



LUND UNIVERSITY
School of Economics and Management

Fostering buyer-supplier relationships

An analysis of the supplier perspective in offshoring to China

by

Alessandra Castelli

May 2016

Master's Programme in Management

Supervisor: Carl-Henric Nilsson

Examiners: Anna Thomasson, Stein Kleppesø

ABSTRACT

This paper aims at analysing Chinese suppliers' expectations of interfirm relationship when Western companies offshore their production to China. The research is motivated by the underrepresentation of the Chinese suppliers' perspective in the literature and the undisputed role of China as the second most popular destination for offshoring. The literature finds that a successful relationship between buyer and suppliers has a positive effect on quality and satisfaction. Therefore understanding what Chinese suppliers expect from a relationship with a Western client would help to improve offshoring relationships and minimize risks for companies engaging in such strategy. The research has studied the single case of a Swedish manufacturing firm offshoring part of its production to five suppliers located in People's Republic of China, Hong Kong and Taiwan. Both buyer and suppliers' perspectives have been studied in order to see to what are the suppliers' expectations and whether the Western firm meets them through its current outsourcing strategy. The findings suggest that when offshoring to China the company does not always meet its suppliers expectations on closeness and mutuality. The Chinese partners value the formation of partnerships oriented towards future mutual development, rather than connections aimed at maintaining the status quo. The strategies deployed by the buying firm are, on the other hand, functional to offshore on non-critical items with the objective of reducing costs and satisfy immediate needs on quality and delivery. As such, they do not require a big involvement of the buying firm in the supplier's operation and fall short of the supplier's expectations on interfirm relationship. Moreover, such offshoring strategies are not functional to ease the buyer's concerns on quality related issues as they do not guarantee the buyer's grip on the supplier's operations.

Keywords: outsourcing, offshoring, subcontracting, supply chain, buyer supplier relationship, China

摘要

目前世界上越来越多公司外包产品。企业与供应商的关系成为双方合作成功的关键，如果关系很密切的话质量和收益高多了。所以了解供应商的看法和期望让双方成功。

西方理论中，分析供应商看法和期望的研究很少，特别是东方供应商。反过来说，中国, 香港，台湾都是流行离岸外包目的地。因此论文目的是分析西方企业与东方供应商的关系。

论文的话题是瑞典制造公司和它的五个供应商。我分析了他们的关系来表达双赢因素。特别感兴趣任何西方企业了解和承诺它的东方供应商的期望。

关键词：企业供应商关系，外包，离岸，供应链

ACKNOWLEDGMENTS

First, I want to thank the company I have studied for being so supportive towards this research. I have appreciated the freedom I had in being able to study exactly what I was interested in. Many thanks also to their business partner in China, Hong Kong and Taiwan for the enthusiasm they all showed in helping me collecting data.

I also want to thank the supervisor Carl-Henric Nillson for the ongoing support and for the trust he had in my project since the very beginning. Thanks to my colleagues for 10 weeks of mutual support in the form of early morning meetings, sunny lunchbreaks and confused bus rides. Special mention to thesis pals Hugh, Jack and Nizar for the priceless effort they made in peer reviewing the drafts, and to Shin Yu for her helpful proofreading of my Mandarin.

TABLE OF CONTENTS

1. Introduction	1
1.1 Purpose	2
1.2. Research questions	2
2. Methodology.....	3
2.1 Research paradigm.....	3
2.2 Validity, Reliability and Generalisability	8
2.3 Limitations.....	8
2.4 Future research	10
3. Theoretical background	11
3.1 Definition of the terms.....	11
3.2 Reasons for outsourcing.....	11
3.3 Classifying the outsourcing strategy	12
3.3.1 Buyer-supplier Relationship	15
3.4 Offshoring in the Chinese context.....	20
3.4.1 Buyer supplier relationship in the Chinese context	21
3.5 Exposing the literature gap	24
4. Findings	25
4.1 Describing the Case Study	25
4.1.1 Describing the questionnaire - Buyer.....	25
4.1.2 Describing the questionnaire - Suppliers	25
4.2 Data presentation	26
4.2.1 Buyer	26
4.2.2 Suppliers.....	31
4.3 Analysis.....	34
5. Conclusions	37
6. Reference List.....	39
7. Appendix	43
7.1 appendix a – buyer questionnaire.....	43
7.2 appendix b – supplier questionnaire.....	45

LIST OF TABLES

Table 1 Overview of paradigm 3
Table 2 Dimensions of buyer-supplier relationship according to literature 18
Table 3 Grouping of operational and relational factors 19

LIST OF FIGURES

Figure 1 Kraljic Matrix 13

Figure 2 Cousins et al. Sourcing Strategies 14

Figure 3 Cousins et al. and Kraljic Combined Matrix 14

Figure 4 Cox Relationship Matrix 16

Figure 5 Campbell Relationship Matrix 17

Figure 6 Application of Cousins et al. Sourcing Strategies 26

Figure 7 Application of Cox Matrix 27

Figure 8 Attributes of Kraljic Leverage Items 29

Figure 9 Application of Cousins et al. and Kraljic Framework 29

Figure 10 Application of Campbell Matrix 30

1. INTRODUCTION

As the practice of outsourcing is a source of competitive advantage for many organizations (Dyer and Singh, 1998), supply chain management has been the subject of much research. Extensive studies have been conducted on the principles of outsourcing, with the creation of models and strategies to guide firms' outsourcing strategy (Kraljic, 1983; Olsen and Ellram, 1997). The buyer perspective has been thoroughly studied, and frameworks and matrixes have arisen to theoretically describe supply chain management strategies, with the ambition to improve quality, minimise risks, optimise logistics and reduce costs. Studies have also covered the environmental and social responsibility when doing outsourcing (Ramioul and De Bruyn, 2008) and the implications in the job market following decentralization of production (Bhagwati, Panagariya & Srinivasan, 2004), showing a critical understanding of the less direct consequences of outsourcing.

While stressing the importance for an effective buyer supplier relationship to achieve value creation for both parties, some research acknowledges the importance of creating and maintaining a relationship with the supplier, which is carefully selected and engaged in the process (Kannan & Choon Tan, 2006) to achieve a win-win situation. A conspicuous branch of outsourcing research that takes into account the relationship between buyer and supplier is aimed at describing different aspects that make up the relationship, such as trust, commitment and communication (Campbell, 1997; O'Toole & Donaldson, 2000). Many studies have also highlighted how close ties between firms positively affect performance (Autry & Golicic, 2010) and how a stable relationship is predictive of value (Chatain, 2011). Again, the vast majority of these researches is focused on the buyer side: how can the buyer trust the supplier with its production, build a close relationship and engage its commitment to better serve its own interests on intellectual property, quality, timely deliveries and financial agreements.

When Chinese offshoring is concerned, this disproportion in the literature is confirmed: there is ample literature focusing on the buyer side of the agreement, highlighting the risks and the possible benefits (Arnell & Wei, 2006) or the drivers and obstacles (Hung Lau & Zhang, 2006). Little research however seems to investigate what are the Chinese supplier's expectations from an outsourcing deal with a Western firm. Therefore, a thorough understanding of the supplier's side of the agreement and its implications seem to be lacking (Andersson & Bernhardsson, 2011).

Shedding some light onto this aspect appears to be bountiful, as the Chinese business context in general seems to be perceived as a great opportunity but also a great risk, given the political and economic setup and the profound cultural differences between East and West. Both of those aspects are claimed to impact the business sphere in a profound way (Hung Lau & Zhang, 2006). If a business agreement with a Chinese firm can potentially be so hard to manage, up to the point where outsourcing can be a failure for the Western firm, deepening the

understanding of the supplier expectations appears even more imperative to guide a Western firm towards a successful outsourcing.

This project aims at providing another perspective on supply chain management and offshoring to China, by investigating not only the buyer's reasons and processes but also the supplier expectations, an angle that has not received much attention in the literature. The starting point for this research is the assumption that, despite this angle has not been accurately covered from a theoretical point of view, companies outsourcing their production to China are already, in practice, scanning and assessing their own supplier satisfaction in some more or less structured way. Even though theoretical frameworks and academic matrixes do not guide buyers' actions, such buyers must indeed be somewhat aware of what their supplier want, and may or may not cater to such needs through concrete actions.

Consequently, an investigation of the practical case of a Swedish manufacturing firm with five suppliers in Mainland China, Hong Kong and Taiwan gives the opportunity to study how these actions take place in practice. The questions that guide the research aim at uncovering not only what are the criteria that its suppliers use to evaluate if the relationship with HB is satisfactory but also to what extent HB makes sense of such relationship and what it does to foster it. To do this, this project aims at exploring the buyer-supplier relationship by a thorough investigation of both the buyer and the suppliers' side.

1.1 PURPOSE

The purpose of this project is to understand what are the Chinese suppliers' expectations out of a relationship with a Western buyer and to assess if the buyer understands and conforms to such expectations.

1.2. RESEARCH QUESTIONS

In order to live up to the research purpose, the following research questions have been designed.

Research Question 1: What offshoring strategy does the Western firm deploy and what kind of relationship does it entail?

Research Question 2: What are the expectations of the Chinese suppliers from the relationship with a Western client?

Research Question 3: To what extent does the buyer understand and meet its suppliers' expectations?

2. METHODOLOGY

2.1 RESEARCH PARADIGM

Table 1 presents an overview of the research paradigm. The following section will illustrate in detail the choices regarding ontology, epistemology, research design, approach to theory and research strategy.

Ontology	Epistemology	Design	Theory	Strategy
•Constructivist /Subjectivist	•Phenomenological / Interpretivist	•Single Case Study	•Inductive and Deductive	•Qualitative data

TABLE 1 OVERVIEW OF PARADIGM

2.1.1 ONTOLOGY

The core of this project is to analyse interfirm relationships and to pinpoint both sides' expectations and assumptions. The nature itself of the subject matter is constructed and continuously revised by the actors involved in the sense making process (Bryman & Bell, 2003). Moreover, as it will be shown in detail in the dedicated chapter, there is no clear-cut definition on what are the dimension along which a buyer-supplier relationship should be described and evaluated. Since various authors select different sets attributes to describe such phenomenon, it can be argued that the definition of the term "relationship" is in itself a social construct, rather than an objective and measurable reality. As a result, the ontology of this research cannot but follow a constructivist (Bryman & Bell, 2003) or otherwise called subjectivist (Saunders, Lewis & Thornhill, 2009) approach.

2.1.2 EPISTEMOLOGY

The present project aims at exploring how the individuals make sense of the world surrounding them by investigating the meanings and values they attribute to certain concepts, therefore the research will follow an interpretive or phenomenological approach (Bryman & Bell, 2003; Saunders, Lewis & Thornhill, 2009; Morgan, 1980). The phenomena here involved cannot be analysed in a positivistic way as they are made up of unquantifiable and intangible aspects such as cultural frameworks, expectations and values. These aspects assume different meanings depending on the persons involved and the time frame considered, suggesting that an objective and final answer is out of any research's reach (Morgan, 1980). A phenomenological approach will serve better the research purpose than a positivistic, as it will help the researcher unveil the reasons and explanation of the participants' behaviour based on their own subjective frame of reference.

2.1.3 RESEARCH DESIGN

This research purpose is not only to describe a given situation but also to unveil why some phenomena happen and how they happen, suggesting that an analytical approach best serves this research question (Neville, 2005). Given the gap in the literature and the relative scarcity of previous studies in this field, the research will take the form of a single case study with an exploratory aim, in order to formulate new conclusions on the subject matter (Neville, 2005). The case study gives the researcher the opportunity to study one specific situation in depth, therefore only one company has been approached with the question to study their outsourcing strategy. This company, however, gives the researcher the opportunity to analyse five different suppliers, widening the researcher understanding of what a Chinese manufacturer expects from a collaboration with a Western company, thus improving the generalizability of the research.

2.1.4 APPROACH TOWARDS THEORY

The data collected will be analysed with both an inductive and deductive approach. The process is going to be inductive when dealing with data coming from the suppliers and deductive when manipulating the data of the buyer.

The claim of this research is that there is not sufficient literature describing the specific traits of Chinese supplier relationships with Western buyers from the point of view of the suppliers. Therefore, the approach towards supplier data cannot start from theory and then move to a confirmation or rejection of the hypothesis through data collection, as there is not sufficient research to formulate a theory that can then be put to test with reality (Bryman & Bell, 2003). It could be argued that the general research on buyer-supplier relationship allows for the use of a deductive approach as it can be used as the theory onto which confront the findings. However, the researcher believes that analysing this particular kind of relationship with the tools of other theories, that most of the times are centred around the buyer and are not country specific, would distort the results and constitute a source for bias. The limited research that has been published on the specific case of Chinese suppliers and their perspective towards buyer supplier relationship has inspired the formulation of the corresponding questionnaire. However, the scarcity of this material cannot justify any claim of deductive approach applied to this section of the project. Hence the decision to inductively analyse this section of data.

