

Joachim Ramström

# West Meets East

A Study of Cross-Institutional  
Business Relationship between  
Finnish/Swedish and  
Overseas Chinese Firms





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*The days are filled with anxiety  
Frustration, one right note a day  
Where to find a perfect tune?  
- Tuomas Holopainen*

What a journey this has been! Now that it has come to an end, and thinking back on it, I would not change a single bit of it. On the other hand, I would not do it again! At least not some parts of it; sometimes it did feel as if the manuscript and I were having some sort of conflict - I was staring at the manuscript, it was staring back at me, I tried to make some sense out of it, and every time it seemed as if it rearranged itself and again I made no sense out of it.

*Here I am looking for answers  
Driven hard with no thought of surrender  
If I knew where I could find them  
I could spare you the act of a madman  
- Lenny Wolf*

Quite a number of times I felt I wanted to stop everything and just apply for a job at McDonalds. Nevertheless, slowly the story evolved and I felt I was getting more notes right than wrong. However, at the end of the day, the tune would not have evolved were it not for the help and assistance from a number of people. First and foremost, my eternal gratitude goes to my supervisor, assistant professor Henrik Bäckström. Every time I felt applying for a job at McDonalds, you were there inspiring me and helping me find my motivation again. Thank you for your support, all the time you spend reading and re-reading my manuscript, and all the valuable comments that helped me finally finding the tune.

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I will remain grateful to all of you!

Åbo, April 27<sup>th</sup> 2005

Joachim



**WEST MEETS EAST****A STUDY OF CROSS-INSTITUTIONAL BUSINESS RELATIONSHIPS  
BETWEEN FINNISH / SWEDISH AND OVERSEAS CHINESE FIRMS**

<b>Table of contents</b>	<b>I</b>
<b>List of figures</b>	<b>V</b>
<b>List of tables</b>	<b>V</b>
<b>PROLOGUE</b>	<b>VI</b>
<b>The ‘Overseas Chinese’ in Southeast Asia</b>	<b>VII</b>
<b>Origin and emigration</b>	<b>VIII</b>
<b>Characteristics and business profile</b>	<b>VIII</b>
<b>PART I</b>	<b>1</b>
<b>1. INTRODUCTION</b>	<b>1</b>
1.1 Underlying thoughts	2
1.2 Research objective	5
1.3 Research delimitations and conceptual constructs / considerations	9
1.4 Key concepts and definitions	12
1.5 Structure and content	15
1.6 Summary	17
<b>2. FOUNDATION OF THE STUDY</b>	<b>18</b>
<b>2.1 Exploring the field</b>	<b>18</b>
2.1.1 Cross-cultural research and cultural distance	18
2.1.2 Relationship marketing	19
2.1.3 Marketing channel theory	20
2.1.4 Industrial network theory	21
2.1.5 Institutional theory	22
<b>2.2 Toward a theoretical framework based on institutional and industrial network theory</b>	<b>23</b>
2.2.1 The institutional network framework of the study	24
<b>2.3 Position in the field</b>	<b>27</b>

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2.4 Summary	28
<b>3. THE RESEARCH PROCESS</b>	<b>29</b>
3.1 Research paradigm	29
3.2 Epistemological and ontological issues	30
3.3 Theory and praxis	32
3.3.1 My abductive stroll	32
3.4 The research design	35
3.4.1 Primary and secondary sources of data	36
3.4.2 The collection procedure	37
3.4.3 Data analysis	42
3.5 Reflections of the research	44
3.5.1 Credibility, transferability, dependability and confirmability	44
3.5.2 Considerations of the research design	46
3.6 Summary	49
<b>PART II</b>	<b>51</b>
<b>4. FIRMS AND INSTITUTIONS</b>	<b>51</b>
4.1 Three pillars of institutions	51
4.2 Institutional distance	53
4.3 Business systems	54
4.4 Industrial networks as business systems	57
4.4.1 Comparative network systems framework / network institutional profile	58
4.5 Summary	60
<b>5. THE INSTITUTIONAL SETTING</b>	<b>62</b>
5.2 Comparing contexts on the cognitive level	62
5.2.1 Country/ethnic culture	62
5.2.2 Family / Clan	63
5.2.3 Authority and control systems, loyalty and divisions of labour	64
5.3 Comparing contexts on the normative level	65
5.3.1 Government	65
5.3.2 Business mores	66
5.3.3 Enterprise specialization and development	67
5.4 Comparing contexts on the regulative level	68
5.4.1 Legal system	68
5.4.2 Enterprise coordination and interdependence	68

<b>West meets east</b>	<b>Contents</b>
5.5 Analysing distance on the cognitive level	69
5.5 Analysing distance on the normative level	72
5.6 Analysing distance on the regulative level	76
5.7 Analysing overall distance between Finnish / Swedish and ethnic Chinese contexts	78
5.9 Summary	80
<b>PART III</b>	<b>81</b>
<b>6. FIRMS AND RELATIONSHIPS</b>	<b>81</b>
6.1 Industrial network approach	82
6.2 Social network approach	82
6.3 Important dimensions in the industrial and social network approach	84
6.3.1 Learning	84
6.3.2 Adaptation	85
6.3.3 Trust	87
6.3.4 Commitment	89
6.3.5 Social interaction	91
6.3.6 Social bonds	91
6.4 Relationship process in a Western context	93
6.5 Relationship process in an ethnic Chinese context	95
6.6 Finnish / Swedish and ethnic Chinese networks compared	98
6.7 Summary	100
<b>7. THE RELATIONSHIP SETTING</b>	<b>103</b>
7.1 Finnish / Swedish perceptions about local firms	103
7.2 Relationship dimensions	110
7.2.1 Learning	110
7.2.2 Adaptation	111
7.2.3 Trust	113
7.2.4 Commitment	115
7.2.5 Social interaction	118
7.2.6 Social bonds	121
7.3 Relationship dimensions of Finnish / Swedish firms in their home compared to foreign context	122
<i>Learning and adaptation</i>	122
7.4 Summary	125

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<b>PART IV</b>	<b>126</b>
<b>8. COMPILING IMPORTANT FINDINGS</b>	<b>126</b>
<b>8.1 Process of developing a relationship – the mixed model</b>	<b>126</b>
8.1.1 Relating phases model to previous stage models	136
<b>8.2 Three different types of relationship</b>	<b>140</b>
8.2.1 Dependency or independent relationship	140
8.2.2 Simple or complex structured relationship	145
8.2.3 High or low leverage relationship	151
<b>8.3 Relationship concepts in the ethnic Chinese context</b>	<b>154</b>
<b>8.4 Contradictions</b>	<b>160</b>
8.4.1 About being foreign but not being foreign	161
8.4.2 About having difficulties as a foreigner but not having	162
8.4.3 About having an advantage but not having an advantage	164
<b>8.5 Revised theoretical framework</b>	<b>165</b>
<b>8.6 Summary</b>	<b>169</b>
<b>9. SUMMARY AND CONCLUDING DISCUSSION</b>	<b>170</b>
<b>9.1 Managing business relationships in a foreign context</b>	<b>170</b>
9.1.1 Recurring themes	174
<b>9.2 The study in a nutshell</b>	<b>175</b>
<b>9.3 Implications of the study for professional practice of applied settings</b>	<b>176</b>
<b>9.4 Suggestions for further research</b>	<b>178</b>
<b>REFERENCES</b>	<b>180</b>
<b>APPENDICES</b>	<b>193</b>
Appendix 1 – Interview guide	193

**List of figures**

Figure 1 Outline of the study .....	16
Figure 2 Main elements of theoretical framework .....	24
Figure 3 Institutional network framework.....	26
Figure 4 Continuum of core ontological assumptions.....	31
Figure 5 Iterative processes in qualitative data analysis .....	42
Figure 6 Institutions surrounding the firm.....	56
Figure 7 MNC country environment .....	58
Figure 8 Comparative network systems framework (own) .....	60
Figure 10 The relationship process of Finnish Swedish firms in their home context .....	93
Figure 11 The relationship process of ethnic Chinese firms in their home context .....	97
Figure 12 Dimensions governing relationships in Fi / Swe and ethnic Chinese context ...	102
Figure 13 Fi / Swe firms relationship process in the eC; the mixed model.....	127
Figure 14 The relationship process of Finnish Swedish firms in their home context .....	137
Figure 15 The relationship process of ethnic Chinese firms in their home context .....	139
Figure 16 Learning curve for firms that start developing a relationship with eC firms .....	163
Figure 17 Institutional network framework.....	168

**List of tables**

Table 1 Ethnic Chinese in various Asian countries.....	VI
Table 2 The study in a nutshell.....	17
Table 3 Respondents according to country and origin .....	39
Table 4 Classification of institutions .....	59
Table 5 Comparison of country culture.....	70
Table 6 Comparison of family / clan.....	71
Table 7 Comparison of government .....	72
Table 8 Comparison of business mores.....	73
Table 9 Comparison of authority and control, loyalty and division of labour .....	75
Table 10 Comparison of enterprise specialization and development .....	76
Table 11 Comparison of legal system .....	77
Table 12 Comparison of enterprise coordination and interdependence .....	78
Table 13 Distance on different institutional levels between Fi / Swe and eC context .....	79
Table 14 Relationship dimensions in a Western context.....	101
Table 15 Relationship dimensions in an ethnic Chinese context .....	101
Table 16 Relationship dimensions for Fi / Swe firms in the ethnic Chinese context.....	136

## Prologue

This study takes place in a specific context that I believe may not be known by all readers. Hence I want to offer a brief presentation of the context, outlining some important characteristics and the actors embedded in this context. The study has been conducted on Finnish and Swedish multinational corporations that are active in the Southeast Asian region, working with their local overseas Chinese partners.

### *The ethnic Chinese*

At a little less than 60 million people<sup>1</sup>, the ethnic Chinese (eC) form a far-flung diaspora that extends from San Francisco to Thailand (Redding, 1995b). With an estimated wealth of more than US\$1.5 trillion, they constitute what could arguably be called the third-largest economy in the world after the gross national products (GNPs) of the United States and Japan. The sprawling ethnic Chinese community of East Asia alone (including Hong Kong and Taiwan) wields considerable economic reach (Asia Times Online, 2002). The ethnic Chinese play an increasingly larger and more important role on the various Asian markets - a role that is far more significant than their low numbers might suggest.

Country	Total Population	Ethnic Chinese as % of population	% of market capital controlled by Ethnic Chinese
Indonesia	228	3	73
Malaysia	22	30	69
Philippines	84	1.3	50-60
Singapore	4.4	78	81
Thailand	62	8.6	81

**Table 1 Ethnic Chinese in various Asian countries (Bun, 2000; Haley, Tan & Haley 1999; EIJS, 2002)**

In fact the ethnic Chinese are one of the main driving forces behind the development, which characterizes the region as a whole and many of the economies in the region. These aggressive networks of Chinese entrepreneurs and offshore money lead the economic growth of Asia, and they are seen as the core in the economic upswing in Asia (East Asia Analytical Unit, 1995). The ethnic Chinese that live in East and Southeast Asia generate a GDP equivalence of about US\$ 750 billion (US-ASEAN Business Council, 2003). This can be compared to China's GDP of roughly USD 1.410 billion (Interfax, 2004), but it is generated by a population that is over twenty fold in numbers. Even though the ethnic Chinese are less than 10 percent of the total population of Southeast Asia, 86 percent of the millionaires in the region are Chinese (East Asia Analytical Unit, 1995).

The ethnic Chinese control a large proportion of the regions both physical and non-physical capital, and they are major stockowners in several economies in the area. They are facilitators of a large part of the flow of trade and investment in the region, and they also

<sup>1</sup> Estimates of the number of Overseas Chinese in different countries vary greatly from source to source. The total number of OC in Asia is reported to be between 40 and 60 million.

provide a large proportion of the capital that funds investment and growth. They manage distribution channels and retail institutions, which feeds the demand by the national populations (Haley, 1997). The ethnic Chinese also form bridgeheads between Western companies and the liberalizing communist countries in Asia, through networks with the governments and within the countries (Haley et al., 1999).

The ethnic Chinese firms have been successful in business throughout the 1900's and 2000's although they have little, if any, business education. The ethnic Chinese entrepreneurs (Gambe, 2000) are largely self-learned businessmen, who are extremely skilled in making use of their extensive networks and managing an environment where legal and administrative infrastructure is underdeveloped (East Asia Analytical Unit, 1995). Moreover, the ethnic Chinese control much of the capital, distribution and information in the region, and the eC networks and entrepreneurs have knowledge of the markets. They also have well-established networks (distribution, suppliers, etc.) and there is great growth potential. The eC are skilled in making relationships and networking, which gives them ready access to market information. Furthermore, they possess not only the biggest reservoir of capital, but also critical political connections and the best practical information for surviving in difficult markets.

The brands of ethnic Chinese companies includes such names as Acer (computer industry), Creative technology (computer peripheral industry), Asia Brewery and Pacific Breweries (beverage industry, Tiger Beer), United Ethnic Bank, Ethnic Chinese Banking Corporation, Shangri-La hotels, Formosa Plastics.

### *The 'Overseas Chinese' in Southeast Asia*

The overseas Chinese, estimates of a total of 17-60 million in Asia (Gambe, 2000), are present in most countries in Asia. They typically share the same or rather similar cultural traits regardless of the country of residences. Strictly speaking, the term 'overseas Chinese' should not be applied to most people of Chinese descent living outside China. 'Overseas Chinese' is a translation of the term Hua-qiao, 'sojourner', which implies that those called so only reside temporarily outside of China and intends to return (East Asia Analytical Unit, 1995). This is not the case, because most 'overseas Chinese' were born outside of China, and they are citizens of the countries they live in. As a matter of fact, most overseas Chinese in for instance Malaysia, consider themselves Malaysian, or Indonesians, or Thai and so on.

Upon closer examination, the convenient definition of Overseas Chinese would be 'Chinese living outside the PRC' (de Bettignies, 1997). This is, however, a very simplified definition, because three distinct groups can be identified. One group is the tongbao or 'compatriots', the Taiwanese, who are Chinese but ruled by a foreign or a concurrent government. Another group is the huagiao, descendents from southern Chinese migrants of the nineteenth century, living in Southeast Asia in host countries that would like to integrate them progressively. Finally there is the huayi, which acknowledge their Chinese ethnicity, but clearly reject any idea of belonging to the PRC, for example Singaporean Chinese. 'Chinese overseas' could be a more appropriate definition (Hodder, 1997). Yet, 'overseas Chinese' is today widely used to describe all Chinese living outside of China,

regardless whether they intend to return or not. I believe that 'ethnic Chinese' is the most appropriate term for a this group of people who share a distinct culture and who can be defined by reference to that culture, and throughout this thesis I will use the term ethnic Chinese.

### *Origin and emigration*

Large-scale migration from China took place in the mid 19<sup>th</sup> century, and early 20<sup>th</sup> century (Pan, 1999). It is estimated that between 1900 and the outbreak of World War 2 (in the Pacific area in 1941) nearly 10 million Chinese migrated to foreign countries, because of both internal calamities and global capitalist expansion (Liben, 2000). Almost all of the migration took place from the southern coastal provinces, principally Guangdong, Fujian and Hainan. Migration was not random, but occurred with relatives and neighbours who tended to follow each other to particular locations throughout the East Asia region. This phenomenon explains the relative concentration of one or more dialect groups in different parts of East Asia today (East Asia Analytical Unit, 1995).

An important phenomenon with regards to immigration was the formation of mutual help societies in each place of settlement. Once settled in a destination country, migrants became part of ethnic networks that would welcome future arrivals from their places of origin. These help societies assisted new arrivals to settle, and lend money to members for specific purposes. Hence the ethnic Chinese created webs of interlocking organizations and relationships, which provided a firm and stable framework within which traditional society could be recreated, maintained and developed (East Asia Analytical Unit, 1995, Pann, 1998).

### *Characteristics and business profile*

One of the influences on the business strategies of most Ethnic Chinese entrepreneurs is the set of norms and values that this distinct business culture has inherited from its historical experience. Although they may be subdivided into regional sub groups, they nevertheless share a great deal of common heritage. The combination of the original cultural bias of Chinese civilization and varying degrees of oppression through out the region leads to a relatively homogeneous set of beliefs about the conduct of economic activity. And despite some variations in particular features between societies, the basic structure and mode of operating is remarkably similar in Thailand, Malaysia and Singapore (Whitley, 1991).

The ethnic Chinese do not form an organized group. The individualism of the Chinese, their diverse geographical origins, social class, and so on make them feel that they belong, not to one greater Chinese community, but to many different sub-communities. Many ethnic Chinese are also influenced by past traditions of 'collaboration' with colonizers, and by anti-Chinese sentiment and barriers to integration in the host countries, to the extent that they may not even want to be recognized as Chinese at all (East Asia Analytical Unit, 1995). They prefer to remain discreet, and are perhaps best characterized as 'swimming crocodiles', paddling furiously beneath the surface, but with their eyes serenely above the water. However, an understanding of the Chinese social and economic history offers an understanding of present day forms of business behaviour among the ethnic Chinese



(Redding, 1990). The implication for Western businesses is that ethnic Chinese firms throughout Asia share similar business behaviour, and also that this behaviour is still similar to mainland Chinese firms’.

The family, especially the nucleus family, is the backbone of the majority of all Chinese small and middle-sized companies. The companies are built around those networks that the family has managed to build, and these networks and personal relationships are used to build and strengthen the company; Ethnic Chinese business people look to someone they have a prior relationship with. If a businessperson wants to do business with a network he is not familiar with, he will look if someone in his own relationship hierarchy is connected to the ‘target’ network (Lasserre & Schutte, 1995). This strong role of interrelationships (guanxi) among ethnic Chinese business people is perhaps one of the main reasons why foreign MNC’s find it rather difficult to get access to ethnic Chinese networks (Bruton, Ahlstrom & Wan, 2003).

A large proportion of the ethnic Chinese firms in East Asia are small to medium sized (East Asia Analytical Unit, 1995; Haley et al., 1999; Bun, 2000). Even though there are some large conglomerates in the region, they are often groupings of sometimes more than hundreds of smaller companies. Therefore these firms can be highly diversified. Financing for expansion and other financing needs are often taken care of internally, or within the network of relationships. In addition to a preference for internal financing, the firms also attempt to internalise cost where possible, which means undervaluing services such as legal and other advice and research and development.

The ethnic Chinese firm has a very informal structure, and there is seldom a visible division of responsibilities within the firm. Decision-making is highly centralized, and all kinds of decisions trickle up to highest management. It is unusual that the power in the company is held by anybody else than the father and some of the sons in the family (East Asia Analytical Unit, 1995). The typical ethnic Chinese firm is small scale, has relatively simple organizations structuring, and are normally focused on one product or one market. The firms have centralized decision making with heavy reliance on one dominant chief executive. The firms is also often under family ownership and control. The organizational climate is typically paternalistic, and the owners are very cost conscious and financially efficient, although there is a high degree of strategic adaptability, due to a dominant decision maker. The firms are linked via strong personal network to other organizations such as suppliers, customers, sources of finance, although they are relatively weak in terms of creating large-scale market recognition for brand, especially internationally. The ethnic Chinese firms are subject to limitations of growth and organizational complexity due to a discouraging context for the employment of professional managers (there are now some exceptions to this) (Redding, 1995b).



## PART I

### 1. Introduction

Recently there has been a vivid discussion in media about Asia. I do not refer to the horrible tsunami that struck the region on Boxing Day 2004. Rather, I refer to the debate about the ever increasing amount of Finnish and Swedish firms moving to Asia, specifically China. The most pessimistic forecasts claim that Finland and Sweden will lose several hundred thousand jobs to China. That firms are in the hunt for low wage countries for their production facilities is nothing new. What is, however, a new phenomenon is that not only labour intensive firms are moving to China, but also high-tech firms; whole research departments are transferred to China. What used to be the domain of large multinational companies (MNC's), emerging markets are now catching the interest of small and medium sized firms. The latest figures of foreign direct investment (FDI) in China alone amounted to 115 billion USD in 2003, a growth of 39 percent from the previous year (National Bureau of Statistics of China, 2003). For some of these small and medium sized firms, their internationalization process takes them directly to the Asian region.

This interest in the Asian markets is not surprising. The Association of Southeast Asian Nations (ASEAN) are together home to more than 500 million people, and boast a collective GDP of US\$750 billion (US-ASEAN Business Counsel, 2003), and Southeast Asia has recovered strongly from the economic crisis in 1997-1998, growing annually by more than 4% (APEC Economic Committee, 2002; www.mb.com, 2003). The whole Asia region, in turn, consists of more than 2.5 billion people, and since average growth is above 5% annually it creates enormous increases in demand. Later in this century Asian markets are likely to account for the majority of global purchasing power, contain most of the world's population and consist of all the world's growth markets, as developed markets become saturated (Fletcher, 2003).

Finnish and Swedish firms<sup>2</sup> are not only exporting to Asia, they are also increasingly moving whole parts of their operations there, also research and development activities. In light of the fact that many Finnish / Swedish firms are present or soon will be present in the Asian context, it is surprising that so little research is carried out with a focus on the this institutional context, and particularly the ethnic Chinese context. Many Western firms have realized that the ethnic Chinese enjoy a considerable comparative advantage in the Chinese market over non-Chinese competitors (Haley et al., 1999). One contributing factor for this competitive advantage is the ethnic Chinese firms' familiarity with the mainland Chinese context. This is largely because the ethnic Chinese firms' institutional behaviour has its roots in mainland China and because they have maintained their institutional legacy. Because of it, they enjoy a considerable comparative advantage over non-Chinese competitors. In fact, the ethnic Chinese are already the largest source of foreign direct investment in China, and hence, by linking up with an eC firm Finnish / Swedish firms could open a gateway to China and significantly improve their position.

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<sup>2</sup> See chapter 1.3 for a discussion about the use of "Finnish / Swedish" in this research

One striking feature in East and Southeast Asia's emerging markets is the local firms' propensity to form elaborate and complex networks. Business networks are by no means a new phenomenon or unique to Southeast Asia. In Southeast Asia, however, business networks differ sociologically, organizationally and economically from inter-firm networks in the west. Society as a whole has a network like structure, and network relationships underpin all dimensions of both social and economic activities (Jansson, 2005). In the North European context the individual is subordinate to the organization. The individual also has a small role and formal position, and the perception is that the organization rather than the individual maintains network relationships. Because many firms in the Southeast Asian context are family owned, the company becomes part of the individual's network, and the organization is subordinate to the individual. The individual have a large role and his position is informal (Jansson, 2005).

Despite an increasing transformation towards the market stage of mature Western capitalist economies, Asia's emerging markets are still different from mature Western markets. Commercial practices are more personally and socially oriented and business networks are overlapping with other networks in society. This creates an embeddedness situation of 'everything influences everything else'. In Western markets (EU or North America) societal institutions are more established, making it more possible to separate markets from society (Jansson, 2005). Western business relationships are typically organisation-to-organisation, while relationships in Southeast Asia are person-to-person (Bridgewater & Egan, 2002). Since social values are embedded into business activities in this context, Finnish and Swedish firms need to focus more on social, ethical and natural environmental issues. In addition to considering economic aspects such as efficiency and maximization, they also need to take social aspects, such as legitimacy, more seriously into consideration (Jansson, 2005).

Because Finnish and Swedish firms have evolved in a different network context compared to ethnic Chinese firms, they have also developed a different approach to relationship management and development. Therefore it becomes interesting to study how firms from two quite different network contexts manage relationship processes, and what actually occurs throughout the relationship. In essence, how do differences take shape when firms from two different contexts meet?

### 1.1 Underlying thoughts

Distance is an important concept for firms doing business in foreign environments. Cultural distance has been widely used to measure differences between firms from different countries or markets, based on original work by Hofstede, Trompenaars, Lewis and the like. Various culture variables have been identified, used, measured, and defined in a multitude of studies in order to study how firms from different cultures can reduce cultural distance between them. However, culture is an elusive concept, and the way culture is commonly used in cross-cultural business studies, it captures mainly culture-cognitive elements in the environment. There is, however, a wider array of structures influencing a firm in any given environment. The further away a firm is from its parent environment / context, the more it has to manage not only cultural, but also regulatory and normative differences (Kostova, 2002). By using the concept of institutional distance (Kostova, 2002)

it becomes possible to capture culture-cognitive, as well as normative and regulatory aspects of a specific environment. Hence, institutional distance is a better measure of differences between firms from different contexts.

It has been shown that the business environment, which influences the behaviour of firms embedded in that environment, can vary quite significantly between different regions of the world (among several, Forsgren, 1989; Hofstede, 1994; Trompenaars, 1994; Redding, 1995b; Lewis, 1999; Jansson, 2005). Since various countries and markets are at different stages of economic development they will have substantial differences in their institutional environments (Whitley, 1992a)<sup>3</sup>. Distinctiveness of specific institutional structures may limit the transferability of business strategies and organizational concepts across contexts. As a firm enters an unfamiliar network context, it has little knowledge about factors that influence relationships processes in that specific context. Linking up with actors in a new environment requires knowledge that is not covered by what the firm has learned in its home environment (Jansson, 2005).

Because institutions influence (or are influenced by) firm behaviour, the firm's relationship behaviour is also under institutional influence. Since relationships constitute the building block of business networks, business networks are also under institutional influence. Behaviour within networks become institutionalised and attuned to a specific environment, and behaviour is taken for granted as "the way things are done". As networks evolve over time in different parts of the world, institutionally specific business networks are created. Furthermore, differences in institutions between various countries are often so large that distinctive forms of business structures and behaviour are created (Whitley, 1991), i.e. networks that function in different ways are created. One interesting issue is consequently how networks from different institutional contexts can be compared, and what the institutional distance is between two contexts?

**Proposition 1:** Since Finnish and Swedish firms are from a predominantly inter-organizational context and Southeast Asian firms from an inter-personal context, they will have different relationship behaviour and also approach relationships in different ways. Because they are from different network contexts, Finnish and Swedish firms will have major challenges managing a relationship in the ethnic Chinese context.

Those Swedish and Finnish firms that are present in the ethnic Chinese context know that they are operating in countries that are different from a business point of view compared to their familiar 'home' markets. Emerging markets are a mix of Western markets and traditional economic and centrally planned systems (Redding, 1995a). Although Finnish/Swedish MNC's have been able to identify familiar structures or institutions in these emerging markets, these institutional contexts are quite different compared to western business environments. Shaped by different social cultures and different economic and political home environments, firms in Southeast Asia have developed unique business styles, which are often an eclectic mix of traditional, Confucian-inspired Asian ethics, entrepreneurship and Western professional management (Jansson, 2005)<sup>4</sup>.

