Fear of Mistakes</li> </ul>	<ul style="list-style-type: none"> <li>● Equality</li> <li>● Honesty</li> <li>● Direct Communication</li> <li>● Learning to avoid repeated mistakes</li> </ul>

Source: Fang (PowerPoint slice from lecture, 2005)

Despite these differences in aesthetic, price, service and values, the Chinese customers and employees were (and are) excited to be a part of the Ikea experience. This is proven by their regular visits to the store, eating the Swedish food and buying the Swedish style. Though some of Ikea’s values are different from what the Chinese are accustomed to, they are keen on being part of the Ikea philosophy by acquiring an Ikea product and therefore, adapting to Ikea’s values.

As he stated in this article, to over simply culture means to make it a static entity thus removing it from its ever-evolving state. The core principle of Yin and Yang embodied the coexistence of opposing elements, illustrating the harmony and balance that pervades Chinese ideology. He continues this train of thought by making an analogy between the onion model and turning it into an oceanic metaphor. While Hofstede used the onion metaphor to describe the core values

and accompanying symbols and rituals that express these values, Fang sees culture in an oceanic context where values surface depending on the currents of a specific time. In this metaphor, values are not static but rather constantly surfacing or sinking depending on the constraints and opportunities at that time. He sees this view as a more accurate description of culture as it also addresses the universal condition of shared values. As globalisation increases the level of impressions and exchanges are having a great impact on the shaping of the individual therefore, culture is becoming more universal. If anything, national cultures are shifting to group cultures where the preferences or needs of the individual determine which set of values he or she holds true.

Fang describes the rapid transformations taking place in China today. When Hofstede put forth his theories in the 1970's, the cultures were still quite subdivided and contained within geographical borders. With the onset of globalisation, the global landscape has become far more integrated. Attaching polarized theories is helpful if countries know little of one another yet this is not the case today. As economies become integrated, so do people, therefore a polarised theory is no longer an accurate description.

According to Fang; China had 5000 years of Confucianism, 30 years with Communism and 20 years of Capitalism. These influences cannot go unnoticed and therefore, the China of Hofstede's time is quite different than the China of today. Hofstede's collectivist China is a China of the past. Today, China embraces individualistic tendencies while holding certain collectivist ideals true. New influences that are exploding in Chinese culture today include entrepreneurship, commercialism, individualism, personal wealth and quality of life. These new values lean towards individualist ideals.

To adapt to the Chinese or any other foreign market involves intercultural training. This involves examining not just the cultural differences but also realizing the cultural similarities that pervade. Fang maintains Hofstede's fifth dimension to be polarized and outdated. Using his various examples, he attempts to prove that paradox is a natural commonality in not just Chinese philosophy but also in a universal philosophy of cultural core values. He also points out that China has experienced a number of dominating ideologies of Confucianism, Communism and now Capitalism and with each pervading ideology; certain values surface while others sink.

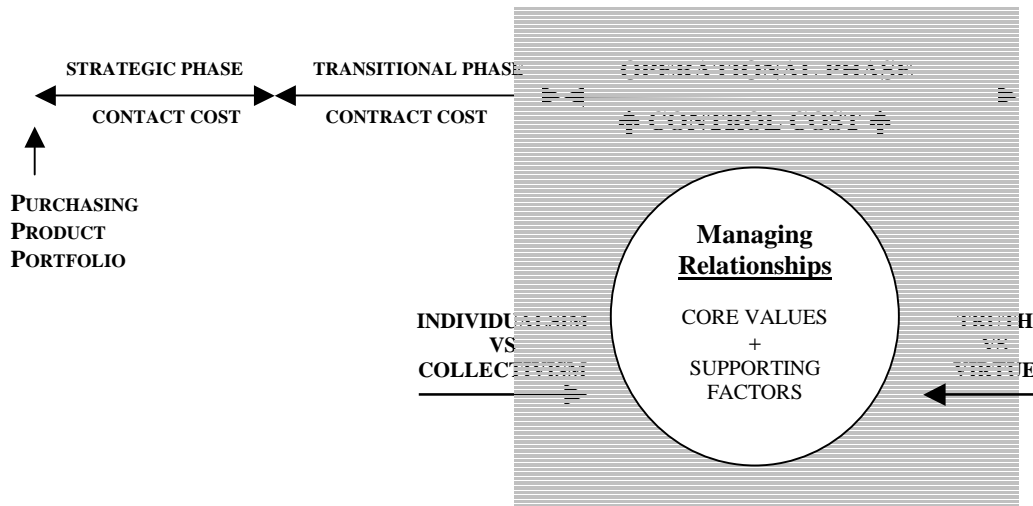
### **3.9 THEORETICAL SUMMARY**

To examine the type of buyer-supplier power dynamic and the phases in the outsourcing process is a simple means of illustrating *when* and *why* the transactions costs incur. To study the operational phase and the attached control cost is our primary interest. Relationship management is central to this stage and is a key factor in successful outsourcing. "*Every player in the game plays according to his or her own rules.*"(Hofstede, 1991, p.225) If outsourcing were the game, then it is imperative to understand the rules that each player abides by. In this case, it entails understanding the differences between the Western and



Eastern value systems, specifically that of Sweden and China. By applying Hofstede's and Fang's cultural insights to McQuiston's core values and supporting factors, the cultural differences and implications can be analysed so as to further understand the dynamics and costs at play in the outsourcing relationship.

**FIGURE 3.9** Our Theoretical and Analytical Focus



## 4. VIEWS AND EXPERIENCES

*The following is an account of various interviews which constitute the empirical data of this paper.*

The empirical data obtained is documented in two sections below. The first interview<sup>16</sup> is with the purchasing and design manager at Flash and presents a Swedish buyer's perspective. The second interview is a compilation of four interviews with the Hong Kong sales executive at Fuda Industrial, a Chinese supplier.

### 4.1 FLASH AB

Flash started as a family business in 1968 and started as a wholesale provider of fashion garments. In 1970 Flash decided to open its own boutique in downtown Lund, Sweden and today, 37 years later, Flash AB has expanded to a total of 37 boutiques. Since the beginning, Flash has maintained a steady growth. The company focuses on high quality garments offered at reasonable prices, attracting a female clientele aged 30-50. Within the next 5 years, 5-10 new boutiques are scheduled to open with the hopes of growing into neighbouring Scandinavian markets. Though Flash subcontracts their production, their approach to relationship management with their supplier's and cost minimisation is of great relevance to this topic.

Flash is a small player on the global market. Their production levels are low in comparison to the likes of H&M or Lindex. This difference in size dictates a different approach to their purchasing strategy. Producing their own clothing line would diminish their profits as their customers have come to expect a good quality item at a reasonable price. Needless to say, insourcing is not an option. Instead, Flash subcontracts all their production, choosing to focus on their core activities, designing and coordinating the various processes. Flash employs a number of suppliers depending on the garment. Jeans are from America while scarves and belts are from Sweden. Socks come from Portugal while t-shirts are from Greece. The remaining eighty percent of the items come from Asia (in particular, China).

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<sup>16</sup> The following information on Flash AB is derived from the essay, A Cut Above the Rest: An Analysis of Flash AB.

Flash was quick to establish themselves on the Asian market. They have been working with China for almost thirty years which makes them one of the first Swedish companies to establish themselves on the Chinese market.

Flash creates two collections a year; spring/summer and fall/winter. The Flash team visits their suppliers four times a year. During each visit they source new suppliers with the help of a local agent, maintain contact with current suppliers and gain inspiration. Sourcing suppliers allows them to maintain flexibility, increase innovation in their designs and materials and avoid over-dependency on a few suppliers. They prefer to collaborate with suppliers that produce the fabric and the final garment in order to minimize the production cost (minimal transport costs due to in-house production) and save time. More so, the size of the supplier's company is strategically important to Flash. By choosing a medium size supplier, they ensure that their orders are prioritised.

In order to achieve the greatest benefits and added value of their suppliers, regular visits and open communication are vital. Before each visit, Flash contacts their suppliers and mentions what they are looking for so that the supplier can prepare a wide variety of merchandise to present. From the beginning of a design, Flash is in constant contact with their suppliers, approving swatches of material and prototypes while checking quality and specifications at each stage of the production process. This communication continues up until the final product has been delivered to their stores. If problems or delays arise Flash works towards an agreeable solution for both parties. Flash believes in strong relationships with their suppliers so as to foster an effective working relationship, continuous flow of stock and lower risks. If Flash were to use larger suppliers they could find themselves in a much more compromised relationship that could lead to delays and ultimately, a loss in sales that in turn affect Flash's market share.

When a new supplier is sourced, Flash tests the new partner and draws up a contract lasting one to two years. A key clause in the terms of agreement includes discounts if a delivery is not on time and that the supplier pays the difference between shipping it by boat versus sending by air. These terms are just another means of defining their concerns and ensuring a satisfactory result. Once Flash has tested the merits of the relationship, future negotiations can become relevant.

The main risk with subcontracting to far off countries lies in the lack of control. Much time and money goes into ensuring the quality and production time-line is met. Mistakes cost Flash money and though unavoidable, Flash works hard to minimize them. Flash places considerable trust in their suppliers and is concerned that their contracts are executed according to the agreed price, quality and ethical specifications indicated. Yet, problems can arise if a supplier outsources their order and refrains from checking it with Flash. Unless quality is compromised and therefore noticeable, Flash has no way of knowing whether a supplier has outsourced the work to another firm or not. If detected, this can have financial and ethical ramifications, putting Flash at considerable risk.

There are obvious cultural differences with which Flash must take into consideration. Chinese New Year is one such instance. The Chinese New Year is as sacred as Christmas is to Swedes and in order to avoid delays, Flash

coordinates their orders so that it doesn't fall within this time period since the order would be put on hold until the festivities are over. This is just one example of how Flash adapts to the cultural differences.

While price, quality and delivery are often cited as the leading determinants of the buyer-supplier relationship it is not always the most applicable determinants with regard to cross-cultural production. In the case of Flash, if a supplier fails to sufficiently communicate with them during the production process, it is grounds for terminating a contract. Quality and ethical guidelines are also non-negotiable factors. Flash is concerned with minimising their risks and maintaining their quality. It is with these factors in mind that Flash minimizes their costs of production when subcontracting abroad.