When investigating the buyer, instead, many models and theories are found in the literature, suggesting that for this section of the project a deductive approach should be preferred. The researcher, based on what is already known in the field, formulates a hypothesis that is put to test with reality through empirical data collection (Bryman & Bell, 2003).

2.1.5 DATA COLLECTION

In order to answer the research questions, qualitative data will be collected. The aim of this research is not to measure or quantify the relationship but to use data to capture reality as constantly modified by the involved actors (Bryman & Bell, 2003). Following the considerations made about ontology and epistemology of this research and the inductive approach to theory, only qualitative data can give the researcher an appropriate depth of understanding of the phenomena here analysed, the reasons and implications behind them and their complex meaning.

2.1.5.1 PRIMARY DATA

Primary data consists in a face-to-face unstructured interview and two sets of qualitative questionnaires submitted respectively to the Swedish company and the Chinese suppliers.

The CEO of the Swedish firm is interviewed to gather a generic overview of the sourcing strategy of the company with specific regards to the five Far East suppliers. The interview helps assessing whether the firm represents a viable case study the first place. Moreover, the interview helps the researcher gaining an overview of the sourcing strategy of the company, allowing for a better framing of the questions contained in the follow-up questionnaires that will contain only relevant and applicable questions to the case. Such questionnaires, submitted to both the Swedish Procurement team and the Chinese Sales teams, are focused on subjective data that offer interpretative potential. The questionnaires are structured so that the respondents are encouraged to reply to open questions by elaborating on concepts and provide explanations for their rationale. Since qualitative research focuses on words and meanings (Saunders, Lewis & Thornhill, 2009) the questionnaire submitted to the suppliers has been presented in Mandarin, in order to minimize the language influence on the parties and extract information in a spontaneous and organic way.

It has been argued that questionnaires are not the preferred method for researches that require a large number of open-ended questions applied to exploratory research (Saunders, Lewis & Thornhill, 2009). However, researchers group structured interviews under the category of questionnaire, stating that an interview with a pre-determined set of questions that is asked in the same order and with the same wording to all the respondents is indeed a form of questionnaire (Saunders, Lewis & Thornhill, 2009). In this research for proximity, time and funding reasons, not all the respondents could be interviewed face to face. The methodology that has been here preferred however is the same of a structured interview as all the respondents in each category (buyer and supplier) have been submitted the same open questions in the exact order without deviating from the pre-determined structure. The only difference is that the answers are gathered in written form through email correspondence.

The pros and cons of this rather uncommon choice have been extensively weighed. In the end, qualitative questionnaires in the style of a structured interview have been preferred over other methods. This choice is motivated by the necessity to avoid biases coming from

asymmetry in the researcher's understanding of the parties. As the Chinese team cannot be interviewed in person through a face-to-face interview, it is the researcher's preference to gain data from both parties through the same method; this is to avoid biases that could affect this research's validity. This research standpoint is to gather insights from a group that has been underrepresented in business research and where the research available is heavily influenced on the buyer perspective. If different data collection methods were applied between the buyer and the suppliers, the risk would have been producing another research heavily biased towards the buyer.

The researcher has also decided not to make use of phone interviews or Skype calls as a substitutive interview method for the Chinese party, for three reasons. First it is preferred to have a written record of the exchange to better manipulate such complex data in the later stages of the research; this is vital considering that the exchange is held in Mandarin. Second, the questions require the respondent to reflect and provide motivation on complex concepts and values; the respondents might find difficult to come up with elaborate responses if the reply is expected within seconds, or might decide to give quick and rustled-up answers as they feel there is no time to think it over. Third, it is vital for the researcher to ask the same set of questions to all suppliers in order to give all of them the same opportunity to address the issues. Conducting phone or Skype interviews will maximise the chance of some questions to be asked in a different way or the conversation to diverge to different aspects, for example when asking to clarify or specify something. Therefore, depth of understanding is partially sacrificed in order to preserve reliability of the study.

2.1.5.2 SECONDARY DATA

The existing theories in this project will serve as source of secondary data. The project emerges after an evaluation of the limitations and future implications of some studies (Salmi, 2006; Andersson & Bernhardsson, 2011) that have been investigating the buyer supplier relationship in the Chinese context. Such studies pointed out the under representation in academic research of models and theories to understand the supplier side in outsourcing to China. These researchers have exposed a literature gap and have engaged in studies investigating what Chinese suppliers value from a collaboration with a Western firm. Aware that this was just the beginning and not a comprehensive analysis of the supplier side, they have then provided considerations about future possible developments. One of such possible future developments was indeed to study both sides of the relationship, not just the supplier or the buyer, to assess in practice how the relationship is conducted. The suggestions of these researchers are here put into practice, with the result to hopefully advance our understanding on the subject.

Relevant literature has been selected according to the following parameters (Saunders, Lewis & Thornhill, 2009):

- Language of publication: predominantly English although for some alternative views it has been necessary to scan also publications in Mandarin Chinese
- Subject areas: supply chain management, sourcing strategies, interfirm relationships, buyer supplier relationship
- Business sector: predominantly manufacturing industry
- Geographical area: Western and Chinese scholarly sources
- Publication period: for general theories and models literature from the '80s has been accepted, whereas for the specific case of offshoring to China the literature selected is not, in general, published later than 20 years ago
- Literature type: peer reviewed and published journal articles, books, theses

The different subject areas will be investigated for the following objectives. When investigating outsourcing as supply chain strategy, the purpose is to describe the main factors that influence and drive outsourcing in the case here analysed. Specifically, the existing theory on outsourcing will help first in explaining the reasons for outsourcing, and then it will be used to describe the strategy currently used by the company and put into the broader context of outsourcing. The existing literature on outsourcing will provide a review of relevant theories and models that will help in framing the situation here analysed, namely: why the company decided for outsourcing, what kind of products it outsources, how this choice is explained through reference to the literature.

Previous research on buyer supplier relationship will be used to provide a taxonomy of the dimensions that describe the nature of such relationship. The existing literature will help the researcher delimitate the boundaries of these dimensions and put them in the context here to study. Existing literature will also serve as an inspiration to build interviews and qualitative questionnaires, in order to gain insights on what, according to the theory, are the factors that influence buyer supplier relationship. However, since the literature studying the supplier perspective in the specific Chinese context is quite scarce and insufficient to effectively guide questionnaire construction, the questionnaires for that section will involve broad and generic questions. This is meant to not restrict the supplier's ideas and to gain insights on each aspect that suppliers regard as crucial.

2.2 VALIDITY, RELIABILITY AND GENERALISABILITY

The study is valid, as the claim to research buyer supplier relationship will be fulfilled by investigating both suppliers and buyers. This research will study buyer-supplier relationship by actually interviewing not only the buyer, as the bulk of the literature does, but also the supplier, achieving a comprehensive and unbiased view of both sides of the agreement. The validity of the study is therefore achieved since the data here collected will gauge exactly the intended concept (Bryman & Bell, 2003).

Some researchers argue that a case study, dealing with a single scenario in a specific point in time, cannot be expected to be fully reliable and generalizable (Bryman & Bell, 2003). About reliability, should the research be repeated over time, the results are not necessarily going to be the same. This has to do with the nature of the subject matter that, as a social construct, is not a fixed entity but it is subject to be shaped by the individuals that take part in creating and making sense of it. If the actors involved were to be interviewed in a different point in time, there is no guarantee that their feelings and expectations on the relationship will be the same, as the features of the relationship or the employees might change. Therefore the validity of this research is connected to how close in time are the results going to be repeated. There is strong likelihood that the relationship will evolve and change its nature over time and if so, the results are going to vary too. However, this is not because of faults in the methodology of this research, but rather in the specific features of the subject matter. The choice of having qualitative questionnaires mimicking face to face structured interviews has been also made in order to achieve the highest reliability possible, as structure in interview helps minimize observer error which is a reported threat to reliability (Saunders, Lewis & Thornhill, 2009).

As far as generalisability, this case study will provide in depth data of the specific situation of one company and its Far East suppliers. It is not this research's claim that these findings will be applicable to all the offshoring practices between a Swedish buyer and a Chinese supplier, nor that all the Chinese buyers will express these same preferences. However, researchers interested in analysing companies with similar size, scope and industry might find this project a useful starting point to conduct further research.

2.3 LIMITATIONS

The limits of this project can be summarised as such:

- i) The impossibility to interview in person both parties and the subsequent decision to submit open questionnaires affects the researcher understanding on the questions asked. If both parties could have been interviewed in person, with extensive interviews, the depth of the findings might have been improved.

- ii) The researcher is aware that suppliers might feel spied on by the buying company and therefore might not express their true feelings about the questions asked. In order to minimise this sort of bias, the questions asked will not have as focus the relationship with the Swedish buyer. The Chinese firms will be interviewed on their preference on the relationship with a Western firm on a general level. Additionally, the suppliers will be assured that their responses will not be divulged and that in the report they will be not addressed with names or references to the company they work for. By keeping their answers anonymous and by assuring that the research is independent from the Swedish Firm, the researcher is aware of the bias but hopes to capture the supplier's thoughts in the purest way possible.
- iii) The study revolves around the study of one single Swedish company. Despite such company provides access to five different Chinese suppliers, the researcher can only study one single company outsourcing model. If the pool size could be enlarged, the generalisability of the project would be improved. To preserve reliability, however, suitable companies to add to the sample would have to be approximately the same size of HB, working in the same industry, starting outsourcing around the same time, with a similar number of supplier, similar turnover and multiple Chinese suppliers.
- iv) Out of the five suppliers here analysed two are outside Mainland China, namely Hong Kong and Taiwan. Especially for Taiwan, the notion whether the five suppliers can be accurately grouped under the term "China" could be problematic from several points of view. However, the study has no interest in taking into detailed account the political and cultural background of China, but aims to assess the expectation of the suppliers strictly from a business point of view. Moreover, the notion itself of Mainland China itself is problematic, as the country, because of its size, experiences profound differences even within its own borders. Therefore, the notion whether Hong Kong and Taiwan are indeed China could be problematic but it has been chosen to overlook the political and cultural claims of history and independence and analyse all five suppliers without making distinctions.

2.4 FUTURE RESEARCH

As far as future research is concerned, a larger pool sample would produce more generalisable results that would improve the understanding of the subject on a broader scale. The findings of this research would provide the dimensions along which the companies would have to be interviewed on, thus serving as best available knowledge. A further implication of this study would be assessing whether there are significant differences in the way a company builds and maintains the relationship with its suppliers across the world, to assess if there are some common traits that characterize buyer supplier relationship regardless of the geographical location. Another possible direction would be assessing whether the claims made about interfirm relationship actually find confirmation in reality, through a careful examination of processes and communications within both sides of the agreement.

3. THEORETICAL BACKGROUND

3.1 DEFINITION OF THE TERMS

Outsourcing is one of the possible strategies firm undertake to manage their supply chain and involves “the contracting out of a business function or process previously performed in-house to an external provider” (Rolstadås, Henriksen and O'Sullivan, 2012 page 95). With this practice becoming more and more consolidated, outsourcing has increasingly started to be consistently performed by firms. Eventually, this led to outsource products and services outside the national borders to pursue higher quality, increased flexibility or reduced costs. In order to address this specific tendency, researchers have felt the urgency to create the term “offshoring” to signal when outsourcing is conducted outside national territory of the firm subcontracting the product.

Since this research will cover the topic of outsourcing from both a generic perspective and from the specific case of the practice conducted towards Chinese suppliers, the terminology used in this research will vary to signal the shift in focus. The generic term outsourcing will be used when presenting general theories and models. When the focus will shift towards the specific case of outsourcing conducted towards a different nation than the one where the outsourcing firm is located, the term offshoring will be used accordingly.

The firm subcontracting its production will be referred to as buying firm, buying company, Swedish buyer, buyer, client or customer irrespectively. Similarly, the manufacturing firm to which the production is outsourced to will be defined using the term supplier, Chinese supplier or manufacturer.