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<sup>3</sup> See more on Whitley in chapter 4.3

<sup>4</sup> See more on Jansson's work in chapter 4.4

The institutional pressure to comply with values, norms and regulations is especially high in the ethnic Chinese context because of the way society as a whole is organized. Great emphasis is placed on behaviour, norms and values, and people are judged based on characteristics such as loyalty, engagement and fellowship (Bjerke, 1998). Economic life cannot be segregated from life as a whole (Koopman, 1991). If a businessperson violates an agreement, he will become blacklisted. This is far worse than being taken to court because the entire network will refrain from doing business with the guilty party (Rauch & Trindade, 2002). Violations can lead to banishment from society.

Furthermore, relationships in the ethnic Chinese context do not only develop as a result of acts and counteracts. It develops as result of the individual being able to act in a respectful manner, and showing respect for local traditions and rules. In other words, the firm's strategic orientation is legitimacy in this context, meaning that it adheres to number of rules, regulations, values and norms in order to maintain environmental support (Jansson, 2005). Hence, a crucial component for relationship development is therefore compliance with and surrendering to institutional pressures. Finnish and Swedish firms, however, originate in a context where the firms strategic orientation is efficiency rather than legitimacy. Hence, given the different nature of relationships in Finland / Sweden and Southeast Asia to what extent and how do Finnish / Swedish firms change their relationship behaviour when they are in this foreign context?

**Proposition 2:** Because of specific institutional characteristics in the ethnic Chinese context, Finnish and Swedish firms will comply with institutional pressures imposed on corporate behaviour by rules, regulations, values and norms, and behave in the same way as local firms.

When a relationship takes place between firms from the same institutional context, the firms are familiar with each other's behaviour and have similar ways of addressing various relationship dimensions, such as for instance trust, commitment and social interaction. However, firms from different network contexts are likely to have different underlying logics and assumptions guiding relationship behaviour. Various relationship dimensions will have different importance, and the firms are likely to emphasize different aspects and dimensions of the relationship. Emerging markets are often a mix of local traditional and western business practices.

Despite an increasing transformation towards the market stage of mature Western capitalist economies, Asia's emerging markets are still different from mature Western markets. Commercial practices are more personally and socially oriented and business networks are overlapping with other networks in society. One distinct characteristic is that the world of business is often mixed with the social aspect of society, creating an environment where 'everything influences everything else' (Jansson, 2005). In Western markets (EU or North America) societal institutions are more established, making it more possible to separate markets from society (Jansson, 2005). Western business relationships are typically organisation-to-organisation, while relationships in Southeast Asia are person-to-person (Bridgewater & Egan, 2002). Since social values are embedded into business activities in this context, Finnish and Swedish firms need to focus more on social, ethical and natural environmental issues. In addition to considering economic aspects such as efficiency and

maximization, they also need to take social aspects more seriously into consideration (Jansson, 2005).

The relationship process is made even more challenging for Finnish / Swedish firms in emerging markets since some institutions are less established, for instance incomplete legal codes governing market transactions, low level of law enforcement, different managerial routines and a lack of experience in forming and managing relationships with firms from industrialized nations (Ionascu, Meyer & Estrin, 2004). The challenge for western MNC's managing relationships in emerging markets is therefore not only to develop its technical organizational capability, but also to develop the social aspects of corporate behaviour.

**Proposition 3:** Because of differences in institutional contexts and structures, the nature of business relationships is different in ethnic Chinese context compared to the Finnish / Swedish context. This means that the Finnish / Swedish firms are unable to identify familiar relationship dimensions and aspects in the ethnic Chinese context.

In the Finnish / Swedish context it is said that ongoing social interaction will shape the relationship (Håkansson & Snehota, 1995). In the ethnic Chinese context, on the other hand, business relationships are built on social relationships, and personal relationships are often a prerequisite for developing other types of business activities (Jansson, 2005). In other words, social relationships are an input to a business relationship, not an outcome of the relationship as in the Finnish / Swedish context. While business in the west largely evolves around optimisation and efficiency, business in the ethnic Chinese context evolves around harmony. Since the world of business cannot be separated from social aspects, gaining legitimacy through social behaviour is as important as efficiency.

Major obstacles to relationship building between Finnish / Swedish MNC's and ethnic Chinese firms are different business logic, management styles, decision-making, organizational behaviour, and business ethics (Söderman, 1984). Despite modernizing management and organizational structures, the ethnic Chinese firms continue to reflect family-oriented structures and patriarchal top-level management. Ownership structures are often complex - if known at all - and complex ownership usually means complex business. In addition, ethnic Chinese firms typically do not have much of marketing capabilities, resource endowments, and experience in forming and managing relationships with firms from industrialized nations (Ionascu et al., 2004).

**Proposition 4:** Shaped by different institutional influences, ethnic Chinese business networks function differently compared to Finnish / Swedish. Because networks differ and because different logic applies to relationship processes, the Finnish / Swedish firms' relationship and network behaviour will not fit in the ethnic Chinese network context.

## 1.2 Research objective

This research builds on previous studies on ethnic Chinese firms. Ethnic Chinese management structures are well understood (Chen, 1995; East Asia Analytical Unit, 1995; Lasserre & Schutte, 1995; Bjerke, 1998; Tsui-Auch & Lee, 2003; Backman, 2001). The ethnic Chinese' cultural environment has also received a fair amount of interest (Björkman,

1994; Hofstede, 1994; Yang, 1994; Huotari & Rosenberg, 1995; Lasserre & Schutte, 1995; Hamilton, 1996; Moilanen, 1997; Tong & Bun, 1999; Backman, 2001). Research with a strategic perspective is also quite common (Chu, 1991; Lasserre & Schutte, 1995; Naisbit, 1996; Haley et al., 1999; Yip, 2000; Backman, 2001). Except for a few (Redding, 1985, 1991, 1995b; Redding & Richardson, 1986) network theorists have largely left the ethnic Chinese untouched. Although there are some references to the ethnic Chinese (Björkman & Kock, 1995; Johansson, Polsa & Törnroos, 2002) most network researcher are satisfied with stating that the eC are embedded in elaborate and complex networks. Additionally, although the Industrial Network Approach (INT) states that the organization is embedded in its environment, it seems to assume that networks in different contexts function according to the same or similar principles. Furthermore, because the approach is basically a Western invention with models, concepts and empirical evidence mostly coming from Europe (Gemünden, 1997) it is not directly applicable in other network contexts. As international business is shifting attention to Asia and other non-western countries the INT approach needs to be tested outside the western context (Fletcher, 2003).

There is also room to broaden the focus of INT. There is a lack of INT studies that focus on various aspects of relationships between firms from different contexts. A review of papers presented at IMP conferences during 2002 – 2004 (all in all 460 papers) reveal that very few papers address cross-cultural issues. Out of 460 papers, roughly 20 deal with cross cultural issues. Out of these 20, even fewer focus directly on relationship issues between firms from different contexts. This constitutes less than 5% of total papers submitted. Furthermore, a large part of this 5% is conducted by a handful of researchers. This is rather surprising since the industrial network approach clearly states that the firm is embedded into the environment (Håkansson, 1982; Håkansson & Snehota, 1995; Turnbull & Valla, 1986), and the fact that environments are different. Yet little attention is given to the fact that national environments may differ quite remarkably, and that networks in different contexts may be governed by different logics and principles. This in turn means that there as little attention paid to the fact that organizational concepts and practices cannot be easily transferred across environments.

There is also a lack of studies that takes an institutional approach to researching business relationships between firms from different contexts, especially with a focus on emerging markets. Institutional theory has been used to explain changing business networks (Salmi, 1995), to study how institutional distance influences the parent – subsidiary relationship (Kostova, 1997), and to study choice of entry mode (Ionascu et al., 2004). Whitley (1991, 1992a) has taken an institutional approach to studying ethnic Chinese, although his comparative analysis of business systems is more of a branch theory.

While there is a rich flora of literature on how to do business in most of the Asian markets, the books and articles typically cover subjects such as initial problems for MNC's (entry) and more 'traditional' problems facing MNC's (cooperation through joint ventures). Less attention is, however, paid to business management in emerging markets. In other words, current literature is focused more on establishing than operating and running. Similarly, literature is often more focused on what firms should do, not what they actually are doing (Jansson, 2005). Little work has been done to "open up the black box" of how the relationship process looks like between Western and ethnic Chinese firms, and there are



also no prior studies that focus on Finnish/Swedish firms in the ethnic Chinese context. In short, previous research fails to address some important issues; 1) how industrial networks function differently in different contexts, 2) how network systems can be compared and 3) how differences in network systems take shape when firms from different contexts meet.

A review of previous literature has provided me with some basic thoughts, giving raise to two main underlying assumptions guiding my interest for this topic. The first assumption is that institutions influence organizational behaviour, and thus institutions also influence network structures and behaviour. Institutions will have an impact on what goes on inside networks and how relationships develop within networks. All countries have a specific institutional profile, and this institutional set-up influences the network in specific ways, creating institutionally specific networks. In other words, network behaviour is habitualized in accordance with the institutional structures of the home context. Differences in institutions between various countries are often so large that distinctive forms of business structures are created (Whitley, 1991). As a firm conducts business in a foreign institutional environment it will be confronted with firms with different habitualized behaviour. Difference between Western and emerging markets are of such magnitude that they entail different strategic situations for the MNC (Jansson, 2005), and distinctiveness of business systems in emerging markets limits the transferability of Western organizational concepts (Meyer, 2000). Depending on the institutional distance between institutional contexts, more or less changes in business practices are needed by one or both firms.

The second assumption is that Whitley's (1991, 1992a, 1992b) work on business systems can be applied to business networks<sup>5</sup>. Whitley (1992a) has defined a business system as a successful way of organizing economic behaviour. Further, a business system is a dominant way in which firms develop and compete, and the relationships that the firms develop with each other. A business system framework also explains how activities and skills are coordinated and controlled. This logic of business systems can also be applied to industrial business networks, i.e. network systems. Network structures and behaviour develop and change within network systems in relation to dominant institutions, and hence, different and specific network systems (business systems) are created. The term network system and network profile can be used as concepts to describe the institutional environment that influences a specific network.

These two assumptions are synthesized into the following thought: How is the Finnish / Swedish network context different from the ethnic Chinese network context and what are the implications for relationship management for Finnish / Swedish relationship processes in the ethnic Chinese context? Hence, the core issues under investigation is how differences between network contexts take shape when firms meet, especially looking at how firms from the Finnish / Swedish context manage differences in the ethnic Chinese network context. These two contexts are interesting because the distance between the network contexts is large.

Some specific questions come to light based on, and as a result of, my underlying thoughts and previous propositions. What is the corporate behaviour of Finnish / Swedish firms in the ethnic Chinese context? How similar or different are Finnish / Swedish and ethnic

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<sup>5</sup> See further discussion in chapter 4.2

Chinese institutional contexts? Are existing models for explaining relationship processes valid for Finnish / Swedish firms in emerging markets? How do specific relationship dimensions take shape when Finnish / Swedish MNC's and ethnic Chinese firms meet? Should 'traditional' relationship concepts be re-defined in this context?

I have chosen to let these questions and thoughts debouch into one **research objective**. Hence, my overall research objective with this study is to understand, theoretically and empirically, how firms from one institutional context manage relationships in a foreign institutional context, with a special focus on Finnish / Swedish MNC's relationships in the ethnic Chinese context. This research objective is a result of my observation that very little is known about what firms actually do, as oppose to what they should do, when they manage relationships in a foreign context, i.e. what actually takes place in relationships between firms from different contexts. .

**Theoretically** I want to sort out concepts related to business relationships between firms from different institutional contexts. I intend to develop a framework that enables a comparison of different network contexts. This 'network profile' will compare network contexts along several institutional dimensions. I will study not only culture-cognitive structures, but also normative and regulative structures. Using this framework I will highlight similarities and differences between the Finnish / Swedish and ethnic Chinese network context. Earlier work by Whitley (1991, 1992a, 1992b) and Jansson (2005) has outlined the main elements of the ethnic Chinese network context, but a Finnish / Swedish network profile does not exist and will be developed. In addition, I will take well-used relationship concepts, such as trust, commitment, adaptation, etc. from the network literature and redefine them in the context of the study. Furthermore I intend to develop a process model that identifies how a relationship process looks like for firms operating in foreign contexts.

**Empirically** I want to increase knowledge and understanding about management of relationship processes in foreign network contexts. I especially want to understand how the Finnish and Swedish firms manage relationship dimensions in the ethnic Chinese context, and what they are focusing on through the relationship process. I will study how Finnish / Swedish MNC's actually act and decide in their relationship with ethnic Chinese, not how they should act and decide. I will also offer a thick description of the institutional environment of both ethnic Chinese and Finnish / Swedish firms.

Much like the other two powerhouses in Asia, Japan and Korea, it is highly likely that as Kina (including the ethnic Chinese) develops, it will produce multinational firms. These firms will eventually venture into Europe. Not only will many Finnish and Swedish firms partner up with these firms, many of them will also end up competing head on with Chinese or ethnic Chinese firms. Finnish and Swedish firms will loose out unless they understand the business behaviour of their competitors. Finnish and Swedish firms are going to need in-depth knowledge about business practices and behaviour in the greater Chinese context. They will also need new business models that work in this context, as it is not always possible to transfer western business strategies and organizational concept to this context. Much can be learned about mainland Chinese firms by studying the ethnic Chinese, because the institutional profile of the ethnic Chinese is similar or almost the same to the

mainland Chinese profile. Since many Finnish and Swedish have been present in the ethnic Chinese context for as much as several decades, they have gathered great knowledge and large experience in managing structures in this institutional context.

In order to approach my objective in more detail, I have formulated four research questions.

1. How can networks from different institutional contexts be compared?
2. How do Finnish and Swedish firms manage various relationship dimensions in the ethnic Chinese context?
3. What does the relationship process look like for Finnish and Swedish firms in the ethnic Chinese context?
4. How can Finnish and Swedish firms manage their business relationship with an ethnic Chinese partner?

### **1.3 Research delimitations and conceptual constructs / considerations**

This study is delimited in several ways. First, I considered several theoretical alternatives<sup>6</sup>, but after thorough review and evaluation I am using a combination of only institutional and industrial network theory. They are not however used as a whole, but focuses on business systems, institutional pillars, and relationship process. Second, I focus on business-to-business relationship. Third, several process models have been develop to explain relationship processes between firms, for instance Ford (1980), Hallén and Wiedersheim-Paul (1984), Dwyer, Schurr and Sejo (1987), Larson (1992), Ring and Van de Ven (1994), Benassi (1995), Burlton (1995), Conway and Swift (2000), Tzokas and Saren (2004) and Jansson (2005). My theoretical framework draws primarily on the stage model of Ford, Gadde, Håkansson, Lundgren, Snehota, Turnbull and Wilson (1998). Their work is interesting since it is based on work by largely Nordic researchers. Although their process model is not context specific, these researchers have developed their model based on observations and concepts of mostly Nordic firms. Hence, I consider their process model (although not explicitly so stated) a description of Finnish and Swedish firms' relationship processes in their home context.

Fourth, geographically I delimit the study to cover the ethnic Chinese firms in the emerging markets in Southeast Asia, especially Singapore, Malaysia and Thailand because of financial and practical limitations. In retrospect I can state that covering just three countries with 26 interviews took a full two months to complete. Infrastructure is not as well developed in Southeast Asia as in Europe, and the tropical hot climate creates a certain degree of discomfort. Language barriers are an everyday source of stress, and health issues are a real concern. Security problems are always an underlying worry. For instance when I conducted the pilot study in the region in 2001, a minor border dispute erupted between Thailand and Burma, and there was exchange of gunfire. During my main data collection trip in 2003, unrest was on the agenda in the Philippines. At the time of my follow-up interview trip in 2004, several bombs exploded in the southern part of Thailand a few days

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<sup>6</sup> Theoretical alternatives are discussed in chapter 2

before I passed through that part of Thailand. Just 10 days after my 2004 visit, the Southeast Asian tsunami struck the region, killing thousands of people. In between these data collection trips, other horrible things happened as well, for instance violence erupted in Indonesia, tourists were kidnapped in the Philippines, and a terrorist bombing occurred in Bali. As these examples show, data collection in the region is not always easy or straightforward. Singapore, Malaysia and Thailand were easier to choose since I am most familiar with these countries and I am able to cope in them with a relatively low level of discomfort. Another motive for choosing three countries instead of just one is that I was not able to gain access to a large number of informants in only one country. There are a large number of Finnish and Swedish firms in Singapore, Malaysia and Thailand, but there are only a limited number of Finnish / Swedish firms that have a Finnish or Swedish manager.

Fifth, I choose ethnic Chinese over other ethnic groups in Southeast Asia, mainly the Indians, because 1) their dominating business position in these markets, 2) since western firms in Southeast Asia will most likely have ethnic Chinese firms as partners, and 3) because they are part of a greater Chinese institutional context and hence, indirectly research about ethnic Chinese will also increase understanding about the mainland Chinese context. Although there are some minor variations in the behaviour of ethnic Chinese firms, they all belong to the same institutional context. All the ethnic Chinese have migrated from China, and they have maintained their cultural and institutional heritage. Specific countries become interesting only if the ethnic Chinese have been strongly influenced by their host culture and context, which is not the case in most of Southeast Asia.

Sixth, I admit that my review of relationship dimensions is not all-covering and all-inclusive, nor am I attempting to establish the interrelatedness of these dimensions, for instance if social bonds are a result/outcome of social interaction, if trust and commitment are an outcome of interaction (developed over time), and so on. I want to enter the empirical field with as 'open eyes' as possible in order to perhaps uncover new and interesting aspects. I do not want to place a lot of attention on how for instance trust and commitment is actually created; rather I want to focus on how a firm handles an altogether different way of thinking about these dimensions. I also recognize that there are a number of additional concepts that could be included in the study. I do not imply that other concepts are unimportant. My motive for selecting these six dimensions is that they are addressed in both network and industrial network theory, i.e. providing a common ground for comparing different network systems. I also chose these dimensions because they in a significant way function differently in the contexts under investigation, which is established in the institutional comparison of the study.

In addition to the delimitations mentioned above, I also make some conceptual choices. First, I consider a firm Finnish or Swedish if it has its origin and has developed in either Finland or Sweden. Additionally, to be considered a Finnish / Swedish firm the core of the firm's employees, and especially its management, have to be Finnish or Swedish. Second, I consider Finnish and Swedish firms as a homogenous group. I acknowledge that there are differences between the Finnish and Swedish countries, for instance different management style and decisions making style. Therefore, strictly speaking, there is no uniform "Finnish/Swedish institutional profile". But, by comparison with most regions in the world, the Finnish/Swedish countries constitute a homogenous area (Björkman & Forsgren, 2000).

This is especially true from an institutional perspective. The institutional environments in the Finnish/Swedish countries show large similarities, for instance family/clan, the state, legal framework, perception of time, assumptions concerning masculinity and femininity, individuality, contrast between work and private, and so on.

The industry structure in Finland and Sweden is also very similar, comprising a large forestry sector, large metal sector and a considerable high-tech sector, especially telecommunication. The economies of both countries are very export oriented (and dependent) and consist of a large number of multinational and global enterprises. The economies are integrated, for instance about 800 Swedish companies in Finland employ more than 75,000 workers and approximately 700 Finnish owned companies in Sweden provide work for about 50,000 Swedes (Nordic council, 2002). There are also numerous connections on a firm level through various networks. The similarities in these two countries also take shape in large-scale mergers between firms, for instance StoraEnso (forestry), TietoEnator (high-tech), MeritaNordbanken (banking), TeliaSonera (telecom), CloettaFazer (confectionary), and so on. These two countries seem even more similar when compared to the Southeast Asian countries. The Finnish / Swedish network system is remarkably different from the network system that has evolved in Southeast Asia.

Third, Whitley's logic concerning business systems is applied to business networks. Business networks in different contexts can be viewed in similar fashion to business systems, i.e. network systems, and creating a network institutional profile enables a comparison of institutionally different network contexts. Different institutional structures give rise to distinct ways of organizing economic activities. Institutions will have an impact on what goes on inside a network as well as how a networks function. Differences between institutional contexts are often so large that it gives rise to distinct types of network systems. Such a comparison forms the basis for highlighting similarities and differences between network systems, and aids in pointing out various challenges for relationships between firms from different contexts. A more thorough discussion of business systems and network systems can be found in chapters 4.3 and 4.4. I will use the general institutions model (Jansson, 2005) and the business systems model (Whitley 1991, 1992a) as building blocks when constructing institutional profiles for the Southeast Asian and Finnish / Swedish contexts. These two models includes regulatory, cognitive as well as normative elements<sup>7</sup>, and will therefore give a encompassing view of the institutional characteristics influences organizational behaviour on both contexts.

Fourth, in the industrial network paradigm business relationships are always specific and are empirically studied as specific phenomena within the network and relationship tradition. The starting point is that every relationship has two concrete and known parties. Because the relationship is looked upon from the perspective of both parties, concepts such as inter, join, and mutuality are theoretically as well as empirically important. However, in this study I do not specifically focus on how two firms develop relationships with each other. I am not interested in for instance how the parties commit to each other, what kind of adaptations they make towards each other, or how they work together on creating trust. My interest is what happens when "one way of thinking meets another way of thinking". In other words, I am interested in how a firm manages a different way of relating to various

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<sup>7</sup> See chapter 4.1 for further discussion

dimensions, and hence, the relationship is studied from the perspective of the firm entering a foreign context. The phenomenon I am investigating is business systems (network systems), i.e. distinguishing different network systems, identifying distinctive features of them, as well as identifying general differences and similarities between them. The link (relationship) between networks is interesting in the sense that differences between network systems take shape within the relationships, i.e. it is interesting to see how differences between network systems manifest when firms from different systems meet.

Fifth, I acknowledge that many more variables could cause different types of relationship than those under investigation in this study, for instance industry (service or production), size (SME or large), market position (leader, follower), type of product (commodity, specialized), role of the subsidiary and so on. Initially in the research processes I assumed that relationships are for instance branch specific. It, however, turned out after about four to five interviews that these variables did not play out the way I had anticipated. Hence, it removed the need for isolating 'traditional' variables in my analysis.

#### 1.4 Key concepts and definitions

Most firms are dependent on distributors and suppliers for goods and services, since companies have only limited set of resources by their own, and the firms resources can often be changed rather slowly and at considerable cost. Therefore companies must develop relationships with other actors to enhance their own resources and to gain the benefit of those others (Håkansson & Snehota, 1995). Håkansson and Snehota, (1995) define **business relationship** as an inter-company relationship development over time, consisting of a multitude of exchange episodes and transactions. Holmlund and Törnroos (1997) see a business relationship as consisting of four main attributes, i.e. mutuality, long-term character, process nature and context dependence. Eriksson and Johansson (1999) approach business relationships as an exchange relationship between two firms, conceptualised as collective actors, doing business with one another. Over time adaptation takes place and a degree of institutionalisation and routinization occurs (Ford, 1980; Dwyer et al. 1987).

*“Business relationship development is a process in which the relationship partners gradually, informally, and interactively increase the scope and intensity of their inter-firm coordination by bringing additional activities and resources into it. This process can be expected to be positively affected by trust between the partners. The process is by no means deterministic. It proceeds only as long as the partners find it profitable, or otherwise worth while, to continue and develop the business with each other” (Eriksson & Johansson, 1999).*

Every relationship is composed of different interactions between the actors, in a way, a chain of episodes with increasing interactions among relevant actors. The relationship evolves in terms of sequences of events and activities and relationship development between firms is an evolutionary process, consisting of different development phases or stages. Ford (1980) identifies pre-relationship, exploratory, development and stable stages in a business relationship. Burlton (1995) talks about five different phases, preparation, negotiation of mutual satisfaction, performing service, assessing delivery and satisfaction, as well as evaluating consequences and relationships. Larson (1992) introduces a model

consisting of the stages preconditions for exchange, conditions to build and integration and control. Ring & van de Ven (1994) sees relationships as a recurrent circle of negotiations, commitments and executions. Dwyer et al. (1987) describe five possible phases for relationship evolution based on how the two parties regard each other, namely awareness, exploration, expansion, commitment, and dissolution phases. Tzokas and Saren (2004) have lately developed an evolutionary process model where firms introduce, experiment, identify, continuously renew or dissolve the relationship. An attempt to synthesise various model is difficult, although a synthesis based on earlier classifications could consist of four different phases in the assumed chronological order: formation, configuration, implementation and dissolution (Varamäki, 1996).

During both economic and non-economic exchanges the partners learn to understand each other and trust building starts. A relationship requires a certain amount of coordination and openness of the companies. If one actor takes initiative, interaction evolves if the counterpart responds. Gradually both firms make commitments, and during the evolving process the firms learn about each other's competencies and behaviour. Trust in each other is also developed, and a strong commitment to the continuity of the relationship is created (Eriksson, Holm & Johanson, 1996). The role of communication is important throughout this process, not only verbal communication, but also for instance communication of intentions, actions, etc. Business relationships are integrated along three dimensions; a structural, a social and an economic dimension.

In this thesis a **business relationship** is seen in line with Johansson's and Eriksson's (1999) definition and is understood as an ongoing relationship between two companies with the purpose of conducting various related activities to exchange resources of some kind. The relationship takes place in an atmosphere of mutuality and common interest. The business relationship has a process nature, and relationships are composed of different interactions. The interaction process consists of multitude of exchanges and adaptation between the firms. The content of exchange may be products, money, social contacts or information (Holmlund & Törnroos, 1997).

A **business network** is seen as number of long-term business relationships that exist between firms in industrial markets, i.e. companies joining together with a common objective, working together and co-operating, to exchange and share ideas, knowledge and technology (Dean & Holmes, 1997). Both seller and buyers are seen as active partners, and they seek to explore different benefits from, in essence, various economic exchanges.

*"A business network is a group of three or more enterprises that decide to cooperate as a group in order to undertake projects, regionally, nationally, or globally, that no member of the group could really do successfully by themselves. In other words, a business network is a group of already successful businesses, which cooperate and collaborate to seek a new business opportunity. It involves cooperation among the enterprises in order to undertake projects - and also involves collaboration to achieve objectives that each could not achieve acting independently" (Industry Canada, 2005).*



A **social network** is a set of actors and the relationships that hold them together. Social networks might refer to any kind of social object: people, organizations, countries (Kadushin, 2000), organizations, companies, departments, groups and individuals, family, friends, acquaintances, and employees (Walter, 1999). The actors can be individual people, or they can be aggregate units, such as departments, organizations, or families, and they are connected by a set of social relationships of a specified type, such as friendship, transfer of funds or overlapping membership. The social relationships are highly important for the relationship process in the ethnic Chinese context. Despite being important in the Western context, social activities are quite often considered only a by-product of the formal ongoing business process, and therefore it is considered that it only has a supportive role in the business relationships (Itthiopassagul & Blois 1999). In the ethnic Chinese context social relationships are a pre-requisite for business relationships.