## **4.2 FUDA INDUSTRIAL LTD.**

Fuda Industrial is a Chinese family owned business that has been active for the past 10 years. The company employs 200 employees and is sub-divided into sales, purchasing, accounting, human resources and administration while housing a large production and warehouse department. We interviewed Mr. Hyy the Hong Kong sales executive at Fuda Industrial.

Fuda Industrial specializes in casual sportswear items, supplying garments to retailers in China, Hong Kong, Spain, Russia, Africa and the Middle East. A majority of these clients are medium-sized companies like Fuda Industrial. Short-term clients comprise the largest portion of Fuda Industrial's accounts. These orders consist of only a few orders while orders from long-term clients can extend over a number of years. Both short and long-term clients are primarily international clients and the majority of the long-term clients come from Spain<sup>17</sup>.

Since Fuda Industrial's product is a leverage product, they experience keen competition with similar suppliers in the market. To aggressively compete for their market share, Fuda Industrial generates new business by attending China's Industrial Exhibition. This is one of the more important channels since it provides a platform for international buyers and domestic suppliers to meet. Personal networks are an important element of their business and other important channels include family contacts, recommendations from friends and their business network.

When negotiating international contracts, Fuda Industrial employs a translator since it is important that the contract be as accurate as possible. A majority of the contracts are in English yet a number of contracts are in both English and Mandarin. Long-term clients are given standard contracts while specialized contracts are drawn up for new or short-term clients. Lack of initial trust is the common reason for creating specialized contracts. Prices are never fixed since each order requires different skills and materials. Only after an identical order is

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<sup>17</sup> This has changed only recently. Previously, the majority of international clients were from Hong Kong.

repeated, can a fixed price apply. Many long-term clients have repeated orders at fixed prices.

Client management is one of the biggest costs after materials and labour. Fuda Industrial is keen to satisfy the needs of their different customers and approximately 80% of their orders are tailor-made services. Fuda Industrial sends samples to their new and existing clients as a means of maintaining regular contact while also marketing their new products. They visit their domestic clients regularly to stay in touch with their client's needs and concerns. A majority of the communication with their international clients is exchanged via telephone due to the geographic distances. When an order is initiated Fuda Industrial keeps close contact with the company, particularly during the design phase where details and specifications are important. This communication is on-going through the production phase to ensure the clients concerns are addressed. The goal is provide the standard of quality the customer expects at the right time. For long-term clients, the issue of quality, trust and the relationship management are important while short-term clients regard price, quality and reliability as important. As far as Fuda Industrial is concerned, a good client is a paying client. To show appreciation to their loyal customers, 30-60 day credit sales are offered. A good client is also a regular client and in order to ensure repeated sales, Fuda's commitment to quality is a high priority.

Geographically speaking, European clients focus on environmentally friendly materials and products whereas price and quality are the primary concerns of clients from the Middle East and Africa. Punctuality and deadlines are obvious factors of importance for both their short- and long-term clients. In terms of cultural behaviours, the most notable difference between Mr. Hyy's international clients is their level of frankness. He considers his European clients as being most frank and direct while he considers his Middle Eastern clients to be the least.

English is often the common language when working with international clients, while Mandarin<sup>18</sup> is the official language for domestic clients. When entertaining international clients, Fuda Industrial representatives take cultural differences into account. The most obvious consideration is the linguistic difference. To ensure proper communication a translator will be present during all client visits. Fuda Industrial will also consider the different culinary tastes of their clients as it relates to their religion.

A majority of Fuda Industrial's client management costs consist of promotion and reception. In building and maintaining relationships, Mr. Hyy rated the constructs in the following order of importance.

1. Trust
2. Shared goal and objectives
3. Mutual commitment to customer satisfaction
4. Concern for others profitability
5. Open lines for communication
6. Mutual dependence

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<sup>18</sup> China official language

The main challenges that arise include credit problems where a client fails to pay on time or the requirements for quality are so strict that they are unable to meet their client's needs. The ordering of "fake" products is also an occasional concern. The general competition in the market as well as foreign currency fluctuations that affect their profit margins are also leading causes for concern.

### **4.3 SUMMARY**

Both Flash and Fuda Industrial emphasised the importance of communication, trust and quality as necessary during all phases of the sourcing exchange. Poor communication and lack of payment were causes of distress to Flash and Fuda Industrial respectively. Both companies took aspects of cultural differences into account when planning and executing their orders.

## 5. EXPLORING RELATIONSHIPS

*This section presents an analysis of the acquired empirical data and theoretical framework. In our summary, we have constructed a model to further illustrate how the different constructs interrelate.*

### 5.1 INTRODUCTION

*“The present day globalisation of economy involves, for business people, the need to work in environments different from the one they know and are able to cope with best. Working in a foreign country first creates practical problems”* (Hooker in Levy-Leboyer, 2005, p.253).

The onset of globalisation has created opportunities along with challenges. Whether importing, sub-contracting or outsourcing, cultural intelligence<sup>19</sup> must be part of the strategy if costs and benefits are to be realized. These dynamics must be identified and managed by both parties. The following analysis will examine the impact of cultural differences on the control costs of relationship management in the sourcing relationship.

#### 5.1.1 PURCHASING PRODUCT STRATEGY

Maurice F. Greaver describes the outsourcing concept in a metaphor. He states, *“An organization that begins outsourcing is like a traveller taking an airplane trip. Travellers could drive their cars to their destinations, but they choose to outsource the transportation to the airline”* (Greaver, 2001, p. 30). Taking Greaver’s metaphor one step back, the traveller must decide which form of transportation best suits his needs. There is no point in flying if he’s only travelling within the city, in which case taking the subway is more appropriate. This transportation decision influences his entire travelling strategy.

In a similar way, an organization must decide which segment their product exists in. In the case of Fuda Industrial, they supply sportswear garments to their clients. According to Mr. Hyy, their product line is not especially unique or differentiated therefore there is considerable competition with other suppliers. When looking at

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<sup>19</sup> Cultural intelligence relates to the intellectual tools used to cope with different cultural environments. (Levy-Leboyer, 2005, p.254).

Kraljic's Product Portfolio, Fuda Industrial's product line can be regarded as a leverage product as it has a high rate of substitution as well as a standard quality grade. A small change in price has a relatively strong effect on the cost price of the end product (van Weele, 2005, p.151). For this reason, the buyer exerts aggressive sourcing strategies.

Flash's purchasing strategy is a global division of suppliers who are contracted to provide "fashion" items and the standard collection. Jeans are from America while scarves and belts are from Sweden; socks come from Portugal while t-shirts are from Greece. The remaining 80% of the items are from Asia (in particular, China). To achieve flexibility and avoid over dependency on a few suppliers, Flash is always sourcing and testing new suppliers. They are also aware of their buying power, sourcing the suppliers who meet their needs. This multiple sourcing strategy is essentially used to take competitive advantages.

From the buyer's perspective, a leverage product line is a low supply risk with a high profit impact. Yet, from the supplier's perspective this combination puts a company like Fuda Industrial in an imbalanced buyer-supplier relationship where the buyer holds the greatest power. What are the implications of a buyer-dominated segment to the supplier? Unless a type of partnership or long-term relationship is established, the likelihood of a one-sided relationship occurs. This imbalance puts the supplier at risk. Since China is the Mecca of low-end, mass produced garments, the added competition accentuates the imbalance, directly affecting Fuda Industrial. Mr. Hyy states that one of their main challenges is the keen competition. To maintain their attractiveness, Fuda Industrial focuses on reducing prices while increasing quality. They also emphasize their tailor-made services, customising their services to meet the different needs of their clients.

*"To classify and decide a purchasing strategy is relevant to settle when a deeper cooperation is needed"* (Falk & Hagman, 2002, p.67). The Kraljics matrix offers the buyer and supplier a means of sorting their products and deciphering what level of communication and relationship management is required for their sourcing relationship. While a good reference point, it is just that. When choosing which tone to establish, one must consider the intended length of the relationship. In today's global market, more and more buyers are focusing on long-term relationships with their suppliers in the hopes of minimizing costs and increasing quality and innovation. In a recent report where 238 senior purchasers were interviewed, 86% were satisfied with the outsourcing savings while only 16% per happy with lead times and a mere 14% with innovation generated by these deals (Arminas, 2005, p.9). Maintaining an imbalanced power dynamic is obviously not without consequences. As David Arminas stated, the ramifications are often uncertainty and lack of trust<sup>20</sup>. If a supplier feels insecure in their outsourcing relationship, they will focus all their energies on making no mistakes and keeping the price as attractive as possible. Mr. Hyy stated that one of the biggest challenges and risks experienced by Fuda Industrial was price competition. With such a singular focus, little attention is given to innovation. *"An often seen outsourcing objective is to have a successful provider improve the operation by*

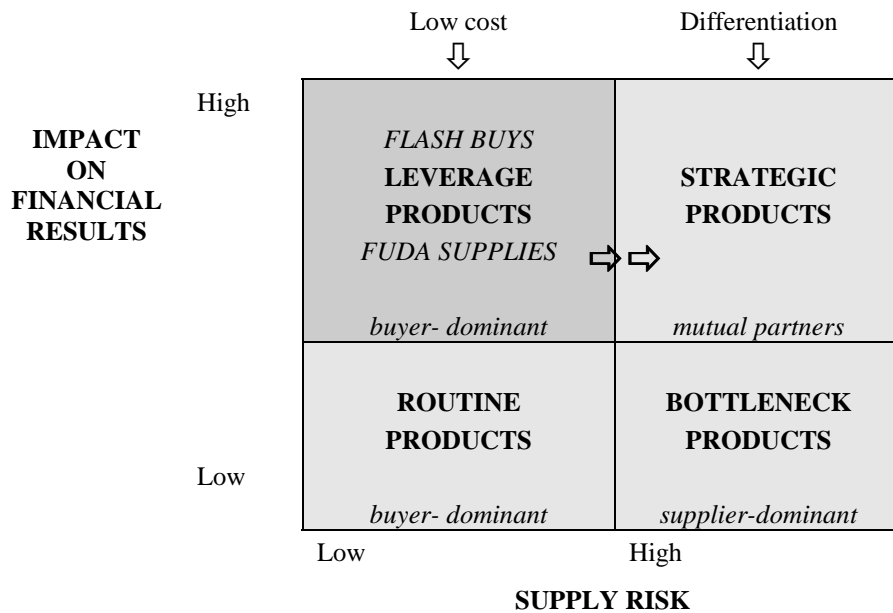
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<sup>20</sup> Uncertainty or lack of trust is one of the three main cost drivers which increase transaction costs.