3.2 REASONS FOR OUTSOURCING

Outsourcing, as the process of delegating a process to another firm, is a consolidated business practice that companies decide to undertake for a variety of reasons. Researchers have claimed that outsourcing allows firms to gain competitive advantage from the utilization of external resources (Lewis, 1995). As industries become more and more complex and competition grows painstakingly, firms tend to become more and more specialised. As a result, firms are not expected anymore to produce each good or service they need only through their internal resources, so they rely on other firms to supply products or services necessary for their day-to-day operations.

As mentioned before, the reasons why a firm might choose to outsource a product or service rather than manufacture it in house might be of different nature. Cousins et al. (2008) argue that the “make or buy” decision might be undertaken with two different approaches: a Transactional approach and the Resource Based View. The Transactional approach entails evaluations on transactions costs, with the decision to have in-house dedicated production

or external outsourcing based on which option is less costly for the firm. This evaluation entails calculations based not only on the direct cost of the product or service, but also logistics and transportation. Many other authors address the issue of cost saving as one of the drivers for outsourcing: Abraham and Taylor (1996) discuss, among other factors, variations in wages, while Kakabadse and Kakabadse (2000) address the potential of economies of scale.

A second rationale behind this decision would instead be the Resource Based View, a framework that helps identify the firm's internal resources onto which base the source of competitive advantage (Barney, 1991). According to this framework, a key resource for a firm is one that fulfils the criteria of being:

- Valuable: must add value to the firm
- Rare: must be something that not every other firm is able to offer
- Imperfectly inimitable: must not be easily imitable by competitors
- Non Substitutable: cannot be perfectly substituted with another good

Applying this framework, firms individuate non value-adding operations in their day-to-day activities and delegate them to external actors selected for their competence on the matter. This process allows firms to focus their resources and capabilities on their own core competencies and to fulfil the real potential of their own business without wasting resources on non-crucial activities (Prahalad and Hamel, 1990), thus making outsourcing a source of sustainable competitive advantage (Dyer and Singh, 1998). By the same logic, the firm where processes and functions end up be outsourced have as core competence the very same process or function the initial company is striving to outsource. Similarly, many authors have individuated, as reasons for outsourcing, the possibility to gain access to specialised skills (Abraham & Taylor, 1996) innovation, quality and access to knowledge (Kakabadse and Kakabadse, 2000).

3.3 CLASSIFYING THE OUTSOURCING STRATEGY

Whatever the reasons behind the choice of outsourcing, the strategies firms deploy can be classified according to various matrixes and models. A selection of the most influential and appropriate matrixes for the subject matter here follows.

Focusing on the nature of the industry and the product outsourced, a very influential framework to classify outsourcing is the matrix developed by Kraljic (1983). This conceptual study constitutes one of the most pivotal studies in the supply chain strategy, and as it will be illustrated later, it has been the basis other authors have used to further investigate the subject. Kraljic classifies four different outsourcing strategies by assessing the intensity of two

dimensions: the importance of the purchase for the buying company and the complexity of the supply market. As shown in Figure 1, the first dimension is the profit impact of the items and is measured according to total costs, volume of purchase and profitability of the item for the buying company. On the other axis, the supply environment risk is assessed by taking into account the availability of the product, the number of suppliers and the threat of substitution of the good. This matrix gives rise to four archetypal categories of products with increasing degree of relative importance and supply complexity for the buyer, each one demanding a dedicated supply strategy with different time horizons, decision authority levels and key performance criteria. The idea behind this study is that different management styles are required according to the industry specifics and the importance of the product to the firm's business, suggesting these two factors are positively correlated with the degree of sophistication of the supply chain management.

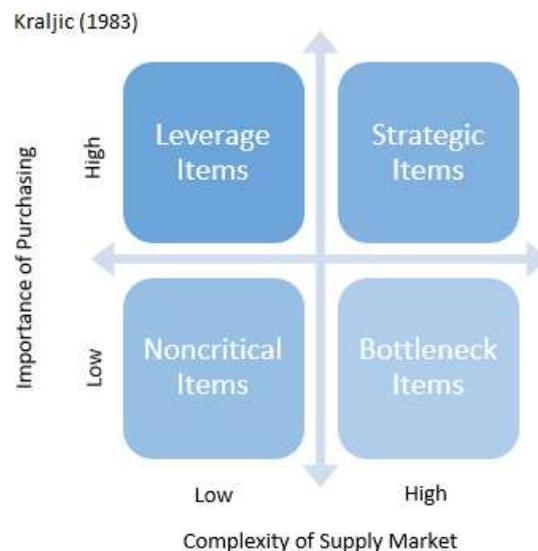


FIGURE 1 KRALJIC MATRIX

Another framework is the one suggested by Cousins et al. (2008) who classify the sourcing strategy according to the number of suppliers and products involved. As summarised in Figure 2, the simplest case is the Single Sourcing: a firm outsourcing one product to one supplier. This strategy allows for a very clear cost benefit analysis but favours excessive dependency from one single supplier and lack of innovation in the processes. The opposite case is when the same product is outsourced to multiple suppliers, who then compete on prices. This strategy of Multiple Sourcing allows for cost reduction but involves short-term relationship and, being focused on costs, generally penalizes quality. The Delegated Sourcing strategy is in place when the final product is outsourced to one first tier supplier, who then subcontracts the rest of its production to its own suppliers. This strategy has the benefit to reduce the

transaction costs thanks to the fact that the buyer only deals with one supplier. The cons of this structure however is the high dependency between the client and the key supplier, who has a lot of power in the exchange as it supervises all the relationship with its subcontractors. The final model for outsourcing is the Parallel Sourcing, which is the most sophisticated outsourcing strategy and the most complex one too. This strategy is in place when products are broken down into components and each component is allocated to a different supplier. This strategy allows for a very clear cost benefit analysis and easy comparison of prices, delivery and quality, but requires a more sophisticated management framework.

Cousins et al. (2008)

Single Sourcing	Multiple Sourcing	Delegated Sourcing	Parallel Sourcing
<ul style="list-style-type: none"> • 1 supplier per product 	<ul style="list-style-type: none"> • >1 supplier per product 	<ul style="list-style-type: none"> • Suppliers subcontract production 	<ul style="list-style-type: none"> • Same category different suppliers

FIGURE 2 COUSINS ET AL. SOURCING STRATEGIES

Cousins et al. (2008) directly make a comparison between their classification and Kraljic's matrix, suggesting that a Single Sourcing strategy would be more likely to arise in conjunction with Bottleneck and Strategic items, as shown in Figure 3. Multiple sourcing would best serve Non-critical items whereas Delegate Sourcing would be the approach for Strategic and Leverage items. According to the authors, a Parallel sourcing strategy would be in the middle of Kraljic matrix, suggesting that is a versatile approach for a variety of items.

Kraljic (1983) and Cousins et al. (2008) combined framework

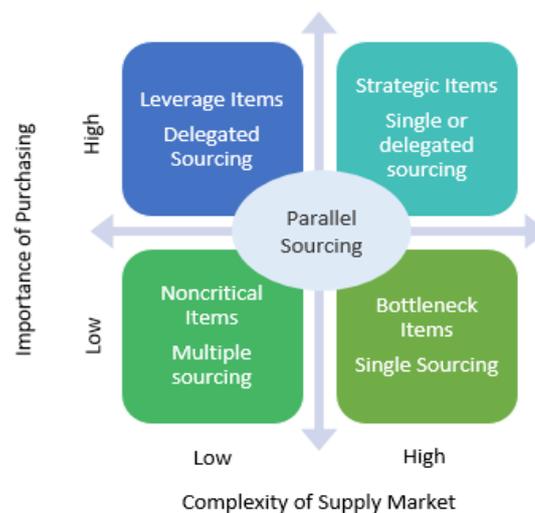


FIGURE 3 COUSINS ET AL. AND KRALJIC COMBINED MATRIX

Olsen and Ellram (1997) build on Kraljic to construct a three-step framework to analyse the purchasing portfolio of firms. In the first step, the researchers analyse a company's purchases along the difficulty of the purchasing situation and the strategic importance of the purchase to the business. In the second step, the current relationship is put under scrutiny by assessing the supplier attractiveness and the strength of the relationship. The third step the researcher suggest is to check if the current relationship as described in Step 2 actually correspond to the ideal situation that emerges from the evaluations made in Step 1. Kraljic's contribution to this study is the intuition to classify the purchases according to the strategic importance of the purchase for the firm, suggesting that the nature of the outsourced item has a direct connection with the strategy deployed by the firm.

3.3.1 BUYER-SUPPLIER RELATIONSHIP

These matrixes classify the outsourcing strategy of a firm by approaching the issue from different angles: Cousins et al. (2008) from a mere computation of the number of components and suppliers involved, Kraljic (1983) from the industry conditions and the specifics of the product and Olsen and Ellram (1997) from a two-step evaluation of the purchases and the relationship. Whatever the dimensions these matrix analyse, the result is a classification of supply chain strategy that entails different degrees of intimacy between the buyer and the supplier according to the situation.

Regardless of the product or service outsourced and regardless of the industry, any outsourcing practice requires firms to deal with a relationship with its supplier. Such relationship has different levels of involvement, but regardless of the depth required from the circumstances, relationship management remains a crucial key point for any of these matrixes. As some researchers point out, even though the outsourced product or service is not the core competence of the firm, at least it should not be (Prahalad and Hamel, 1990), subcontracting still needs to be handled with care as there is no guarantee that the partner will conduct the operations with an adequate amount of attention (Grossman and Helpman, 2005). In order for such situations not to happen, a conspicuous branch of research deals with relationship management between firm and supplier, recognizing that there is positive correlation between the quality of the relationship and the quality of the product outsourced (Song et al. 2012).

Taking descriptive rather than normative approaches, researchers embark in the task to classify the type of relationship in place between buyer and supplier. A useful framework to classify the buyer-supplier relationship is the one developed by Cox (2004). Cox describes four ideal types of relationship between buyer and supplier based on two dimensions: the scope and the focus of the relationship, as shown in Figure 4. With scope, Cox intends to assess if the buyer is only involved with its first-tier suppliers, or it is also involved with the supplier's own sourcing chain. The second dimension is instead aimed at describing whether the relationship is reactive or proactive. A reactive approach entails looser ties with the supplier

and limited involvement in each other's operation; a proactive approach on the other hand entails a long-term commitment with technical bonds between buyer and supplier, which become almost incorporated one another.

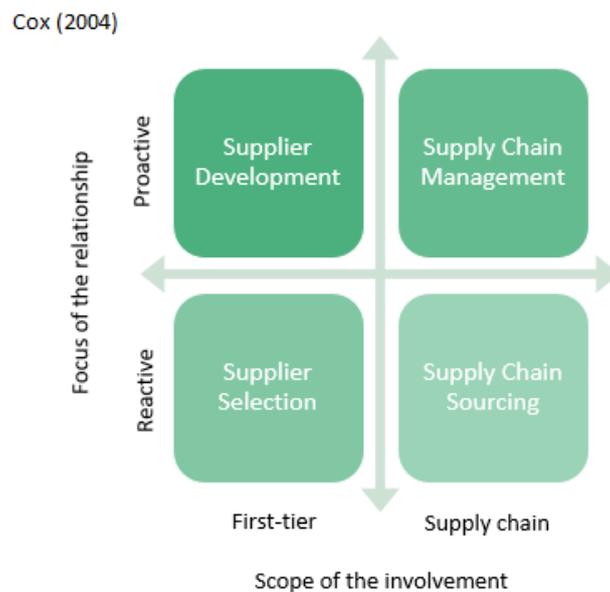


FIGURE 4 COX RELATIONSHIP MATRIX

Campbell (1997) comes up with four different relationship styles based on the evaluation of the importance placed on attributes such as communication, problem solving, disclosure of proprietary information, commitment and trust. Campbell creates a matrix here reproduced in Figure 5, assessing the importance of shared value creation for both parties and the concern the firm has about firm dependence. Despite Campbell realises the different values buyers and suppliers place on interfirm relationship, this matrix is, like the others, aimed at gauging the buyer side of the agreement only. The relationship can culminate into four different ideal relationship management styles. The relationship is Self-Centred if the firm is concerned with excessive dependency and has no interest in shared value creation, leading to agreements being subject to renegotiation if the condition change. Personal Loyalty arises when there is still not interest in creating value for the supplier but the firm has not deep concerns about dependency; as a result mutual responsibility and commitment dominate the relationship, with partners helping each other resolving problems. When the buyer is interested in having the supplier benefitting from the partnership, a situation of Mutual Investment or Political control arises. These two approaches are characterised by long-term commitments and high involvement between each other's operation, leading to high integration between the two firms. The different approach towards dependency differentiate the two relationships, with

Political Control being highly concerned with the threat of dependency, resulting in the supplier being absorbed and incorporated in the firm.