**Emerging markets** are markets in change and transition, characterized by turbulence and often unexpected and rapid changes. Emerging markets are undergoing change, through deregulating its markets, and liberalizing its trade and investment regimes (Gipson, 1994). The business environment is embedded, holistic, social, reforming, institution-building and network oriented. Despite reformation efforts, there are still imperfections in markets, and economic growth is accompanied by complexity and turbulence. Volatility is often high because changes can occur fast and unexpectedly. Investments in these markets are usually characterized by a high level of risk and possibility of a high return (Infoplace, 2005).

*“Countries whose economies fall into this category, varying from very big to very small, are usually considered emerging because of their developments and reforms. They have embarked on economic development and reform programs, and have begun to open up their markets and “emerge” onto the global scene”. Broadly defined, an emerging market is a country making an effort to change and improve its economy with the goal of raising its performance to that of the world's more advanced nations” (Investopedia, 2005, Emerging Markets Directory, 2005, World Bank, 2005).*

Commercial practices in emerging markets are distinctively different from Western mature markets. Emerging markets are relationship societies, and business networks are more personal and embedded with other networks in society. Commercial practices are also more personally and socially oriented (Jansson, 2005). The **business mores** in emerging markets, i.e. the business morale, which is valid when doing business in a specific country, shows large differences compared to western markets.

In the Southeast Asian context the **family** has a different meaning than in the Western context. The family is wider than the core family of the western context. The eC family consists of several layers of family and relatives. The family is sometimes visually portrayed as circles enclosing each other. The innermost circle consists of parents and their children. The second circle is made up of second tier family members such as cousins, aunts and uncles and in-laws. The outmost circle consists of friends and their friends. Within the family trust and loyalty is absolute and taken for granted (Lasserre & Schutte, 1995). To the Ethnic Chinese, anyone not from the same family, clan, dialect or village is considered an outsider and **foreigner**, and does not automatically receive loyalty and trust.



A Multinational Corporation (**MNC**) is a firm with branches and subsidiaries in several countries from which it derives at least 25 percent of its annual income. Corporations become multinational to avoid barriers to entry in target markets, benefit from lower cost labour, and secure sources of cheap raw materials (Gipson, 1994). **Institutions** are social structures that have attained a high degree of resilience, and they are composed of cultured-cognitive, normative and regulative elements that provide stability and meaning to social life. Rules, norms, cultural beliefs, behaviour and material resources are central ingredients of institutions (Scott, 2001).

### 1.5 Structure and content

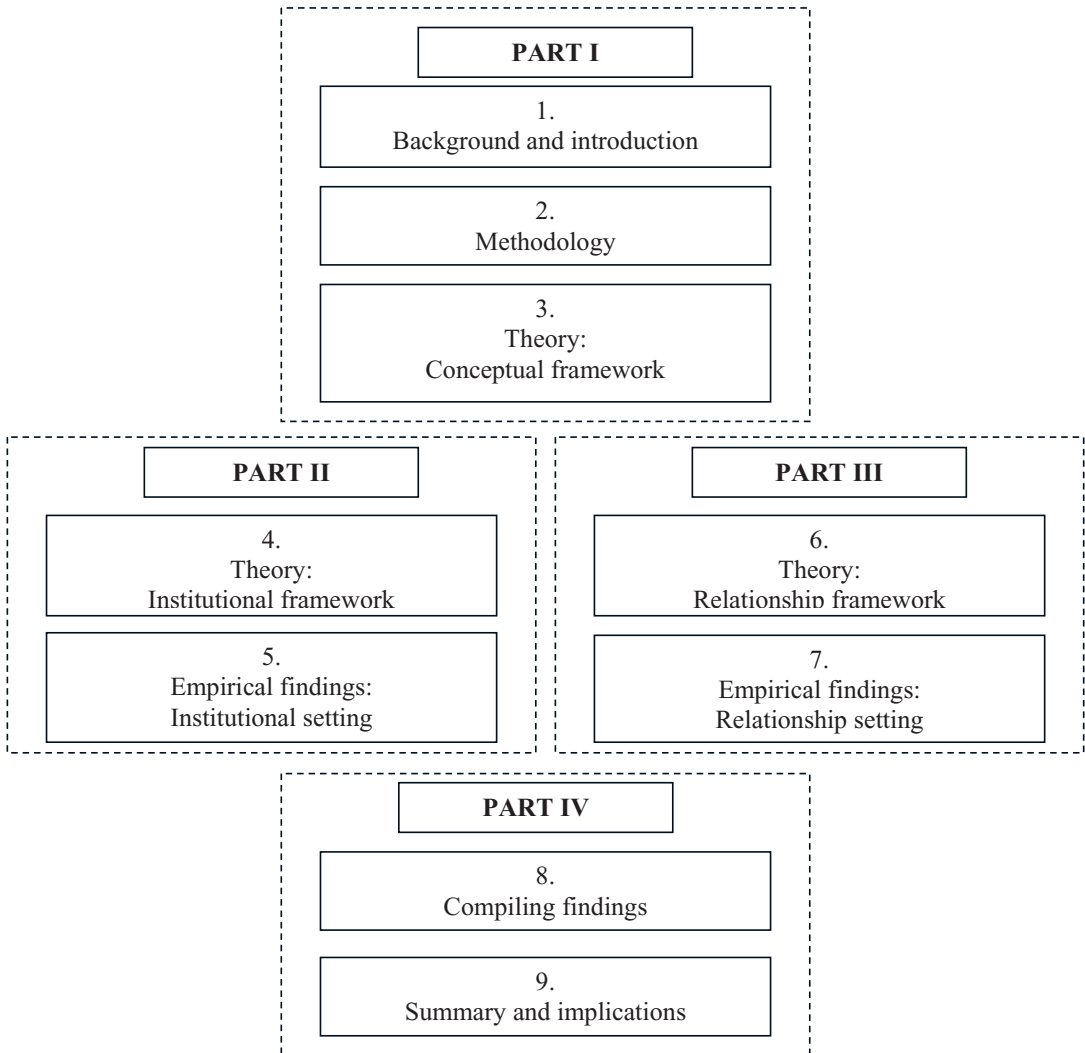
I have divided this thesis into four main parts. Part I consist of chapters one, two and three. It presents the introduction to the thesis, the theoretical foundation of the study and methodological issues. The introduction chapter presents the overall set-up of the thesis, and also outline the objective with the study. The second chapter (foundation of the study) presents the conceptual setup of the thesis. Several theoretical alternatives are discussed, and selection criteria are given for the theoretical choices. In the third chapter (the research process) I deal with the various methods used for conducting the study. Chapter three is concluded with a discussion about the quality of the research (chapter 3.5), i.e. credibility, transferability, dependability and conformability, as well as considerations about the research design. These considerations include thoughts about the overall design, theoretical framework, data collection, and limitations. The purpose is to discuss possible weaknesses in the research, implications and how these weaknesses could be remedied in future studies.

Part II of the thesis includes chapters four (institutions and firms) and five (the institutional setting) and outlines the institutional setup of the study. The second part contains a theoretical section as well as an empirical section. In the theoretical section I present the institutional aspects of the study. The purpose with this part of the theoretical section is to develop a framework that allows a comparison of different contexts. My focus is on network systems and institutional distance. The theoretical discussion draws on work by Whitley (1991), Scott (2001), Kostova (2002), and Jansson (2005). Whitley (1991, 1992a, 1992b) has previously studied the ethnic Chinese business system, but a study of the Finnish / Swedish business system does not exist. In order to explore and explain the Finnish / Swedish business system, empirical findings are drawn from a large number of secondary materials. The purpose with the empirical section is to develop a Finnish / Swedish network profile, which allows a direct comparison of the ethnic Chinese and Finnish / Swedish contexts. Based on empirical findings, both primary and secondary, the Finnish / Swedish and ethnic Chinese network contexts are described, and important differences are outlined. I will also determine the institutional distance between these contexts.

In Part III I will discuss relationship processes and this part comprises chapters six (relationships and firms) and seven (the relationship setting). In similar fashion to part II, this part contains a theoretical as well as an empirical section. The focus in these chapters is how a firm manage a relationship process in a foreign context. The main theoretical strands used are industrial and social network theory, based on work by authors such as

Granovetter (1985), Håkansson and Snehota., (1995), Ford (1998), Walter (1999) and Kadushin (2000). The empirical section builds on interviews with a number of informants. The empirical material is used to discover how Finnish and Swedish firms manage various relationship dimensions in the ethnic Chinese context.

Part IV, the last part of the study, offers the major findings and conclusions of the study. Chapter eight compiles important findings from part II and III, and present 3 major contributions of the study. Chapter eight also contains a discussion about the revised theoretical framework. Chapter nine offers some concluding thoughts and summary, and propositions from chapter one are discussed. The last section of chapter nine deals with implications for professional practice and suggestions for further research.



## 1.6 Summary

As growth in western mature markets slow down or even stagnates, emerging markets in Asia grow as much as 10% annually. The ethnic Chinese are appealing partners for Finnish / Swedish firms, but institutional differences in challenges for establishing cross-institutional business relationships. The ethnic Chinese network context is different from the Finnish / Swedish context, because the ethnic Chinese networks are economically, sociologically and organizationally different.

Despite the enormous potential of the Asian region, there is little data about business relationship in Asia. Research typically covers subjects such as initial problems for MNC's (entry) and more 'traditional' problems facing MNC's (cooperation through joint ventures). Less attention is, however, paid to business management in emerging markets. Literature is often more focused on what firms should do, not what they actually are doing. Furthermore, previous research has not focused on the apparent differences that exist between different network systems. Differences in institutions between various countries are often so large that distinctive forms of business structures and behaviour are created. Hence, there is a need for a better understanding of how network function differently, and how these differences take shape when firms from different contexts meet.

Research question	Question type	Data collection method	Method for analysis	Central chapter
1. How can networks from different institutional contexts be compared?	Theoretical	Literary data collection; articles, books, other scientific texts, etc.	Conceptual analysis	2,4,5
2. How do Finnish and Swedish firms manage various relationship dimensions in the ethnic Chinese context?	Empirical	Documents collection, literary data, articles, books, other scientific texts, interviews with respondents	Empirical analysis	7
3. What does the relationship process look like for Finnish and Swedish firms in the ethnic Chinese context?	Empirical	Interview with respondents	Empirical analysis	8
4. How can Finnish and Swedish firms manage their business relationship with an ethnic Chinese partner?	Normative	All empirical and theoretical material, literature, and interviews	Theoretically analysing all findings in the study, both empirical and conceptual	8,9

**Table 2 The study in a nutshell**

## 2. Foundation of the study

There are several theoretical alternatives for studying relationships and contexts. However, I have a few criteria regarding the choice of an appropriate theoretical base for the study. First of all, the theoretical base has to allow me to explore, understand and describe the phenomenon under investigation. Second, the theoretical alternatives have to be examined in light of the research objective as well as research questions. Third, although mixing theoretical approaches can lead to confusion and a lack of focus (Lindfelt, 2004), using several theoretical strands can enhance understanding of a phenomenon and can offer new perspectives for the researcher. In this chapter I will critically examine several possible theoretical choices, and select as well as motivate the most appropriate choices.

### 2.1 Exploring the field

When studying business relationship in different contexts, and examining the research questions posed and the problem setting, five clearly identifiable theoretical approaches seem appropriate and come into question; cross-cultural research, relationship marketing, marketing channel theory, industrial network theory and institutional theory.

#### 2.1.1 Cross-cultural research and cultural distance

It becomes rather tempting to venture into culture, or cross-cultural research when studying relationships in different contexts. There is an abundance of research covering all aspects of business, from internationalisation, to entry, management, exit and so on. The interest for culture studies is the realization that differences in national cultures have an impact on cross-cultural business relationship. What is right in one culture might not necessarily be right in another. Cultural differences may create ambiguities in the relationship, which may lead to conflict and even dissolution of the venture (Barkema & Vermeulen, 1997). The concept of cultural distance analyses the extent that cultures are similar or different (Shenkar, 2001).

There are three interesting concepts relating to cross-cultural management; cultural sensitivity, cultural understanding, and cultural competence. Cross-cultural management requires cultural sensitivity; sensitivity to national business cultures. A firm needs to understand the cultural context of a market, to be attuned to the nuances of culture, and to be sensitive to the degree to which markets are culturally similar (or different). Cultural sensitivity relates to many dimensions, for instance communication, language, norms, relationships, mental processes and learning (LaBahn & Harich, 1997).

Firms need internal (various employee backgrounds) and external (to different partners with different backgrounds) cultural understanding to succeed in foreign cultures, i.e. the ability to highlight the main elements of a culture in order to compare behaviour of people across different cultural context. Cross-national business relationships are determined partially by the appreciation and understanding that each partner has of the others social as well as structural bonding requirement and expectations (Lowe, Purchase & Veludo, 2002). For instance, while American firms are more likely to rush into a business relationships as

it is defined in the contractual arrangements, firms from the Asian pacific rim are more likely to focus on establishing the social requirements of the relationship as a prerequisite for establishing and maintaining a business relationship (Williams, Han & Qualls, 1998). Besides sensitivity and understanding, firms need intercultural competence, by developing a set of skills that enables it to succeed in foreign cultures (Lustig & Koester, 1999)

In order to compare countries researchers have attempted to identify key characteristics of nations. Hofstede (1983) originally studied cultures with the help of four main dimensions, i.e. masculinity (the degree to which achievement and aggression are valued), power distance (the degree to which differences in wealth and other endowments are accepted), individualism (the degree of interpersonal social connectedness), uncertainty avoidance (the degree of discomfort with the unknown). Later Hofstede added a fifth dimension, Confucian dynamism (search for virtue rather than truth) which can be found in Eastern countries. Trompenaars (1994) have identified seven cultural dimensions, such as attitude to time, universalism vs. particularism, individualism vs. collectivism, emotional, specific/diffuse, achievement/ascription, and internal environment control/ external environmental control. Shenkar (2001) has identified characteristics such as dominant religion, business language, form of government, economic development, levels of emigration, market size and sophistication.

There are several aspects that discourage me from using culture theory in this study. Firstly, studies into cross-cultural business relationships seems very problem focused / oriented. Such a problem perspective goes against my personal view on cross-cultural relationship. Cross-cultural relationships can certainly be challenging, although differences in national culture can also be beneficial (Simon & Lane, 2004). Because managers tend to be more aware of the potential challenges when working with foreign partners, they may be more willing to spend effort on avoiding misunderstandings than they would in domestic business. Second, culture is a multifaceted and elusive concept, dealing with many dimensions/aspects, several key characteristics, existing on different levels (personal / organizational, family, sub-group, group, neighbourhood, city, country, etc.), and variations might also occur within a culture (Selmer, 1986; Shenkar, 2001). This multifacetedness/multistructurdness/multidimensionality makes the approach broad and there is a risk of loosing focus. Third, culture studies mainly seem to focus on cognitive aspects. Although cognitive structures are certainly interesting and valid, also the normative and regulative aspects of a context are important for firms.

### 2.1.2 Relationship marketing

Relationship marketing is increasing in popularity to the point of being considered a 'new' marketing paradigm (Webster, 1992; Sheth & Parvatiyar, 1995; Weitz & Jap, 1995; Grönroos, 1996). A rather broad definition of relationship marketing is by Gummesson (1995) "*Marketing that puts focus on relations, networks and interaction*". A more specific definition is offered by Grönroos (1996) "*To establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises*". Gordon (1998) states "*Relationship marketing is the ongoing process of identifying and creating new value*

*with individual customers and then sharing the benefits from this over a lifetime of association*". A literature review reveals that relationship marketing could be summarized with a few key words; relationships and networks, value creation, interdependence and trust, communication and interaction, customer knowledge, customer-centrism, customer loyalty, long term perspective, resources and capabilities.

Relationship building is the central concept in relationship marketing (Morgan & Hunt, 1994). The relationship process consists of establishing, maintaining, enhancing, and when necessary, terminating processes with customers and other stakeholders (Grönroos, 1998, 2000). Relationship processes are interactive and takes place in a social context. There is also a notion of the long-term character of relationships, and researchers talk about enduring relationships (Möller & Halinen, 2000). Marketing activities are directed towards establishing, developing and maintaining successful relationship, which requires mutual exchange and fulfilment of promises (Hunt & Lambe, 2000).

Relationship marketing is an attractive alternative for this study, because of its focus on relationships, networks and interaction. There are, however, some limitations and possible problems that limit the attractiveness of the relationship marketing approach in this study. Despite attempts to expand the use of marketing relationship to non-customer relationships, there is still a strong focus on relationships to customers. Furthermore, there are no tools to study the context. Theoretically the approach exhibits some problematic characteristics, mainly because the concept remains an ambiguous concept without clear empirical support (Heffernan, 2004). This is highlighted in the lack of a clearly accepted definition for relationship marketing (Grönroos, 2000; Gummesson, 2002).

### **2.1.3 Marketing channel theory**

The marketing channel approach finds its roots in socio-economic theories (Andersson & Narus, 1984). Marketing channel theory explains governance structures, the nature of dyadic behaviour in the market channel context, and determines efficient relationship forms between channel members (Heide & John, 1990, 1992). Basic constructs are cooperation, trust, communication and conflicts, and how these manifest and relate to each other. The underlying thought is that the relationship is contingent on the large channel context (Pelton, Strutton & Lumpkin, 2002).

Relationships are viewed as unique and reciprocally interdependent. Actors are dependent on each other and behave reciprocally. Whether firms substitute relationship depends on the availability of alternative buyers and sellers and the amount of switching cost related to relationship specific investment (Möller & Halinen, 2000). Although early strands of marketing channel theory mainly focused on economic exchange and its efficiency, later strands have added a sociological perspective (Stern, El-Ansary & Coughlan, 1996). Currently some streams of research within this tradition emphasise the economic aspects of channel relationship, and other social and political aspects (Rosenbloom, 1999).

Marketing channel theory would be rather interesting in this study since it focuses on the firm and dyadic relationships. The 'environment' theory is well developed; emphasizing

that efficient form of governance is dependent on the context. Channel theory also allows a study of behaviour over time. Another strong point is that marketing channel theory has been extensively applied in developed countries, apart from the developing world. A challenge, however, is that although the theory is dynamic, empirical research is often rather static, and empirical work tends to be quantitative. The focus is additionally on structures not processes. Although my research is interested in structures, the empirically static nature does not fit well with my research assumptions<sup>8</sup>.

#### 2.1.4 Industrial network theory

Industrial network theory (INT) has been developed by a group of European researchers (Turnbull & Valla, 1986; Easton, 1992; Forsgren & Johansson, 1992; Ford et al., 1998; Håkansson & Johansson, 1992, 2001; Törnroos, 1997). INT has its background in marketing and purchasing, and originally it was focused on studying business relationships. In addition to having a background in marketing and purchasing, INT is also close to social networks, mainly social exchange theory, which is often used as cross-reference in IMP-studies (Lindfelt, 2004).

The INT tradition aims at understanding and explaining exchange behaviour between organizations as well as relationship development in a network context. In short, managing business relationships is described as what industrial marketing and purchasing is all about (Ford 1980; Håkansson & Snehota, 1995; Ford et al., 1998). It is not only goods, but all kinds of resources that are exchanged through interactive relationships. Relationships exist between different types of actors, such as companies, individuals and various organizations such as government and research agencies. The relationship perspective can be of the dyadic, focal firms or network type (Möller & Halinen, 2000). The organization is seen to be embedded in the industrial environment. Usually the business relationships constitute the business environment, although Lindfelt (2004) argues that also non-business actors have to be included in the business environment. Non-business actors, for instance labour market relationships, financial market relationships and government relationships, can cause direct interference between two business actors.

Questions that INT are interested in are for instance how relationships are created and managed, how nets of relationships evolve, how an actor manages these relationships and creates a position in a net, as well as how networks function and evolve. Actors are constantly exchanging products and services and thus form relationships with each other, and relationships create reciprocal interdependence between actors (Ford 1980; Håkansson, 1982; Turnbull & Valla, 1986; Möller & Wilson 1995; Sheth & Parvatiyar, 1995; Ford et al., 1998).

The industrial network theory is a quite useful approach for this study, not least because it has been developed and empirically tested, to a large extent, in the Nordic countries. Hence, it is a good tool for understanding the Finnish / Swedish network context, and how business relationships are developed in a Finnish / Swedish context. Another attractive feature is its focus is on both structure (content) and processes (how dyads, nets, and networks evolve)

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<sup>8</sup> See more on assumptions in chapter 3.1, 3.3, 3.5

(Möller & Halinen, 2000). One drawback is that although the approach states that the organization is embedded in its environment, it seems to assume that networks in different contexts function according to same principles. Furthermore, because the approach is basically a Western invention with models, concepts and empirical evidence mostly coming from Europe (Gemünden, 1997) it is not directly applicable in other network contexts. As international business is shifting attention to Asia and other non-western countries the INT approach needs to be tested outside the western context (Fletcher, 2003).

### 2.1.5 Institutional theory

Institutional theory states that institutional systems influence individual organizations or collections of organizations, emphasising that all organizations are dependent on their external environment. It is therefore a good tool when attempting to understand why firms behave and are structured in specific ways. External pressures originate from sociological and cultural requirements, as well as technological demands of society (Rumyantseva & Tretyak, 2003).

Scott (2001) has structured institutions according to three 3 different pillars, identifying these as regulatory, normative, and cognitive elements of institutions. This definition relates closely to DiMaggio and Powell's (1983) coercive, normative, and mimetic institutional forces. Seeing the environment in terms of regulative, normative and cognitive elements also offer a more comprehensive and focused analysis of differences between different environments (countries). Institutions are found between individuals, between organizations, between countries, and probably between all human and organizational relationships. This creates a complex network of relationships and respective institutions (Lindfelt, 2004). It is difficult to differentiate between culture and institutions, especially since there are multiple views to institutions and there certainly exist a wide variety and vagueness in defining the concept of culture (Salmi, 1995). For instance cognitive structures are often carried by culture (Jepperson, 1991).

Since a firm is dependent on social aspects of the society, it will pursue such activities that will increase its legitimacy. Legitimacy means that the firm agrees with the prevailing rules, requirements, and norms of their business environment (North, 1990). Firms gain (or loose) legitimacy through participation in inter-organizational relationships (Rumyantseva & Tretyak, 2003). All organizations are also social constructions, and ways of coordinating activities are dependent on the social context. Therefore the ways in which business owners and managers understand the business world and set priorities, for instance managerial structures and practices, need to be studied in relation to their societal contexts (Whitley, 1991). Institutional theory is interesting for this study because it states that the environment of an enterprise can be seen in the terms of an institutional setup, within which the enterprise conducts its business. How the firm is organized depend on how the environment is organized. According to this view, the MNC is thus integrated into its environment. Because the environment is different in different societies, the global enterprise is not able to have a standardized approach to each of it markets (Jansson, 2005). Firms need to compare different institutional context, identifying unique characters and differences, and evaluate the impact of these differences on the behaviour of a firm.



## 2.2 Toward a theoretical framework based on institutional and industrial network theory

When developing the overall theoretical framework, I had a number of assumptions that guided my theoretical modelling. First of all, relationships are processes. Second, the relationship takes place within a specific context, which influences the firm's relationship behaviour. Third, business relationships consist of not only organizational relationships, but also personal relationships. Fourth, not only economic aspects are important drivers of firm behaviour, social aspects need to be taken into consideration. Fifth, institutional contexts are not universally homogeneous; contexts are different in different parts of the world. Different thought patterns and principles in different environments create unique and specific network contexts. And finally, sixth, contexts are made up of not only culture-cognitive elements, but also regulative and normative elements.

Institutional theory was a given alternative for the theoretical framework. However, many strands of institutional theory are agent free and give the impression of being environmentally deterministic, something that does not fit well with the firm's strategic orientation. Industrial network theory on the other hand sees the organization as an active agent that builds and maintains relationships with various other actors in the environment. Adding INT would complement institutional theory, since the firm is understood as an active agent in pursue of various strategies to ensure access to different resources. Institutional theory would also complement industrial network theory since institutional theory includes both business as well as non-business actors in the environmental analysis.

These two approaches also fit well with each other since both are descriptive and offer rich descriptions on various phenomena, which fit well with my epistemological and ontological perspectives. However, some issues brought forward by the research objective and questions posed were still unsolved, foremost how to render possible a comparison of the two rather different contexts in this study. The Finnish / Swedish context is an organizational network context, while the ethnic Chinese is a personalized (bamboo) network context. A business relationship between firms from these two contexts is in fact on one side represented by an organization (network of organizations) and on the other side by a person (network of persons). Based on work by Whitley (1991, 1992a, 1992b), business system concepts are introduced to the framework.

The industrial network approach is well suited for studying relationship and network behaviour of Finnish and Swedish firms. The INT approach has been developed foremost in the Nordic countries, and in essence this approach explains relationship and networks in the Finnish / Swedish context. The vocabulary, thought patterns and logic of the industrial network approach can directly be used to explain Finnish / Swedish firms' relationship behaviour. There is, however, no readily available framework for studying the ethnic Chinese firms and networks. Since the INT framework has a western bias, the vocabulary and thought patterns should not be directly applied in the ethnic Chinese "mind-set", and the Chinese context is also foremost personalistic. Since there is no 'ethnic Chinese network approach' the question still remains; which models can be used to understand both systems?

Fortunately the industrial network approach indirectly solves this problem. INT attaches considerable weight to the social and cognitive ties that are formed between actors engaged in business relationships (Johanson & Vahlne, 1992), and social network theory (Granovetter, 1973; Cook & Emerson, 1984; Uzzi, 1997) is often used as a reference in INT (Lindfelt, 2004). The industrial and social network approach has many common elements and dimensions. Both acknowledge the importance of actors as individuals and exchanges between actors are basic elements of both. Both recognize that social structures existing between individuals and organizations are important for the development of networks (Halinen & Törnroos, 1998). Relationships in both approaches have components of mutual orientation, learning, commitment, adaptations, trust-building, social bonds social interaction over time (Håkansson & Snehota, 1995). Using both INT and social network theory enables a comparison of the Finnish / Swedish and ethnic Chinese institutional contexts; the industrial network approach explains relationships processes in the Finnish / Swedish context and the social network approach explains how relationship processes in the ethnic Chinese context.

### 2.2.1 The institutional network framework of the study

The building blocks of my theoretical framework are institutional and network theory, although they are certainly not used as a whole. In the following section I will discuss more thoroughly how these theories are used in this thesis, and underlying thoughts of the institutional network framework.