*innovation and change. The provider will not be successful if they are constantly trying to avoid mistakes” (Greaver, 2001, p.284)*

**FIGURE 5.1.1** Flash and Fuda Industrial on the Kraljic’s Matrix



Source: van Weele, 2005, p.150

The above matrix illustrates the present day situation of both Flash and Fuda Industrial. While Flash is secure in their buyer-dominant sector, they are aware that the long-term relationship with their Shanghai contact has strategic benefits. Over dependency is a key factor in their choice to stay a leverage buyer. Fuda Industrial feels the pressure of competition with a majority of short-term contracts and works hard to turn these short-term clients into long-term clients. If they were to maintain their price, quality and punctual lead time as well as work towards innovation, they could reposition themselves as strategic partners thus, working towards mutual partnerships. This balanced buyer-supplier power dynamic ensures both parties share the benefits and transaction costs in the outsourcing process.

### 5.1.2 TRANSACTION COSTS IN THE OUTSOURCING PROCESS

*“The value of contracts outsourced to low-cost countries is set to almost double over the next three years” (Arminas, 2005, p.9).* At centre stage are low-cost countries like China. China’s rich supply of highly skilled labour combined with its low cost, not to mention inexpensive materials, is a distinct location-specific advantage and an irresistible equation. The cost of one European worker equals 28 Chinese workers of the same skill level (Falk & Hagman, 2002, p.15). To outsource to China is an obvious cost saving yet, the incurred transaction costs

add up throughout the outsourcing process. Lack of control, levels of external and internal uncertainty and miscommunication can weaken the relationship resulting in mounting costs. China is an attractive yet distant market for Western companies. This geographical, linguistic and cultural distance all play a part in the level of transaction costs for both the buyer and the supplier.

### **5.1.2.1 CONTACT COSTS IN THE STRATEGIC PHASE**

With keen competition dominating the Chinese textile market, suppliers need to ensure their profile is properly represented to buyers who are assessing and sourcing manufacturers. One way to reach a larger market is via the Chinese Industrial Exhibition. This exhibition provides a platform for manufacturers of all sizes to promote their business to a variety of national and international clients. Other important channels for Fuda Industrial include family contacts, recommendations from friends and business networks. To develop relationships with new or potential clients, the company representatives make two to three visits a year and send out samples of new materials and products on a continuous basis. This regular sales and promotion contact is a means for Fuda Industrial to be at the forefront of their client's minds while displaying their competencies. As the saying goes, "*a first impression is a lasting impression*". Creating a good impression is not without a price. A considerable share of Fuda Industrial's budget, after the cost of materials and labour are paid, goes to cover these expenses.

In the case of the buyer-supplier relationship, the buyer need not absorb high contact costs unless they are sourcing new suppliers. As seen in Flash, they have a main supplier in Shanghai who not only handles a portion of their production but also acts as a mediator for other firms in Korea and Japan who want to present their materials to Western customers. This extended network minimizes Flash's purchasing costs as the investment in sourcing suppliers is absorbed by the Shanghai supplier.

A company needs to consider how high the contact costs can be during the strategic phase. The more uncertainty in the company and in the market, the higher these costs will be. If a company is just starting out, these costs are likely to be high as opposed to a more established business. In the case of Fuda Industrial, they are still relatively young with few long-term clients which results in a need for new clients. The high level of competition in the Chinese market also affects the need to invest in contact costs since many suppliers are fighting for the same customers. Furthermore the frequency of contact is high when the company regularly communicates with new or potential clients thus driving up the contact cost. Finally, investment specific costs can be a reality for Fuda Industrial if they invest in a new technology to attract a big customer. Costs are incurred if they fail to secure the client therefore, its commercial worth must be carefully weighed. Essentially, investment specific costs should only be incurred if the innovation can bring extended value to a majority of one's key clients.

### 5.1.2.2 CONTRACT COSTS IN THE TRANSITIONAL PHASE

*“The two key factors to make an outsourcing relationship work are the partnership approach of the two parties and the contract itself”* (Wildish, 2004, p.32). Creating a mutually beneficial contract is paramount. If incentives are used to encourage on-time deliveries and innovation, the supplier will be motivated to excel. The contract is a significant instrument used to set the tone of the buyer-supplier relationship. It is at this phase that the level of uncertainty can be diminished. A detailed contract explicitly indicating the expectations of both parties puts forth a common goal and builds trust. The extensiveness of a negotiation can further dispel any uncertainties or concerns as conditions are clearly outlined by both parties. Again, the frequency of exchange can be high if two companies are initiating a new partnership. Over time, the partners become familiar with one another’s concerns and routines therefore, the level of exchange is reduced.

At Fuda Industrial, short-term and long-term contracts are given the appropriate attention. *“For the long term clients we use the standardized contracts. For the short term clients we use the specialized contracts most times”*, Mr. Hyy claimed. This is an opportunity for both Fuda Industrial and their client to customize the negotiations to the specifics of their client’s needs and length of order. This might include adapting the language of the contract so as to ensure full comprehension of both parties. Their new client may also want to test out a new technique and therefore, having a specialized contract accounts for these potential adjustments. It also reduces investment specific costs in that it secures the investment transaction. The contracts may also include important clauses that indicate how late deliveries or late payments are to be handled. This is a way of providing mutually satisfying criteria and establishing trust in the event a problem arises. Since long-term clients are repeated clients, they know what they want and what to expect. Standardized contracts are more ideal in this scenario and due to the reduced time in negotiation, lower contract costs for both parties are realised.

Flash is also conscious of creating detailed contracts that clearly outline the roles and responsibilities of both partners. Specific guidelines are imposed with regards to deliveries and quality standards. When testing new suppliers, they will often limit the contract to one or two years at the most. This time-line allows the supplier to grow into the partnership yet reduces Flash’s risk of being contractually bound for an extended time period.

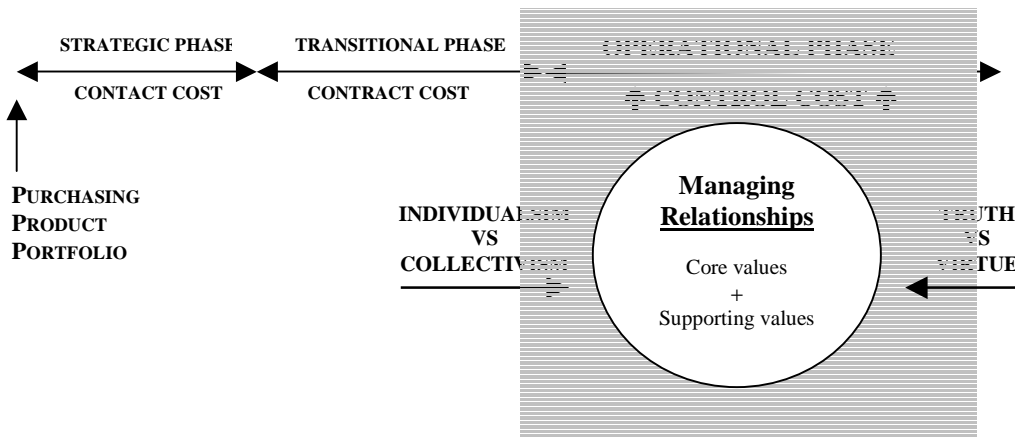
An important difference in the contract costs, between the two companies’ business, are the contract lengths. Fuda Industrial has a majority of short-term clients and as such, some contracts are only as long as the order itself. Flash focuses on long-term relationships and negotiates long-term contracts with their suppliers. This could be due to their age difference; Fuda Industrial has only been in business for 10 years whereas Flash has been in business for 37 years. It could also be tied to the fact that the Chinese market is a buyers market. Fuda Industrial is just one of the many leverage product suppliers competing for a piece of the market share while Flash has the benefit of picking and choosing the appropriate supplier for their individual needs. In either case, Fuda Industrial’s contract costs

are likely to be higher than Flash’s due to their number of specialized, short-term contracts.

## 5.2 CONTROL COSTS IN THE OPERATIONAL PHASE

Mr. Hyy stated that one of the largest costs after materials and labour was client management. In the following section we will analyse the cultural impact on relationship management which in turn affect the control costs of the organisational phase.

**FIGURE 5.2** Our Theoretical and Analytical Focus



James L. Hayes, former CEO of the American Management Association, said it best, “*Effective managers live in the present – but concentrate on the future*” (Greaver, 2001, p. 276). Generating a new client is often more expensive than satisfying an existing one, so it is important to maintain one’s present clients with the intention of securing their future business. During the operational phase, relationship management comes into focus. If the sourcing relationship goes well, the contract continues, if not, it is terminated thus concluding the outsourcing process.

Oftentimes a company will outline specific practices and processes for employees to follow during the strategic and transitional phase yet the operational phase is often left in a grey zone. This last phase is relatively untapped and undefined due to its very nature. Relationships are formed by people and as such, relationship management is multifaceted, demanding new skills and understanding. It is not a static practise but rather a dynamic exchange that constantly varies. What may be an effective relationship management for one client may not be sufficient for another. Different clients demand different treatment depending on their product and company size. As Mr Hyy states, “*all orders are different and need different materials with different prices.*” In any relationship, the more one knows of one’s partner, the easier it is to understand and cooperate towards a common goal.

Failure to understand one's partner results in endless misunderstanding and confusion. Financially, this results in increased control costs.