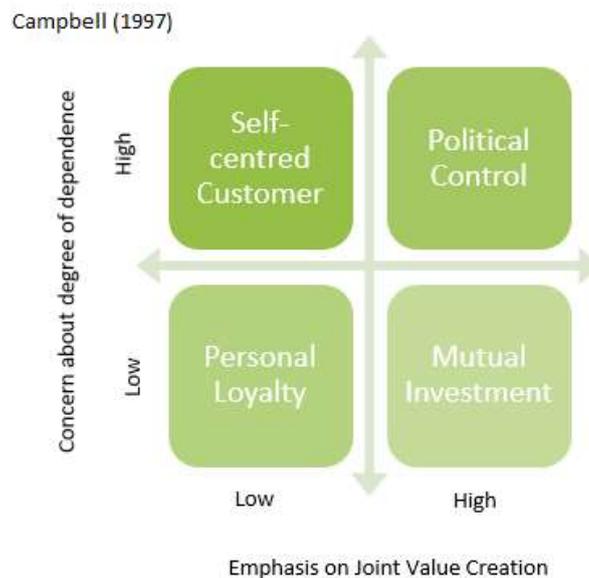


FIGURE 5 CAMPBELL RELATIONSHIP MATRIX

O'Toole and Donaldson (2000) characterize the relationship according to the presence or absence of two sets of components they classify as Action and Belief. Action components are the dimension that characterise a transaction economy approach, namely prices, risk avoidance, power and opportunism. On the other hand, Belief components involve the social process of the exchange, along dimensions like trust, commitment, cooperation, mutuality and equity. The authors suggest that Action and Belief components are somehow negatively correlated, since Action components being present in a high degree make collaboration less likely to take place. Similarly, if Belief components dominate a relationship, opportunism is generally not an outcome of such partnership.

In the Step Two of their portfolio analysis, also Olsen and Ellram (1997) ascribe different dimensions to the relationship in place between buyer and supplier with the aim to provide a descriptive rather than normative framework. Borrowing the dichotomy created by O'Toole and Donaldson (2000), the various sets of dimensions Olsen and Ellram list gauge Action components when inquiring about the economic importance of the supplier for the buyer, the relative importance of that supplier compared to other suppliers, and the technical involvement between the two parties, prices and costs. Their list also covers the so-called Belief components by listing aspects like the social and cultural distance between the parties, the levels of trust and commitment, integration and cooperation.

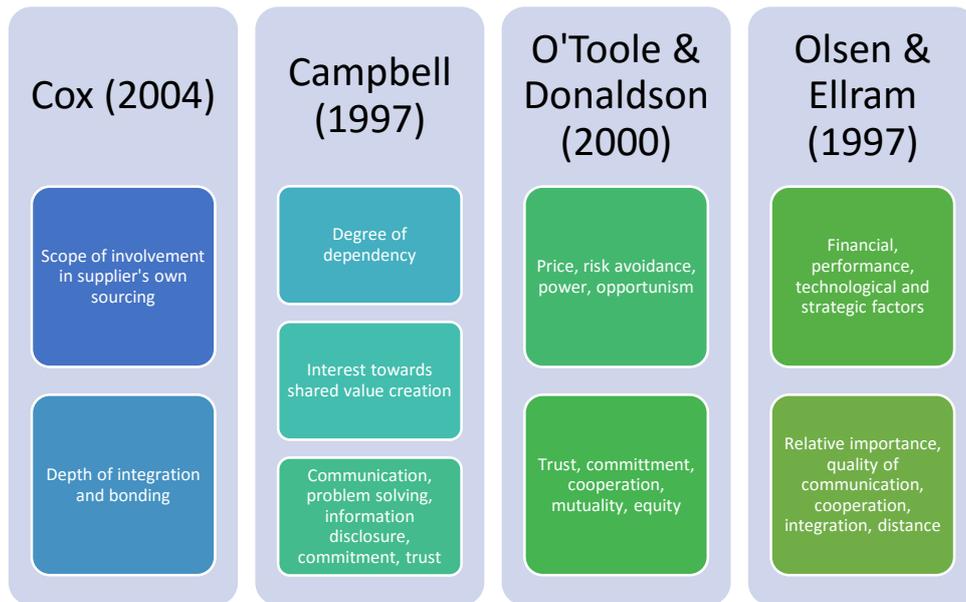


TABLE 2 DIMENSIONS OF BUYER-SUPPLIER RELATIONSHIP ACCORDING TO LITERATURE

These different approaches, grouped in Table 2, describe the buyer supplier relationship in the context of outsourcing. All these researchers select some dimensions to classify the relationship a buyer puts in place towards its suppliers. Despite the different angles they take, some commonalities appear between the dimensions that a buyer supplier relationship is evaluated on, of which a summary is presented above.

All researchers here presented seem to consider parameters that can be somehow grouped into two main categories that are here called operational and relational factors and summarised in Table 3. In the category of the operational factors, we find parameters regarding the economic and strategic involvement of the buyer in the supplier activities, such as volume of purchases, transaction costs, shared investments, technical bonds, dependency and power leverage. On the other hand, sets of parameters that aim at assessing the relational involvement of the buyer, with dimensions like trust, commitment, communication, cooperation and mutuality are then grouped under the term relational factors. This suggests that despite the different approaches or angles researchers use to describe relationship, and despite the conclusions researcher draw from these studies, buyer supplier relationship can be evaluated on these two sets of dimensions that more or less are generally accepted as relevant and valid by the majority of researchers.

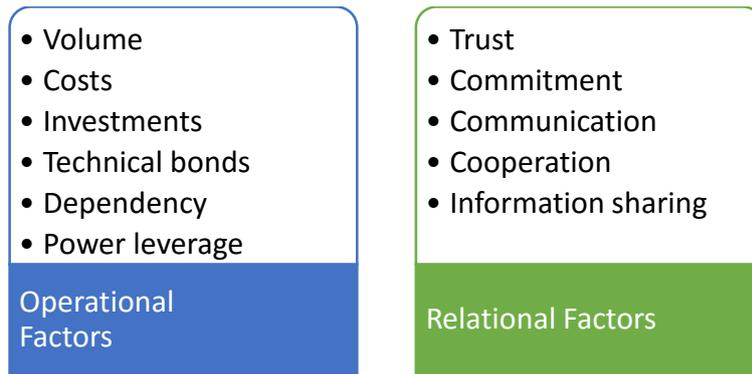


TABLE 3 GROUPING OF OPERATIONAL AND RELATIONAL FACTORS

The dichotomy so individuated when discussing the elements of buyer supplier relationship is much similar to the one used to describe manufacturing strategies. Such strategies have been described as centred on structure and infrastructure (Hayes and Wheelwright, 1984; Skinner, 1969). The first term is connected to hard elements of the strategy as operations, processes, technology and order fulfilment (Beckman and Rosenfield, 2008); the latter includes less tangible features, like human aspects and soft elements of strategy (Dangayach and Deshmukh, 2001). This bulk of literature on a related aspect of the manufacturing industry suggests that this sort of dichotomy, quite popular in the literature, is functional to describe the spectrum of phenomena discussed in the case of buyer-supplier relationship. This seems to corroborate the decision of the researcher to group the relationship categories in relational and operational and to use both categories to assess the status of the relationship in the case here discussed.

With this being an overview of the frameworks to classify buyer supplier relationship, researchers have moved from conceptual studies towards case studies to assess which particular kind of relationship is practically found in real scenarios and to assess which configuration is the most successful. The majority of the studies conducted in a broad range of industries and geographical locations has found that close ties, cooperation and shared value creation between buyer and supplier are almost unanimously perceived as predictors of success. Cooperation between buyer and supplier has been found to be a key factor for success in firms (Mohr and Speckman, 1994), with close ties between the two parties found positively correlated with successful performance (Autry and Golicic, 2010). Similarly, scholars have found that a relationship based on stability rather than competition is more likely to produce value (Chatain, 2011). As far as strategy goes, a close relationship with the supplier is positively correlated with the capability of a firm to perform postponement strategies, thus influencing the success of the overall outsourcing strategy (Saghiri and Hill, 2014). Focusing on the field of IT, scholars have also researched the link between problem solving capability and close relationship (Kern, 1997), concluding that cooperation and communication are the key predictors of a firm to be able to effectively counteract problems.

3.3.1.1 PROBLEMATIC ASPECTS IN THE DEFINITION OF BUYER SUPPLIER RELATIONSHIP

Despite a conspicuous branch of research being unanimous in proclaiming the value of close relationship and cooperation between buyer and supplier, the notion of relationship in the context of outsourcing is itself problematic and has been critically challenged by some scholars. Campbell (1997) for example argues that the meaning both buyers and suppliers ascribe to terms such as “relationship” or “cooperation” is highly subjective. Buyers and suppliers are not necessarily ascribing the same value to sentiments or behaviours that take place during such partnerships, and the expectations they have for the cooperation itself might be widely different (Campbell, 1997).

Another problematic angle is the one being explored by Cox (2004) in its study about satisfaction between buyer and supplier with regards to the status of the relationship. Cox claims that much of the studies argue for the establishment of a partnership allowing for a win-win situation for both buyer and supplier. However, the exact meaning of “winning” in a relationship can be different between buyer and supplier and the particular situation in place. According to him, saying that the best relationship is the one promoting win-win lacks of understanding of the complex situations companies face on both sides of the agreement. Cox implies it is not always possible to build such relationship and questions the appropriateness to such normative approach in the relationship discourse.

These claims rather than making useless any possible investigation on the subject matter, on the contrary make the purpose of this study even more pressing. Buyers and suppliers might have in mind different things when talking about complex concepts such as cooperation or when assessing their own or their partner’s satisfaction. Therefore, it is even more imperative to have research that focuses on both sides of outsourcing agreements, in order to assess if the mutual understanding of such complex phenomena, further complicated by cultural and physical distance, is achieved by firms.

3.4 OFFSHORING IN THE CHINESE CONTEXT

When discussing the phenomenon of firms offshoring to China, researchers are unanimous in mentioning cost reduction as the key driver for Western firms to embark in the process of offshoring (Matteo, 2003; Hung Lau & Zhang, 2006; Brown, 2005). Over the years following China’s entrance in the WTO, a combination of cheap labour costs and low price of raw materials was the primary factor of China being the second most popular location for offshoring after India (Jain, 2006), a position that is consolidated as of 2016 (AT Kearney, 2016).

The same authors also acknowledge China’s increasing competitiveness in technology and quality, arguing that in some industries the delivered quality meets Western standards for a fraction of the price (Matteo, 2003; Hung Lau & Zhang, 2006; Brown, 2005). However, the

high quality standards and the cutting-edge technological capabilities seem to be regarded by the literature as unexpected additional benefits from the offshoring practice rather than the reason why the product or service was offshored in the first place.

The process of offshoring to China has also been studied from the perspectives of the obstacles companies might face during the process for the specific Chinese context. One of the most pressing matter is the issue of stolen intellectual property and inadequate protection against counterfeited goods, with research arguing that these issues might represent hidden costs in the offshoring business that most of the times are not adequately forecasted and estimated (Brown, 2005). Hung Lau and Zhang (2006) have conducted an empirical study to assess the downsides of Chinese offshoring, concluding that scarcity of capable providers, loss of control, poor infrastructures, poor intellectual property regulations and frailty of post outsourcing measurement systems are the most pressing problems in the offshoring process. The researchers, however, have noted that similar downsides have been equally pinpointed by the literature when discussing offshoring within Western countries.

While extremely controversial from many standpoints, like CSR, environmental protection, intellectual property, human rights, labour rights and protection of the domestic job market, offshoring to China is a consolidated business practice widely applied in many industries despite the many risks involved. It is therefore imperative to gain knowledge on the less known aspects of the business practice, such as relationship management with the Chinese supplier, as a way to try and minimize such risks.

3.4.1 BUYER SUPPLIER RELATIONSHIP IN THE CHINESE CONTEXT

Chinese scholars have challenged Western literature about buyer supplier relationship and its applicability to the Chinese context from different standpoints. Some researchers point out that Western studies assessing and evaluating satisfaction in a buyer supplier relationship are not adequately representative of the Chinese context because of the role of the Government in the business sphere and the fact that the Chinese economy is not a market economy (Song, Feng & Yu, 2014). The authors suggest that the stakeholder orientation in China is mediated between the government and the community, with these two actors influencing relational performance in different ways. Therefore, the bulk of the literature in the West does not constitute a satisfactory and conclusive approach for the Chinese scenario, as these two dimensions are generally not taken into account (Song, Feng & Yu, 2014). This study is centred on buyer supplier relationship between Chinese firms; therefore, these findings are not inevitably true also for the case of the relationship with a Western firm. However, the question that the author raise about the appropriateness of the Western-centric approach is pertinent and confirms the researcher's impression that this topic cannot be addressed only with a Western perspective but the local actors also have to be included in the discourse as sources of data.