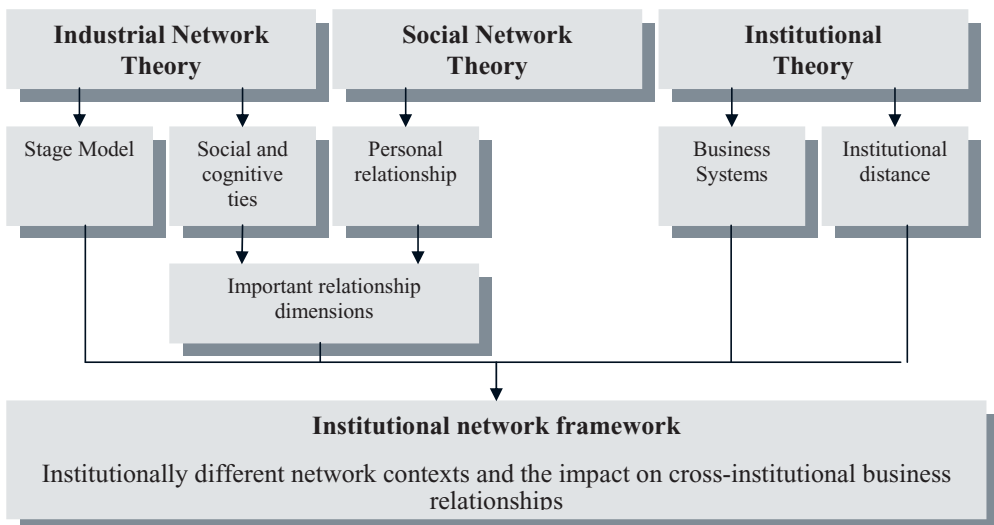


Figure 2 Main elements of theoretical framework

There are some notable differences in the way organizations behave and are structured in different regions of the world. Rather than saying that there is one universal ‘best way’ of organizing, it has been noted that structures that are successful in one context might not be effective in another (Whitley, 1991). Since all organizations have context specific

behaviour, they have to adapt (or change) their behaviour when entering another context. An institutional analysis and comparison of network contexts provides an understanding (cause) for the behaviour and structure of firms. Analysing and comparing institutions highlights similarities and differences between firms and therefore makes it possible identifying possible challenges to management of cross-institutional business relationships (effect). An analysis of institutional distance serves several purposes. First of all, an understanding of institutions also provides a deep understanding of the firm and its behaviour. Second, I do not only want to study how firms manage relationship dimensions in another context. I also want to understand why firms are relating to specific relationship dimensions in certain ways, i.e. establishing the sources for certain behaviour. Comparing institutional contexts can also highlight important differences and similarities, which in turn can be used to guide selection of relationship dimensions to include in the study. Finally, an institutional analysis based on three levels of institutions clearly highlights that more than cultural aspects are important for cross-contextual business relationships.

Any given country has specific institutional setup, i.e. an institutional environment. Over time firms' behaviour becomes institutionalized to the specific institutional profile of their home environment. Since institutions influence the way firms establish and manage business relationships institutional environments also influence network strategy. Institutions impose restrictions on behaviour and hence, institutions represent broad categories or constraints for how network strategies are formed and implemented. Various societies develop unique institutional environments that create distinct forms of business organizations, relationship behaviour and network principles. Principles governing networks may differ significantly between different contexts. Institutional distance<sup>9</sup> analyses to what extent contexts are different from each other. The further away a firm is from its home institutional environment and the larger the institutional distance, the more it has to manage various institutional differences. Successful business relationship between firms from different contexts depends on how one or both of the firms can manage institutional differences. Cross-institutional business relationships succeed or fail depending on how well actors are able to adapt to different relationship and network principles and thought patterns.

Figure 4 (below) illustrates the main model used in this thesis. The model explains that various institutions influence organizational behaviour and structures. A firm's behaviour and structure, in turn, influences how it develops relationships to other firms. Network principles and thought patterns differ in different contexts. Firms from different institutional context will therefore behave differently compared to each other and they will also place different importance on various dimensions that influence the development of a business relationship. The larger the institutional distance between two contexts, the greater the challenges to the development of cross-institutional business relationships. The success or failure of a business relationship is related to how firms' are able to address differences in various relationship dimensions throughout the relationship process. For instance one firm may focus on trust between individuals while the other focuses on trust between organizations, or one emphasizes informal and personal relationships while the other formal and organisational relationships.

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<sup>9</sup> See chapter 4.2 for discussion about institutional distance

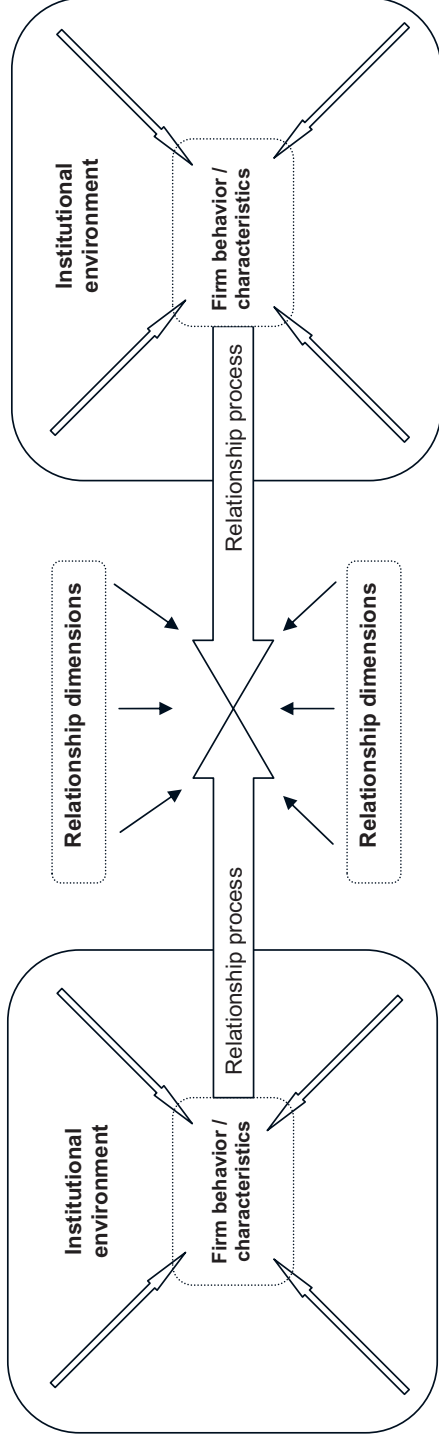


Figure 3 Institutional network framework

### 2.3 Position in the field

Moving on a continuum, there are two ways the firm can relate to institutions. The first is to consider institutions as imposing pressures on the organization towards conformity, and that the institutional environment affects organizations behaviour. In other words, institutional features of the organization's environment are important determinants of the behaviour and function of organizations (Salmi, 1995). The other way of viewing institutions is to see firms as independent actors, which have their own intentions and operate regardless of institutional structures. Institutional theory easily gives the impression that the organization is taken for granted, and suggesting that it is totally 'at the mercy' of various institutions. According to this view on institutional theory the organization is completely in the hands of the environment, and it can only react to environmental pressures towards conformity. Although certainly not all approaches to institutional theory view institutions this way, I believe the institutional approach still risks becoming too deterministic, leaving very little room for organizational discretion. This does not fit well with most strategic theory, which has the opposite approach, namely seeing the organization as an agent with own intentions (Jansson, 2005). Hence, I lean towards the branch of institutional theory that involves an agent, not as much the branch of institutional theory that is agent free and environmentally deterministic. Especially large MNC's have the possibility to manipulate the environment.

The firm conducts its business within an environment that can be seen in terms of an institutional set-up, consisting of regulative, normative or culture-cognitive elements (Scott, 2001). The normative element of institutions is interesting because it focuses on values and norms; values refers to preferred and desirable behaviour, and norms specify how things should be done. Values set standards to which existing structures or behaviour can be compared and assessed, while norms define legitimate means to pursue valued ends. Although I see institutions mainly as providing norms and values, all three pillars are important for firms. This is in line with Kostova (2002) who states that the national environment of the firm includes cultural norms, social knowledge, rule and regulations, etc. In this study institutions makes up the starting point and background for studying business relationships. Institutions are seen as a framework within which firms manage their relationships, and institutions represent broad categories of conditions according to which marketing is organized. Institutions are also the framework for different network strategies. Typically a single firm is not able to defy institutional structures of changing them, for instance political systems and country culture. However, some institutions, for instance business mores, are more prone to being influenced by for instance network strategies.

The INT literature often take a perspective on various relationship concepts (for instance adaptation and commitment) that is 'hard' and "tangible, since it focuses on issues such as production units, product adaptation, distribution, investment and so on. The underlying perspective regarding the firm's strategic orientation in the market environment seems to focus largely on efficiency and competition (regarding production, distribution and marketing) and an economic rationale. Since technical organizational capability has received a lot of attention from industrial network researchers, I will study the social organizational capability of the firm. Although the firms strategic orientation in the market

need to be efficiency and competition, this must however not contradict with basic social needs; “*Strategy is much more than the selection of product markets and technologies of production*” (Kogut & Zander, 1992). Since social values are embedded into business activities, social, ethical and natural environmental issues belong within international business management. Social aspects need to be taken more seriously (Jansson, 2005).

Another motive for choosing a more social perspective is because of the personalized nature of ethnic Chinese networks and the importance of social aspects of business relationships in the ethnic Chinese context. In this context it is not possible to separate the world of business from the social side such as politics or ethics. Hence, I will take a social rather than economic view when studying relationship management focusing on more ‘soft’ and intangible relationship aspects when studying how Finnish and Swedish firms manage relationship dimensions in the ethnic Chinese context. Such a perspective focuses on the firm’s social corporate behaviour. The firm’s strategic orientation is legitimacy, adhering to number of rules, regulations, values and norms in order to maintain environmental support

## 2.4 Summary

Several theories were considered for the thesis, i.e. relationship marketing, marketing channel theory, cultural distance, industrial network theory and institutional theory. However, due to several selection criteria, network and institutional theory were finally selected. These theoretical approaches are not used as a whole.

I propose to complement institutional theory with network theory. Network theory sees the firm as an active agent in its environment. Institutional theory tends to propose actions such as acquiesce and compromise (Oliver, 1991). I believe that by introducing a network perspective to institutional theory it is possible to broaden the view of institutional theory. Instead of being a passive recipient, a network perspective allows the firm to become an active part in its network. The institutional perspective, on the other hand, helps to understand the underlying factors influencing network behaviour and characteristics. I have also identified an overlap between the industrial and social network approach, and some common elements can be found in both approaches. These commonalities are useful since industrial network theory can help explain the relationship behaviour of firms from the Finnish / Swedish institutional context, while the social network approach can help explain the relationship behaviour of firms from the ethnic Chinese context.

The institutional network approach takes into consideration institutional influences on relationship behaviour, and differences between various institutional contexts. The focus of the framework is how differences between network systems take shape when firms from different contexts meet. In short, my main contribution to international business is to enrich the field of by bringing in influences from other theoretical areas, to provide analytical tools for mapping the institutional environment and enriching the field of relationship management.

### 3. The research process

A researcher typically has many options concerning how to approach a specific research problem. In fact, difficulties sometimes arise because there is such a rich flora of methodological options. The criteria for narrowing down the options can be broadly grouped into three categories; 1) personal, 2) convenience and 3) basic assumptions. Researchers are often guided by combination of these categories.

First, each researcher has some personal attributes, attitudes and skills that influence methodological choices, for instance how much structure a researcher needs, whether he prefers to work with people or things, if writing comes easily, or if it is a struggle (Merriam, 1998). Second, access to data is critical for the research process. Hence the researcher's choice of data collection method can be based on convenience criteria; one makes use of what is accessible. Issues such as geographic distance, language, time and financial limitations may limit the researcher to those sources of data that are 'conveniently' accessible. The research process is ultimately created based on considerations about the 'ideal' and the 'viable'. Third, the choice of research methodology is based on the researcher's assumptions about the nature of science, how knowledge is created, and so on. Initial considerations about research methodology are guided by the researcher's interest in the phenomenon and by the questions posed; is the researcher more interested in measuring or understanding. If a researcher for instance is interested in understanding how people makes sense of a certain phenomenon, data collection methods would be geared more towards unstructured interviews than structured surveys. Methodological choices would also be guided by the researchers control over events, and whether the phenomenon is context bound. The choice of research methodology will also be guided by previous research, or actually the lack of previous research about a specific phenomenon.

In this chapter I will give an account of my underlying assumptions that have guided my methodological choices. Therefore a large portion of the first section of this chapter will be dedicated to epistemological and ontological issues, since these issues have guided, and in many ways limited, my methodological choices. The discussion in this chapter will focus on three major issues; 1) assumptions (paradigm, epistemology and ontology, theory and praxis), 2) design (data collection and analysis), and 3) reflections of the research (credibility, transferability, dependability and confirmability, considerations).

#### 3.1 Research paradigm

The term paradigm refers to the process of scientific practice based on people's philosophies and assumptions about the world and the nature of knowledge. In a research thesis context the term paradigm typically refers to how research should be conducted (Morgan, 1979). Although there seems to be considerable blurring about labelling paradigms, I will use the terms positivistic and phenomenological to describe two paradigms that exist on the two extremes of a continuum (Collis & Hussey, 2003). The phenomenological paradigm is concerned with understanding human behaviour from the participants own frame of reference. The positivistic paradigm, however, is concerned with seeking facts and causes of social phenomena, with little regard to the subjective state of

the individual (Collis & Hussey, 2003). It is important to emphasize that the phenomenological research is always context bound. Positivist research, however, is believed to be context free, and categories are not emerging, but are isolated before the study.

I consider myself located on the phenomenological side of this continuum for several reasons. I aim to uncover and understand how a business relationship evolves between actors from different contexts, and how their interaction shapes the outcome of the relationships, rather than looking for cause and effect. It is also a logical choice since I do not produce findings arrived at by means of statistical procedures or other means of quantification (Eneroth, 1984). The reason for disregarding statistical procedures is that I am seeking answers to non- or difficultly quantifiable phenomena (Yin, 1994), i.e. processes, perceptions and experiences and interaction relationships. The general assumption behind the phenomenological approach is that the researcher aims to develop an understanding and to uncover individuals' experiences and inferred meanings (Froggatt, 2001), by taking part in a specific context or setting and interacting within that setting (Merriam, 1998). The phenomenological approach is logical since I enjoy and prefer interacting in the Southeast Asian environment.

Other factors guiding my choice of research are 1) the goals of the study, 2) the design of the study, 3) the sample, 4) the data collection and 5) the findings (Bryman, 2002). I am able to identify most, if not all, of the criteria for phenomenological research in my study. My goals with the study are to understand, describe, discover, and ascribe meaning. My design of the study is flexible and evolving. The sample is small, consisting of non-random informants and the sample serves a specific purpose. Empirical data is collected through interviews and documents. When I present my findings they are holistic and richly descriptive. My style of writing, which is that of an evolving story, is also consistent with phenomenological research. During data collection and the analytical process, I emphasize qualitative analysis rather than quantification.

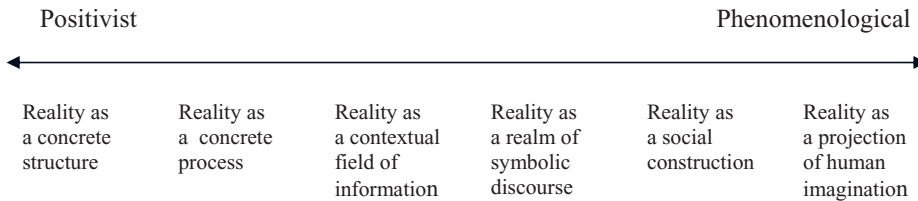
### 3.2 Epistemological and ontological issues

*“Every history and every description depends on the perspective of the author”*(Hatch, 1997).

Epistemology or theory about science, concerns assumptions about how we obtain or create knowledge (Starrin & Svensson, 1994). Basically epistemology is concerned with the study of knowledge and what we accept as being valid knowledge (Merriam, 1998). It involves examination of the relationship between the researcher and that, which is being researched (Collis & Hussey, 2003). Ontology deals with such questions as how we perceive reality, the nature and type of social entities (Ritchie & Lewis, 2004). The researcher must decide whether he or she considers the world objective and external to the researcher, or if the world is socially constructed and can only be understood by examining the perceptions of the human actors (Collis & Hussey, 2003). In other words, does the world exist regardless of human beings' knowledge about it, or does world exist through the observers knowledge about it (Bryman, 2002)?



Hatch (1997) distinguishes between two main epistemological views, objectivism and subjectivism, and four ontological perspectives, the classical, modernistic, symbolic-interpretative and post modernistic. Bryman (2002) distinguishes epistemologically between positivism and an interpretive perspective, and ontologically between objectivism and constructionism. According to Schauman (2003) the different distinctions that the two authors use is mainly only a difference in vocabulary. A researcher seldom exists at one extreme end of various assumptions, but rather exist somewhere on a continuum between core assumptions.



**Figure 4 Continuum of core ontological assumptions (Collis & Hussey, 2003)**

Adopting Hatch's (1997) terminology, I would describe my view of the world close to symbolic-interpretive, and my assumptions about knowledge as foremost subjective. On the core continuum of ontological assumptions I view the world as a mix of a contextual field of information and a realm of symbolic discourse.

A subjective epistemological approach is a natural consequence because I am interested in meanings and interpretations (symbolic-interpretive perspective) and I emphasise understanding about how actors create their reality (constructionism). I do not believe that any relationship, regardless if it is personal or professional, can be studied by observers who are independent in relation to what they are interested in. Every relationship is personal and relative. The social reality (or the social order of relationships) is constructed between individuals through "negotiations" and implicit understanding, which in turn is built on a common history and shared experiences (Hatch, 1997). Various relationship concepts and categories will have different meaning to people from different context, since they built on different history and experiences. For instance, a category such as trust is constructed by people interacting with each other; it is not a distinct or set entity. This also means that the meaning of any specific category will be quite elusive, because it changes over time and from one place to another (Bryman, 2002). The thesis is written as an 'evolving story', and I am also throughout the research process and thesis highlighting my own subjective role as a researcher.

I believe there very few aspects of a relationship are objective, especially concerning relationship management since relationship concepts and dimensions are social conventions, not natural laws. Hence, a relationship between firms from different contexts needs to be interpreted and understood, rather than measured and analyzed. It is worthwhile emphasizing the individual's active role in constructing the social reality, in other words, constructing the environment in which the relationship exists. The actors in a relationship construct, re-organize, choose and make invalid many of the "objective" characteristics of

their environment (Hatch, 1997). In fact many of them create their own restrictions and hurdles.

### 3.3 Theory and praxis

A study is typically deductive or inductive (Starring & Svensson, 1994; Yin, 1994; Merriam, 1998). What distinguishes between these two is normally the character of the problem statement itself. In a deductive study the problem can be found by exploring existing theories and choosing some of them to be the base for the empirical study. The typical process of deductive research is from theoretical considerations, to hypothesis creation, data gathering, analysis, testing of hypothesis and finally revision of theory. While deduction goes from theory to observations/result, inductions is the opposite; observations/result to theory (Bryman, 2002). Inductive research starts with gathering of empirical data, and theoretical conclusions are drawn from the empirical regularities that are found (Halvorsen, 1992; Wiedersheim-Paul & Eriksson, 1997).

However, the research strategy can be a combination of induction / deduction; an abductive study (Alveson & Sköldberg, 1994). Different activities are intertwined throughout the research process. The abductive strategy moves between theory and empirical findings, sometimes drawing on theories and sometimes on empirical findings to formulate research problems and questions. The main characteristic of this approach is a continuous movement between an empirical world and a model world. During this process, the research issues and the analytical framework are successively reoriented as they are confronted with the empirical world (Dubois & Gadde, 2002).

By constantly going 'back and forth' from one type of research activity to another and between empirical observations and theory, the researcher is able to expand his understanding of both theory and empirical phenomena (Dubois & Gadde, 2002). The preliminary analytical framework consists of articulated 'preconceptions'. Over time, it is developed according to what is discovered through the empirical fieldwork, as well as through analysis and interpretation. This stems from the fact that theory cannot be understood without empirical observation and vice versa. The evolving framework directs the search for empirical data. Empirical observations might result in identification of unanticipated yet related issues that may be further explored in interviews or by other means of data collection. This might bring about a further need to redirect the current theoretical framework through expansion or change of the theoretical model.

#### 3.3.1 My abductive stroll

My research process has been highly abductive, i.e. the design has emerged throughout the research process. My research process initiated with empirical observations during my many visits in Asia (some study, some work and some recreational related). Some preliminary thoughts and ideas emerged during these trips, and based on these I developed a research interest. The next phase in my research process was to conduct an extensive study of existing literature in order to find areas not covered by previous studies. A combination of previous experiences and observation and literature studies resulted in a

first rough research objective; to understand how Finnish / Swedish and ethnic Chinese firms are able to do business with each other. However, I was unsure how to approach the objective; what ‘my angle’ should be. In order to ‘find some inspiration’ I decided to make another trip to Asia, during which I interviewed some Finnish managers. During this trip an idea about “contextual behaviour” emerged. As I returned from this research trip I happened to take part in a course “International Strategic Management in Emerging Markets in Gothenburg in Sweden. During that course I became familiar with Jansson’s (2005) work on institutional networks, and my interest for institutional theory awakened. After this course I modelled a primary theoretical framework to help me structure my research process, and I developed some preliminary research questions to pinpoint my approach.

As I continued modelling the theoretical framework I increasingly felt that the institutional approach was quite broad. It produced rich and holistic descriptions of institutions and contexts, but a clear focus was still lacking in my framework, and I felt that I was not able to fully approach my research objective. At this point I felt that I was unable to find a perspective that would motivate me to pursue a research process that would take several years. Then two things happened simultaneously. A research visit to an institute in Bangkok came upon me, and on my way to the airport I grabbed a book, recommended by my supervisor, for reading on the flight; “A New View of Reality” by Axelsson and Easton (1992). While reading this book I realized that the industrial network approach, combined with institutional theory, would offer me precisely to approach I was looking for to tackle my research objective. While in Bangkok I conducted a small pilot-study, and in combination with further literature studies I wrote up the theoretical framework.

As I returned from Bangkok I dug for a while in the empirical material from the pilot study, and came up with some additional ideas. Consequently I rewrote, or reformulated my research objective and research questions. Having re-formulated my researched objective, I turned my attention back to literature. I quickly realized that my theoretical considerations, or framework, did not fully support my research objective. Hence, I ended up modifying my theoretical framework again.

After I completed the theoretical framework it enabled me to start designing my empirical study. The theoretical framework guided my empirical design, and pinpointed themes for the interview guide. At this stage I had to decide whether I would send the interview guide to the respondents prior to the interviews or not. There are advantages and disadvantages with both approaches. I finally decided that I would submit the interview guide only if the respondents required it. My fear was that respondents would give ‘standardized’ answers to most questions if given time to consider them. I was hoping that by not providing the interview guide to the respondents I would get answers that were a more correct view of their current thoughts about various themes.

During the phase of conducting interviews, I also transcribed the interviews. Since transcription can be viewed as a form of analytical work, I arrived at some preliminary findings, and consequently some new interesting issues arose. This led me to modify my theoretical framework by placing more attention on some parts and removing some parts altogether, specifically focusing more on social networks, and the social aspects of

industrial network theory. The new framework also redirected some of my empirical fieldwork to focus more on the newly identified issues. Another interesting result of the first few interviews was that some of the variables I have anticipated to influence relationship did not turn out to have a significant influence. I had anticipated that size, branch, and modes would influence the type of relationship that develops, but these variables did not emerge. Instead my preliminary analysis strongly indicated that variables such as structure, leverage and dependence would explain differences between relationships.

As I returned from my collection trip I began analysing the empirical material. Initially the analysis process resembled a deductive process. I was ‘testing’ how my empirical findings supported the theoretical assumptions. To my disappointment I was not able to find any significant deviations. The Finnish and Swedish firms addressed the same dimensions in their relationship with ethnic Chinese as with other Finnish and Swedish firm, although the mechanisms were different. Although my understanding of business relationship between Finnish / Swedish and ethnic Chinese firms deepened significantly, I was disappointed with the overall analysis. I decided to turn my attention away from the analysis process, and turn to literature for some inspiration.

While re-reading literature that I was already familiar with, I noticed that I viewed some issues with ‘new’ eyes. My newly acquired knowledge about business relationships worked as a pair of new glasses. Issues that I had previously given little attention suddenly appeared very interesting. Phrases such as “act global, think local”, “conformity to pressures”, “legitimacy” caught my attention I raised my interest. While contemporary industrial network studies focus on “hard and tangible” aspects of relationships concepts, my focus is quite clearly on more “soft and intangible” aspects.

For a third time I ended up modifying my theoretical framework, more clearly highlighting the relationship between institutions and relationship behaviour, as well as emphasising my different approach to various relationship concepts. At this late phase of the research the process was highly inductive. The transcripts were so to say “talking to me” and I found a lot of patterns in the transcripts that I had previously not noticed. Based on these empirical regularities I found some theoretical conclusions, foremost a relationship model representing how foreign firms develop relationships in foreign contexts, and theoretical explanations for different types of relationships.

Richard Normann labelled his book from 1975 about renewal processes in organizations “Creative organizational management”. Borrowing his label, I would consider my approach to research “a creative research process”. I initiated my research with a rather loose structure, basically containing just some guidelines and milestones for conducting the research. My overall objective was clear; I just had no idea what the road to that objective would look like. My first draft for a theoretical framework was more developed as a tool for maintaining some focus and less as a template against which to analyze and compare findings. I neglected on purpose to rigidly define all concepts in the study, since I wanted to approach the empirical world with ‘open eyes’, i.e. I wanted to maintain openness for new subtle impressions and experiences. I also allowed myself to ‘listen’ to the empirical

material as I collected it, and I allowed it to guide me to explore into unanticipated areas. Hence, my theoretical framework has been evolving throughout the research process

I do admit that I sometimes envy those researchers that start out with a crystal clear focus, a tidy structure, and a precise outline of the thesis. Allowing the structure and outline of the research evolve during the process has at times lead me far astray. On the other hand, it has broadened my view greatly. I started out as a scholar of corporate geography, and now consider myself something of a mixed marketing – management researcher, with an intense interest in international business research.

*“Regardless of which road you take up the mountain, the view will be the same once you reach the summit”*

– Chinese proverb

### 3.4 The research design

Literature provides various methods for selecting a research design (Starrig & Svensson, 1994; Yin, 1994; Merriam, 1998; Bryman, 2002; Collis & Hussey, 2003; Ritchie & Lewis, 2004). Depending on the researchers, for instance, assumptions, questions, previous knowledge, need for understanding, focus, time frame, as well as personality, attributes, and skills, above mentioned authors propose various appropriate designs for conducting the research, such as experimental, survey, longitudinal, comparative, case, action research, grounded theory, participative enquiry, hermeneutic, qualitative inquiry, qualitative ethnography, field study and naturalistic inquiry.

My overall research design is firstly guided by my research paradigm, as well as reflecting my research assumptions. I assume that reality is subjective and multiple as seen by participants in the study, rather than objective, singular, and apart from the researcher (ontological). I am also interacting with what I am researching, as opposed to being independent from it (epistemological). I also realize and admit that I am value laden and biased, not value free and unbiased like a positivistic researcher considers himself (axiological).