The complexity of the operational phase is compounded when cultural differences are added into the equation. With the growing trend of globalizing business activities, geographic borders are transforming into economic borders and as integration continues it is not without its collisions. Richard Pooley's<sup>21</sup> describes how two cultures collided. He states,

*"[...] the Japanese engineers were in a state of shock. They found their German collaborators to be rude, inconsiderate and lazy. The Germans interrupt during the meetings and presentations, and showed no interest in reaching consensus through the numerous 'pre-meeting' meetings that are an integral of Japanese business culture. The Japanese were uncomfortable with the German way of arguing everything out in front of everyone: for the Japanese, the potential for loss of face was just too big. They also disliked what they saw as the Germans' willingness to go home, even when tasks were unfinished. As for the Germans, they were equally unhappy with the Japanese, many of whom seemed unable to speak English, the supposed common language of the team. The Germans complained that even those who could speak it didn't state their opinion clearly and frankly."*

(Pooley, 2005, p.29)

Different cultural backgrounds entail different frames of reference. Being aware of one another's perspectives and resource base involve understanding both the tangible and intangible aspects of one another's business. Tangible aspects relate to the market environment while the intangible aspects relate to the underlying business practices. An example of this is after work socialization. Personal relationships are an important aspect of Asian networking and strengthening this relationship is done during and after office hours. Building personal relationships are also common in Western businesses yet it is often more limited in frequency.

Cultural differences exist and it is up to the relationship managers to explore effective approaches in cross-cultural communication and minimize cultural collisions. Hooker expands this to include different behaviours, attitudes and "rules of ethics" (Hooker in Levy-Leboyer, 2005, p.254). It is critical to understand the influence of culture on all aspects of the cross-cultural working relationship. Though many companies depend on a successful sourcing relationship, few senior executives take cross-cultural differences seriously. Richard Pooley claims this to be one of the leading reasons why many cross-cultural ventures fail. (Pooley, 2005, p.29). Therefore, companies ought to take Hofstede's claim, "*The business of international business is culture,*" to heart.

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<sup>21</sup> Richard Pooley works for Canning, a company which helps organisations find and deliver the right mix of solutions to cross cultural issues.

## 5.3 CULTURAL DIMENSIONS IN RELATIONSHIP MANAGEMENT

*“If we have to work in cultures different from our own, we must understand that business games are not the same as played in the western world”* (Hooker in Levy-Leboyer, 2005, p.254). To aid in bridging the gap between the eastern and western culture, location-specific know-how should be acquired. In this case, that involves understanding how the national culture dimensions of China and Sweden affect key constructs of relationship building and management as indicated by McQuiston. The purpose of outlining these cultural differences is a means of providing a framework that can assist in increasing cross-cultural intelligence in relationship management.

## 5.4 CORE VALUES

The level of individualism versus collectivism and the influence of a short- or long-term orientation influence how the individual and company relate to the following core values. When we asked Mr. Hyy to rate the core constructs, the results were as followed: 1.Trust, 2.Shared goals and objectives, 3.Mutual commitment to customer satisfaction, 4.Concern for others profitability, 5.Open lines of communication and 6.Mutual dependence. The interesting aspect of this rating system was not what he valued most but what he deemed as least important. An analysis of these constructs will be examined to understand how the rating is consistent with the Chinese value system and culture. Comparisons with Swedish values will be noted throughout thus exemplifying the cultural differences between Western and Eastern cultures.

### 5.4.1 TRUST

Trust is a fundamental virtue in any type of relationship especially in the outsourcing relationship as one’s business partner can be oceans away. The lack of control requires a level of reassurance and faith in the other. The buyer must trust the supplier will produce high quality products and deliver it on time while the supplier places faith in that the buyer will be punctual in paying for their service.

While the virtue of trust is universal, its manifestations differ from culture to culture. In individualist societies, trust is embodied in honest and open communication. Hofstede states that in such societies, the individual speaks their mind and tells the truth of how they feel. This is a common trait in Swedish society where superficiality in conversation is viewed negatively. Mr. Hyy reinforces this claim by stating, *“European customers are more frank.”* In a collectivist society, such direct truth telling is considered confrontational and disruptive therefore, not valued in the same light. Instead, trust is built through loyalty and the respecting one’s status in the hierarchy of relationships. The

Chinese commitment to social stability and harmony exemplifies one's dedication to the other thus, building trust.

The Chinese word *guanxi* (pronounced gwan shee) means relationship and is an important Chinese business element (Los Angeles Chinese Learning Center, 2005, p.1). Developing one's *guanxi* is a way to establish a strong network of friends and business contacts. Trust is a fundamental ingredient of this element and the Chinese prefer to work with people who have good *guanxi* since they are assured they can be trusted partners.

Fuda Industrial sees relationship building as an effective means to establish a long-term relationship with their clients. The primary construct for this relationship building is trust. To build this trust, Mr. Hyy focuses on keeping contact frequent by regular visits and telephone calls. Mr. Hyy equates good communication with frequent communication. He also equates a good client with a paying client and the fastest way to minimize one's *guanxi* is to not fulfil a promise.

Regular communication is also a prized activity at Flash. As Mrs. Terins noted, the lack of regular communication with one Chinese supplier resulted in a terminated contract even though the quality and price was satisfactory. Communication builds trust and it is central when building a long-distance relationship.

To rely on one's business partner is a fundamental element in nurturing a relationship. This intensifies in the outsourcing relationship since companies outsource parts or all of their production to an external source therefore, placing tremendous faith in their supplier. If trust is mutually experienced, the likelihood of sharing information and building a more strategic relationship is possible. This not only lowers transactions cost due to reliability and credibility but it also increases profitability as the alliance share expertise and industry know-how. Between two culturally diverse partners a trusting union can be invaluable for cross-cultural understanding.

#### **5.4.2 SHARED GOALS AND OBJECTIVES**

A collectivist society will often work together to build an extended network of resources. It is a means of creating closer family-like ties where resources can be shared. An individualist society however, is more inclined to act upon his or her own interests therefore, the only incentive for creating a network is to further his or her own objectives. A certain level of privacy is also indicative of individualist societies. With this in mind, the concept of sharing goals and objectives is likely to be more natural to a Chinese company, as supported by Mr. Hyy's ranking. Fang states that the Chinese have two "faces" in a business context. He explains, "*Chinese businesspeople value face when doing business as gentlemen, but 'thick face and black heart' (meaning 'faceless') when doing business as strategists*" (Fang, 2003, p.357). Depending on the context, the Chinese may share some goals and objectives yet only if mutual understanding and emotional bonds exist.

Theoretically, an open exchange of ideas and goals between two partners is an ideal scenario yet this is not always the case in reality. For Fuda Industrial, their product line offers little leverage resulting in an imbalance of power with their supplier. To create added leverage, the company may choose not to reveal certain competencies thus keeping an edge in the market. From the supplier's perspective, they may want to withhold information with the hope of negotiating a better price.

An exchange of goals and objectives is often a more private affair in a Swedish company like Flash. Yet, certain goals are revealed. For example, Flash prefers to work with suppliers who are similar in size with Flash. The similarity in sizes ensures that both parties have a mutual understanding of one another's organisation. Another shared objective involves the supplier's other clients. Flash wants to maintain their niche and as such requires that they are the only Swedish buyer of their supplier's services. This ensures Flash's products remain exclusive on the Swedish market.

While keeping one's goals and objectives quiet may be a strategic move, it damages the relationship management since the information asymmetry reinforces a level of uncertainty between the parties. In the short term this may save the buyer money or secure a contract for the supplier yet in the long run, it compromises future business opportunities. A company who feels secure with their clients will go the extra mile to satisfy them. Or as the Chinese saying goes, "*if you scratch my back, I'll scratch yours*" (Los Angeles Chinese Learning Center, 2005, p.1).

### **5.4.3 MUTUAL COMMITMENT TO CUSTOMER SATISFACTION**

Consumer patterns are changing. Today's consumer is well-informed and highly aware of their purchasing power. They have discriminating tastes and demand quality products that are tailored to their individual desires. Essentially, today's market is a consumer's market. With this in mind, both the buyer and supplier must keep the consumer's interest in the forefront at all times. The more the supplier knows of the end customer, the more likely they can deliver a product that meets their needs.

When questioned about what each party did to keep the mutual commitment to the customer at the forefront, Mr. Hyy said that quality was their mutual focus. This notion of quality meant different things to different clients. For Europeans, the quality of a product included environmentally friendly aspects whereas for Middle Eastern and African customers, the quality meant quality at the right price. By identifying and addressing these different definitions, Fuda Industrial keeps the final customer at the forefront.

Some buyers may feel that the sharing of information is problematic as their supplier's deliver products to a variety of buyers therefore, trade designs or secrets can be stolen or replicated. This is a realistic concern since China has one



of the largest “fake”<sup>22</sup> markets in the world. Realistically it is impossible to ward against this yet it is possible to minimize. Flash’s commitment to the customer’s satisfaction is evident in a number of ways. First of all, Swedish buyers do not like to dry-clean their clothes as this is both expensive and harmful to the environment. This consideration is translated to the supplier so that only machine washable clothing is produced. Sometimes a supplier will present a finished garment of their design to Flash. In such cases, if the style is in sync with Swedish tastes, Flash request productions but only after some adjustments are made. In the way, both the supplier and buyer adapt to one another’s concerns and styles collaborating with a mutual commitment to customer satisfaction.

In both cases communication and teamwork have been the underlying factors in relaying one another’s customer objectives. Mutual commitment towards a common goal is problematic in a cultural construct since cooperation is a universal concept. While the level of cooperation varies between a collectivist and individualist society, teamwork is essential to everyday life. In China it is reinforced in both the personal and professional environment while in Sweden, teamwork’s importance directly influences one’s career potential in working life. Therefore, mutual commitment towards a common goal is a contextual rather than cultural construct.

#### **5.4.4 CONCERN FOR OTHERS PROFITABILITY**

*“The relationship should be built on [...] a commitment to success. This is a partnership of shared commitment. Together it stands (succeeds), while separately it falls (fail)”* (Greaver, 2001, p.29). A buyer’s profitability is only as strong as its weakest supplier. For this reason, reciprocal concern for one another’s profitability is essential if a company wants to maintain steady growth. Concern can be expressed in two ways; it can be, for example, a mutual investment in a new technology or it can be a case of sharing the financial rewards.

Lack of reciprocity translates into uncertainty as a supplier will need to seek alternative clients for more rewarding relationships. The lack of consideration can also lead to problems in quality and therefore, affect customer satisfaction. If a Western buyer, for example, is only focused on keeping costs at a minimum, the Chinese supplier may be forced to focus on lowering their price as much as possible to keep their client happy. This may involve cutting corners to get the job done at that low price. Obviously, both parties in are business to make a profit yet if only one is reaping the rewards, the relationship will be a limited arrangement. To ignore the other’s profitability is directly linked to a loss of commitment since one’s economic survival is deemed inferior.