Another Chinese study conducted on 11 firms on the effects of offshoring on China manufacturing industry's productivity claims that offshoring did not produce increase in total factor productivity and does not seem to be positively correlated with a general increase in efficiency (Lu & Wang, 2010). Therefore, if outsourcing does not benefit the companies from a productivity point of view, questions arise on how to assess their satisfaction on the relationship. Since efficiency and increase in productivity are not what can come out from offshoring contracts with overseas firms, the indicators of interfirm satisfaction have to lie somewhere else. This study suggests a different perspective on the evaluation of buyer supplier relationship, implying that economic benefits are not necessarily the only factor that drives the supplier. However, this study offers no alternative view on what are the dimensions suppliers use to assess their satisfaction.

A study conducted in recent years in China with domestic firms gives some indication on this issue. This study has concluded that the dimensions of buyer supplier relationship in the Chinese context are trust, information sharing, commitment and dependence, with trust and information sharing being classified as direct features of the relationship while commitment and dependence indirect dimensions (Lin et al., 2008). While the two previous studies dismantle western approaches and commonly held misconceptions about offshoring in China without however offering an alternative approach to the one they disrupt, this study gives some indication on what are the dimensions along which Chinese firms assess the relationship between themselves. While the findings are undoubtedly valuable, they are limited to the relationship between Chinese firms and it is not clear if these criteria also apply to the relationship with a Western partner.

Another piece to the puzzle is brought by Salmi (2006), who studied various Finnish firms offshoring products or components to China and sampled how the western firms structured their sourcing and what insights could they give on the relationship management with the Chinese counterpart. The findings suggest that Chinese firms value long-term orientation in a relationship with a Western firm as a tool to achieve win-win situations or increase experience (Salmi, 2006). Frequent interactions and close ties, also at individual and personal level, will improve trust and commitment from the supplier, but such connections are not found to be rising in the short term, thus confirming the crucial importance in the Chinese suppliers of a long-term orientation (Salmi, 2006). Information exchange and communication, which involves cultural and linguistic competence, are found to be critical issues when effectively communicating product specifics and quality requirements (Salmi, 2006). While this research has the right international focus as it studies the relationship between the buyer and the Chinese supplier, it still provides a Western biased opinion, since only the Finnish managers are interviewed on what they think the Chinese managers value when making business with them. The findings constitute a valuable starting point towards the subject matter and have influenced the data collection in this project; however, a more conclusive answer will

probably be reached if Chinese managers are interviewed on their relationship with a Western client.

Building on Salmi's study, researchers (Andersson & Bernhardsson, 2011) have explored the specific supplier perspective by interviewing Chinese supplier firms, investigating their view on buyer supplier relationship with western firms. This study's findings are centred on the crucial role the relationship plays in the successful alignment between competitive priorities. The researchers argue that a western firm is less likely to reach its strategic goals if it does not understand the key role that connections, corporate social responsibility and Chinese style relationship play in engaging the supplier. When it comes to buyer supplier relationship, the researchers argue that suppliers positively value a long-term orientation towards the business, regardless of the relative importance of the buyer for the Chinese firm and the strategic value of the product for the buying firm. The researchers connect cultural factors to the preference of face-to-face interactions and close ties, which in turn are achievable only in the long run, thus confirming the importance of showing genuine long-term commitment. The suppliers have also been discovered to be more likely to provide better service if personal ties subsist between the two firms, thus showing that personal involvement beyond business is a good predictor of successful performance. Finally, the findings highlight the importance of ongoing communication with clear monitoring and control mechanisms to help the supplier comply with specifications and requirements.

Comparing these two studies' findings with the one achieved by Lin, Xue and Gao (2008), it appears clear that the authors come to different conclusions when analysing what are the main features of interfirm relationship. The Chinese scholars did not stress the role of long-term orientation and personal contact when managing the relationship between a Chinese buyer and a Chinese supplier. It could be argued that the cultural and social under layer is a given fact when interfirm relationships are analysed within the Chinese context, therefore scholars do not feel the need to point these factors out as they are shared between the firms and the domestic academic community. When analysed in a global perspective, these factors need to be explicit as there is no common cultural and social foundation. To conclude, the findings of the Chinese scholars are undoubtedly rich in significance but they might not offer an exhaustive view towards relationship management across countries and cultures, as they, being focused on the domestic situation, take many aspects for granted.

3.5 EXPOSING THE LITERATURE GAP

The overview of the literature already shows that the perspectives covered when discussing outsourcing are mainly the ones of the buyers that outsource products or services. While this is straightforward when looking at theories and models to guide outsourcing, it becomes much more surprising when discussing buyer-supplier relationship, where the relationship is again described and studied from the buyer perspective only. This is reflected in Kannan and Choon Tan (2006) when they note the lack of research evaluating performance in the relationship from the supplier point of view. The two researchers decide to evaluate performances based on the buyer's perception, confirming the dominant position the buyer's perspective has in the academic discourse. Campbell (1997) has exposed the very same asymmetry in the research, observing that little research has been conducted to the perspective both sides bring to the relationship and that the majority of the studies examine the buyer perspective only. Similarly, Kalwani and Narayandas (1995) note that there is no research in the field of buyer supplier relationship evaluating the impact of long-term relationship on the supplier performance.

When focusing on offshoring to China, this trend is confirmed, with researches (Andersson & Bernhardsson, 2011; Salmi, 2006) pointing out the scarce attention Chinese suppliers have received in the literature. This particular deficiency towards the Chinese suppliers is quite serious once we consider the weight of Chinese exports in the global market. With more than 23 Billion USD worth of goods and services exported as of 2014 (Worldbank, 2016) China's strong export platform provides fantastic international exposure to firms wishing to offshore in the country. Many firms throughout the Western hemisphere have embraced offshoring as a standard business strategy, with 56% of total OECD good imports represented by intermediate inputs (Miroudot, Lanz & Ragoussis, 2009).

Given the importance of outsourcing and offshoring in the present business environment, and given the crucial role China plays in supplying intermediate goods and finished products alike, the perspective of the Chinese supplier has to be addressed. The following section of this thesis will try and fill the gap here discussed by illustrating the perspective both the buyer and the Chinese suppliers bring to the table when discussing about relationship.

4. FINDINGS

4.1 DESCRIBING THE CASE STUDY

The research revolves around the study of a Swedish manufacturing firm and its five suppliers in the Chinese area. The Swedish firm is involved in the manufacturing of outdoor equipment for both professional and recreational use. Its main activities are centred on pressing and welding of metal, instalment of plastic components, rubber wheels and ropes. With some product lines dedicated to children, the company is very concerned in obtaining quality and safety international certifications for its products. The five Chinese suppliers are involved in the production of finished parts and components alike; two of the suppliers are located in the People's Republic of China, two in Taiwan and one in Hong Kong.

4.1.1 DESCRIBING THE QUESTIONNAIRE - BUYER

The questionnaire submitted to the buyer is aimed at providing data to answer Research Question 1. It is made of two parts and has been designed to address both the "operational" and "relational" dimensions of the relationship as discussed in previous sections of the research. The first section deals with operational factors and is aimed at framing the outsourcing strategy of the firm with the application of concepts described in the previous sections of the project. The second section is centred on the "relational factors" and assesses the relationship status from the buyer perspective. The respondent is asked to elaborate on the firm's view on the relationship, how does the firm show engagement and trustworthiness, how is communication and information sharing handled and how is the firm's perception on dependency and bargaining power between them and the supplier. The questionnaire so formulated involves 22 open questions.

The respondent for this part of the research is only one because one employee only makes up the procurement team of the offshoring firm. However, the buying firm perspective has also been recorded thanks to the preliminary general interview with the firm's CEO.

4.1.2 DESCRIBING THE QUESTIONNAIRE - SUPPLIERS

The questionnaire for the Chinese suppliers is made of four parts and is mainly concerned in capturing relational factors, thus addressing Research Question Two. The first section of the questionnaire is to make sure that people in the right business department are responding to the questionnaire. The second section helps framing the answers and to evaluate possible correlation between the answers and the size or age of the firm. The third section helps to understand the critical importance of the item and the presence or absence of technical bonds between the two firms. The fourth and final section covers the firm's view on interfirm relationship. The respondent is prompted to express the firm's view on relationship management with Western firms, explaining what strategy is considered best and why.

The questionnaire has been written in Mandarin and proofread by a native speaker before being sent it to two of the five suppliers as a test. The testing was done to make sure the

questionnaire was clear to the respondents, well-constructed and that the respondents were adequately complying. The two testing firms have been chosen in order to have two different sizes and geographic locations represented, to make sure the questionnaire was equally effective irrespective to the geographic location or the size of the firm. The results highlighted that one question could be omitted as each respondent either skipped it or copy-pasted the answer from a previous question, thus suggesting that the two questions were interpreted in the same way. However, an additional question was added, therefore the final version submitted to the remaining three suppliers is made of 22 questions. The questionnaire has been sent to the suppliers asking to have, where possible, two persons in the sales or export team to fill it in, allowing for a more substantiated data collection.

4.2 DATA PRESENTATION

The data coming from the buyer has been integrated with the data coming from the preliminary overview. The data coming from the five suppliers and seven respondents have been put together to have a comprehensive view of each respondent's point of view on each question. Here follows a synthesis of the answers given by the buyer and the suppliers arranged on themes.

4.2.1 BUYER

The collected data shows that the buyer outsources each product to one supplier and there are no suppliers who compete on the same product, suggesting a Single Sourcing scenario. However, since some of these suppliers subcontract part of their own production, the sourcing strategy can be claimed to possess some features of Delegated Sourcing, as highlighted in Figure 6. The pros of these two sourcing methods are in both cases cost reductions, as cost benefit analyses are straightforward to make, however both have the downside of increasing dependency from the supplier.

Cousins et al. (2008)

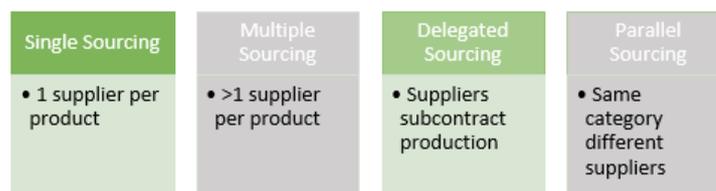


FIGURE 6 APPLICATION OF COUSINS ET AL. SOURCING STRATEGIES

The firm revealed that cost reduction is indeed the key factor in their decision to offshore their production to China. The literature accurately predicts that a company deploying a Single

or Delegated sourcing strategy is indeed driven by costs but is also vulnerable from excessive dependency, to which this Swedish firm responds by scanning the industry to look for alternatives in order not to have too high volumes of orders tied up to the same supplier.

The data indicates that the buying firm does not seem to be actively involved in the supplier's own supply chain, as it seems to give autonomy to its suppliers in their sourcing operations as long as they meet the basic safety requirements and comply with European legislation. This answer suggest that the firm overall is only involved with first-tier suppliers and not with the whole supply chain. Furthermore, data indicates that the buyer has proactively made joint investments with only two of its five suppliers regarding specific manufacturing equipment. The supplier has two kinds of relationship in place at the same time: a Supplier Development relationship with the two suppliers where technical bonds and dedicated investments have been created, while towards the rest of the suppliers a Supplier Selection relationship is instead preferred (See Figure 7).