Since I use a phenomenological approach, and my goal is to gain an understanding of a phenomenon, access to information is an important issue. In order to develop a deep understanding of the phenomenon of interest, I need good access to data. Furthermore, when choosing my data collection method, I need to guarantee that the empirical data will be rich and descriptive. Otherwise it will be difficult to form a qualitative understanding of the phenomenon. In order to generate a thick and holistic understanding I will emphasize qualitative rather than quantitative method during analysis. My epistemological and ontological perspectives also lead to me quite naturally to collect qualitative data.

The reality for actors engaged in a business relationship is shaped by the subjective experiences of those actors, i.e. knowledge is constructed based on the actors' experiences. In order to understand how relationships function, I need to collect information about the actors' experiences. The challenge for my research is how to 'collect' these experiences. Surveys would not offer enough richness and depth of descriptions. Since I have virtually

no control over the phenomenon, I am not able to use an experimental design. My initial intention was not to develop new theory, and hence grounded theory design was not attractive. Since the focus is not on a single setting, it rules out a case study design.

Despite some access problem, I personally prefer to involve myself in the context and interact within this context. I consider myself well able to produce rich and holistic descriptions. The research questions I ask are “how” and “why”, and I am not following some development over time. Adopting a symbolic-interpretive perspective implies using face-to-face methods for collecting empirical material. Since respondents might be required to share sensitive information, personal one-to-one interviews might be required. Moreover, there is little theoretical knowledge about the focal phenomenon, and the degree of complexity is rather high. In light of these aspects and criteria the design leans towards a mix of ethnography and field study.

My research design leaves me with three primary methods for collecting primary data; personal interviews through in-depth interviews, group interviews, or projective techniques. My choice for using semi-structured interviews as the main course of data collection is primarily guided by my epistemological assumptions. I also have some other motives for choosing this method. Semi structured interviews seems appropriate because the aim of data collection is to gain an understanding of the respondents 'world'. Initially I was also unsure whether the respondents would be truthful, unless the confidentiality of a one-to-one situation could be guaranteed. Personally I also prefer personal interviews instead of questionnaires or telephone interviews.

In-depth, semi-structured interviews are also favourable because there are no set rules or frames for how and when specific questions should be asked. This provides my interviews a lot of flexibility, for instance to ask additional questions, allowing the respondent to express himself using his own words and offering the respondent to provide own ideas and examples. During the interview I have also often asked the respondents to give examples of issues that we are discussing. Additionally, interaction between phenomenon and its context is best understood through in-depth interviews (Dubois & Gadde, 2002).

Finally, every study has a strategic approach (Patel & Davidsson, 1994). In this thesis I use both a descriptive and an exploratory approach. This is in line with institutional as well as network theory, which tends to be exploratory and descriptive. The exploratory approach allows me a high degree of flexibility to experiment with different variables and dimensions. It is especially useful at the onset of my research when I attempt to identify differences between contexts and influences on relationship behaviour. I am using an explanatory approach in the later stages of the research when I present my findings based on empirical data.

### **3.4.1 Primary and secondary sources of data**

A researcher with a symbolic-interpretive perspective has according to Hatch (1997) alternative ways of collecting data, such as observations, documents, content analysis, or etnometodological interviews. My main source of data for studying the process of

developing a relationship was through interviews. Because a qualitative approach will not require me to quantify data, I was able to collect information about attitudes and opinions about such dimensions as trust and commitment. I was also able to ask for cause and effect. Furthermore, during my almost two years in the region I have been able to observe organizations, actors, structures and behaviour, and this has been a great source of understanding.

The following criteria were used for selecting research units and the respondents. First of all, the firms whose relationships I am studying must have been present in the region for a relatively long time; long enough in order to gather in-depth knowledge about the various issues that influence the process of developing a business relationship. Second, the managers of the firms have to be Finnish/Swedish and must have long experience of building relationships in the region. This criterion was chosen because the manager must have a thorough understanding of how relationships develop and function in this region since I am interested in the process. All of the firms represented in the empirical material have been in the region for more than five years. All except one of the respondents have been in the region for three years or more. A number of respondents have over 10 years experience of the region and one has been in the region for 17 years. Most respondents have been in the region between five and 10 years. My managerial perspective was not an intentional strategy of the design, rather adapting to circumstances. Most Finnish/Swedish firms have only one Finnish/Swedish employee in the region, and the rest of the staff is local.

My main sources for secondary data has been various books on Asia business strategies (Lasserre & Schutte, 1995; Haley et al., 1999; Yip, 2000; Backman, 2001; Haley & Richter, 2002), as well as books on institutional theory on organizations (North, 1990; Whitely, 1991, 1992a, 1992b, 1999; Scott, 2001) and work on industrial and social networks (Ford, 1982; Håkansson, 1982; Granovetter, 1985; Gulati, 1998; Walter, 1999; Jenssen & Koenig, 2002). Most cited journal in this thesis are Journal of International business studies, Industrial Marketing Management, Strategic Management Review, Strategic Management Journal, Management Review, de Gruyter Studies in Organization, Administrative Science Quarterly, American Journal of Sociology, Journal of Southeast Asian Studies, and Journal of Asian Business. I have also consulted various Southeast Asian newspapers such as Business Times Singapore, Straits Times, Bangkok Times and Daily News.

I recognize that I have used literature and authors that have a different approach than me. Quite a number of the articles in the reference list are quantitative studies. I do not, however, see a conflict in this. Although the approach is different than my own, their findings are still quite useful and an important source for thoughts and developments for my own thesis.

### **3.4.2 The collection procedure**

In order to find potential respondents I contacted the Finnish and Swedish embassies in Singapore, Malaysia and Thailand. They were able to provide me with a list of Finnish and Swedish companies in these countries. Based on this information I was able to identify a



number of companies. I then identified companies that had a Finnish or Swedish manager and contacted them by email.

Finnish / Swedish firms are not newcomers to the Southeast Asian scenery. Some firms have been present in the region for tens of years, while others are relative newcomers to the Southeast Asian scenery. The purpose with the selection of companies is not to compare firms with less and more experience. The most important criteria for selecting firms are that they have a local presence (sales company, representative office, factory and so on), and that they have been present long enough to accumulate extensive experience about how to build relationships with local firms. Of the firms interviewed in this study, none had been present in the region for less than five years, and most of them in fact 10 years or more. One has been in the region for nearly 100 years. These companies have accumulated a lot of expertise and knowledge about how to manage relationships in this region.

One has to keep in mind that the Finnish / Swedish companies are typically dealing with local companies that have experience in doing business with foreign companies. The local companies are also not usually the small “workshop” company that can be found in many small alleys and shopping malls in various cities in the region. Most of the local partners are medium to large sized firms, and have been exposed to foreign business practices. Therefore it is true that the Finnish / Swedish firms only meet a small percentage of local companies, and therefore the findings in this paper should not be applied to the large population of small one-man family firms or “sweat shops” that are found throughout the region.

#### *The respondents*

Those managers that have been interviewed in this thesis have been chosen because they have been located in the region for a long period of time, and therefore they have been able to follow the development of relationships over many years. In fact, a few of the respondents have been located in Southeast Asia for 15 or more years, and few have even married locally. Preferably they have been involved in starting various relationships, although in some cases a number of the relationships have been started by the respondents' predecessors.<sup>10</sup>

Another issue that have to be kept in mind is that since most of the companies have been present in the region for a long period of time, not all of the respondents have actually been involved in the start-up of business operations in the region. It is likely that the experiences would be somewhat different for a person that has been involved in “greenfield” start-up compared to one that has taken over already established business operations. The main difference between starting a new relationship compared to “taking over” an existing is that an established company already has a reputation among the local firms, while green-field investments rarely have the advantage of past relationships and contacts. So although all of the managers that were interviewed have been engaged in initiating and developing new business relationships, many of them have past relationships and a reputation to draw upon.

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<sup>10</sup> For a more thorough description of the selection criteria, see to chapter 3.4.



All in all, I send requests to 46 companies of which 36 replied. Only three of the companies that replied were not able or willing to participate in the study. They did not give any motives why they would not participate. In the end, I selected 35 persons, divided between the three countries. These 35 persons represented 29 different Finnish/Swedish companies. Five of the persons I contacted worked within the same parent companies. Unfortunately five of the respondents were not eventually able to participate in the study. One of these five had to go on an urgent business trip to China. Two of them moved unexpectedly back to Finland / Sweden, and was therefore unavailable during my stay in Southeast Asia. Finally I was unable to interview one respondent because I had totally miscalculated the location of the respondent's office. As I was conducting interviews in Kuala Lumpur, and as I contacted the respondent for address directions, I realized that the respondent's office was more than 14 hours away by train. Because I had a flight to Bangkok the next day, I was unable to make the interview. Eventually I ended up making 28 interviews, because when I had done about 22 interviews, I realized that I was reaching a saturation point where I was not receiving significantly new information anymore. I had planned to interview those respondents who had returned to Finland / Sweden upon my own return to Finland, but because I felt that I had reached interview saturation I decided not to carry through the interviews. In addition to the Finnish and Swedish managers, I was able to interview one local employee and one local scholar.

These 28 (plus two) interviews took place between the 17<sup>th</sup> of October and 20<sup>th</sup> of November 2003 with Finnish and Swedish manager. 13 interviews were carried out in Singapore, 7 in Malaysia and 8 in Thailand. All of the respondents were active in the region, and none of the respondents were interviewed twice. The table below summarized how the firms were represented by country and origin.

<b>Country</b>	<b>Finnish companies</b>	<b>Swedish companies</b>
Singapore	7	6
Malaysia	5	2
Thailand	5	3

**Table 3 Respondents according to country and origin**

Because some of the respondents asked to remain anonymous I am not able to give an account of which sectors and industries are represented in the study. Since some industries have a very limited number of major firms, and because these firms are usually represented only by one Finnish or Swedish manager in the region, there would be a real risk that readers would be able to deduce who some of the respondents are.

Of the 28 interviews, I have been using 26 in this thesis, because I was not able to use two of the interviews. The reason that I had to disqualify two interviews was that I was not able to conduct the interview in a controlled environment, or the environment was not peaceful enough. One of the respondents was reluctant to meet at the office or hotel, and therefore the interview was conducted in a place where it was impossible to settle down and relax, which was in a crowded pub/restaurant. The quality of the recording was very poor, and on the recording I can hear people ordering drinks and snacks in the bar, hearing music from the stereo and a host on talking some local TV-show. The other interview I ended up disqualifying took place at the office of the respondent, but during the interview a

thunderstorm erupted, and the noise was so loud that the quality of the recording is very poor, and it is periodically hard to make out what the respondent is saying.

As mentioned, I was also able to interview a local employee and scholar. The local employee was present at one respondent's office and took part in the interview. Because I felt it was a unique opportunity to obtain 'local' comments, I chose to include the respondent in the empirical material. The information provided by the local respondent is used as background information, as well as a source for better understanding of the relationship and what influences the relationship. The local scholar was used for some purpose.

### *Interview guide*

I had prepared an interview-guide in advance<sup>11</sup>. My interview guide is structured according to the theoretical framework. The main topics of the interview guide are the various relationship dimensions as well as the process itself. In addition to these two main topics, I am also focusing some attention on additional influences on the relationship process. These main themes are based on various elements of the theoretical framework, which are relationship dimensions, the relationship process, and interaction.

My interview guide is divided into four major parts. The first part deals with the background and general aspects of the relationship. The second part focuses on the interaction between the Finnish/Swedish firm and its partner, while the third part deals with the process itself. The fourth part covers different important dimensions in the relationship. The interview guide was not sent prior to the interview to the respondents, but they received information about the main parts of the thesis that would be covered during the interview. All respondents welcomed me warmly and were quite open to my questions. They also provided me with an answer to all my questions – not a single time did anyone refuse to answer any specific question. However, some of the respondents have asked to remain anonymous. They have not provided me with specific reasons for this choice. Because some respondents asked to remain anonymous, I have chosen to use codes for all respondents while presenting findings.

The first part of the interview guide deals with some general issues, such as the respondents' experiences of Asia, information about the respondents' local partners, and the respondents' overall view on relationship in Southeast Asia. The second part of the guide deals with the process and relationship dimensions. One purpose with these questions was to find out how the respondents view their partners and how they believe they should act in order to comply with the norms and values of their partners. Another purpose with this part was to establish how the relationship development process actually looks like in this context. The third part of the guide deals with additional influences on the relationship. The purpose with this part was to establish whether there are some additional elements that would have a strong influence on the process.

The interview guide was a structured list of those questions at themes that I wanted to cover during the interview. When preparing the interview guide I was also guided by more

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<sup>11</sup> See appendix for complete guide

general issues, for instance a need to answer the research questions and propositions. I also put a lot of effort into using language and terminology that would suit the respondents. I attempted to avoid formulating my questions to become too specific. In that way they would not prevent alternative ideas or views to occur during the gathering procedure. I chose to use different types of questions, such as introductory questions, direct and indirect questions, interpretive questions and follow-up questions. With follow up questions, I always tried to have the respondents for instance compare two issues and comment on them. I also sometimes ask the respondents if they could explain something in another way, or give further examples.

### *The interviews*

The first phase in the interviews was to remind the respondents that the interview was fully confidential, and that I would ask the respondents approval before publishing any results. The following phase was to ask the respondents some general questions. These questions were not part of the interview guide, for instance questions such as how long they have been in their respective industries and companies, their personal motives for coming to Asia, what their personal challenges have been when doing business in Asia, and so. The purpose with these questions was to make the respondents relax and to create a certain amount of trust between the respondents and me. This part of the interview typically lasted no more than ten minutes, but I feel it was quite necessary for the overall atmosphere of the interview situation.

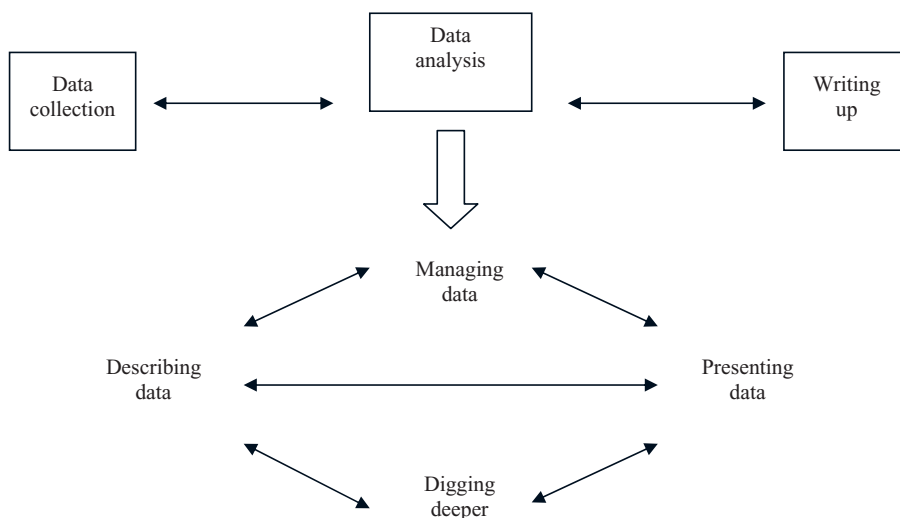
The interviews lasted on average one and a half hours, the shortest being one hour and 19 minutes and the longest three hours and ten minutes. All interviews were recorded and later transcribed. I tried to conduct the interviews in my native language Swedish if possible; otherwise the interviews were done in English. Although many of the respondent's native language is Finnish, it posed no obvious problems since the respondents have a thorough knowledge of English, because the business language in the region is English. Most of the interviews were done at the offices of the respondents, and only four were done in my hotel, one was made in a restaurant. Thus I was able to make sure that the interviews were done in a peaceful and uninterrupted environment, which improved the quality of the recordings. This arrangement also ensured that the respondents did not have to worry someone overhearing what was discussed during the interview.

### *Transcription*

I recorded all of my interviews because I wanted to fully concentrate on the dialogue and to make notes. In case some interesting aspects came up after the interview had formally ended, I made preliminary notes and immediately upon return to my hotel I wrote a more detailed note of what had been discussed. Without exception I transcribed my interviews that same evening of the interview. While transcribing the interviews I preliminary grouped them according to question and subject. During transcription I also grouped the material according to country, themes and dimensions. Thereafter I reduced the material, by cutting out and grouping sections presenting a specific theme.

### 3.4.3 Data analysis

Qualitative data analysis is often complex, and an iterative process that entails working inferentially and systematically with the data to produce a written account. The analysis process consists of managing the data, describing the data, digging deeper and presenting data. The analysis transformation process is concerned with both handling data, i.e. management and retrieval, as well as interpretation, which concerns the identification of meaning (Froggatt, 2001). Managing data involves preparing the data so that it is ready to be analysed. The data is clearly labelled and indexed, as well as prepared so that it is in a uniform state. Coding means assigning labels to bits of data so that all text under a certain label can be retrieved and brought together. The practical procedure of the analysis process is data simplification and reduction, in order to focus the often vast amount of data to enable it to be presented.



**Figure 5 Iterative processes in qualitative data analysis (Froggatt, 2001)**

Managing my data was fairly straightforward. The interviews were recorded with a digital recorder, which easily could store up to 8 hours of interviews. After the interview was over, the recording was transferred to a computer. The quality of the recording was always very good, and using a simple sound program, which was delivered with the recorder, I was able to listen to the interviews. The sound program had several functions, such as setting multiple index marks, repeat sections, lowering the speed and so on. I stored the sound files and used index names to save them. The names of the files showed the name of the respondent as well as date of the recording.

After transcribing the data I was reading and re-reading the data. While reading the transcripts I was looking for patterns within the data, and also things of surprise, contradictions and similarity. I was also using different colours in the word processor to highlight certain issues, thus using them as codes. I prepared the data by sorting it

according to different codes (codifying the data), being guided by the theoretical framework throughout the process. Some of the codes used that I used was country, topic, person, dimensions and key words, such as “early in the process”, “long-term”, “hierarchy”, “local presence”, and “decision making”. I was also grouping data that was occurring often. The data was cut up into smaller segments and placed in different folders, according to specific codes. The process of data reduction was made easier since the theoretical framework guided the interview.

Kostova (1997) and Ionascu et al. (2004) use mainly quantitative data to measure the distance between different country environments. I will use qualitative input to both describe the institutions and comparing them. I will use a scale mainly consisting of the variables high, medium and low distance. The main reason is that I am not attempting to determine the “exact” distance between these two contexts, rather pointing out to what extent the two contexts are similar or different from each other.

My process of data reduction can also be considered a form of preliminary analysis, which refines, iterates and revises the framework (Miles, 1979). As I identified some patterns and themes, I started looking for more explicit interpretation of the data. I also raised some questions and propositions. In addition to looking for patterns, I was also identifying issues based on frequency, contradictions, or lack of issues that I had anticipated. I was also reviewing the research questions continuously, comparing them against the collected data.

Data analysis and collection was not a separate activity, since I transcribed an interview after I had conducted it. Doing so I was able to gain an early picture of my phenomenon, and patterns and themes were slowly evolving. During the collection phase I developed many ideas and thoughts about business relationships between Finnish/Swedish and ethnic Chinese firms. Since I worked with the material throughout the collection process, I was able to focus more on some specific issues I found interesting. This kind of process was also quite fruitful since it offered new ideas for further data collection. Another advantage of transcribing immediately and doing preliminary analysis is that I was able to identify some holes or missing data, and then go back to the field to collect additional data to fill these gaps.

Citations fill a special function throughout the thesis. The citations are a central element in creating the ‘evolving story’. The citations help to create a picture and an understanding for how the respondents think and experience their surrounding context. The citations are also an important tool for supporting analysis and increasing credibility for findings and conclusions I reach. In many cases I let the citations ‘talk’, so to speak, to exemplify and strengthen various arguments. In many cases it would certainly be possible to create an abstract description of various findings, but I have chosen to create rich and subtle distinctions since it is in line with my own way of creating an understanding for various phenomena. Citations have been chosen based on how well I have felt they enrich an understanding and how well they capture the essence of a specific phenomenon.

### 3.5 Reflections of the research

In order to produce research with high quality, a phenomenological research paper should provide the reader with detailed descriptions allowing the reader to decide whether the conclusions drawn are logical or not (Merriam, 1998). To measure quality of research, the terms validity and reliability are often used (Yin, 1994). Validity and reliability are based on the researchers' ability to plan the study, the analytical skills and the conclusions that are drawn. Internal validity measures how well the findings in an empirical study relate to reality. It is also a measure of whether the researcher has investigated what was supposed to be measured. External validity refers to whether or not a study's findings can be generalized beyond the immediate case study. Reliability concerns the extent to which the findings and conclusions can be replicated by another researcher following the same procedures as my study. The goal of reliability is to minimize the errors and biases in the study. I prefer to use Bryman's (2002) alternative concepts for assessing qualitative research because Yin's concepts are rather case study specific. Bryman uses credibility, which corresponds to Yin's internal validity, transferability, which is equivalent to external validity, dependability, which can be compared to reliability and finally confirmability, which corresponds to objectivity.

#### 3.5.1 Credibility, transferability, dependability and confirmability

All knowledge is filtered through the observer, and is therefore influenced by cultural, social, and cognitive factors. This means that the world surrounding a relationship is subjectively defined. This in turn means that I might, and most likely will, receive findings that are complementary, conflicting, or even contradictory. For the sake of making conclusions from the empirical material, conflicting or contradictory findings could be considered unacceptable. However, I believe that such findings are an interesting aspect in my study. I wanted the possibility to explore whether differences in the experiences, views and ideas of the respondents would give rise to contradictory or conflicting views about the challenges of building relationships with ethnic Chinese. I assume that this will offer me a more complete picture of important dimensions and aspects in a relationship.

In order to guarantee a high degree of agreement between concepts and observations, and to improve credibility I have used multiple sources when available. By doing 28 interviews I believe I have attained a high degree of agreement between the concepts I have used and my findings. After the interviews I often stayed for some time to discuss interesting aspects of my preliminary findings with respondents. I have also discussed my findings with other academic researchers. After I concluded my analysis I sent the findings to the respondents and asked them whether they find the result plausible. Since the respondents were allowed to confirm or deny findings I believe that it has increased credibility.

Credibility is also increased because I have spent considerable time in the region. I have studied in both Singapore and Thailand for five and four months respectively, and I am thus well acquainted with the environment and the context in the region. In addition to spending considerable time in the region on various research and leisure trips, all in all more than two years, I have been writing and doing research about Southeast Asia for a long time. I

conducted my first studies and research about Asia more than 10 years ago. My masters' thesis also dealt with Southeast Asia, and I finished my degree in a program called Southeast Asia studies.

I believe credibility is high in this study because the empirical evidence and the analysis have been documented in detail. I have given a thorough description of the theories I have used, the procedure of collecting data and empirical evidence, how I chose respondents, decisions regarding data analysis and problem formulation, and the analysis is made explicit in chapter five and six. I have also provided a complete list of all literature that I have used as well as interview questions (as appendix). During planning and implementation of interviews I was careful with formulating and asking questions, in order not to "put words in the mouth of the respondent" and to allow the respondents to answer freely. When I developed the interview guide I also had help from senior researchers with extensive experience from conducting interviews.

Finally, in order to increase credibility, I have constantly referred back to the empirical data, and offered as many citations as possible. I have attempted to use direct citations, as given by the respondents. In the case of poor language, I have corrected the language to make it more understandable, while continuously being careful to maintain the original message. In most cases, correcting language has meant correcting tempus, word sequence, and splitting up long sentences. If I were uncertain about some citation, I e-mailed the respondents to receive his or her view of it.

It would be rather difficult in my study to transfer the findings of the study beyond the immediate study, because the study was set in a specific context. I believe it is unlikely that I would receive identical answers if the research would be conducted one more time, because the in-depth interviews were highly context specific and highly influenced by the situation in which they occurred. I am not at any point attempting statistical generalization. Instead I have focused on theoretical generalization, developing models and frameworks than can be used in other contexts.

When I contacted the respondents for the first time, I included a thorough letter that explained the reason, purpose and content of the study. I emphasized that they would remain anonymous at all times, and that I would be the only person to analyse the data. I also emphasized that they would not be required to present any sensitive or strategic information. The interviews would focus only on their personal experiences of developing relationships in the region, and how they perceived various relationship dimensions. I feel that I got reliable and honest answers from the respondents, because there is a high degree of consistency in responses from the different respondents. The credibility of the respondents' knowledge is of course high, since all of the respondents have spend many years in the region and are well aware of how business relationships are developed in that region. Yet the respondents in some cases wanted to point out that they have maintained much of their Finnish/Swedish perspectives on business practices.

Concerning their willingness to give information, I felt that many of the respondents were rather enthusiastic about my interest in their experiences. Some of the respondents even called me in Finland once they had received my e-mail requesting an interview. All of the

respondents allocated more time for the interviews than I had expected or asked for, and in many cases the interviews lasted much longer than I had anticipated. When I asked various questions, the answers were elaborative and descriptive. Despite the fact that there is a high level of consistency between the various respondents' answers, some contradictory answers did appear during the interviews. In the case I felt that there was a contradictory answer, I asked the respondent to further elaborate his or her answer, thus attempting to highlight the issue at hand in order to clarify the contradiction.

Because there are no exact rules for analyzing qualitative data (Collis & Hussey, 2003), I followed some basic principles when analyzing my data. First of all, I critically examined all findings, and I also systematically processed the data, ensuring that I provided thorough account of the way I have proceeded throughout the analysis process. At all times I have reflected the findings in light of the theoretical framework, and I have also attempted to reason logically when drawing conclusions. In addition to this, I have also continuously motivated my interpretations and answers, thus attempting to minimize the risk of using subjective rather than objective judgments. I have also discussed my findings with other researchers, and presented my research at various tutorials, conferences, and to colleagues.

I do, however, acknowledge that interpretation and analysis to some extent involved a degree of subjectivity (characteristic of phenomenological research). In order to minimize the risk of subjectivity, my strategy was to seek and promote answers that are as elaborate and comprehensive as possible. I believed that if I give as comprehensive answer as possible, there would be less risk of being influenced by own pre-understandings. In order to clarify my background and beliefs, I have described my personal motivation and interest for this research. Finally, credibility should also be high because my theoretical framework builds on earlier models that are well established, and I am also using many perspectives in order to illustrate business relationships. I am also using concepts from different domains and areas.

### **3.5.2 Considerations of the research design**

In this final part of the chapter, I will discuss various issues that relates to the design of the study, and I will give careful consideration to various issues that might affect the results of the study. I will discuss possible weaknesses in the research design, and I will also offer possible solutions for overcoming these weaknesses in future studies.