China is still adapting to the capitalistic influences and as such the concept of profitability. In the case of Fuda Industrial, their current register of clients is short-term. This is the likely reason why Mr. Hyy gave this a fourth place rating

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<sup>22</sup> Many luxury and electronic goods are copied and replicated, offering a large quantity of “luxury” labels at a fraction of the original price.

since it has yet to be a valuable and relevant construct. As they strive to build more long-term relationships, this criterion may gain a stronger presence.

In more strategic products, the level of investment by a foreign firm is indicative of their cross-cultural alliance. Chinese firms have certain expectations. According to Göran Samuelsson, a Swedish buyer for Kraftelektronik, in order to begin a partnership in China, a certain level of investment is expected. This investment signifies a commitment as well as a sharing of goals in the long-term. A Swedish firm however, is more short-sighted wanting to invest as little as possible and quickly get the job done (Interkulturella kommunikationsproblem i affärssammanhang, 2005).

In the case of Flash, quality is their profitability driver. For this reason, they are willing to pay a fair price to reach this goal. Since the Chinese supplier is paid a fair price, it becomes a mutually profitable engagement therefore contributing to long-term success. This is apparent in their over twenty-year partnership with their primary Chinese contact in Shanghai.

Short-term orientations of western societies, like Sweden, are short-sighted in their business relationships and place little value in thrift. Yet, the “spending” of Flash, that is to say, the added price they are willing to pay for quality and commitment, is an example of Fang’s notion of far-sightedness not short sightedness as Hofstede implies. The changing economic climate is altering some of these perceptions. While Swedes are generally more short-sighted in their business ventures, the respect for long-term relationships is becoming more popular. There is a gradual harmonisation between the western and eastern values towards long-term relationships. The sharing of risks and rewards is a means of providing both parties with the necessary incentives to work towards a common goal. This results in future business and lays a solid foundation for a long-term relationship.

#### **5.4.5 OPEN LINES FOR COMMUNICATION**

In *Privata Affärer* magazine, two Swedish importers described their experience when working with their Chinese suppliers, “*There are big cultural differences between us and China [...] the hierarchy is strong and the employees do not dare make final decisions. Everything must be decided by the boss. It can be quite time consuming*” (Rosell, 2005, p.60). Creating effective communication channels involves understanding how communication functions and to whom it is delivered in different cultures.

In China, respect for tradition is tied with a respect for the ordering of relationships by status. This is directly linked to Confucius’ teaching on relationships. Confucius noted that society consisted of unequal relationships between people and pointed out five basic relationships (see appendix D). Within each relationship, mutual and complementary duties are exchanged therefore securing both parties. Many companies are organised according to this hierarchical manner. To observe this order means to respect Chinese traditions.

Communication is both direct and indirect and these subtleties are of equal importance in China. A simple example of indirect communication is seen in toasting. According to David Boraks, toasting is the centrepiece of a formal Chinese meal and if one is engaging in a formal business dinner it is wise to observe certain traditions. These traditions include allowing the host to choose the drinks, regularly toasting the host and when toasting, keeping one's glass lower than the hosts (Boraks, 2005, p.3). These visual and verbal actions communicate respect in Chinese society. Also, if a Westerner is to do business with their Chinese supplier, it is wise to ensure that one is speaking to the person of appropriate status in the organisation's hierarchy. Fang states that a spoken voice equates with status therefore, top management should discuss concerns or ideas with a similar level. This reduces misunderstandings and decreases ineffective communication exchanges.

While Mr. Hyy states the importance of communication on numerous occasions, the specifics of that communication are not illustrated. Instead, he mentions the frequency with which the communication is exchanged and the form it takes: via telephone and visits. He also states when communication intensive periods occur, like during the design phase. Again, the subtleties of the visual and verbal exchange are not expressed.

Though the Western system possesses varying degrees of hierarchies, the importance has diminished with the onset of new trends, like in the IT industry. Flat hierarchies are becoming more common as the shared decision-making is noted to enhance an employee's sense of responsibility to the company. In many Swedish companies, informal behaviour and flatter hierarchies are common. This is seen in Ikea where Ingvar Kamprad regularly talks with his employees regardless of their position in the firm. Fang noted this difference when he discussed Ikea's establishment in China. He explained how shocked and insulted a customer was when he demanded to speak to the top manager and was directed to a woman wearing an Ikea uniform. The customer refused to speak with her, believing her to be of little influence due to her gender and attire. Upon extensive explanation of her role, he finally accepted her status yet the example is an interesting case of both the prevalence and attitude towards hierarchy in China.

The exchange of communication in Flash follows a typical Swedish style. When speaking with Mrs. Terins, she presented herself by her first name and we were welcomed into Flash's open plan office. Mrs. Terins was open and direct while being warm and personable in her responses. Her high status was neither illustrated nor imposed.

Social order in China is slowly shifting due to Western influences yet the respect for hierarchy is still ingrained in the Chinese consciousness. This social order is directly linked to one's communicative approach and should therefore be appropriately applied. To respect the order of social relationships using verbal and visual communication is a means of respecting the Chinese culture. Miscommunication and misunderstandings reduce the level of frequency of exchanges, consequently lowering control costs.

### **5.4.6 MUTUAL DEPENDENCE**

When there is a balance in the buyer-supplier relationship, the potential for mutual dependence is a likely outcome. Mutual dependency requires a level of vulnerability from both partners. This translates to a mutual uncertainty that drives the partners to depend on one another for strength and innovation. Global business does not exist in a vacuum; all businesses have a certain level of insecurity in the market. Necessity is the mother of all innovation and a company can be both mutually dependent and independent depending on which area is discussed.

Since Fuda Industrial's product line is a leverage product their vulnerability is increased yet, by extending and customizing their services they are able to attract both domestic and international buyers. As Mr. Hyy stated, approximately 80% of their services are tailor made to serve their client's needs. With such client focus, Fuda Industrial is working to build their reputation with the intention of turning short-term into long-term clients. Mutual dependency increases between long-term partners due to the added allocation of responsibility. This, in return, shifts their leverage product and service to a strategic product and service creating a more balanced buyer-supplier power dynamic.

A level of mutual dependence exists between Flash and their long-term Chinese supplier. This partnership has been invaluable for sourcing new materials and providing Flash with new contacts. Having a local alliance is an effective means of being linked to new Chinese acquaintances and information resources since the personal reference is a voucher of one's *guanxi* in the business community. This invite into the community entails the collectivist ideals of loyalty and protection within the network.

The transfer of production creates an automatic level of mutual dependency in the outsourcing relationship. The supplier is equally concerned with the order's success. Having local inside-knowledge of the domestic market aids the foreign companies and vice versa. Cultural know-how is exchanged, adding to the cultural intelligence of the other and thus creating a competitive advantage. Though strong and independent in its domestic market, the two companies are mutually dependent on each other in an international setting.

## **5.5 SUPPORTING VALUES**

Before one starts to build a house, the foundation needs to be laid in order for the structure to weather external pressures. Similarly, the core values cannot be integrated successfully within a company's process if the supporting values are not firmly in place. The following four supporting values will be analysed in relation to the cultural forces that influence.

### **5.5.1 PROFESSIONAL RESPECT**

The standard division between the collectivist and the individualist in the working place is the relation to the task. As Hofstede points out, the relationship prevails over the task while in an individualist society the task prevails over the relationship (see appendix A). This is one of the key reasons why Western societies, like Sweden, perceive the professional relationship as superior to the personal relationship. Mrs. Terins expressed a great regard for their long-term supplier, discussing the level of professional respect they had for this supplier due to the supplier's commitment to communication and resourcefulness. As McQuiston explains, credibility and a positive business reputation are key elements in managing successful relationships between two parties. Like in the case of Flash, their reverence is rooted in the supplier's abilities and distinct competencies therefore contributing value to Flash's organisation.

Developing one's professional respect can be seen as keeping "face" in the Confucian sense. "Keeping face" covers all aspects of Chinese life and is an important aspect of the Chinese character. There are parallels to establishing or maintaining one's reputation and its influence on how one is met. In both cases, it has a self-regulating function, creating a standardized system of behaviour, within a specific environment. In addition, to "lose face" is equivalent to being unprofessional. Both concepts involve a loss of credibility that in turn leads to loss of status in the business community.

Mr. Hyy did not directly address the concept of "face" in the interview yet when asked how important professional respect between Fuda Industrial and the buyer was, he stated it as okay and not really that important. This could be interpreted in two ways. On the one hand, he could be without regard for his professional reputation yet a more realistic interpretation is that the professional and personal relationships are not considered separate. The rational behind this interpretation is based on the following question of how important the personal relationship between Fuda Industrial and their buyer was. In this case, he replied that it was very important not to mention, the basic requirement for a long-term relationship.

Management styles come into play under this supporting factor. Hofstede states that in collectivist societies, management is management of groups (see appendix A). In individualist societies however, management is management of individuals. When addressing concerns or problems, a Swedish manager will be direct in identifying the problem, creating an open dialogue to discuss how to effectively solve the situation. This may involve drawing attention to certain individual's performance. To approach the same situation in China could have serious ramifications. If an individual's performance is "criticized" openly in front of the group, that employee "loses face" both professionally and personally. Instead, the Swedish manager would need to approach the situation by illustrating the flaws in the education or information that led to the misinterpretation. This is may seem a small detail but in fact can have serious consequences.

Professional respect is more in line with western concepts. Like Hofstede claimed, individualist societies value free time and their individual interests. Swedish

working life supports this as one's private and professional life are kept separate. Unless a long-term relationship has been established between colleagues, personal issues are kept private.

### **5.5.2 PERSONAL RESPECT**

The personal relationship is far more integrated in the Chinese professional relationship. People who are born into collectivist societies are born into extended families claimed Hofstede. This seems to be quite prevalent in today's China. Close friends of the family are often called uncles and aunts to signify their inclusion in the family unit. These close relationships are a means of exchanging loyalty and protection. Personal respect for one another is expressed in the reciprocation of greetings, favours and gifts in Chinese society. The Chinese character for this value, *li shang wang lai*, is embodied by a number of translations: "if you honour me a foot, I will honour you ten feet in return" and "courtesy demands reciprocity" or "deal with a person as he deals with you" and "pay a man back in his own coin" (Fang, 2003). Reciprocation entails a number of expressions. It can involve one person settling the bill for an entire group. Each member reciprocates this gesture of goodwill until everyone has had the chance to repay the hospitality. It is also an effective means of pushing the relationship into the future. There are exceptions to this tradition that are unappreciated. For example, if one person always insists on settling the bill, this can be regarded as pompous or corrupt.