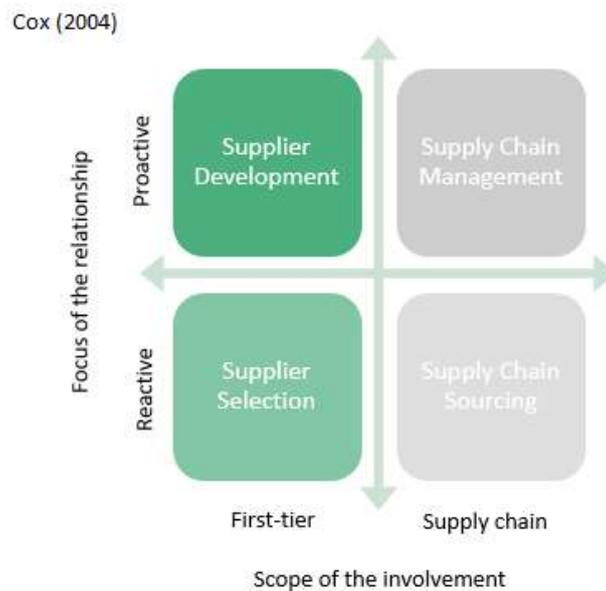


FIGURE 7 APPLICATION OF COX MATRIX

The firm however claims to have long-term orientation towards all of its suppliers irrespective of the presence or absence of technical bonds. This attitude, according to the buyer, helps them receive better service and improve quality, and to become a prioritized customer. In a Supplier Development scenario, a long-term perspective is crucial to achieve collaboration and to establish the joint investments needed to create technical bonds. In a Supplier Selection scenario however, the literature suggests the buyer expects competition to bring about better opportunities that would otherwise be missed if the engagement with the supplier becomes long-term oriented. The reason why the firm favours long-term orientation even in scenarios of Supplier Selection has to be further investigated.

In the Swedish buying firm the Procurement Manager is in charge of the purchasing decisions. However, the department is made of only one employee, suggesting that one person is enough to manage the complexity of the decisions the department has to take. As far as information required from the supplier in order to establish the partnership, the answer shows that the information are not extremely complex and classified, as the buying firm is mainly concerned with quality standards, CSR compliance and agreement on behaviours and social norms. The firm does not seem to require elaborated market analysis, long-term forecasts and highly detailed financial data as prerequisite for the establishment of a business partnership. This suggests that the firm is quite cautious in establishing its connections with the supplier but not at the level of considering the items Strategic.

The breakdown of outsourced products and components has been required to further pinpoint the position of the firm in Kraljic matrix. The answer has been combined with information gathered in the preliminary interview, material obtained through the website and prices collected from online retailers to calculate item's profitability and value creation for the Swedish firm. Some of the outsourced items are components and are therefore used in the firm's own production of finished product: these items represent the biggest orders in terms of pieces and are quite inexpensive compared to the finished product, suggesting high profit margins. Finished products on the other hand represent the bulk of the economic effort of the firm, even though the number of pieces ordered in the year is lower. Some finished products allow the firm to present itself on the retail market with a complete range of products in terms of price. In the preliminary interview, this has been discussed to be a key factor for the firm: dealers have the desire to present the whole range of products; therefore, it was crucial also for the Swedish firm to invest in an entry-line of products in order to have better chances to be adequately represented by dealers. This leads to assume that for some product categories the importance of the purchase for the buying firm is quite high as they create value for the whole firm through market access.

As far as complexity of the supply market goes, the buyer has indicated that only one supplier in their network is able to perform the dedicated task and that it is not possible to substitute the item. This would suggest that the supply market should be very complex with high entry barriers and conditions of monopoly, and should also be characterised by production-based scarcity, high value materials and cutting-edge technology (Kraljic, 1983). This does not seem to be the case given that the companies interviewed pertain to the metal and plastic industry, which are not suffering from scarcity of raw materials and are generally not classified as high-tech industries. This answer from the buyer seems to be motivated by the buyer's perception of its own buyers' crucial role towards its own business rather than a consideration of the supply market.

Overall, the answers suggest that the complexity of the supply market is reasonably low despite the perception of the buying firm; however, the importance of purchasing for the

buying firm is high considering the economic involvement of the buying firm, the high margins the company has on some categories and for the value those items create for the whole firm. This suggests a final positioning in the Kraljic matrix on the quadrant of the Leverage Items, of which a summary is presented in Figure 8. The only section where Kraljic’s matrix fails to describe the present case is when it implies the presence of multiple local suppliers, whereas in this case the suppliers are limited and very far away from the buying firm.

Kraljic (1983)



FIGURE 8 ATTRIBUTES OF KRALJIC LEVERAGE ITEMS

The accuracy of this positioning is further confirmed by comparing this finding with the insights of Cousins et al. (2008) regarding their classification compatibility with Kraljic’s work. Cousins et al envisioned firms outsourcing Leverage Items to adopt a strategy of Delegated Sourcing (See Figure 9). The present case, in fact, shows that some suppliers subcontract their production of some parts and components.

Kraljic (1983) and Cousins et al. (2008) combined framework

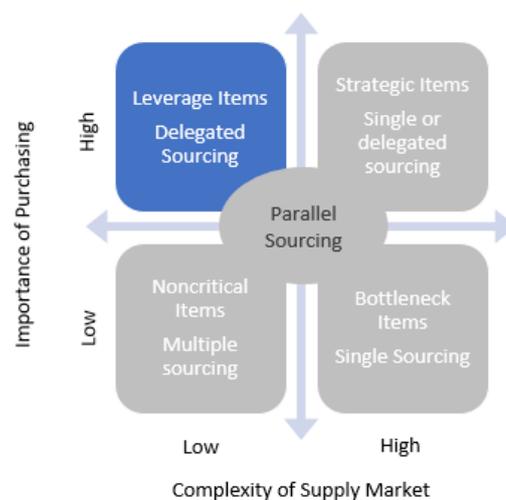


FIGURE 9 APPLICATION OF COUSINS ET AL. AND KRALJIC FRAMEWORK

The data collected suggests that the firm is deeply concerned about its degree of dependence from the suppliers. At the same time, there is not much stress on joint value creation: the buyer and supplier share some technical bonds but are far from being integrated to the point where the suppliers is part of the buying firm. The partnership is centred upon good personal contacts between the firm and coordination ensures mutual happiness and satisfaction. Using Campbell (1997) matrix, this suggest that the relationship in place is Customer Centred as highlighted in Figure 10.

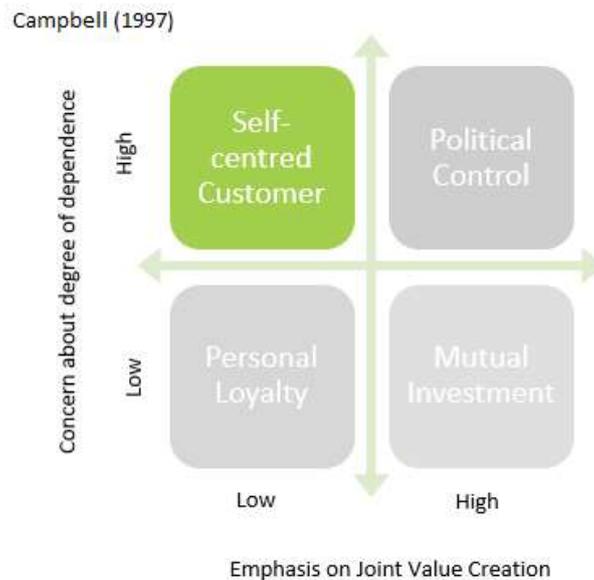


FIGURE 10 APPLICATION OF CAMPBELL MATRIX

Campbell finds that in a Self-centred Customer scenario, there is an effort to understand and meet the customer demands, with good communication and fast response towards problems. The customer is in turn aware of the quality of service of the supplier and of its competitive pricing. However, each firm looks at its own interests and at the end of the day, the client will stay with the supplier as long as its requirements are fulfilled.

Moving on to the analysis of the data about relationships, the buyer claims it has created closer relationships with the main suppliers, showing that it is more inclined to have close ties where its economic involvement is more prominent. At the same time, the buyer is aware that the Chinese suppliers seem to value personal relationships when making business with a Western firm. When it comes to showing trust and commitment, in the eyes of the buyer the Chinese partner is assured of the loyalty of the buyer by its tendency to show respect, personal understanding and by directly communicating its engagement in the business.

As far as communication goes, the buyer layers different communication channels to achieve its goals. According to the perceived importance of the decision and its urgency, the buyer visits in person the partner keeps email correspondence or has telephone calls. Once again,

the buyer seems aware of the importance, for a Chinese business, to have personal and direct contacts with the partners. The buyer expresses concerns about the cultural and physical distance between them and the suppliers, and has chosen to react firmly and asking confirmations in order to cope with uncertainty. Contrary to what could be expected from the literature (Ambrose et al., 2008) the buyer reports communication to have become more frequent over time even with established partners as also quality demands have increased. About information sharing, the buyer discloses all the information it deems necessary to manufacture the product. The costs are not shared with the Chinese suppliers, but are claimed not to be discussed outside the company anyway.

The buyer expresses concerns about the threat of dependency from a single supplier and claims to try and spread the risk by having a wider pool of suppliers. This is coherent with the previous findings that predict buyers deploying Single Sourcing or Delegate Sourcing strategies being vulnerable from having a limited number of suppliers. The buyer however states that for logistic reasons it is always much easier to use the existing suppliers also for newer products. When asked the opposite question about the perceived level of dependence of the suppliers, the buyer states that the suppliers, rather than depending from the buyer, benefit from the possibility to achieve expertise about the European market and the specific quality standards required to succeed with Western firms. The Swedish buyer confirms in another question that the suppliers are gaining value from the cooperation with the buyer in terms of quality improvements, suggesting that the Chinese firms are not threatened by dependency or uncertainty in the eyes of the buyer and are, on the contrary, gaining precious insights and are therefore in a privileged position. The Swedish buyer in another answer about relative bargaining power however claims the suppliers have neither advantageous nor disadvantageous bargaining power, the two firms being cooperating on the basis of good relationships with a good common ground that promotes mutuality.

4.2.2 SUPPLIERS

The first sections in the suppliers' questionnaire indicate that the respondents are a total of seven employees across five companies. Firms with the biggest employee number have been the ones providing a higher number of respondents. All the respondents belong to the areas of sales, export and customer service or are covering high-level managerial positions and have been working in the firm for at least three up to 15 years of experience. The firms themselves have all been founded between 15 and 30 years ago. These answers suggest that the data collected can be trusted as coming from reputed and valid sources with extensive experience in the field.

The suppliers describe their perceived strength in a variety of features that are classified in four main areas. Four out of five mention the high quality standards of their production as the reason why clients choose them over competitors. Another factor that comes up just as frequently is centred on reputation, as firms acknowledge their prestige and trustworthiness

coming from many years of expertise in the field. Other features include the competitive price, mentioned only by the two PRC suppliers and the reliability of their service, also measured in terms of flexibility, thanks to which the client can obtain from the firm a diversified range of products in a timely manner.

With these being their perceived strengths, suppliers have been asked to elaborate on the threat of substitution from competitors. Three out of five firms state firmly that competitors cannot substitute them, the reason being either the impossibility to offer the same wide range of products or the expertise in the field and the subsequent solid position in the European sales market. Two suppliers outside PRC reckon that being substituted is possible because of the painstaking competition on prices, however they argue that the quality of the product would not be the same. These two answers already show a difference between suppliers, with the peripheral areas of Hong Kong and Taiwan feeling threatened by Mainland China on prices.

All suppliers report their propensity towards long-term relationship. The reasons are mainly centred on mutuality, as suppliers see a recurring relationship as a way for them to develop their business and at the same time improve the service for the client, thus bringing about win-win situations and financial stability. Some suppliers also point out the need to have a recurring partnership to build trust, which cannot be achieved in a one-time purchase.

Similarly, all the suppliers prefer to have close ties with their clients. Suppliers see the establishment of a partnership rather than just a sequence of orders as a tool to achieve success, expansion and development for both firms. Two respondents mention the creation of friendships with the clients, suggesting that the cooperation can also transcend the business.

One respondent sees close ties as a means towards a better understanding and meeting of the customer's demands. This very strong customer orientation and the desire to meet the customer's requirements emerged also in the reply to another apparently unrelated question. When the respondents have been asked whether their firm produces their own products or clients assign them specific designs, almost all the respondents have expressed the idea that they can do both things, as their paramount concern is to satisfy the customer by being flexible and adaptive to their needs.

When asked to elaborate on the pros and cons of close ties and long-term relationship, the general tendency across the suppliers is to ascribe more benefits than downsides to this strategy. Suppliers are willing to tolerate inconveniences such as the difficulty of building a close relationship and the embarrassment of conflicts regarding the business when the two parties know each other very well. Three firms received an additional question aimed at assessing the time frame they use to evaluate if a relationship is long-term. The answers varied as some firms gave precise numbers while others preferred to give more complex explanations of their rationale. One company stated that a long-term relationship simply

means more than one order in two consecutive years, another company states that 8+ years of continuous partnership constitute a long-term relationship. A third company elaborates by saying that they do not really apply this distinction between clients because even if a customer is small at a certain point in time it might just be observing the company and decide later on to establish a closer relationship. This company seems to treat customers the same way regardless of their economic involvement and their history, in order not to preclude future developments of the business relationship.