#### ***About the overall design***

The abductive approach has been very useful since my style of writing is not about writing and completing one chapter and then moving to the next chapter. Some interesting aspects and thoughts arose during data collection, which took me back to, for instance, refining the theoretical chapter. Although this type of research has suited me, it has not been without its problems. Moving back and forth between theory and practice has had the inevitable drawback of forcing me to modify my theory and interview guide several times. As I found some new and interesting aspect, I had sometimes to turn my attention to the theoretical framework and had to modify it. Hence, I also ended up refining the interview guide,



adding and removing questions. The end result was that I did not ask the same questions to all the respondents. This should not, however, be a big concern. I feel that I nevertheless got rich and descriptive empirical data. And since I modified and improved the theoretical framework and interview guide several times I also ended up with more than one perspective on the same issue. One underlying question remains; could I have arrived at the same conclusions using a different approach in my study? Since I seek to offer rich descriptions and deep understanding of my research phenomenon, it is my belief that alternative approaches to the research would not have resulted in my desired richness of descriptions and understanding of the context, processes or the respondents' interpretations of various relationship dimensions. I also believe that I would not have been able to approach the research problem in as many ways unless I would have been continuously moving between the theoretical and empirical field.

I started out with a preconception that the Finnish / Swedish firms' relationships with their partners were laden with problems. As a result of this view, my approach to the research process was initially more of 'problem solving' than 'exploring'. When I conducted my pilot study, I realized this 'error' and changed my thinking. In retrospect I believe that it could have been better to start the research process by doing a more extensive pilot study to gain a more 'correct' understanding of the conditions in the field.

As mentioned earlier, the managerial view that I adopted in this thesis was not by choice. Most of the firms that I interviewed had only one Finnish / Swedish employee, who always happened to be in a managerial position. It would of course be interesting to also interview employees in other positions, since position and age has some influence on a relationship between two individuals in this region. I assume that a person in a high managerial position has an easier time getting access to individuals in the partners firm. A manager might therefore have fewer difficulties in navigating the complex structure of ethnic Chinese firms, and could also gain respect and trust easier. In future studies I would use "snow-ball sampling" to select a part of the total data set

### *About data collection*

My first design for the research also included interviews with ethnic Chinese firms. However, when I started contacting firms for the empirical study, I quickly realized that there were large access problems. Despite serious and hard efforts to gain access to local firms, I was not able to do so. I could possibly have been able to work around this problem if I would have conducted a larger pilot study with Finnish / Swedish firms. This means that I might have been allowed access to some of the Finnish / Swedish firms' local partners. Another option could have been to contact ethnic Chinese firms that are established in Finland / Sweden. Unfortunately, many of these firms are micro firms, and typically operate in the restaurant business.

A phenomenological study is not only limited to qualitative data. It can also have a combination of quantitative data input in the data generation process (Collis & Hussey, 2003). I could have enriched the empirical finding by developing a small questionnaire that would have targeted issues such as perceived success in the relationship, frequency of interaction, preferred contacts in partner firms, and so on. It would for instance be

interesting to compare how firms, which perceive they are successful, and firms, which feel they are less successful, address various relationship dimensions. Another weakness in this study is that it lacks a comparison of Finnish / Swedish firms with firms from some other western context. This issue is related to the respondents' statements about perceived advantages of being Finnish / Swedish. Few of the respondents mentioned any drawback of being Finnish / Swedish, which upon some reflection is unlikely. If I had conducted a study with for instance American or Australian firms it could have enriched the study. It would possibly have established whether there are some unique feature in the Finnish / Swedish way of developing relationships, i.e. if there is Swedishness / Finnishness.

One aspect that I have not addressed in this thesis relates to the financial and economic crisis that swept through most parts of Asia in 1997-1999. This crisis brought along many changes on macro and micro level for many economies<sup>12</sup>. This study has not established what kind of changes has taken place, how the respondents have experienced these changes or what possible effects it has had on relationship management. It would have been interesting to conduct a longitudinal study to identify possible changes in relationship behaviour.

### *Limitations*

The empirical material only contains firms that have succeeded in their operations and remained in the region. I was unable to obtain information about firms that had left the region. I assume that those firms that succeeded and those that do not would offer slightly different views on the process. It can be assumed that firms having succeeded will offer a more optimistic view of the challenges and would be inclined to place less emphasis on perceived difficulties. I also believe it would have been important to conduct interviews in another context to verify that my findings are truly context specific. There is for instance the possibility that "selling is selling everywhere in the world", i.e. that such issues like record of accomplishment, importance of price and delivery, and personal characteristics are equally important in any context in the world.

Using interviews as the source for empirical data was not without problems. There was a risk that the respondents started constructing their reality during the interview, i.e. that they created a specific reality based on the questions and themes that I asked and addressed. Although there was no direct method for eliminating this risk, I have attempted to minimize this risk. The way I worked with this problem was to ask respondents to comment on various themes that I had chosen for the interview, for instance how important a certain theme is for the overall relationship. If a respondent claimed that some theme I addressed was unimportant then I refrained from asking further. The risk was that the respondent would feel he or she was required to answer and hence, would have created reality rather than reflected on it.

Another potential problem connected to using interviews as data collection method was that the actual interview was situation specific. The respondents might have answered differently if another person had asked the same questions. The chemistry between the one doing the interview and the one being interviewed has an impact. Respondents might also

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<sup>12</sup> See Haley et al., (2002) for a thorough description.

have answered differently if the context of the interview had been different, or if the interview had taken place at another point in time. Interpreting another person's reality is no easy task. In essence I have tried to describe with words what another person experiences with all his senses. A number of errors could therefore have occurred during the analysis process – bias being one of them. Sources of bias were of course my own experiences of Asia, and how various issues have been presented in literature. My strategy for eliminating bias was 1) to ask respondents to comment my findings, and 2) to ask colleagues and other researchers to comment on my methods, assumptions, proposition etc.

There are some limitations concerning the overall institutional network framework. First of all, it does not take into consideration the dynamics of the six dimensions under investigation. Although explicitly stated that the dynamics of various relationship dimensions is not an area of interest in this study, one further improvement of the framework would also handle this issue. Another limitation with the framework is that there are no mechanisms that specifically explain how institutions are translated into relationship dimensions. Institutions provide explanation and understanding for certain type of relationship behaviour, but how changes in for instance business mores influences commitment remains to be further taken into consideration in a revised framework.

However, despite these limitations I still believe that the institutional network framework is a useful conceptual tool for studying business relationships between firms from different institutional contexts. It strongly highlights and emphasises that an understanding of institutional structures provides a deep understanding for firm behaviour. Hence it provides understanding for specific behaviour concerning management of relationship dimensions in foreign contexts. It also highlights that some institutions are resilient to change, while some are more prone to influence or change, i.e. indicating that the firms strategic response to various institutions should vary.

Finally, what do the findings actually tell us? There are some limitations regarding the findings of the study. First, since only Finnish / Swedish firms are under investigation it is not possible to establish whether the findings are uniquely Swedish / Finnish or if they apply to other western countries as well. Second, the mixed relationship model<sup>13</sup> has not been tested outside the specific context of this study, either in another context or from another western firm's perspective. Finally, are Finnish and Swedish firms unique, i.e. are they better than other western firms at managing relationships in the ethnic Chinese context? Since other western firms are not included in the study, it is not possible to establish if there for instance are unique characteristics in the Finnish / Swedish context that makes the firms perform better or worse than other western firms.

### 3.6 Summary

The research approach in this thesis could be labelled “creative research process”. The research process has evolved gradually, constantly moving between the theoretical and empirical realm. All concept and criteria were not defined at the onset of the research process, instead a combination of empirical data and literature reviews guided and steered the process. The choice of final research design has depended on paradigm, which in this

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<sup>13</sup> See chapter 8.1 for further discussion about the mixed relationship model.

thesis has been identified as closest to phenomenological. The research assumptions, which are subjective and symbolic, delimit analysis methods, and qualitative analysis methods are emphasized in this thesis.

Because of limited previous knowledge about the phenomenon, an explorative approach is largely used. Since how and what questions are posed, and descriptions need to be rich and descriptive, interviews are preferred as method for collecting data. However, one-to-one interviews are used because of limited control over the context, events, and phenomenon. Personal interviews are also used because of personal preference for communicating and interacting in the context of the study. The study builds on 28 interviews with Finnish and Swedish managers working in Singapore, Thailand and Malaysia during October and November 2003. A managerial view is taken, and the interviews evolve around the managers' relationship management processes with ethnic Chinese firms.

## PART II

### 4. Firms and institutions

Organizational studies are, among other things, interested in assessing whether and to what extent institutional systems influence individual organizations or collections of organizations. Institutional theory emphasizes that the firm does not stand alone in the world, but is dependent on its external environment. This external environment can both be seen as an obstacle or threat to the firm and/or as a stimuli or opportunity. The former is perhaps best witnessed by most companies' gradual geographic expansion away from relatively familiar markets. The latter is more common in firms with more experience of foreign environments, because they can benefit from these environments in the same way they benefit from a home market environment. An example of this would be that the firm gets ideas from abroad about developing new products and management techniques (Jansson, 2005).

Different research traditions approach institutions in different ways, and even within the traditions there is considerable variations as to how institutions are understood (Salmi, 1995). Institutions have been identified, as for instance, governance structures (Williamson, 1975), the general environment (Jepperson, 1991), the organizational environment (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Meyer & Scott, 1983), formal organizations (Zucker, 1987), frameworks of programs/rules and rule systems (Jepperson, 1991) and the rules of the game (North, 1990, 1993).

Institutions are social structures that have attained a high degree of resilience. They are multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources. Institutions are transmitted across generations, to be maintained and reproduced (Scott, 2001). Institutions standardize behaviour and transfers rules, norms and ways of thinking between individuals. Society can be seen to be divided into different social groupings, which are characterized by different regularities or rules. Such a grouping forms an institution where behaviour follows the specific rules inherent in it. These groupings also influence each other and hence, what goes on in one institution is both influenced by rules within it and by those of other social groupings (Jansson, 2005). While it is entirely possible for human behaviour to exhibit random characteristics, behaviour within a community is ultimately subject to social prescriptions or proscriptions (Bush, 1987).

#### 4.1 Three pillars of institutions

Various theorists have argued that institutions are composed of regulative, normative and / or cultural-cognitive elements (pillars) (Scott, 2001). These three pillars form a continuum moving from the conscious to the unconscious, from the legally enforced to the taken for granted (Scott, 2001). All three pillars of institutions are important firms. However, there is a slight difference in the way Kostova (2002) and Scott (2001) deals with institutions. Scott (2001) deals with the issue of how different researchers view institutions, how they are distinguished from each other, and how research tradition has developed. Kostova (2002) states that the national environment of a firm consists of social knowledge, cultural norms,

and rules and regulations. As a firm enters a foreign institutional context, it has to manage cultural, regulatory and cognitive differences.

#### *The culture- cognitive pillar*

The cognitive pillar reflects widely shared social knowledge and cognitive categories, such as for instance schemata and stereotypes (Ionascu et al., 2004). Routines are followed because they are taken for granted as “the way we do these things.” Symbols, words, signs and gestures shape the meanings individuals attribute to objects and activities. Meanings arise in interaction and are maintained and transformed as they are employed to make sense of things that happen. Shared social knowledge and cognitive categories influence the way a particular phenomenon is categorized and interpreted (Scott, 2001).

Wider belief systems and cultural frames are imposed on, and adopted by individual actors and organizations. They comprise frames, routines and scripts used by individuals in one society to judge and assign meaning to a phenomenon and to solve problems (Ionascu et al., 2004). Cognitive structures also affect learning processes; it is much easier to learn a new practice when it is consistent with the prevalent social schemas than when it is inconsistent with these schemas. Social roles develop when particular actions are associated with particular actors. Differentiated roles can develop in localized contexts when repetitive patterns of action gradually become habitualized and objectified. However, wider institutional frameworks provide prefabricated organizing models and scripts (Scott, 2001).

#### *The normative pillar*

An important characteristic of institutions is that they provide individuals with normative rules telling them what actions are acceptable or not (Scott, 2001). Institutions define what accepted moral behaviour is and clarify legitimate from illegitimate action. At the same time, institutions also support and empower activities and actors, provide guidelines and resources for acting as well as prohibitions and constraints on action. Institutions thus impose constraints on social behaviour, but also empower and enable social action, since they confer rights as well as responsibilities, privileges as well as duties, and licenses as well as mandates (Scott, 2001). Thus institutions reduce uncertainty by providing structure to every day life. They provide guidelines for the interaction between people, so that they know, or can learn, how to behave in various occasions, for instance how to greet friends on the street, drive a car, buy food, borrow money, start a business, or whatever else it can be (North, 1990).

#### *The regulative pillar*

The regulatory component of an institution reflects the existing law and rules of a particular environment that promotes certain types of behaviour and restricts others. They may operate through diffuse informal mechanisms, involving folkways such as shaming or shunning activities, or may be highly formalized and assigned to specialized actors, such as the police or the courts. Sometimes the rules and informal codes are violated and punishment is enacted (Ionascu et al., 2004). Regulatory processes involve the capacity to establish rules, inspect others conformity to them, and as necessary, manipulate sanctions,

such as rewards or punishments, in an attempt to influence future behaviour. It means that this pillar of institutions constrain as well as regularize behaviour. The power of the regulative pillar is the costliness of ascertaining violations and the severity of punishment (Scott, 2001). Force, fear and expedience are central ingredients of the regulatory pillar. Unfortunately, many laws are sufficiently controversial and ambiguous that they do not provide clear prescriptions for conduct. In such cases, laws have a role more of sense making and collective interpretation. Therefore the central ingredients are often tempered by the existing rules, whether in the guise of informal mores or formal rules of laws (Scott, 2001). Powerful actors may either impose their will on others, provide inducements to secure compliance, or use authority, in which coercive power is legitimized by a normative framework that both supports and constrains the exercise of power (Scott, 2001).

The understanding in this thesis is that institutions are taken for granted and they define the 'way things are' and or 'the way things are to be done' (Salmi, 1995), consisting of values, expectations, regimes, authority systems, jobs, roles and obedience to duty (cognitive structures). Institutions also makes it possible to separate between preferred and desirable behaviour (normative structures), for instance making a profit (values), the appropriate ways of reaching them, for instance conceptions of fair business practices (norms). Values set standards to which existing structures or behaviour can be compared and assessed, while norms define legitimate means to pursue valued ends. Furthermore, they consist of formal written rules as well as unwritten codes of conduct (regulative structures) that underlie and supplement formal rules. In case someone breaks any of the rules, a punishment is delivered. If using the analogy of 'institutions are the game and organizations the players' (North, 1990, 1993), the cognitive pillar identifies underlying assumptions about society ('the game is always played'), normative systems defines goals or objectives ('to win the game'), and also appropriate ways of reaching them ('in which way to win the game'). The regulative pillar specifies legitimate from illegitimate action ('the rules of the game').

#### **4.2 Institutional distance**

The concept of distance has been of considerable interest to business scholars aiming to explain variations in business strategies and operations across foreign countries. Distance is of particular concern when operating in emerging economies since a lower level of institutional development in these countries raises concerns such as incomplete legal codes governing market transactions, low level of law enforcement and lax intellectual property rights protection. Managerial and commercial practices and routines are also typically different than in western countries. These aspects create uncertainties and generate restrictions that the MNC have to deal with (Ionascu et al., 2004).

Different methods have been used to attempt to explain cross-country variance in organizational behaviour (Kostova, 1999). A lot of research has focused mainly on the concept of psychic distance, which captures primarily cultural differences, but as an eclectic concept also deals with other aspects of distance. Hofstede (1980) has stood as a basic pillar when scholars have analysed cultural distance between host and home countries. Reducing national environments to culture might be a case of simplification as there are other aspects of national environments, in addition to culture, that significantly affect organizational behaviour (Kostova, 1997). In other words, a broader range of aspects

of distance influences international business (Ionascu et al., 2004), such as economic, political, educational and legal systems, decision making practices and so on. The further away a host country is from the origins of the MNC, the more it has to manage cultural, regulatory and cognitive differences, and therefore the MNC has to deal with these differences in culture, law and regulations and in organizational practices and routines (Ionascu et al., 2004).

Kostova (1997) suggest examining the effects of institutional environment in a systematic manner by using the concept of country institutional profile. The concept is used to capture the institutional characteristics of a national environment, and it is composed of a regulatory, cognitive and normative pillar. Each of these dimensions reflects the differences between the corresponding dimensions in the institutional profiles of two countries. According to Kostova (2002), institutional characteristics of a country reflect that country's environment in a relatively encompassing way, as they capture various aspects of national environment, including cultural norms, social knowledge, rule and regulations and other. Compared to alternative approaches, Kostova (2002) argues that this approach should provide more precise measures of national environments.

Since various countries and markets are at different stages of economic development they will have substantial differences in their institutional environments. This means that the MNC is confronted with different influences depending on where it operates, which means that the global enterprise is not able to have a standardized approach to relationship development in all foreign environments in the world. Rather, the firm has to behave in accordance with specific individual institutional contexts (Jansson, 2005). Emerging markets share several characteristics that differentiate them from developed markets. Problems with law enforcement are symptomatic in these countries, raising concerns regarding foreign investors' ability to enforce contracts and agreements. In addition, firms from emerging markets have not as much of marketing capabilities, resource endowments, and experience in forming and managing relationships with their counterparts from industrialized nations (Ionascu et al., 2004). When a firm attempt to transfers its practices and behaviour across borders, practices that have been developed and established in a specific environment, there might not be a "fit" with the institutional environment of the host country (Kostova, 1999).

### **4.3 Business systems**

The environment of an enterprise is seen in the terms of an institutional setup, within which the enterprise conducts its business. There are close interconnections between key institutions and the structure and behaviour of organizations and institutional features of environments are important influences of the structure and function of organizations (Salmi, 1995). Differences in institutional contexts between various societies are often so large that distinctive forms of business organizations and practices are created, which encourage different forms market organizations and ways of organizing economic activities to become established (Whitley, 1991).

Distinctive patterns of economic organization emerge in different institutional contexts, for instance variations in social institutions and structures, such as legal, financial and



educations systems, governance structures and organizational capabilities (Whitley, 1999). In other words, the institutional and cultural conditions in a market are specific and may influence firms in different ways (Johanson & Johansson, 1999). Some organizations evolve in an environment with elaborate institutional rules, and therefore the organization develops specific structures and behaviour in order to conform to those rules. The organization does so in order to gain and maintain legitimacy, i.e. compliance to the expectations of key external constituencies. Major differences in the political system affect firms' willingness to undertake long-term investments. Also the firms' embeddedness in reciprocal networks is related to differences in authority structures and control systems. Furthermore, particularities in institutional environments lead to differences in firms' internal structures and practices, for instance management systems. Because business environments vary in many important aspects between countries, so do 'efficient' management structures and practices. Beliefs and systems that work well in one context will not be so effective in others where important institutions operate differently.

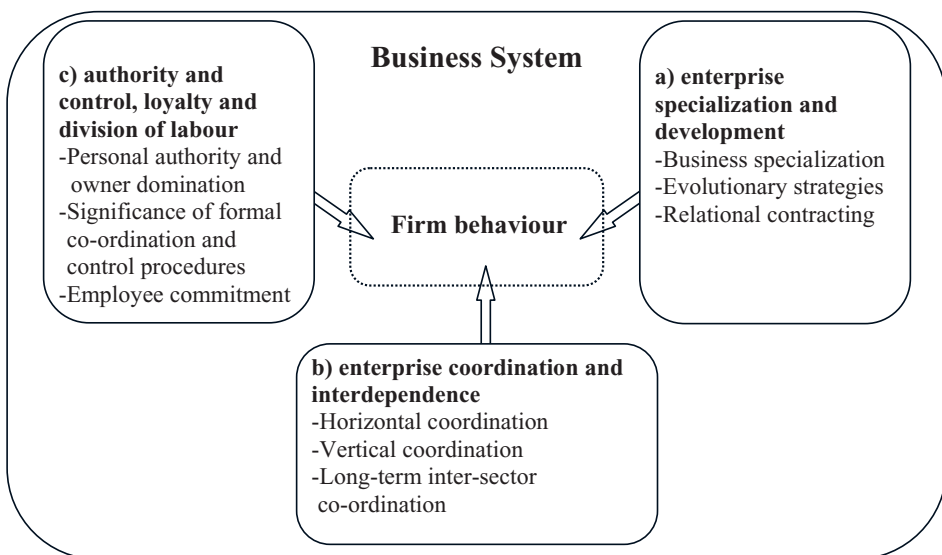
A business system is understood as *“distinctive configurations of hierarchy-market relations which become institutionalized as relatively successful ways of organizing economic activities in different institutional environments, in which firms function as economic actors through coordination and direction of human and material resources”* (Whitley, 1992b). A business system defines preferred ways of developing business and making decisions in a specific institutional context. Within a business system different kinds of business organizations and economic rationalities develop and become effective (Whitley, 1991). In essence, a business system is understood as a systematic, interrelated response to three fundamental issues of any market based system; 1) what sort of economic activities are to be authoritatively integrated and coordinated towards what competitive priorities? 2) how are market relations of competition and cooperation to be organized and firms' activities connected? 3) how are economic activities to be managed in authority hierarchies? There are three ways of contrasting (and comparing) business systems, and these three constituent are closely interconnected; a) the nature of the firm as a key economic actors and the dominant ways in which firms develop and compete, b) connections that firms develop with each other, c) how activities and skills are authoritatively coordinated and controlled within firms.

A distinction is made between distant or background institutions, and recent and more proximate institutions. The first group of institutions (distant) consist of political institutions, family and kinship, identity and authority structures, patterns of trust and co-operation, and country culture. These institutions range from beliefs about the natural and social world, to attitudes towards risk, planning and preferences. The kind of business system that emerges depends on the features of these social institutions;

- the degree and basis of trust between non-kin
- how commitment and loyalty is extended to collectivities beyond the family
- what the importance of individual identities, rights and commitments is
- degree of depersonalization and formalization of authority relation
- extent of differentiation of authority roles
- reciprocity, distance and scope of authority relations

The second category structure general patterns of trust, cooperation, identity and subordination in a society, and includes such institutions as the state, financial system, education and training system, labour markets, trade union structures, and beliefs about work, material values and authority relations. The kind of business system that emerges depends on the features of these social institutions;

- to what extent business is dependence on a strong, cohesive state
- how the state is commitment to industrial development and risk sharing
- whether there is capital market or credit-based financial system
- the existence of unitary or dual education and training systems
- what the strength of skilled based trade unions are
- what the significance of publicly certified skills and professional expertise is



**Figure 6 Institutions surrounding the firm (based on Whitley, 1992a)**

Whitley's (1991, 1992a, 1992b, 1999) comparative business systems framework compares business organizations and rationalities between different institutional contexts. Firms that have developed in particular social contexts can be compared along eight major dimensions. These dimensions are summarized under three separate headings, (1) authority, loyalty and the division of labour, (2) enterprise specialization and development, and (3) enterprise interdependence and co-ordination. The dimension are (a) the extent to which a firm specialize in a particular business area and specific capabilities of skills, knowledge and experience (b) the degree to which firms develop stable relationships with suppliers and other industry partners, and how much they commit themselves to these partners, (c) their pattern of growth and preferences for evolutionary or discontinuous growth strategies, (d) the importance of personal and particularistic authority relationships within enterprise structures (e) the degree of employer-employee commitment and loyalty and the major ways of eliciting employee loyalty, (f) role specialization and degree of individual roles and

tasks, as well as division of responsibilities (g) the extent of inter-industry risk sharing and horizontal coordination of strategies, and (h) firms dependence on forms of vertical coordination, for instance the extent to which state agencies and banks plan and coordinate firms' activities.

#### 4.4 Industrial networks as business systems

The identification of business systems involves consideration of the different ways that firm co-operate and compete as well as their internal structures and how they function as economic agents. *"A business system consists of institutionalized conventions governing successful ways of organizing economic activities in particular contexts"* (Whitley, 1999). Business systems also incorporate preferred ways of developing firms and making organizational changes.

There are several arguments that support the idea of handling industrial networks as business systems. First, the notion of networks as a dominant organizing principle to explain how the world really works has attracted enormous interdisciplinary interest. Physicists are talking to mathematicians who are talking to sociologists and economists who are talking to physicists. Executives are beginning to turn to these experts for usable insights into the network dynamics shaping both threats and opportunities in business (Strategy-business.com, 2003).

Second, companies do not survive or prosper only through their own individual efforts, because each firm is dependent on the activities and performance of other companies, i.e. its network. Hence, a firm's development and growth is dependent on the actions of actors in its network. Every company exists within a complex network of interactions between companies where they exchange with each other information, expertise, goods and services, payments and loans and other strategically important resources. Because the firm gets access to strategically important resources through its relationship to other firms, the performance of the individual firm is dependent on the nature and quality of the network in which it operates (Wilkinson & Young, 2002).

Third, a major characteristic of institutions is that they govern relationships between organizations as well as between individuals and groups. Relationships between these actors are seen as networks, and from an institutional perspective it means that institutions influence network structures. These networks all have inherent rules, norms and values, which in turn are influenced by societal institutions. In other words, the MNC and its networks actors are influenced by various organizational fields surrounding these networks, for example systems of property rights and other legal rules such as judicial and penalty systems. Hence, institutional structures will have an impact on what goes on inside a network, and institutions represent broad categories of conditions according to which marketing is organized (Jansson, 2005).

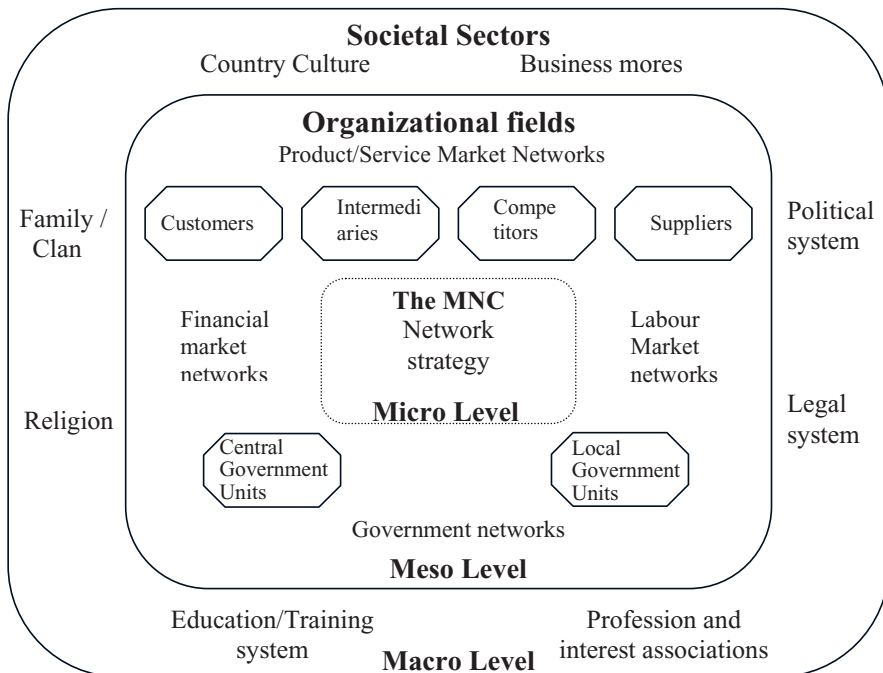
Fourth, every organization is a subsystem of a wider social system which is the source of the "meaning", legitimation, or higher-lever support which makes the implementation of the organizations goals possible (Parsons, 1956). Since networks and their actors are influenced by organizational fields also firm strategy and organization is influenced by

rules of outside institutions. This means that values and beliefs external to the organization play a significant role in determining organizational norms and behaviour (Kondra & Hinings, 1998). For instance, the goals and values of a network are guided by norms and values at the societal level, for instance the national culture. The structure of the organization and the activities conducted by the members reflect social conventions, rationalities and moral codes existing in the environment they function in. In short, institutions are a framework within which firms manage their relationships, and also the framework for different network strategies.