According to Fuda Industrial, a majority of their expenses after labour and materials go into client management. This management includes regular visits and contact involving lunches and other such social activities outside the office.

Western culture is more tasks oriented. This is supported by the Western attitude to business lunches. It is common that when colleagues meet they split the bill according to what he or she ate. The "going Dutch" system is not only a familiar practise but has an underlying symbolism. By dividing the bill between the groups it symbolizes a mutual commitment to one another's interests. To pay the entire bill is more common when one is "wooing" a potential client.

During the entire interview with Flash, client dynamics involved the professional relationship exclusively. The lack of attention towards the personal relationship could signify its level of priority or perhaps, it is intricately tied in the professional respect? In either case, its prominence is second place under professional respect therefore indicative of a western perspective.

Personal respect is often experienced in a comfortable personal relationship. Such relationships are often built outside the office and often involve activities like lunch, golf or an event depending on the culture and industry. These activities are a means of loosening the social veneer and allowing individuals to interact beyond the constraints of their role and position. The opportunities can be invaluable for pushing a relationship forward, like is seen in China. It is here that personal

respect is paramount and expressing this is fundamental to Chinese culture while failing to observe this social construct can be social suicide.

### **5.5.3 INVESTMENT OF EFFORT BY TOP MANAGEMENT**

Leadership is synonymous with conveyance, direction and guidance. It is these qualities that can inspire and motivate an organisation to not only reach their goals but exceed their expectations. In most companies, leadership is exercised by the top management and as such, is intended to guide the company in its various efforts. In the case of relationship management, the investment of effort by top management is an expression of commitment. The stability of a company requires equal involvement of all parties involved.

From a Chinese perspective, harmony is the goal and the hierarchical order is the means of achieving this. Each role serves a specific obligation in the collective unit. For example, a junior partner shows respect and obedience while the senior partner offers protection and consideration. As each role is based on mutual and complementary obligations, the investment of effort by the top management is very clear. A senior partner will be appointed to head the relationship management. Since he is revered with respect and obedience, the clear division will ensure the entire business unit is focused and supports the same goal under the guidance of the senior partner. In Fuda Industrial, this is no exception.

According to McQuiston, a hands-on approach by top management can “*instill and maintain the core values*” (McQuiston, 2001, p.176). He notes that the investment made by top management is supported if the employees see a sincere effort made. This alludes to the Western mentality of individualist behaviour where management is management of the individual. In other words, it is up to top management to inspire and motivate each individual if he or she is to generate full cooperation.

Though the design and purchasing department at Flash is rather small, the leadership of Mrs. Terins is evident. She has in-depth knowledge of what suppliers she wants to work with, the qualities they should possess and the type of relationship she will accept. Her regular visits with the purchasing and design team to China reinforce their commitment to their suppliers, strengthening the partnership.

A company places great trust in their top management to build lasting relationships with their key partners. Top management must inspire and motivate employees to see the benefits of building relationships with allied companies. Yet, unless the investment of effort in top management is unsupported by the company unit, little success can be expected.

### **5.5.4 CONTINUOUS IMPROVEMENT OVER TIME**

A relationship needs to move forward otherwise it becomes stale. Attention must be given to one's key partners in order to ensure commitment and concern for the other's profitability. From a Chinese perspective, western companies are often impatient to do business quickly with as little investment as possible. The Chinese however, align themselves with a more long-term orientation. This means investing both time and money into the business relationship.

Reciprocation of greetings, favours and gifts were discussed as an effective means to ensure future relations as was developing guanxi. Persistence is another virtue that pushes relationships forward. As Fang points out, nothing in society can be achieved without perseverance and persistence.

Since quality is such a fundamental concern for all of Fuda Industrial's clients, they try to keep the standard high. Improvements are regularly made while producing within the time constraints of their client. This incremental approach to unending improvement is an illustration of Fuda Industrial's client commitment.

Flash adapts to the changes in the market yet their commitment to continuous improvement was not addressed. Instead, their focus is to spread their sourcing risks by diversifying their supplier portfolio. In such a buyer-dominant market, Flash displays their commitment by renewing contracts with good suppliers. As the supplier-buyer relationship progresses, Flash offers more leeway and showing added flexibility towards favourable suppliers.

To resign oneself to a static relationship is to deny new opportunities. The initiative taken by both parties signifies commitment and increases the chances for innovation.

## **5.6 CHINESE RELATIONSHIP MANAGEMENT MODEL**

Hofstede resolved that we have, "*different minds but common problems*," (Hofstede, 1991, p.3). Cultural intelligence is a matter of understanding one's own cultural references and being aware of the references of others. With regards to the work place environment, the biggest difference between the Western and Eastern mentality is the connection between relationships and task. Westerners are task oriented allowing a professional relationship to arise from this task. Asians however, view the personal relationship as an essential prerequisite before the task can be approached. In a nutshell, a collectivist society has a tendency to value relationships over tasks while the individualist society may choose tasks over relationships. Within the business environment, westerners are noted to build transactions while Asians are noted to build relationships.

The first level of building a relationship in the Chinese business community involves understanding the prevalent traditions. These Chinese values are a



combination of Confucian, Guanxi and Yin Yang principles. There is a Chinese saying that states, if you want to know the mountains, you must live in the mountains: since many buyers manage the outsourcing relationship from their head offices in other countries, this is not a possibility. One way to compensate for one's lack of knowledge is to express a level of humility. To be overconfident in one's understanding of Chinese culture can be perceived as pompous and irritating as only the domestic inhabitants have a true understanding of Chinese culture. Showing respect for Chinese values is also important when establishing oneself in the community. This respect is a way of not only building one's reputation but also a way of increasing one's local network.

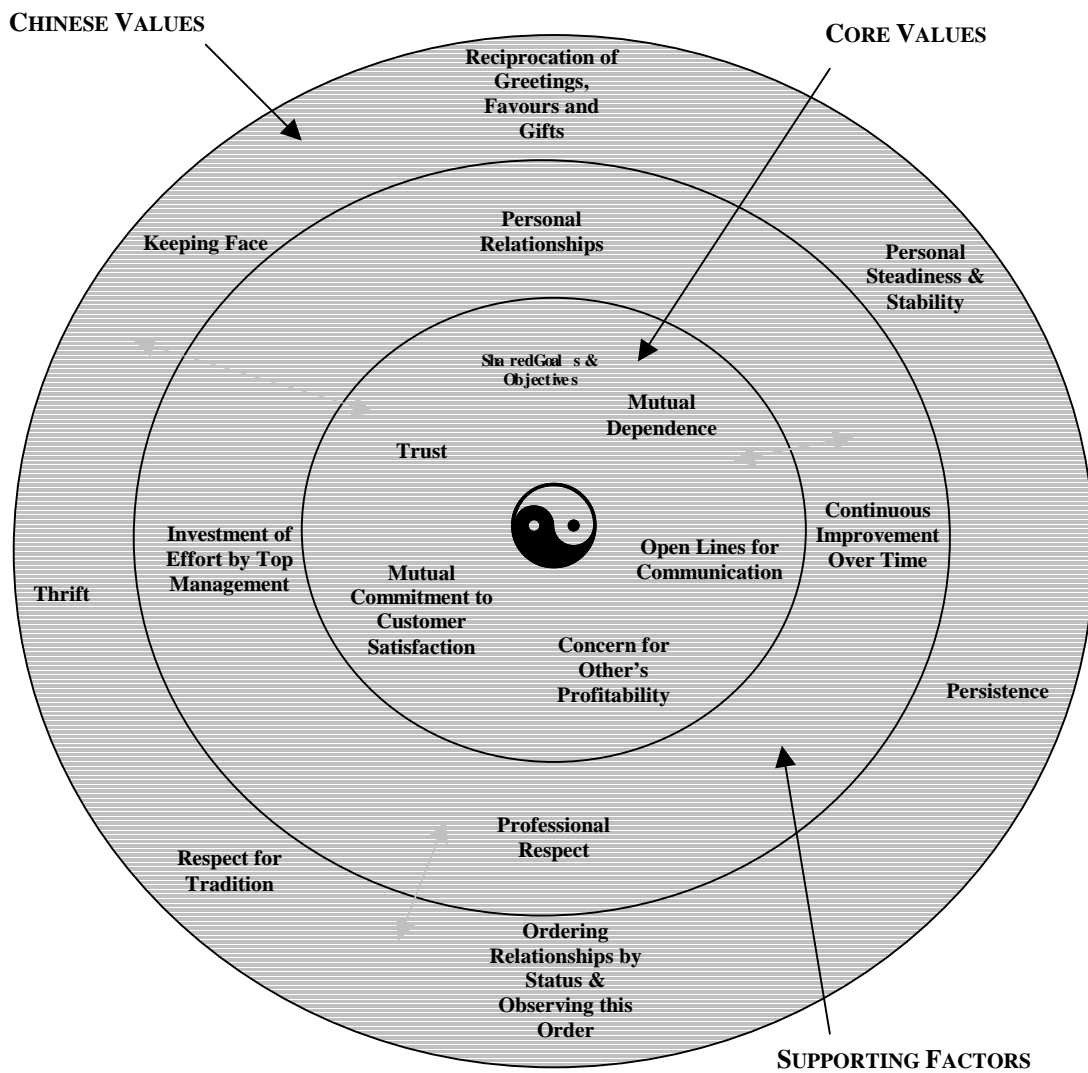
Once the cultural reverence has been expressed and received positively by one's Chinese partners, the next step is to focus on the supporting factors of building a relationship. It is important to remember that these four constructs are not exclusively separate but rather interrelated. In Chinese society these supporting factors like personal relationships are fundamental to working life and therefore should be given great attention.

The core values are how the business relationship is maintained over the course of the sourcing relationship. It is important to be aware of how each partner rates the following constructs. As we saw with Fuda Industrial, trust was the most important value whereas Flash regarded open lines of communication as a central construct.