The suppliers have then been surveyed on their perception of dependency and if they feel threatened by having such close relationship with clients. All suppliers, despite having been quite vocal about their inclination towards close ties and long-term relationship, believe being too dependent from a client is not safe. Some respondents argue that being too dependent on one client can weaken the firm's competitive power and its capacity to counteract risks as they lose flexibility to cater to other customer's needs. To counteract this outcome, firms engage in continuous development of their products and technology to remain competitive in the market. Other respondents view the threat as financial risk: if the firm relies too much on the turnover generated from few clients, they tie too much their fate to the prosperity of the client. One respondent stated that requiring upfront payments and letters of credit is a protection against client's sudden bankruptcy, but it has to be noted that this does not help the firm in differentiating its client base. Another downside of dependency highlighted by the respondents is the inability to attract new customers as they increasingly rely on the existing ones, to which the firms react by engaging proactively in expanding their customer base rather than waiting for the customer to approach them.

About trust, respondents have been asked to elaborate on the effects of trust on the relationship and how they evaluate a client's trustworthiness. Unsurprisingly, all respondents view trust as beneficial to the relationship, however the reasons behind the statement vary. Some respondents link trust to easier communication flow, leaving the client to accept the firm's suggestions on products. Other reasons include trust as a tool to achieve mutual success, trust as a better environment to solve conflicts and avoid frictions, or trust as a way to establish a circle of relationships. Regarding trustworthiness evaluation, respondents that view trust as a way to achieve mutual success tend to evaluate a client's commitment in financial terms, by for example requiring upfront payments and letters of credit or by evaluating the size and frequency of the orders and transparency on financial matters. Respondents that see trust as a way to improve problem solving and to establish networks of relationships tend instead to evaluate commitment on either the content of communication and attitude on discussions, or the firm's position in the market.

When discussing on problem solving, all firms tend to show a rather proactive approach. They first individuate the root cause of the problem and aim to assess if this could cause delays in the deliveries for the client. After an assessment of the gravity of the problem, they notify the

customer but aim at solving the issue internally. When it comes to conflict resolution, however, the approach is much less focused on what the supplier itself can do, as all the suppliers mention compromise and balance between both sides' difficulties and desires.

Finally, the suppliers have been asked to elaborate on the difference they find between a business with a Western firm and a business with a domestic company. One firm has no local customers therefore has not provided insights on this issue. The remaining respondents perceive Western corporate culture as different but all firms remained quite positive in stating that such difference can be overcome with ease and that no major differences in terms of strategy need to arise when making business with a Western firm. In general, the companies did not seem to be too worried to vary their strategy according to the location of the client.

4.3 ANALYSIS

In this section of the paper, the content of the data presentation is subject to interpretation thus addressing Research Question Three. Connections between the two data sets are established around common themes, in order to find patterns and critical issues that require further explanation.

The buyer deploys sourcing strategies that are coherent with the category of products outsourced and the rationale behind the choice of delegating their production. Contrary to what the literature prescribes, the buyer has a long-term orientation towards some suppliers that could instead be left to compete between each other on prices. The buyer's choice to have a long-term orientation regardless of the product lies in the stress the buyer places on quality in multiple parts of the questionnaire. The buyer sees correlation between the length of relationship and the level of quality, therefore is less inclined to favour short-term competitive relationship as they could affect the desired quality standards.

This preference for long-term relationship matches the findings from the suppliers, who favour long-term relationships irrespective of the size and importance of the client. Chinese suppliers believe long-term orientation is crucial to build trust and to better comply with the customer demands. Chinese suppliers however are confident about their quality standards and state to offer the same array of services, quality and flexibility to new customers too. The suppliers remain open to the possibility of improving the product and service through a long-term dialogue with their buyer; however, they claim to offer extreme quality products since the first purchase. Therefore, suppliers unlike the buyer do not believe that quality is reached only through an extensive and long-term dialogue with the customer.

The buyer seems to perceive its position as much more threatened by dependency than the suppliers, even though for some of the suppliers the Swedish firm is the biggest customer in

terms of volume and economic involvement. The buyer could deploy some diversification strategies for the less crucial items and lessening the threat of dependency by widening the network of supplier. However, the economic benefits that derive from having an easier handling and shipping would decrease. A related finding from the questionnaire is the tendency of the buyer to overestimate the complexity of the supply market. The buyer behaves towards its suppliers as the products outsourced were much more critical than they actually are, thus aggravating its perception on dependency.

The Chinese firms also express concerns about being too dependent to a customer, despite the buyer does not seem to acknowledge it. The suppliers counteract the risk by requiring upfront payments as financial safeguard or by continuous research on the products to keep their competitive edge in the market. They also use the positive feedback of existing clients to deepen their penetration in Western markets. Despite being concerned with dependency, the surveyed Chinese firms seem not to believe other suppliers can substitute them, either because of superior quality, competitive prices or higher level of service and assistance offered. Only some firms outside Mainland China see their position threatened by the “war on prices” that is taking place in the PRC. Despite acknowledging the dangers of being too connected to a single client, the Chinese firms seem to be confident that those clients will not leave them, thus suggesting that their leverage in the relationship is not necessarily disadvantageous.

About the perception of trust, some Chinese suppliers mention various factors that help them assess if a client is trustworthy, for example the status of the client in the market, its attitude towards communication and information sharing, and the extent of its financial commitment. Surprisingly, the buyer does not believe that an ongoing economic commitment in the form of frequent and big orders is a factor that determines its own trustworthiness in the eyes of the supplier. The buyer has placed more emphasis on relational factors such as personal contacts and direct communication as tools it uses to show engagement. While these are undoubtedly factors that the suppliers appreciate, it has to be noted that some suppliers are also sensitive to a financial evaluation of the customer.

Another aspect that emerges from the data is the cultural awareness of the Swedish firm. The firm is knowledgeable about the specific cultural aspects that characterise a business partnership with a Chinese firm, as they show understanding of the importance of close relationships and personal interaction which are traits all Chinese suppliers show appreciation of. However the buyer does not establish close ties with all the suppliers, and even when it does, it seems to have the idea that a close relationship solely means more frequent communication. No other indicator of how is a relationship established and nurtured emerges from the questionnaire, suggesting that the firm classifies a relationship as “close” only based on the frequency of communication. On the contrary, Chinese suppliers value the closeness of the relationship also on other dimensions, such as the content and the tone of

communication. Some suppliers even talk about friendship between them and their client, suggesting that the frequency of communication is not the only thing they have in mind when evaluating how close is a business relationship. Most of the suppliers stress the importance of creating partnerships with their client and argue that they value the possibility to grow together with the client. This shows that the suppliers are thinking towards the future when discussing about their clients, showing an interest towards a possible evolution of the current relationship status that is beneficial for both them and their customer. This attitude towards mutual satisfaction is present also in the answers the suppliers give on problem solving and dispute settlement: the suppliers are generally keen on finding solutions that take both sides' interests into account, showing a tendency to favour compromises and a balanced approach to discussions. On the other hand, the buyer is much more focused on the present, on satisfying its current needs and guaranteeing the status quo in terms of quality and delivery. The buyer seems to be interested in long-term relationships because they are more stable and involve fewer transaction costs but, unlike the suppliers, it does not necessarily have in mind a future development of the relationship.

Chinese suppliers have unanimously preferred a long-term orientation and close ties with all customers irrespective of their relative importance to the business, whereas for the buying firm the closeness of the relationship is subordinated to the size of the economic involvement with the supplier. This leads to assume that there is a mismatch between the buyer's cultural competence about the Chinese business relationship and the actual interaction the buyer deploys, especially towards its minor suppliers. The minor suppliers are not engaged in close relationships and frequent interactions despite the buying firm is aware that personal relationships and close contacts are crucial for Chinese firms irrespective of their relative importance in the offshoring business.

5. CONCLUSIONS

The research has studied the Chinese supplier's expectations and the buyer's compliance with such expectations through an analysis of the company's offshoring strategy. Elaboration on these points are here presented for the main themes emerged from the study: length and closeness of the relationship.

Chinese suppliers, irrespective of the size of the firm and the relative importance of the client, appreciate long-term orientation and close-ties with their clients. Such strategy is believed to help improving the relationship, achieving mutual growth and gaining access to new markets through connections. Regarding the length of the relationship, the buying firm is keen on having long-term orientation with its suppliers too, as it believes a longer and exclusive relationship with its buyers translates in higher chances to receive better quality and to minimise transaction costs. It appears clear that while buyer and suppliers are aligned on their preference of a long-term relationship, the reasons behind the choices are different. While Chinese suppliers want to form long-standing partnership with their clients in order to let the relationship evolve in the future, possibly bringing about additional benefits for both parties, the buyer seems to prefer longer relationship because of their stability. The data collected from the buyer does not give indications on the intention of the buyer to let the relationship evolve in the future, as the buyer appears much more concentrated on fulfilling its present needs and preserving of the status quo.

This reflection is connected to the evaluation of both parties' expectations in terms of closeness. Data indicates that the buyer does not always cater to the suppliers' expectations of close ties with their clients. All suppliers have highlighted the importance of close ties, favouring the formation of personal connections irrespective of the relative importance of the client for the supplying firm. The buyer judges its relationships with suppliers as close, however links closeness of the relationship just to the frequency of the interactions, disregarding other dimensions such as the formation of partnerships and the desire for mutual achievements. Moreover, the buyer is doing a better job in meeting the suppliers' expectations on relationship when these suppliers represent a big financial commitment and manufacture finished products. Towards minor suppliers, the buying firm does not show its commitment through an extensive financial involvement, and because the economic effort of the buyer it is not high, closer ties are not formed in turn. This leaves the minor suppliers with no financial guarantee and with a rather superficial relationship in terms of communication and information sharing. Small suppliers from outside Mainland China are incidentally the ones feeling the biggest pressure in terms of threat of substitution from cheaper competitors, therefore are also the ones that would benefit from a clearer demonstration of the buyer's engagement in the business.

To conclude, the buyer is deploying sourcing strategies coherent, on paper, with the leverage nature of the items offshored and with the main driver for offshoring being cost reduction.

Buyer and supplier are consequentially rather independent and not always involved in each other's operations through technical bonds; the closeness of the interactions is functional to achieve mutual satisfaction and fulfil basic needs, but is not oriented at expanding or deepening the relationship in the future. Despite the appropriateness of the strategy for the case, the buyer remains anxious about quality related issues and the supplier's expectations on closeness and mutuality are not met either. This causes the relationship to be dysfunctional despite its theoretical appropriateness. It could be argued that in order to compensate the concerns on quality and to better comply with suppliers' expectations, offshoring practices with Chinese suppliers should entail a closer relationship than what the literature would prescribe for the given sourcing strategy. This way, the buyer would have a closer grip on the supplier's production, allowing for a better monitoring of quality; at the same time, the suppliers' expectation on closeness would be better addressed too.

6. REFERENCE LIST

Abraham, K. G., & Taylor, S. K. (1996). Firms' use of outside contractors: Theory and evidence. *Journal of Labor Economics*, vol. 14, no. 3, pp. 394-424

Ambrose, E., Marshall, D., Fynes, B., & Lynch, D. (2008). Communication media selection in buyer-supplier relationships. *International Journal of Operations & Production Management*, vol. 28, no. 4, pp. 360-379

Andersson, D., & Bernhardsson, M. (2011). Offshore outsourcing to China: The suppliers' perspective on competitive priorities and the role of buyer-supplier interaction mechanisms, MSc Thesis, Department of Industrial Engineering and Management, KTH Stockholm, Available online: <https://www.diva-portal.org/smash/get/diva2:427327/FULLTEXT01.pdf> [Accessed 10 February 2016]

Arnell, F., & Wei, S., (2006). Outsourcing Production to China: Risks and Benefits Based on Cases. Bachelor thesis, School of Business, Stockholm University. Available online: <https://www.diva-portal.org/smash/get/diva2:196203/FULLTEXT01.pdf> [Accessed 12 February 2016]

AT Kearney, (2016). On the Eve of Disruption. Available online: <https://www.atkearney.com/documents/10192/7094247/On+the+Eve+of+Disruption.pdf/49fa89fa-7677-4ab8-8854-5003af40fc8e> [Accessed 16 March 2016]

Autry, C. W., & Golicic, S. L. (2010). Evaluating buyer-supplier relationship-performance spirals: A longitudinal study. *Journal of Operations Management*, vol. 28, no. 2, pp. 87-100

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, vol. 17, no. 1, pp. 99-120

Beckman, S. L., & Rosenfield, D. B. (2008). *Operations strategy: competing in the 21st century*. New York: McGraw-Hill/Irwin

Bhagwati, J., Panagariya, A., & Srinivasan, T. N. (2004). The muddles over outsourcing. *The Journal of Economic Perspectives*, vol. 18, no. 4, pp. 93-114

Brown, A. S. (2005). The China road. *Mechanical Engineering*, vol. 127, no. 3, pp. 36-40.