**4.4.1 Comparative network systems framework / network institutional profile**

Building on the idea that business networks can be understood as business systems the next issue is to create a framework for comparing different network systems. Drawing on work by Whitley (1991) and Jansson (2005), I have developed a comparative network systems framework. I will briefly outline the building blocks of the framework.

Jansson’s (2005) country environment defines the MNC as being organized according to institutional principles, which provide sets of rules and regulations that govern relationships among individuals. The environment is looked upon from the view of the MNC. The institutional world is divided into three levels of description or jurisdictions; the micro, meso and macro level.



**Figure 7 MNC country environment (Jansson, 2005)**

The micro level consists of specific institutional agents, for instance the MNC, and because only micro institutions can act on their own they are therefore defined as institutional agents. At the meso level, institutional agents are aggregated into structures, for instance other companies and authorities. The macro level is described as structures, for instance country culture or business. These levels can also be grouped into two major groupings; organizational fields and societal systems. Organizational fields consist of the micro and macro level, and the societal systems of the macro level (Jansson, 2005).

There are several institutions that are seen to have a large impact on firm relationship behaviour and characteristics. For a specific country these institutions relate to each other in a certain way and create a specific MNC country environment in the form of an external institutional framework (Jansson, 2005). The MNC participates directly in organizational fields, but not in societal sectors. From this follows that the MNC belongs and participated in major organizational field, although is able to influence the different fields at a varying degree. The MNC is able to influence agents in the organizational fields, and there is a two-way interplay between institutional agents, but in the societal sectors the influence is one directional, towards the MNC (Jansson, 2005).

*Comparative network systems framework / network institutional profile*

While Whitley separates between two institutional ‘levels’ I will lean towards Jansson’s use of three institutional levels. These three levels more closely relates to the three institutional pillars by Scott (2001). These three pillars form a continuum moving from the conscious to the unconscious, from the legally enforced to the taken for granted (Scott, 2001). When the institutions used in this study are organized according to the three pillars of institutions, the following classification can be made.

<b>Cognitive pillar</b>	<b>Normative Pillar</b>	<b>Regulative pillar</b>
Country culture	Business more	Legal system
Family/Clan	Government	Enterprise interdependence and co-ordination role
Authority, loyalty and the division of labour	Enterprise specialization and development	

**Table 4 Classification of institutions (own)**

The comparative network systems framework builds on selected parts of both Whitley’s and Jansson’s frameworks. Networks systems are compared along 14 institutional dimensions, i.e. all nine of Whitley’s framework and five of Jansson’s institutions; family/clan, country culture, business mores, government, and legal system. Family/clan describes various aspects of the role and function of the family in society, and how individuals relate to each other. Country culture deals with various dimensions of a country’s cultures, such as identity, concepts of trust and honesty, and so. Business mores is the business morale, which is valid when doing business in a country. The government may influence the firm in a country in specific ways, such as through various investment incentives, regional policies, whether it promotes or prevents international business and so

on. The legal system reflects for instance whether and to what extent law and regulations are being followed and enforced.

	Network System A	Network System B
<b>Cognitive</b>		
Country culture		
Family Clan		
Personal authority and owner domination		
Significance of formal co-ordination and control procedures		
Employee commitment		
<b>Normative</b>		
Business more		
Government		
Business specialization		
Evolutionary strategies		
Relational contracting		
<b>Regulative</b>		
Legal system		
Horizontal coordination		
Vertical coordination		
Long-term inter-sector coordination		
<b>Overall institutional distance</b>		

Figure 8 Comparative network systems framework (own)

Hence, a comparison of network systems consist of 14 institutions, categorized broadly into three pillars. The cognitive element can be understood as underlying ‘thought patterns’ of a network system, and offers explanation of specific behaviour of firms, i.e. what kind of firms evolve and what their characteristics are. The institutions on the normative level explain how firms in a network system function, i.e. what their goals and objectives are, as well as how firms reach these objectives. The regulative pillar stipulates how firms relate to each other, and how relationships between firms are governed.

#### 4.5 Summary

Industrial networks evolve within specific institutional contexts, and are governed by institutionally specific network principles. Building on Whitley’s (1991, 1992a, 1992b) work on business systems, industrial networks are in this thesis handled as business systems. The identification of business systems involves consideration of the different ways that firm co-operate and compete as well as their internal structures and how they function

as economic agents. *“A business system consists of institutionalized conventions governing successful ways of organizing economic activities in particular contexts”* (Whitley, 1999). Business systems also incorporate preferred ways of developing firms and making organizational changes. There are many arguments that support the notion of industrial networks and business systems, for the notion of networks as a dominant organizing principle to explain how the world really works.

A comparative network system framework is developed, building on work by Whitley (1991, 1992a, 1992b) and Jansson (2005). Using a comparative network system framework, network systems are compared along 3 dimensions; the cognitive, normative, and regulative level (Scott, 2001). Several institutions are identified on each level, and consequently compared. Comparisons of institutions on different levels are used in order to determine the institutional distance (Kostova, 2002) between network systems. The further away a firm is from its home context, the more it has to manage cultural, regulatory and cognitive differences.

## 5. The institutional setting

In the first part of this chapter I will first briefly describe the Finnish / Swedish and ethnic Chinese institutional context, based on the network institutional profile created in the previous chapter. There are two purposes for this chapter. First, studying key institutions and structures of a context can provide a deep understanding of the organization (Whitley, 1991). Second, the comparison functions as a basis when selecting different aspects to study in a relationship between firms from different contexts.

In this chapter the Finnish / Swedish and ethnic Chinese context are described using the framework identified in the previous chapter. I will describe institutions on the cognitive, normative, and regulative level, as well as comparing institutions on each level. The institutional distance is determined for each institution and level. I will combine the analysis of distance for every institution in order to determine the overall institutional distance between the Finnish / Swedish and ethnic Chinese context.

This chapter builds on empirical material, in the form of primary as well as secondary data. Whitley's (1991, 1992a, 1992b) and Jansson's (2005) work make up the basis for the ethnic Chinese institutional profile. Findings of a multitude of authors make up the basis for the Finnish / Swedish institutional profile.

### 5.2 Comparing contexts on the cognitive level

#### 5.2.1 Country/ethnic culture

People in the Finnish / Swedish countries have a strong national and social identity. People are treated equally; also people from different groups, i.e. people are not categorized into members of in-groups and members of out-groups. Conservatism is highly esteemed in relationships between individuals, and people who do not make any noise are appreciated (Tixier, 1996a). An interesting trait in the Finnish / Swedish societies is that the individual is self-reliant and individual freedom is more important than equality (Halman, 1994).

Another important element in inter-personal relationships is honesty. Basis for trust and commitment are previous contacts, personal and organizational skills, and profitable relationships (Johanson et al., 2002). Functional roles are more important than personal qualities and rules are more salient than relationships (Tung & Worm, 1996). A sense of tidiness is evident in most aspects of social and business life, and people show a high level of protestant work moral. There is, however, decreasing confidence in authoritative institutions, which most likely is a result of high individualism. The diminishing confidence in authoritative institutions has also led to an increase in consensus orientation by individuals.

The Ethnic Chinese live in a complex social system based on networks of relationships and obligations. Every individual has a social network build around him, consisting of family, relatives, colleagues and friends and everyone is obliged to help, support and respect each other. Respect is the cornerstone in every relationship, and respect for elders is the key



element in this network. Great emphasis is placed on behaviour, norms and values (Whitley, 1992a).

People are judged based on characteristics such as loyalty, engagement and fellowship (Bjerke, 1998). Consideration is also taken of the family of a potential partner, background and social position. Social position is important because individuals do not feel comfortable unless they are in a hierarchical relationship with clearly defined roles (Kraar & Shapiro, 1994). Respect for authority and age too often rules out any criticism of the boss, and protest and criticism is only appropriate when authority accepts it.

Personalism is the tendency to allow personal relationships to enter into decision-making; it is not what you know, but whom you know. At one extreme personalism makes it impossible to make any decisions without the blessing of persons in key positions. Personalistic networking is a response to the difficulty of establishing reliable horizontal relationships across social interactions, because in the Asian context trust cannot be assumed and institutionalised law is inadequate for underpinning transactions. Therefore transactions come to be guaranteed by bonds of personal trust (Whitley, 1992a, 1992b). Paternalism does in Asia what law does in the West. Paternalism has evolved because individual and corporate rights are only weakly protected by a legal infrastructure. In order to enable economic transactions, i.e. to guarantee reliability of exchange processes, trust in personal relationships is of prime importance. There is little need for lawyers and analysts because there is a great deal of reliance on personal obligation-bonding (Redding, 1995a).

It is according to Confucianism important to maintain personal honour, which in practice has become known as keeping face. Face is difficult to define precisely. Face involves wide issues such as a man's respect, status and moral reputation. Face is foremost situationally defined rather than a facet of personality. Face is also influenced by actions of those to whom one is closely associated. An important element in the concept of face is to always attempt to extend face to others (Wong & Leung, 2001). Face can be compared to the Finnish / Swedish moral of what is right or wrong, good or bad, but it has a much more integrated and important part for every Chinese – it is stressed and pointed out at all times. Face can be given or lost. It is lost when a person fails to meet the requirements placed on the individual according to his/her social position. Loosing face is the equivalent in the Finnish / Swedish society of loosing trust and honour (Huotari & Rosenberg, 1995). Besides gaining and loosing face, one can also give face, which implies that a person is able to save someone else's honour or prestige (Moilanen, 1997). The fear of losing face sets barriers to the Chinese's behaviour and one's word and opinion are spoken with uttermost care. Face is also mutual - what is received have to be returned, which results in a delicate social balancing act.

### **5.2.2 Family / Clan**

The family in the Finnish / Swedish countries has an important role in life. The family is a democratic institution and there is little distance between parents and children, and the family is close-knit. Either the mother or the father takes the role of a head of the family, and responsibilities are equally shared. Children generally leave the home of the parents at

an early age. Families are seen as contemporary alliances between discrete utility-maximizing individuals (Koopman, 1991).

Individualism is strong in the Finnish / Swedish countries, and the rights of the individual are of the outmost importance. The rights of the individual are best guaranteed through property rights, and there is a preference for written, rather than oral, contracts. Cooperation and coordination cannot rely on common loyalties and identities but have to be formally contracted and specified. There is also a preference for contractual social relationships (Whitley, 1991). The Swedes are considered a little more group oriented than the other (Tixier, 1996a).

For the ethnic Chinese, the family is the core institution, and the social unit in society is the family. Society is seen as comprising not of individuals but families, around which life is formed. A person is defined also by including his relationships (Jansson, 1987). The family does not only consist of individuals but it also encompasses property, reputation, internal traditions and even unborn future generations (Redding, 1990). The extended family does not only consist of the core family, but of core family, relatives, friends and their friends. This hierarchy is often symbolically described as circles enclosing each other. The whole hierarchy is bound together through mutual social obligations. There is a sharp boundary between family member and outsider. The implication for this is that ethnic Chinese believe that family members can be trusted while non-family members are not trusted

Family prestige is linked to property ownership and educational and professional success (Whitley, 1991). The founding of an enterprise is closely linked to the family. It's been said that the Ethnic Chinese have family businesses, but today is even more family as business (Haley et al., 1999). At the onset of an enterprise, the family is often viewed as a source of social, cultural and economic capital (Bun, 2000). Ethnic Chinese enterprises maintain close relationships with other firms that are either owned by another single family, or are from a certain locality, or alternatively share a common dialect (Kienzle & Shadur, 1997).

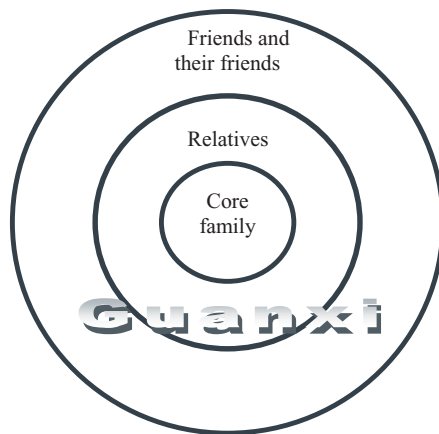


Figure 9 Chinese family hierarchy

### 5.2.3 Authority and control systems, loyalty and divisions of labour

Authority and responsibilities within the Finnish / Swedish firm are well defined and often also written in text. Decision-making in the firm is much decentralized and also democratic. Employees dislike being closely supervised, and therefore they are rather autonomous units within the firm, often with extensive responsibilities. Authority is often delegated down, and it rests on formal rules and procedures. Autocratic behaviour is rarely seen in the organisations because it is seen as inhibiting effective leadership (Koopman, 1991). Instead,

power is instrumental and authority linked to expertise and formally prescribed positions (Whitley, 1992a).

The management style is non-confrontational with regard to relationships between managers and workers. Finnish / Swedish management behaviour is largely employee oriented, and human resources are appreciated, and it builds on individual responsibility and freedom. Managers also communicate with their subordinates (Zemke, 1988). For the individual, personal development characteristics in jobs are very important (Halman, 1994). In order to develop, an employee can move between different organizations, and therefore loyalty to individual employers is low and mobility between employers is often great (Tixier, 1996b).

Task specialization is high and the work of specialists is coordinated through explicitly and formally defined systems and procedures. Workers have a high level of skill and employees usually work independently. Managers rely on subordinates and support them. Subordinates are also used for sources of ideas and reorientation. Firms stress the individual's progress in an informal way (Lindell & Arvonen, 1996).

Managerial authority in the ethnic Chinese firm is very centralized and associated with personal ownership (Redding, 1985b), and it is unusual that the power in the company is held by anybody else than the father and some of the sons in the family. The authority of the boss is wide-ranging and not precisely delimited. Managers are highly directive, and although this type of authority can deter creativity, competition and innovation (Bjerke, 1998) there seem to be little incentive to change the behaviour. Superiors are also expected to be aloof, all-powerful and all knowing (Redding & Richardson, 1986).

Large scale decision-making is generally executed and controlled from above in the firm, and virtually all decisions of any strategic or even operational importance are filtered through the close knit and trusted advisers and passed back up to the director. Middle managers are left largely to implement and rationalize top managers' decisions (Kotler, Swee, Meng & Chin, 1999). There are no clearly defined roles of various posts, and the level of specialization is low. Loyalty inside the firm is limited and conditional, unless there is strong personal obligation through family relationships. Because employees and affiliates are not able to advance to a management position, they often leave after a while to start their own business (Yip, 2000).

### **5.3 Comparing contexts on the normative level**

#### **5.3.1 Government**

There is high confidence in government in Finland and Sweden (Halman, 1994). The state promotes open economy stressing international trade and capital flows (Loong-Hoe, 1985). The government also attempts to attract foreign investment, but direct incentives are not common. The function of the government is more to guarantee the institutional structure of fair play. The state provides a framework for economic activities, such as institutions for pooling capital, legal, financial and commercial institutions (banks, insurance, security

exchanges, legal specialists), and a reliable currency (Whitley, 1991). The state performs a market-oriented and regulatory role. Firms are not constrained by ties to state agencies and banks. Financial and judiciary institutions are well established and the powers of the state are circumscribed (Lindell & Arvonen, 1996).

The ethnic Chinese have rarely relied on political institutions to assist them. The ethnic Chinese have considered formal institutions never to be trusted (Bun, 2000), in part because of discrimination of ethnic Chinese firms in some countries. The governments in this study have promoted enterprises and capitalist development (McVey, 1997). Governments guide economic development in all three countries in order to create a business-friendly environment. Although government intervention is visible, it is not necessarily ideological, yet politics and economy are enmeshed (Lasserre & Schutte, 1995). The state has focused limited resources on the most important industries and the government may implement broad, long-term industrial policies, or relatively ad hoc and opportunistic attempts in order to influence individual investor decisions. At times the policies have been constantly changing, but on the large carrot and stick mechanisms are used to influence corporations (Lasserre & Schutte, 1995).

### **5.3.2 Business mores**

The Finnish / Swedish culture is accomplishment driven, i.e. a business person is judged according to professional accomplishment. Business life is also dependent on contractual agreements. This reliance and dependency on contractual agreements is a result of a high degree of trust in the legal institutions. Hence, business transactions are based on written and formal contracts (Tixier, 1996a).

There is strong separation between personal life and business life. Business relationships build on interorganizational rather than personal relationships. This also means that the social position of a business partner has no relevance to the initiation or performance of the business relationship. A large part of relationships in business are entrepreneurial or transactional, and there is rarely an emotional element to business relationships. Organizational environments are changing in the Finnish / Swedish countries, and making them more unpredictable. Still, managers in Finnish / Swedish countries are still able to make long-term plans because stability in social and organizational local environments (Koopman, 1991).

In Chinese culture, economic life cannot be segregated from life as a whole (Koopman, 1991). Successful business relationships are built on intimate personal relationships, where the parties are supporting each other, both economically and spiritually. Personal relationships are mutually binding, and permeate all aspects of the firm (Lasserre & Schutte, 1995). Personal and mutual relationships are preferred to entrepreneurial- and transactional relationships. Written and formal contracts are disliked, and therefore verbal agreements and promises are often the basis for agreements and transactions.

Guanxi dominates business throughout Asia (Tong & Bun, 1999). In a business context guanxi refers to the system of doing business on the basis of personal relationships. For

practical purposes guanxi means that a person has a social and moral obligation to return a favour if a favour has been received. It can involve exchange of money, goods, vital information and services of different kind (Björkman, 1994). Guanxi also involves exchange of gifts, favours and banquets. Through good Guanxi one can win business deals, gain access to information and resources, or win favours, and therefore it is vital for successful business to cultivate personal relationships and networks of mutual dependence. Guanxi does not only refer to business networking or one type of marketing strategy. Guanxi is a social resource, and because business relationships can be created through social relationships, guanxi may exist even before any business act or episode. Therefore guanxi can also be a social resource for a potential business relationship (Johanson et al., 2002). Since guanxi is a social resource it can be “manufactured”, i.e. creating indebtedness. This implies that guanxi can also be a result of instrumental planning, despite the fact that it usually has a strong emotional component (Yang, 1994).

Trust in the ethnic Chinese context is important because a lack of a tradition of institutional trust, such as for instance law (Kao, 1996). Ethnic Chinese entrepreneurs are concerned with developing personal ties with business partners, because transactions come to be guaranteed by bonds of personal trust (Redding, 1991). A crucial component for the development of a relationship is a therefore reputation for honesty and competence (Whitley, 1991). Violations of a spoken promise can lead to banishment from society. If a business owner violates an agreement, he will become blacklisted, and this is far worse than being sued because the entire network will refrain from doing business with the guilty party (Rauch & Trindade., 2002).

### 5.3.3 Enterprise specialization and development

Finnish and Swedish firms view its businesses as a portfolio of resources, which can be shuffled relatively easily and managed through formal financial and planning procedures (Whitley, 1992b). Although there is an increasing tendency to focus on core skills and outsourcing of non-primary activities, firms diversify and are not concentrated only on their own particular field of economic competence. Firms also rely on management consultants and outside legal firms. Finnish / Swedish firms usually have financial goals rather than growth goals, and they typically have purely financial performance criteria and ways of assessing the efficiency of, for instance, sub-units.

Small businesses are typically run as privately held family business. As the firm grows, the role of the family diminishes (Bruton, et.al, 2003). For most Finnish / Swedish small to medium firms, growth is usually incremental, and it expands current activities rather than spinning off into unrelated areas. Large firms show a greater tendency for unrelated diversification and radical changes towards new fields of activities.

Small and medium sized ethnic Chinese firms are typically engaged in little R&D, and have a relatively simple organizational structure emphasizing centralized decision-making (EAAU, 1995). The families prefer to establish new ventures as separate projects rather than enlarge and restructure existing arrangements with partners since it is easier to set up new ventures than to renegotiate personal obligations. Growth is therefore a matter of seizing market opportunities through the mobilization of networks while retaining personal

control (Rauch & Trindade, 2002). The firm and family sometimes diversify into quite unrelated areas by establishing another business run by a trusted member of the family together with hired managers. This makes companies appear highly diversified (Whitley, 1991). The overall business group may be large but the individual component companies may be relatively small.

## **5.4 Comparing contexts on the regulative level**

### **5.4.1 Legal system**

The legal system is well developed in Finland and Sweden and rules apply equally to all. The law is respected, and laws guarantee each citizen subjective justice. All contracts signed by individuals and are legally binding. Breach of contract results in legal sanctions (Buuri & Ratschinsky, 2000). Commercial institutions build on and are protected by the state's legal institutions, and commercial organizations in both the public and private sector rest on strong legal institutions. Firms are typically derived from and share a common reliance on legal-rational norms and bases of legitimacy (Whitley, 1992a). Because of high confidence in legal institutions there is no need for personal relationships in order to guarantee contracts and commitments.

Legal institutions have not had a central importance in Southeast Asia and the legal framework is still rather weak, except in Singapore. There are also various degrees of legal uncertainties. Technological pirating is common practice (Kotler et al., 1999), and the region has a poor record of upholding patent and copyright laws. Many corporations lack transparency and poor disclosure is common. Ownership patterns are often complex, if known at all, and complex ownership usually means complex business (www.enstar.co.uk, 2004). Because of weak legal institutions guanxi has become a substitute to the legal system, securing protection of private property rights and fulfilment of contracts, and it serves as a more efficient coordination mechanism for production and exchange (Simon, 1998). The end result is that as the government strives to rule by law, the Chinese values of trusting the guanxi system leads to regulations being ignored.

### **5.4.2 Enterprise coordination and interdependence**

In the Finnish / Swedish context are firms not highly organized and networks of alliances are not crucial to the management of risk and uncertainty. The firm is an autonomous legal and financial entity facing largely anonymous and impersonal market pressures. Transactions are primarily organized around long-term relationships between the firm's exchange partners, but both the networks and transactions are formal and to a degree impersonal (Koopman, 1991; Whitley, 1992a; Lindell & Arvonen, 1996). Business groups are based on organizational alliances, and firms exist within networks with suppliers, customers, etc. But relationships with distributors, customers, suppliers and competitors do not restrain the firm in seeking new markets and changing direction.

Cross-sectoral groups are increasingly rare. Networks of commitments do not to a high extent connect firms within and across industrial sectors. As firms focus on core

competences and activities there is increasing specialization between firms. Vertical integration is becoming more important, which also means that firms outsource many of the activities in the firm. On the other hand, merger and alliances between specialized firms are common, and can be long-term. It is also common to find mutual shareholdings, joint ventures and overlapping personnel in top positions (Lindell & Arvonen, 1996).

Inter-sector coordination in the ethnic Chinese context is largely achieved by families establishing subsidiaries or joint ventures and partnerships with personally known and trusted entrepreneurs in business groups. Inter-market groups are not very cohesive or integrated and members do not always work together on new ventures. Family and particularism also leads to a preference for family ownership rather than partnerships or joint-stock companies (Whitley, 1991).

The low level of inter-family trust and its dependence on personal ties and obligations have also restricted the development of long-term inter-firm commitments, so that the level of both horizontal and vertical market organization is limited. The relatively small size and high specialization of firms would imply high levels of interdependence between them. But interdependence is managed on a short-term contractual basis policed through reputational networks rather than by long-term mutual dependence relationships (Whitley, 1991). Consequently, long-term alliances are not preferred nor is there extensive coordination of activities across sectors.

Family firms are often interdependent with sub-contractors and trading agents. This interdependence creates a complex network of personal relationships and obligations. However, because most sub-contractors are perceived as outsiders, commitments are usually not long-term and therefore commitments are less extensive and long lasting (Whitley, 1991).

### **5.5 Analysing distance on the cognitive level**

Institutional characteristics on the cognitive level is significantly different between the Finnish / Swedish and ethnic Chinese context. All the characteristics used to describe this institution are also significantly different from each other. These differences arise from the fact are that the ethnic Chinese context is hierarchical, and network relationships make individuals highly dependent upon each other. The Finnish / Swedish context is not very hierarchical and the individual has a lot of room. Taking a wider perspective, these differences can be seen to exist in the environments view on the position of the individual in society. The Finnish / Swedish context sees the individual as a discrete, self-reliant unit, while the individual in the ethnic context is part of a larger whole.

When focusing on the impact on relationship behaviour, the implication is that the individual in the Finnish / Swedish firm often has larger individual decision making authority, while an individual in an ethnic Chinese firm has less authority to make individual decisions, and has to receive acceptance of a wider group of individuals. Decisions also need to take into consideration face; to make sure that face is not lost.



*“If I don’t know how to do something, I ask a colleague if he can teach me how to do it. Its normal, but here it is not normal. Here they cannot admit in public that they can’t or are not able to do something. So they might even do something wrong, even though they know its wrong, because they cannot say that they cannot do it”*

- Respondent U, Singapore 17.10.2003

Combined with the hierarchical structure of society, interdependence and networks or relationships means that the single employee has little decision making power. Thus decision-making becomes slower, since many more individuals are involved in the process. Another implication with a hierarchical society combined with high respect for authority and seniority is that managers and leaders are rarely questioned or opposed, even if their decisions are not correct. Contrary to the ethnic Chinese, Finnish / Swedish managers have clear levels of authority and decision-making, and are allowed to make individual decisions within their boundaries. Consequently, the decision making process is fairly swift.

Institutions	Finnish / Swedish system	Ethnic Chinese system
<b>Country culture</b>	Strong social identity Power equally shared	Network of relationships Respect for authority and seniority
	Self reliant Emphasis on achievements	Interdependent Emphasis on behaviour, values and norms
	Individualism	Collectivity

**Table 5 Comparison of country culture**

The distance of the family / clan institution seems at first significant. However, on closer inspection the family has an important role in both contexts, even though the family is seen in a wider perspective in Southeast Asia and families are interdependent with each other. One minor difference is that the Finnish / Swedish consider the core family, i.e. parents and children as the family unit, while the ethnic Chinese family is much broader. Another difference is those family members are rather independent in the Finnish / Swedish family, and children typically start living outside the family at an early age.