Finally, we come to the core of the model with the yin yang principle. By placing this principle at the centre of the Chinese relationship management model, it signifies the natural paradox of opposing elements and illustrates its presence within each of the supporting and core constructs and the Chinese value system. For example, though one may be frugal with one's investments, one can also be extravagant in client management costs. Likewise, even though one may be exceptionally persistent in one's business affairs it doesn't mean that one is not without constraint. The yin yang principle allows for extremes to co-exist in a balanced harmony.

These layers are not entirely separate from one another. One cannot have mutual commitment to customer satisfaction without sharing goals and objectives. One cannot have personal respect without trust. One cannot have open lines of communication without respecting the ordering of relationships by status. Once one has reached the level where core values are the central focus, respect for cultural values are still present. The model is not static but rather ever-changing. In the beginning of a relationship it is recommended to start with Chinese values and proceed inwards yet, once a relationship is established one can easily oscillate between the varying layers. This relationship management model should be applied in a holistic and organic manner with on-going attention to the external influences of the market. It is also important to note that it takes time to implement and nurture.

**FIGURE 5.6** Our Chinese Relationship Management Model

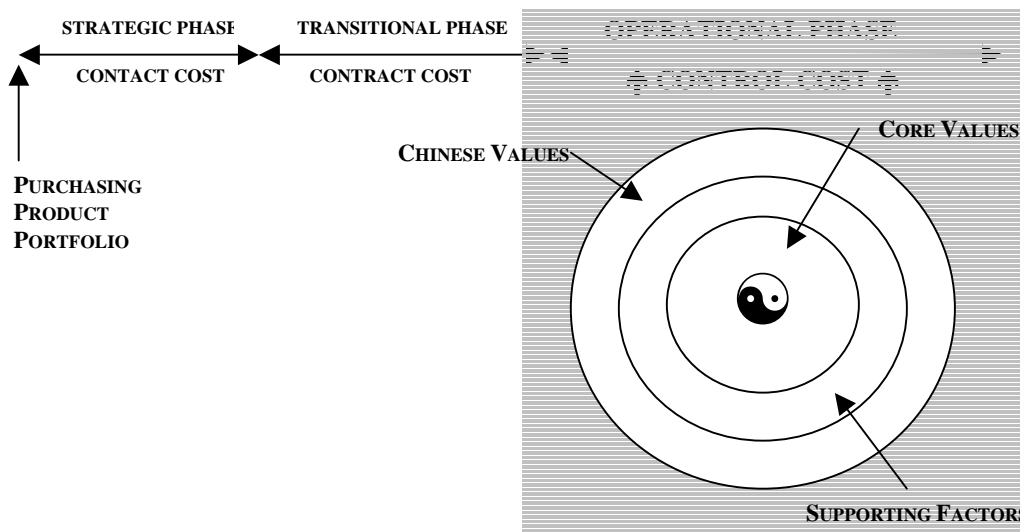


How does this model relate to the lowering of control costs? Cross-culture relationship management is a layered activity as two separate cultures must be taken into consideration with respect to their values and perspectives. This can be quite challenging, especially if it is not given the proper time or consideration. Misunderstandings and miscommunication can easily arise. Just consider the level of misinterpretation when one is translating their ideas from Swedish to English and then English to Chinese. Details can be missed with each translation. The cost of such minor misses can greatly affect the outcome of a product or service. For example, Flash requires all their clothing items to be machine washable. If this is misunderstood along the communication line and the Chinese supplier produces an entire line of fabrics that are dry-clean only, it translates into a tremendous loss of sales as Swedish customers reject dry cleaning items. The miscommunication can take many forms yet the bottom line is that mistakes cost money.

Two cost drivers influence the control costs the most. Both the internal and external uncertainty is active in pushing these costs up since they influence both

partners significantly. The greatest remedy for lowering this cost driver is to increase communication. We asked Mr. Hyy at Fuda Industrial how he handled a client relationship once it went sour and his reply was to increase communication. The frequency of exchange is the second cost driver that pushes the control costs up. While it is important to lower transaction costs, it is equally important to maintain a strong relationship. A strong relationship requires continuous communication. In this regard, one must weigh the benefits and costs carefully. If one is only interested in a short-term relationship, one needn't invest in extensive communication yet, if a long-term relationship is the objective then communication is essential for building a good rapport and as such, control costs will go up. The one advantage of "investing" in this control cost driver, is that while it costs the company money in the short-term; it can save the company in the long-term. This is due to the fact that both parties become more integrated in one another's operations and cultures and they know what they can expect. This minimizes misunderstandings and miscommunication due to the mutual history. Effective relationship management using McQuiston's constructs combined with the application of the prevailing Chinese values can ensure a Westerner a solid start in building and maintaining their sourcing relationship.

**FIGURE 5.6.1** Our Theoretical and Analytical Focus with the Chinese Relationship Management Model



The figure above illustrates how our Chinese relationship management model is incorporated into the outsourcing process and the incurring transaction costs.

## 5.7 LIMITATIONS OF ANALYSIS

The analysis of this paper could have been more explanatory due to the following limitations. Our empirical sources were not always as expansive as we would have liked. This was the case with Fuda Industrial where the responses were

often limited. We had hoped for more robust answers with examples and explanations yet due to their concise nature, secondary sources sometimes played a larger role in substantiating our analysis. Articulating the level of transaction costs was somewhat problematic with our qualitative approach. Describing a cost as high or low is a vague and subjective measurement which is relative from company to company. Our analysis would have also benefited from a stronger connection between the two companies. Different versions of the same situations would have strengthened our analysis since it could reveal a more accurate exchange.

## 6. CONCLUSION

*A conclusion of our ideas which includes suggestions as well as directions for future research will be addressed.*

### 6.1 CLOSING DISCUSSION

China is in a state of optimism and curiosity. According to Fang, everything is happening so quickly that they believe everything to be possible. The future is wide open and with that a readiness to adapt and be an active player in the international economic community. Their eagerness to adapt is expressed by their willingness to adjust their export tariffs so as to appease American and European concerns.

Values determine attitudes and behaviour and as such, the value systems involved need to be considered. Richard Pooley states that cultural intelligence and training can be achieved in four key stages.

1. One must be aware of one's values and world perspective.
2. One needs to explore the factors that have determined one's partner's cultural frame of reference.
3. One must realize how one's culture is perceived by others, particularly negative perceptions.
4. One must adapt, without losing one's own identity, to the other culture.

(Pooley, 2005, p.30)

It is at the final stage one alters their communication style so as to work effectively in the other culture. Adaptation is a key element in integration. Yet, mutual adaptation can also experience a collision. Fang uses the example of two companies, one from Japan and the other from Texas, USA. During the first official meeting, the Japanese representatives had dressed down, wearing cowboy hats and boots while the Texans arrived in traditional Japanese garbs. It is a humoristic example of mutual concern for the other yet emphasises that more subtle approaches tend to be more successful.

In the case of Fuda Industrial and Flash, both companies make conscious decisions to adapt their business to their partners. When asked who adapts more to the other's business procedures, Mr. Hyy replied that though it was different from client to client, they were the ones who adapted to the business procedures the most. Since the Chinese New Year is such a celebrated holiday, Flash places their

orders either before or after the festivities so as to ensure proper lead-times. This is also a cultural consideration in their sourcing strategy.

According to Nigel Wildish, “*if there are two key features that distinguish outsourcing a supply chain task from other supply chain relationships, they are the dependency of the customer on the supplier and the potential for a mutually beneficial result*” (Wildish, 2004, p.32). Learning and adapting to cultural differences is fundamental to relationship management and the operational phase in outsourcing. These cultural values can be geographically based yet it is more effective if the manifestations of these values become more region and industry specific. The key to interpreting values, whether they are Swedish or Chinese, is not to take them as absolutes but rather to understand in which context these qualities arise. Individuals are not one-dimensional but rather coloured by translucent layers of culture, profession, family values and personal interests. To apply an opaque dimension negates these multi-faceted qualities of the individual.

Being aware of the dynamics that influence local business practices makes it easier to bridge the cultural gap. This encourages a sharing of experiences and circumstances that further strengthen the bond. The quality of a relationship has the influence to determine whether a partnership will continue or conclude. With this in mind, it can sometimes be advisable to appoint a specific “cultural alliance” manager to work with valuable foreign customers / clients. This manager has the ability to monitor, evaluate and improve the relationship first-hand. They also have the cultural intelligence to focus on specific aspects of the customer/client relationship, iron out potential conflicts and take a hands-on approach to motivate the involved parties.

The outcome of a strong cross-cultural relationship in the operational phase has a direct impact on the transaction costs. In the first place, a sound relationship can weather both internal and external uncertainties since trust is an integral ingredient. Also, any potential investment specific costs are minimized due in part to open lines of communication and concern for one another’s profitability. To consciously expose one’s partner to unnecessary investment losses is strategically damaging to both partners. Finally, the level of transaction costs caused by the level of frequency exchange is minimized. This may seem contradictory since open communication and regular contact involves increased transaction costs yet, one must consider the short and long term perspective. Minimal communication is likely to lead to considerable costs due to mistakes. Investing in early and continuous contact during the initial stages of the relationship is a means of minimizing costs in the long term since a mutual understanding is achieved. For this reason, it is recommended to permit initial increases in control costs due to a necessary frequency of exchange with the objective of saving these control costs in the future.

In today’s competitive global market, companies are looking for ways to increase their competitive advantage. Some outsource their non-core activities while others develop strategic and long-term alliances with key partners. Essentially, building a sound cross-cultural relationship in the operational stage is a matter of maintaining one’s competitive advantage and keeping transaction costs low. It is also a matter of survival.

## **6.2 DIRECTIONS FOR FUTURE RESEARCH**

We have just scratched the surface of a dynamic and multi-faceted area in relationship management. There are a number of directions that our study can be a basis for. By adding a stronger emic point of view could contribute to a more overall representation. Or, the inclusion of more companies and different branches could provide further industry know-how. A quantitative study could define the control costs in greater detail while a greater attention to cultural collisions and subsequent risks involved could illustrate the importance of cross-cultural relationship management, besides just the financial risks. Finally, another interesting direction would be to examine the similarities as opposed to the differences between cultures. This angle could also assist companies in successful integration and become more relevant as globalization increases. These are just some of the recommended avenues which could further increase cultural intelligence in the outsourcing process.