Bryman, A., & Bell, E. (2003). *Business research methods*. Oxford: Oxford University Press

Campbell, A. (1997). Buyer-supplier partnerships: flip sides of the same coin? *Journal of Business & Industrial Marketing*, vol. 12, no. 6, pp. 417-434

Chatain, O. (2011). Value creation, competition, and performance in buyer-supplier relationships. *Strategic Management Journal*, vol. 32, no. 1, pp. 76-102.

Cousins, P., Lamming, R., Lawson, B., & Squire, B. (2008). *Strategic supply management: principles, theories and practice*. New York: Pearson Education

- Cox, A. (2004). The art of the possible: relationship management in power regimes and supply chains. *Supply Chain Management: An International Journal*, vol. 9, no. 5, pp. 346-356
- Dangayach, G., & Deshmukh, S. (2001). Manufacturing strategy: literature review and some issues, *International Journal of Operations & Production Management*, vol. 21, no. 7, pp. 884-932
- Dyer, J. H., & Singh, H. (1998). The relational view: Cooperative strategy and sources of interorganizational competitive advantage, *Academy of management review*, vol. 23, no. 4, pp. 660-679
- Grossman, G. M., & Helpman, E. (2005). Outsourcing in a global economy. *The Review of Economic Studies*, vol. 72, no.1, pp. 135-159
- Hayes, R. H., & Wheelwright, S. C. (1984). *Restoring our competitive edge: competing through manufacturing*, Hoboken: Wiley
- Hung Lau, K., & Zhang, J. (2006). Drivers and obstacles of outsourcing practices in China. *International Journal of Physical Distribution & Logistics Management*, vol. 36, no. 10, pp. 776-792
- Jain, P., (2006). Offshore Outsourcing "India Vs China" An Empirical Investigation, *The Business Review, Cambridge*, vol. 6, no. 2, pp. 316-324
- Kakabadse, N., & Kakabadse, A. (2000). Critical review-outsourcing: A paradigm shift. *Journal of Management Development*, vol. 19, no. 8, pp. 670-728
- Kalwani, M. U., & Narayandas, N. (1995). Long-term manufacturer-supplier relationships: do they pay off for supplier firms? *The Journal of Marketing*, vol. 55, pp. 1-16
- Kannan, V. R., & Choon Tan, K. (2006). Buyer-supplier relationships: The impact of supplier selection and buyer-supplier engagement on relationship and firm performance. *International Journal of Physical Distribution & Logistics Management*, vol. 36, no. 10, pp. 755-775
- Kern, T. (1997). The Gestalt of an information technology outsourcing relationship: an exploratory analysis. *ICIS 1997 Proceedings*, Paper 3, pp. 37-58
- Kraljic, P. (1983). Purchasing must become supply management. *Harvard business review*, vol. 61, no. 5, pp. 109-117
- Lewis, J. (1995). *The connected corporation*. New York: Free Press.
- Lin, J., Xue, Y., Gao, H. & Li, S. (2008) An empirical research on a path model of buyer-supplier relationships and cooperative performance. *管理科学 (Journal of Management Sciences)*, vol. 21, no. 4, pp. 37-45

- Lu, Y. & Wang, D., (2010) A Study of Contracting Outsourcing's Effect on China's Manufacturing Industry's TFP. 数量经济技术经济研究 (*The Journal of Quantitative and Technical Economics*), no. 11, pp. 66-83.
- Matteo, M.D., (2003), The Supply Chain: Sourcing in China, *The China Business Review*, September-October, pp. 30-32, p. 54.
- Miroudot, S., Lanz, R., & Ragoussis, A. (2009). Trade in intermediate goods and services, *OECD Trade policy papers*, OECD Publishing, Available online: http://www.oecd-ilibrary.org/trade/trade-in-intermediate-goods-and-services_5kmlcxtdlk8r-en [Accessed 7 March 2016]
- Mohr, J., & Spekman, R. (1994). Characteristics of partnership success: partnership attributes, communication behavior, and conflict resolution techniques. *Strategic management journal*, vol. 15, no. 2, pp. 135-152
- Morgan, G. (1980). Paradigms, metaphors, and puzzle solving in organization theory. *Administrative science quarterly*, vol. 25, no. 4, pp. 605-622.
- Neville, C. (2005). Introduction to research and research methods [pdf] Available online: <http://www.bradford.ac.uk/academic-skills/media/academicsskillsadvice/documents/academicsskillsresources/readingandresearchingskillsadvanced/Teach-Yourself-Research-and-Research-Methods-Basics.pdf> [Accessed 19 January 2016]
- Olsen, R. F., & Ellram, L. M. (1997). A portfolio approach to supplier relationships. *Industrial marketing management*, vol. 26, no. 2, pp. 101-113
- O'Toole, T., & Donaldson, B. (2000). Classifying relationship structures: relationship strength in industrial markets, *Journal of Business & Industrial Marketing*, vol. 15, no. 7, pp. 491-506.
- Prahalad, C., & Hamel, G. (1990). The Core Competence of the Corporation. *Harvard Business Review*, vol. 68, no. 5, pp. 6
- Ramioul, M., & De Bruyn, T. (2008). Towards strategies for making offshore outsourcing economically and socially sustainable. *Work Organisation, Labour and Globalisation*, vol. 2, no. 1, pp. 117-132
- Saghiri, S., & Hill, A. (2014). Supplier relationship impacts on postponement strategies. *International Journal of Production Research*, vo. 52, no. 7, pp. 2134-2153
- Salmi, A. (2006). Organising international supplier relations: An exploratory study of Western purchasing in China. *Journal of Purchasing and Supply Management*, vol. 12, no. 4, pp. 197-208
- Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research Methods for Business Students*, Harlow: Pearson Education.

Skinner, W. (1969) Manufacturing - missing link in corporate strategy. *Harvard Business Review*, pp. 136-145

Song, H., Feng, Y. & Yu, K. (2014). Does Stakeholder Orientation Exert Impact on Suppliers and Buyers Relational Performance? *管理评论 (Management Review)*, vol. 26, no. 7, pp. 170-180

Song, Y., Su, Q., Liu, Q. & Wang, T. (2012). Impact of business relationship functions on relationship quality and buyer's performance. *Journal of Business & Industrial Marketing*, vol. 27, no. 4, pp. 286-298

Worldbank, (2016) Exports of goods and services (Current USD) Available online:
<http://data.worldbank.org/indicator/NE.EXP.GNFS.CD> [Accessed 12 February 2016]

7. APPENDIX

7.1 APPENDIX A – BUYER QUESTIONNAIRE



Thanks for taking part in this project.

The questionnaire is divided in two parts. Part 1 will help me classify your outsourcing strategy according to matrixes and models found in the literature through technical questions. Part 2 will focus more on the relationship with the suppliers, described along a series of dimentions.

Please respond to these questions at best of your knowledge. The questions are intentionally left open to prompt elaborate answers. Use all the space you need, if necessary you are free to add more rows to tables.

Part 1

- 1) What was the main reason behind the company's choice to outsource part of the production to China?
- 2) Please recap what you outsource from the five different suppliers

Supplier	Products/components
Supplier 1	
Supplier 2	
Supplier 3	
Supplier 4	
Supplier 5	

- 3) Does any of your suppliers subcontract delegate part of the product/component to other producers?
- 4) Do you scan the industry looking to expand the network of suppliers? Why?
- 5) When it comes to outsourcing strategy, the company orientation to its suppliers is long term or short term oriented? Why?
- 6) When it comes to outsourcing strategy, has the company made dedicated investments and established technical bonds with the chinese suppliers? Why?
- 7) Is the company involved in the suppliers' own operations regarding their sourcing of raw materials, or is the company only involved with first-tier suppliers?
- 8) What employee level is in charge of decisions when it comes to perform purchases? (e.g. Vice president)
- 9) What kind of due diligence you perform before subcontracting, as in which information do you require from the supplier to provide you?
- 10) As far as product/components outsourced, please provide classification in terms of volume purchased, the number of suppliers in your network that are able to produce that item and the possibility to substitute that specific item with something else.

Components or products outsourced	Volume purchased annually	Number of suppliers providing this component/product	Possibility to substitute the item

Part 2

- 11) How would you describe your relationship with the suppliers in terms of closeness?
- 12) What do you think your chinese suppliers value the most when making business with a company such as yours?
- 13) When it comes to trust, how did you show your chinese buyer your reliability in the negotiation phase?
- 14) When it comes to ongoing commitment, how do you communicate, directly or indirectly, to your partner your engagement in the business?
- 15) How do you structure communication with your suppliers? What kind of channel you use and how?
- 16) When it comes to communication, do you feel that phisical and cultural distance is a problem? If so, how do you compensate?
- 17) What can you say about the quantity of interactions? Have they increased, decreased or remained stable over the course of your relationship?
- 18) What kind of information do you disclose to your partners? What you do not disclose? Why so?
- 19) What is your view on dependancy from the suppliers, do you try and avoid to be too dependent on one supplier or not? Why so?
- 20) Do you think your suppliers depend on your company? If so, in which way (e.g. for technical improvement)
- 21) How do you perceive the bargaining power of your suppliers compared to your bargaining power?
- 22) Which ways you believe your suppliers are gaining value from the partnership with your company? (e.g. through quality improvement)

Coding scheme for Buyer Questionnaire

Question number	Scholars
1	Relevant for a number of matrixes
2, 3, 4	Cousins et al. (2008)

5, 6, 7	Cox (2004)
8, 9, 10	Kraljic (1983)
11, 12	Relevant for a variety of matrixes
13, 14, 15, 16, 18, 19	Campbell (1997)
17	Ambrose et al. (2008)
20, 21, 22	O'Toole & Donaldson (2000)

7.2 APPENDIX B – SUPPLIER QUESTIONNAIRE

Here follows a copy of the supplier questionnaire translated from Mandarin.

I am Alessandra Castelli, a Management master student at Lund University in Sweden. In my previous studies, I majored in International Relations and Chinese Language, hence my interest in Chinese offshoring.



My purpose is to collect data for my thesis, whose topic is interfirm relationships in offshoring to China. I aim to research the relationship Chinese suppliers entertain with European clients. These questions will let me understand your attitude and expectations on the subject matter. I hope you can spend a few minutes of your time answering these questions for me.

I am not a representative of the Swedish buyer, nor I am employed by them. The thesis will not contain your name and your answers will not be published. Every data you will share with me will be anonymised.

If you have further questions, you are welcome to contact me at this email address.

Questions about the respondent.

1. What position do you cover?
2. How long have you been covering such position?

Questions about the company.

3. How many employees does the company have?
4. How long ago was it founded?
5. According to your total production, what is the relative importance of the Swedish buyer for your firm?

Questions about your production.

6. Do you produce finished products or components?
7. Did you already possess the designs for such products, or the Swedish buyer provided you its own designs?

Questions about interfirm relationships. The subject of these questions is not the Swedish buyers, but your general attitude and reasoning with Western Clients.

8. Regarding relationship management with your customers, what is your strategy and why do you believe the strategy you adopt is the most appropriate?
9. According to your perception, why do customer choose you?
10. Do you think other competitors could substitute you? Why?
11. Does your firm prefer engaging in long term or short term relationships? Why?
12. Does your firm prefer close ties or being independent from the clients? Why?
13. Your firm believes that long term orientation and close ties have what kind of pros and cons?
14. What time frame do you have in mind? Is it years, and if so how many years are in your judgement an indication of "long term relationship" towards a client?
15. Does your firm believe that being too dependent from a customer is not safe? Why?
16. How does information sharing influence the relationship according to your firm?
17. How does your firm evaluate the quality of the exchange?
18. What are the effects of trust on interfirm relationship according to your firm?
19. How does your firm evaluate a client's trustworthiness?
20. If problems arise in the production process, how does your firm solve them?
21. If controversies emerge between your firm and the client, how do you settle them?
22. Does your firm notice difference in the relationship management between European firms and local firms? Does your firm deploy the same strategy or you believe European customers need a different approach?