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# APPENDIX

## A. COLLECTIVIST VS. INDIVIDUALIST DIMENSION I

<b>KEY DIFFERENCES BETWEEN COLLECTIVIST AND INDIVIDUALIST SOCIETIES. I: GENERAL NORM, FAMILY, SCHOOL AND WORKPLACE</b>	
<b>COLLECTIVIST</b>	<b>INDIVIDUALIST</b>
<ul style="list-style-type: none"> <li>● People are born into extended families or other ingroups which continue to protect them in exchange for loyalty</li> <li>● Identity is based in the social network to which one belongs</li> <li>● Children learn to think in terms of 'we'</li> <li>● Harmony should always be maintained and direct confrontations avoided</li> <li>● High-context communication</li> <li>● Trespassing leads to shame and loss of face for self and group</li> <li>● Purpose of education is learning how to do</li> <li>● Diplomas provide entry to higher status groups</li> <li>● Relationship employer-employee is perceived in moral terms, like a family link</li> <li>● Hiring and promotion decisions take employee's ingroup into account</li>   <li>● Management is management of groups</li> <li>● Relationship prevails over task</li> </ul>	<ul style="list-style-type: none"> <li>● Everyone grows up to look after him/herself or his/her immediate (nuclear) family only</li>   <li>● Identity is based in the individual</li>   <li>● Children learn to think in terms of 'I'</li>   <li>● Speaking one's mind is a characteristic of an honest person</li>   <li>● Low-context communication</li> <li>● Trespassing leads to guilt and loss of self-respect</li> <li>● Purpose of education is learning how to learn</li> <li>● Diplomas increase economic worth and/or self-respect</li> <li>● Relationship employer-employee is a contract supposed to be based on mutual advantage</li> <li>● Hiring and promotion decisions are supposed to be based on skills and rules only</li> <li>● Management is management of individuals</li> <li>● Task prevails over relationship</li> </ul>

Source: Hofstede (1991, p.67)

## B. COLLECTIVIST VS. INDIVIDUALIST DIMENSION II

<b>KEY DIFFERENCES BETWEEN COLLECTIVIST AND INDIVIDUALIST SOCIETIES. II: POLITICS AND IDEAS</b>	
<b>COLLECTIVIST</b>	<b>INDIVIDUALIST</b>
<ul style="list-style-type: none"> <li>● Collective interests prevail over individual interests</li> <li>● Private life is invaded by group(s)</li> <li>● Opinions are predetermined by group membership</li> <li>● Laws and rights differ by group</li>   <li>● Low per capita GNP</li> <li>● Dominant role of the state in the economic system</li> <li>● Economy based on collective interests</li> <li>● Political power exercised by interest groups</li> <li>● Press controlled by the state</li> <li>● Imported economic theories largely irrelevant because unable to deal with collective and particularist interests</li> <li>● Ideologies of equality prevail over ideologies of individual freedom</li> <li>● Harmony and consensus in society are ultimate goals</li> </ul>	<ul style="list-style-type: none"> <li>● Individual interests prevail over collective interests</li> <li>● Everyone has a right to privacy</li> <li>● Everyone is expected to have a private opinion</li> <li>● Laws and rights are supposed to be the same for all</li>   <li>● High per capita GNP</li> <li>● Restrained role of the state in the economic system</li> <li>● Economy based on individual interests</li> <li>● Political power exercised by voters</li>   <li>● Press freedom</li> <li>● Native economic theories based on pursuit of individual self-interests</li>   <li>● Ideologies of individual freedom prevail over ideologies of equality</li> <li>● Self-actualization by every individual is an ultimate goal.</li> </ul>

Source: Hofstede (1991, p.73)

## C. SHORT-TERM ORIENTATION VS. LONG-TERM ORIENTATION

<b>KEY DIFFERENCES BETWEEN SHORT-TERM AND LONG-TERM ORIENTATION SOCIETIES</b>	
<b>SHORT-TERM ORIENTATION</b>	<b>LONG-TERM ORIENTATION</b>
<ul style="list-style-type: none"> <li>● Respect for tradition</li> <li>● Respect for social and status obligations regardless of cost</li> <li>● Social pressure to 'keep up with the Joneses' even if it means overspending</li> <li>● Small savings quote, little money for investment</li> <li>● Quick results expected</li> <li>● Concern with 'face'</li> <li>● Concern with possessing the Truth</li> </ul>	<ul style="list-style-type: none"> <li>● Adaptation of traditions to a modern context</li> <li>● Respect for social and status obligations within limits</li> <li>● Thrift, being sparing with resources</li> <li>● Large savings quote, funds available for investment</li> <li>● Perseverance towards slow results</li> <li>● Willingness to subordinate oneself for a purpose</li> <li>● Concerns with respecting the demands of Virtue</li> </ul>

Source: Hofstede (1991, p.173)

## D. KEY PRINCIPLES OF CONFUCIAN TEACHING

1. The stability of society is based on unequal relationships between people. The *wu lun* or five basic relationships (ruler-subject, father-son, older brother-younger brother, husband-wife and senior friend-junior friend). These relationships are based on mutual and complementary obligations. The junior partner owes the senior respect and obedience. The senior owes the junior partner protection and consideration.

2. The family is the prototype of all social organisations. A person is not primarily an individual; rather, he or she is a member of a family. Children should learn to restrain themselves, to overcome their individuality so as to maintain the harmony in the family...one's thoughts remain free. Harmony is found in the maintenance of everybody's *face* in the sense of dignity, self-respect, and prestige. The importance of face in the collectivist family and society....Losing one's dignity in the Chinese tradition is equivalent to losing one's eyes, nose and mouth. Social relations should be conducted in such a way that everybody's face is maintained. Paying respect to someone is called 'giving face'.

3. Virtuous behaviour towards others consists of not treating others as one would not like to be treated oneself. (The Chinese Golden Rule is negatively phrased) There is a basic human benevolence towards others, but it does not go as far as the Christian injunction to love one's enemies. Confucius is supposed to have said that if one should love one's enemies, what would remain for one's friends?

4. Virtue with regard to one's tasks in life consists of trying to acquire skills and education, working hard, not spending more than necessary, being patient, and persevering. Conspicuous consumption is taboo, as is losing one's temper. Moderation is enjoined in all things.

Source: Hofstede (1991, p.165)

## **E. INTERVIEW QUESTIONS: FLASH AB**

### **GENERAL QUESTIONS**

1. What does your purchasing process look like?
2. What are the most important criteria when selecting suppliers?
3. How do you classify your suppliers?
4. Do you quality control the purchasing process?
5. How do you evaluate the results of your supplier relationship?

### **SUBCONTRACTING QUESTIONS**

1. Do you subcontract and why?
2. What are the risks involved? How do you manage these risks?
3. What are the direct and indirect benefits?
4. What is the future benefit of subcontracting to your company?
5. How do you quality control the product you subcontract?
6. What are the biggest costs in subcontracting?

**F. E-MAILED QUESTIONS: FUDA INDUSTRIAL LTD.**

**#1 – BACKGROUND INFORMATION**

1. What is the size of you company (small, medium, large) and how many employees do you have?
2. How long has the company been in business? Has it always been a family owned business? Is it started by your family or was it bought?
3. What is the core product line?
4. What type of clients do you have? How many big vs. small clients, country, long vs. short-time clients?
5. What is the structure of you company?



## **#2 – CLIENTS AND THE CONTRACTS**

1. What position do you hold within the company?
2. How do you generate new clients?
3. Who are your short-term clients? What are their primary when employing your services?
4. Who are your long-term clients? What are their primary concerns when employing your services?
5. Are your contracts standardized or specialized? If both, which ones do you use the most and for which clients? Which language are your contracts in?
6. What is the main language of your clients when doing business?
7. What are typical cultural conflicts when dealing with each international group?
8. How do you develop relationships with your new and existing clients? How regular is your communication and contact with your clients during a project?
9. What makes a client a good client?
10. What are the company's largest costs other than materials and labour?
11. What are the biggest challenges for your company?
12. How specialized and unique is your product?

### #3 - ADDED QUESTIONS TO #2

1. What is the approximate range (in years) of a long-term versus short-term clients?
  2. How does poor communication (through language differences or lack of communication) affect an order?
  3. Who are the majority of your long-term clients (Chinese or International)? Of the International, which country is the largest?
  4. Who are the majority of your short-term clients (Chinese or International)?
  5. What is the reason behind creating specialized contracts for the short-term clients?
  6. What is L/C? And how do they establish mutual trust (techniques)?
  7. How long credit times do you generally offer?
  8. What do the client management costs consist of? Roughly how much of these client management cost are added onto the core product costs (in %)?
  9. What is your competitive edge if there is a lot of competition in the sports wears market?
  10. How do you show your appreciation to your loyal customers?
  11. In terms of business culture, who adapts more (you or your international clients)?
  12. In what order would you place the following?
    - Shared Goals and objectives
    - Mutual Dependence
    - Open Lines of Communication
    - Mutual Commitment to customer Satisfaction
    - Concern for others Profitability
    - Trust
- 
1. How important is;
  2. Professional Respect between you and the buyer?
  3. Personal Relationships between you and the buyer?
  4. Are your prices fixed or do you bargain to a price with your customers?

## #4 – RELATIONSHIP MANAGEMENT

1. In talking about building strategic alliances between buyers and their suppliers, three factors are mentioned most often: trust, mutual commitment to the customer and good communication. Do you agree with these three?
2. What do you think it means to 'build trust' with your client? How is this done?
3. What should each party do to keep the mutual commitment to the customer at the forefront of operations?
4. What does it mean to have good communication with your clients? How do you keep the lines of communication open?
5. What events can you think of that make a relationship go sour?
6. When you sense a relationship going sour, what can you do to get it back on track?
7. When you and the client monitor the production of a project, which form of contact is most common? Are there differences between international and domestic clients?
  - If information is mainly exchanged via e-mail, why?
  - If information is mainly exchanged from client visits, why?
  - If information is mainly exchanged via telephone, why?
8. When are cultural differences most noticeable?
9. Time: How important is punctuality and keeping deadlines? Who is this most important to? Why?
10. Communication: Who is most frank and direct? Who is least?
11. What are some cultural differences you have encountered?
12. When you meet with clients from other countries, do you take their cultural differences into account? How?
13. Do you adapt to their business procedures or vice versa?