The importance of family and interdependence between families has implications for business relationship behaviour. Since families are also interconnected, acceptance for various decisions is also sought outside the family. As a result decision-making tends to be slow. Also, non-business matters and issues will also influence decision-making, because the success of the family business is closely connected to family prestige. Finnish / Swedish firms are run separate from the family, especially medium to large size firms. Business decisions are made on a purely business rationale, which means, for instance, that when they start doing business in Asia, they are not prepared or enough sensitive to the delicate connection between family and firm. Another implication for business life is that among the ethnic Chinese, trust is automatic for family members. Foreign firms (managers) will be considered out-group members, and will this never be automatically granted trust. In fact,



since foreign firms typically have no prior connections in the region, a lot of distrust will exist between the two partners.

<b>Family / Clan</b>	Less important	Social unit of society
	Nucleus core family	Extended family
	Independence	Interdependence
	Important	Important
	Democratic institution	Core institution
	Individual prestige	Family prestige

**Table 6 Comparison of family / clan**

The government institution in Southeast Asia will be significantly different to Finnish / Swedish firms than they are used to. The government is strongly and visibly involved in most aspects of economic life, and they are using “carrot and stick” to encourage firms in their various decisions. A basic notion when comparing the two contexts is that the government in the Finnish and Swedish countries strongly encourages firms to venture abroad, while the governments in the Southeast Asia markets strongly attempt to attract firms to their markets. Foreign investment is one major growth engine for the economies in Southeast Asia, while that kind of role is much less emphasized in the Finnish and Swedish countries. The government in Finland / Sweden treat all industries equally, and fair play is the underlying factor of all market transactions. In Southeast Asia, however, certain industries are encouraged and preferred, and fair play can be suppressed in order to promote economic growth.

*“On a macro level definitively. Thailand is ‘changing direction of diplomacy after the wind. After Second World War, it turned to Americans. And since the Americans have special treatment, restrictions don’t apply to Americans that apply to rest of the foreigners.”*

- Respondent H, Thailand 20.11.2003

For instance, previously the government strongly supported various manufacturing industries, but those are now in a less favourable position (i.e. receives less incentives), and currently the biotech sector receives preferential treatment (EDB Singapore, 2004). All in all, one could conclude that the Finnish / Swedish firms are used to a non/little involvement government, while the government in Southeast Asia is active and involved in business. The Finnish / Swedish firms will also find that there is little trust in formal institutions among ethnic Chinese firms.

Since this institution in Southeast Asia is encouraging towards foreign firms, the result has been that these countries have seen significant amounts of foreign investments and firms. As a result, a lot of the local firms have been exposed to western firms’ practices, and thus also have experience in developing relationships with foreign firms. Another point that is worth mentioning is that a large part of this institutions influence is on the macro level, and this influence does not necessarily have much influence in the micro or firm level. Therefore the institutions influence on the relationship process is often rather indirect.

<b>Government</b>	Open economy	Carrot and stick
	Fair play	Promotion of capitalist system
	Market oriented	Guided economic development
	Regulatory role	Pragmatism
	High confidence in government	Formal institutions distrusted

Table 7 Comparison of government

### 5.5 Analysing distance on the normative level

Business mores in the two contexts are significantly different from each other. As mentioned throughout the thesis, the ethnic Chinese do not separate personal and business life like the Finns and Swedes do. This has impacts on many aspect of business life, for instance that business relationships are not easily terminated, that personal characteristics are important, a high degree of informality and so on.

*“It’s not so big difference nowadays like it used to be earlier. Basically when you stay here and you deal with the people, then you can understand why they decide and all speak like that. They have their reasons, but many times the reason is their cultural background. Relations matter, money matters. In Asia business is done people to people, instead of company to company. Asian decisions are also more emotional. We decide rationally, and they decide emotionally; good day, it’s raining, my birthday, or my daughter’s birthday. There are much more surrounding issues affecting the decisions than we are used to. In the Finnish system if things look ok, we do it. “*

- Respondent U, Singapore 17.10.2003

The ethnic Chinese view gift giving as a central ingredient in building Guanxi. Gift need not to be physical goods, they can also be for instance information, access to some resource, market knowledge and so on. The major challenge for Finnish / Swedish firms is that in their home environment, gift giving is viewed as illegal, and there are strict rules on what constitutes a legal business gift. The line between what is considered a legal or illegal gift is blurred in Southeast Asia is. Often gift giving is a part of most transactions. This of course poses some problems for Finnish / Swedish firms, since they are strongly deterred from gift giving by their home context, while strongly encouraged to gift giving in the Southeast Asian context.

*“If Finnish companies want to do business here, the firm cannot look with the Finnish moral and values at the situation here. There is a certain history here of giving a little extra for something to someone that is important. In fact, Thais usually don’t see any wrong in giving someone a little tip for a good service provided or doing the work good.”*

- Respondent J, Thailand 20.11.2003

Because ethnic Chinese firms do not separate business and private life, and as a result of high interdependence between individuals and families, business relationship are build on

a strong personal relationship The implication is that a person is also expected to make short term personal sacrificed in order to promote business relationship. Or vice versa, a person is expected to make business sacrifices in order to promote another individual's matters. Hence, Finnish / Swedish firms might find it strange that some of their partner might make great sacrifices for the sake of the relationship. The sacrifice is also not expected to receive, in short term, an equal return. In other words, the return on any investment made in the relationship might not result in a short term payback. Hence, there is significant adaptation required by both partners concerning the time perspective in a relationship. Another large difference that causes challenges for the Nordic firms is to be able to navigate the hierarchical structure of the Southeast Asian society and firms especially.

*"The Scandinavia style is that you have respect for each other, even on different levels, and you listen to each other. Here they more talk down to the next level. This creates a long distance already between middle management and top level. Middle management doesn't see so much of top management. In the Nordic countries you see, as a general rule, the boss every now and then."*

- Respondent Q, Singapore 14.10.2003

<b>Business mores</b>	Accomplishment driven	Reputation and face oriented
	High reliance on contractual agreements	Dislike for written and formal contracts
	Separation personal and business life	Personal and mutual relationships
	Interorganizational relationships	Personal and individual relationships
	Competition	Consensus
	Decentralized / informal	Hierarchical / informal
	Short payback period and high return on investment	Long-term payback and investment approach
	Major gift-giving viewed as illegal	Gift-giving part of building guanxi
	More focus on profits	More focus on market share
	Mechanistic	More organic than mechanistic

**Table 8 Comparison of business mores**

In authority and control, loyalty and division of labour distance between the Finnish / Swedish and the ethnic Chinese context is high. Ethnic Chinese firms are managed and organized differently than Swedish / Finnish firms. The hierarchical structure and respect for authority and seniority in society as a whole is also clearly seen in how the firms are organized in Southeast Asia. Decision-making is in the hands of the owner or highest management, and middle management has little decision-making authority. Since the firms are run by the owner and decision-making concentrated to top level of the firm, there is little need for formal coordination of control procedures. In Finnish / Swedish firms' decision-making is decentralized and delegated throughout the organization, although

employees are directed by formal coordination and control procedures, i.e. there are clear boundaries and guidelines on behaviour.

These two different ways of managing and organizing causes some implication for the business relationship. It is unusual that individuals in ethnic Chinese firms cross hierarchical levels. Finnish / Swedish firms are used to connecting at different levels of their partners' organization, although the ethnic Chinese owners, or top management, expect to meet and deal with top-management in the Finnish / Swedish firms. Hence, middle managers or younger managers might experience some resistance and challenges when attempting to deal with their ethnic Chinese partners.

*"Because maybe it's a little bit more softer approach and it's a smaller unit and people are considered as persons and not just workers."*

- Respondent D, Singapore 16.10.2003

Another potential problem in the Finnish / Swedish and ethnic Chinese relationship process is the different decision-making process, i.e. one partner has a much decentralized decision-making process and the other a highly centralized process.

*"The Swedish leadership style is very diffuse, and we are poor at arriving at decisions. Swedes work in a consensus environment, everybody knows what goes on anyway, we don't make any decisions. It's a very humane work environment, you are allowed to participate, and your opinion is worth something. The boss does not take away your credit if you have done something good, you take the credit. The Chinese is totally the opposite. They are very good at taking decisions, they are crystal clear, and that is precisely what matters. But it is very inhumane, and the boss takes all the credit, and shuffles things downwards."*

- Respondent C, Singapore 28.10.2003

Since decision-making takes place at the top-level in ethnic Chinese firms, middle or lower level managers and employees are not able or allowed to make any decisions. Hence, decisions and problems are sent upward in the hierarchy.

*"That's a big difference between western and Asian people, especially Chinese. They are mostly family run companies. So whatever they decide the money comes from their own wallets. So they have much stronger control than we are used to."*

- Respondent O, Singapore 29.10.2003

During the time from problem recognition to problem solving, disturbances may occur when the information passes through several levels. Hence, there is a risk that information may be distorted and decision-making not in line with the actual problem. For Finnish / Swedish firms it could mean that they in fact need to have relationships to as many individuals and levels as possible in the partner firm, in order to recognize potential problems and to gain access to undistorted information and knowledge.

<b>Authority and control, loyalty and division of labour</b>		
Personal authority and owner domination	low	high
Significance formal coordination & control procedures	high	low
Managerial style	employee oriented	aloof
Employee commitment	low	medium

**Table 9 Comparison of authority and control, loyalty and division of labour**

Enterprise specialization and development reveals one major difference between the Finnish / Swedish and ethnic Chinese firms. While Finnish / Swedish firms rely on their market intelligence systems to identify market opportunities, the ethnic Chinese firms rely on personal contacts for market opportunities. One reason for this reliance on personal networks is that market information is difficult to acquire in many emerging market, and even though marketing information might be available, it is often not very correct. Another reason is that, in contrary to Finnish / Swedish firms who are relatively free to seek any market opportunity, the ethnic Chinese have not been free to pursuit market opportunities. Another challenge to relationship is that ethnic Chinese firm are often highly diversified and may easily diversify into unrelated business areas. A Finnish / Swedish firm might seek a partner in a specific industry, but might after a while find out that its partner has interest in many unrelated industries. Developing the business together through a partnership might hence, pose some potential challenges, since this focus versus un-focus means resources are used in different ways.

*“Finnish tend to know where we start and where we are going, straight forward. You decide what to do and then you do it. In Asia there is no concept of logical thinking in the sense that we understand. You may know where you are, you may have an idea where you are suppose to go, but the path how to go is not the same as we are used to. Its more guided intuition, and no pre-planning and going where you just go and see where you go.”*

- Respondent H, Thailand 20.11.2003

Furthermore, challenges are caused as a result of using different goals and measures of achievement, i.e. measuring performance purely with financial criteria, and having financial rather than growth goals. Also, as mentioned numerous times, social relationships are the cornerstones of a business relationship. This means that business performance can also be measured on social criteria.

*“I think the difference is that at the end of the day in a Western context what matters is the performance. The business relationship can be broken if the performance is not there or if the parties feel that this doesn't really work. In an Asian context it is more that we started this together and we live this through together. There is an expectation that you really continue as a friend and a partner, and even if either party starts feeling that this doesn't really work that*

*well. Then there is still an expectation that the relationship still continues, even if business go down and there is a slow period. You don't easily give up relationships."*

- Respondent L, Thailand 18.11.2003

<b>Enterprise specialization and development</b>		
Business specialization	low	high
Evolutionary strategies	high	low
Relational contracting	low	medium
Reliance on personal networks	low	high

**Table 10 Comparison of enterprise specialization and development**

### 5.6 Analysing distance on the regulative level

The legal institution is not nearly as developed in the ethnic Chinese context as in the Finnish / Swedish. The difference is significant between the two contexts, and it also has a directly observable influence on business relationships.

*"On the day to day level, micro, level, there is really no influence. Malaysia is a totally different case. Malaysia have good law, UK common base, you know the law. But the business culture with the Bumi and political connections is a bit messy. In Thailand the laws, the legal structure, they don't really know that they need legal advice. But on the other hand, you have the liberal business climate."*

- Respondent H, Thailand 20.11.2003

There is a clear connection between the weak legal institution and reliance on personal contacts. Because the legal system is less developed and regulations are ignored, the ethnic Chinese firms' rely on personal and informal relationships to supplement weak legal structures. Hence, the high reliance on personal relationships and hence, also the high importance of developing trust early on during the relationship process.

Because the weak legal institutions, and distrust for formal institutions (government institution), ethnic Chinese firms are reluctant to rely on outside support to settle any kind of disagreement. Problems and claims are solved between the partners, sometimes with the use of some trusted middleman. On the other hand, the use of formal contracts is rare, which also means that when a problem or disagreement occurs, there is quite much room for negotiations. The Finnish / Swedish firms are, on the other hand, accustomed to lengthy contact negotiations and detailed in written contracts. If a dispute arises, the partners refer to the contract. If a settlement cannot be reached, a disagreement is easily taken to the formal legal institutions. A disagreement that is tested in court is likely to terminate a relationship. A disagreement tested in court the ethnic Chinese context will automatically end the relationship, because such an act signals that there is no trust between the individuals, and it will be impossible to develop trust after such an incident.

Another implication for business is that intellectual property is hard to protect. Pirating and copying is a wide spread phenomenon in Southeast Asia. It means that potential partners have to be careful concerning sharing resources and information. In their home environment, the Finnish and Swedish firm will start to adapt their products, processes and practices with their partners. Fearing pirating of their products, Finnish / Swedish firms in the ethnic Chinese context are more likely to adapt their processes and practices than their products.

<b>Legal System</b>	Well developed legal framework	Less developed legal framework
	Law is respected	Regulations ignored
	Contracts legally binding	Reliance on personal relationships
	Strong legal institutions	Weak legal institutions

**Table 11 Comparison of legal system**

As with most other institutions, the distance between the Finnish / Swedish and ethnic context is also high for enterprise coordination and control. The Finnish / Swedish firms are used to a high level of coordination between firms, and increasingly firms in the Finnish / Swedish context seek to team up with other firms in order to benefit from each other's strengths and experience. Focus on core competences is increasing in this context, and this also increases further the need for coordination. A challenge to relationship development is therefore this difference in view, i.e. Finnish / Swedish firms are striving to become specialist in their area, and outsourcing non-core functions, while ethnic Chinese firms, or conglomerates, attempt to include functions from raw material acquisition to sales and distribution.

*“What does it take to make a conglomerate in Asia? Take a bank, add some trading and some manufacturing interests, a stock broking firm, lots of real estate holdings, and perhaps a hotel, mix it all around to form a loose structure, but one in which lots of internal transactions take place and put the lot under family control”.*

- Michael Backman, 2001

A challenge for cross-institutional relationship is that because the Finnish / Swedish firms are involved in long-term inter-sector coordination, there is also a high commitment to business partners. The ethnic Chinese firms, on the other, are typically not committed to their business partners, and may seek opportunities wherever they might arise. Commitment is especially low if their partner is a foreign firm. On the other hand, if firms manage to develop strong personal ties, the commitment is higher. Trust in the other partner, and commitment therefore becomes crucial elements in a business relationship between Finnish / Swedish and ethnic Chinese firms.

*“Let us play with the thought. First of all, let's assume that I have a very good relationship to my customer, and it is based on them portraying me in a certain way. If I would quit my company and go to one of the competitors, then I would*

*take with me a large part of the customers. As long as my new employer would not prohibit me to act in the same way as before, then it would be much easier than in any other environment for the new employer to build a relationship to my customers. This is totally different than in a western environment.”*

- Respondent N, Singapore 23.10.2003

<b>Enterprise coordination and interdependence</b>		
Long-term inter-sector coordination	high	low
Horizontal integration	low	medium
Vertical integration	medium	low
Interdependence between firms	medium	high
Commitment to business partners	high	low
Reliance on personal ties	low	high

**Table 12 Comparison of enterprise coordination and interdependence**

### 5.7 Analysing overall distance between Finnish / Swedish and ethnic Chinese contexts

Proposition one in chapter 1.2 suggest that because Finnish / Swedish and ethnic Chinese firms are from network contexts that are different, they will have major challenges managing a relationship in the ethnic Chinese context. An analysis of the institutional distance between the Finish / Swedish and ethnic Chinese reveals that out of 44 variables used in the network systems framework, 34 are significantly or highly different. Of the characteristics, only 10 show medium distance, while only 3 are similar or the same. The conclusion is therefore that the overall institutional distance is highly different. At a first glance there is clearly support for this proposition.

Viewed in more detail, the analysis reveals that of 16 variables used to establish distance on the cognitive level only one is similar, three are different and 12 variables highly different. Family and clan are important in both systems, while the government in both systems are market oriented and promoting open economy, although the government in the ethnic Chinese contexts are generally more actively involved in guiding economic development. The rest of the characteristics used to describe the institutions on the cognitive level are significantly different. Since cognitive structures are underlying thought patterns of a context, they are also highly resilient to change. Since the distance is of such magnitude, and requires adaptation since structures are not easily changed, it gives further strength to the first proposition.

Out of the 18 variables used to establish distance on the normative level 15 are significantly different, three are different, and none are similar. The smallest differences are found in employee commitment, relational contracting and informality in relationships. The normative level is more directly linked to the business aspect of a context, since it defines overall goal for firms and provides firms with guidelines on behaviour (“to win the game” and “how the game should be played”). Given that a large majority of the variables are different, and hence also the distance, this further supports the first proposition.



Out of the 10 variables used to establish distance on the regulative level, as many as eight indicate a high distance. Only two show medium distance while none show low distance. The core of the difference is that ethnic Chinese firms are un-focused, highly diversified, and the conglomerates are horizontally integrated. The Finnish / Swedish firms are quite the opposite, since they are focused, on core competencies, and vertically integrated. The firms can draw on commonalities from their experience and tendency to working with other firms, and using that as a foundation for starting a business relationship. Legal institutions are not trusted in the ethnic Chinese context, and business agreements are based on personal trust rather than written contracts, and these are issues that Finnish and Swedish firms are unfamiliar with. Since the distance on the regulative level is also significantly high, the conclusion is that there is much support in favour of the first proposition.

The overall implication for the relationship process of Finnish / Swedish firms in Southeast Asia is that a high level of adaptation and learning is required in order for firms from the two contexts to be able to develop business relationships. However, the ethnic Chinese firms increasing investment in education and training, and business education acquired in the west should make the ethnic firms more able to recognize western business practices and also to some extent make adaptations. Because the Swedish and Finnish governments have been promoting internationalisation of national firms for a long time, many Finnish / Swedish firms have experience in doing business in foreign institutional contexts and should be familiar with many institutional profiles. Some cultural traits of Finnish / Swedish managers, such as a rigid sense of trust and honesty, could also be favourable in the ethnic Chinese context.

	Distance between Finnish / Swedish and ethnic Chinese context		
	Low	Medium	High
<b>Institutional variables</b>			
Cognitive	1	3	12
Normative	0	3	15
Regulative	0	2	8

**Table 13 Distance on different institutional levels between Fi / Swe and ethnic Chinese context**

When using the institutional comparison to aid in the selection of relationship dimensions to study, it is clear that *adaptation* and *learning* will become important for the relationship development process. Since relationship development in the ethnic Chinese context is highly dependent on personal and mutual relationships, interdependence and personal network, I conclude that *social interaction* will play a vital role in the relationship process. Additionally, throughout the institutional analysis, the issue of personal relationships, characteristics, and ties comes up, and therefore *social bonds* is likely to also have an impact on the process. Furthermore, since the view on integration and firm coordination and interdependence show high differences, I also believe that the issue of *commitment* is important. Since the outcome of a relationship ultimately depends on the actors' ability to manage differences, I will also include decision-making and management as two elements influencing the relationship process. Since the ethnic Chinese grant *trust* to those belonging

to the extended family, how Finnish / Swedish firms manage to gain trust will have an impact on the relationship.

### **5.9 Summary**

This chapter has focused on the institutional setting of Finnish /Swedish and ethnic Chinese firms. The first part of the chapter focused on the Finnish / Swedish and the ethnic Chinese network, outlining differences. Some major differences are organisational vs. personalistic, optimization vs. harmony, firm vs. network, social relations as outcome vs. input, etc. The second part of the chapter attempts to explain why networks are different by describing various institutional structures and comparing them and the result is an institutional profile of the Finnish / Swedish and the ethnic Chinese contexts.

The chapter ends with an analysis of the institutional distance between the Finnish / Swedish and ethnic Chinese context. The distance is established using a network systems framework. The institutional distance between the Finnish / Swedish and ethnic Chinese network system is large. Out of 44 characteristics in the network system framework 35 are significantly or highly different. Of the characteristics, only eight show medium distance, while only one is similar or the same. The conclusion is therefore that the overall institutional distance is high. The network systems framework and establishment of institutional distance has also aided in the selection of relationship dimensions.

## PART III

### 6. Firms and relationships

Two points can be made concerning firms; 1) they can be expected to seek means to develop their business, and 2) they do not exist in vacuum or isolation. Companies do not survive or prosper only through their own individual efforts, because each firm is dependent on the activities, and performance, of other companies. Every company exists within a complex network of interactions between companies as they exchange with each other information, expertise, goods and services, payments and loans and other strategically important resources (Wilkinson & Young, 2002). Because the firm gets access to strategically important resources through its relationship to other firms, the performance of the individual firm is dependent on the nature and quality of the relationship it manages to develop with these other actors. In order to understand networks, their structure and processes, one should also have an understanding of the constituents, relationships (Salmi, 1995).

Typically a firm is engaged in some form of co-operative relationship with another firm, such as between a seller and a buyer. A firm is in addition to being directly linked to other firms also indirectly linked to a great number of firms, through relationships with suppliers and the suppliers' relationships to their suppliers, etc. Hence, a firm can indirectly for instance be linked to one of its competitors. Furthermore, a firm is not only involved in relationships to each other, but also with for instance consultants, middlemen and even public and semi-public agencies.

Relationships develop over time as a chain of interactions, and relationships are characterized by a set of mostly unconscious rules of behaviour (www.acenet.com, 2004). The development of any one relationship between two companies will depend on factors such as what has happened in the past in the relationship, what each actors has previously learned in other relationships, what currently happens between the companies in the relationship and other relationships, on expectations of future interaction, and what happens in the wider network of relationship in which they are not directly involved (Håkansson & Ford, 2002). As a relationship develops over time the parties gain common knowledge and understanding about each other and the ways that they can and should interact. In general terms the process involves a great degree of uncertainty in the early stages of the evolution of the relationship, because for instance difficulties in assessing potential reward and cost of the relationship. There is also a degree of distance (social, cultural, time, and technological) between the actors. Although distance might be high and adaptation low between companies in the initial stages of a relationship, a low level of mutuality can be offset by, for instance social or information bonds between actors. In an ongoing business relationship, the two parties are usually seen to adapt to each other, i.e. change their behaviour vis-à-vis each other (Halinen, Salmi & Havila, 1999).

The evolution of interaction can be described as a social exchange process. If one actor takes initiative, interaction evolves if the counterpart responds. Gradually both firms make commitments, and during the evolving process firms learn about each other's competencies and behaviour. Trust in each other is also developed, and a strong commitment to the

continuity of the relationship is created (Eriksson et al., 1996). The role of communication is important throughout this process; not only verbal communication, but also for instance communication of intentions, actions, etc.

### **6.1 Industrial network approach**

Interest in industrial networks is a result of empirical evidence that actors in industrial markets establish, develop and maintain lasting business relationships with other business actors (Håkansson, 1982; Turnbull & Valla, 1986). Originally the industrial network framework was mainly concerned with buyer-seller constellations, but currently the framework is expanded into other constellations as well, such as innovations, entrepreneurs etc. The network approach states that; 1) a firm can develop or expand its business through interactions with other firms and 2) a firm influences and is dependent on factors in its environment, both external and internal.

A widely used approach in business network studies is the industrial network approach (INT) (Mattsson, 1985; Håkansson, 1987; Håkansson & Snehota, 1995). The core focus of the industrial network theory is the long-term business relationships that exist between firms in industrial markets. Both seller and buyers are seen as active partners, and they seek to explore different benefits from, in essence, various economic exchanges. Actors are connected and controlled through different kinds of bonds (Håkansson & Snehota, 1995), which develop over time and through which the companies are bound together, for instance economic (e.g. special credit agreements and terms of payments, legal (e.g. long term contracts), technical (common technology, product and process adjustments), cognitive (e.g. knowledge about the counterpart), social (e.g. mutual confidence and personal liking) and planning (e.g. logistics coordination). The model emphasizes how ongoing interactions and activities between actors sharing or exchanging resources, rather than strategic decision making, shape the network (Anderson, Håkansson & Johanson, 1994).

The three basic elements (activities, actors, and resources) of the industrial network approach are not independent; instead there is interplay between them. Especially empirically it is difficult to distinguish whether social, information or business exchanges take place when actors interact. In practice it is common that both information and commercial exchanges take place in social networks. In fact, social relationships are sometimes established in order to benefit from these relationships in terms of information and/or business (Björkman & Kock, 1995).

### **6.2 Social network approach**

The sociologists emphasize the fact that economic action does not take place in a barren social context but, rather, is embedded in social networks of relationships. Hence, the most important facet of an organization's environment is perhaps therefore its social network of external contacts. Social networks in a business context are viewed as personal relationships between employees in firms, and personal networks consist of both a personal and a business dimension (Jenssen & Koenig, 2002). Social networks are patterns of lasting social relationships between people, and the structure of social relationships shapes the flow of information and opportunities between organizations (Johannison, 1996).

The social network approach studies actors and the personal relationships that hold them together. Social network analysis is the study of how the social structure of relationships around a person, group, or organization affects beliefs or behaviours. The individuals form a social network, which is built on interactions consisting mainly on social exchanges among individuals such as family, friends, acquaintances and employees. A social network is, hence, a set of actors and the relationships that hold them together. Social networks might refer to any kind of social object: people, organizations, countries (Kadushin, 2000), organizations, companies, departments, groups and individuals, family, friends, acquaintances, and employees and they are connected by a set of social relationships of a specified type, such as friendship, transfer of funds or overlapping membership (Walter, 1999). The key point in the social network approach is that the actors exchange resources, which then connect them in a social network (Knoke & Kublinski, 1982). Resources may include data, information, goods and services, social support, or financial support.

The social network has two components, a personal network and culture. The personal network is defined as concrete contacts and bonds with specific individuals, the individuals being embedded in a wider culture. In other words, the cultural context influences the way in which actors interact in a certain social network, and it involves such concepts as values, attitudes and behaviours (Björkman & Kock, 1995). It has been stated that personal contacts can be used as a mechanism for reducing the cultural distance between individuals (Walter, 1999).

The structure of social relationships shapes the flow of information and opportunities between organizations (Johannison, 1996). Social networks give access to resources such as information, motivational resources and material resources (Jenssen & Koenig, 2002). Social relationships can also be a tool for solving and dealing with problems that arise (Granovetter, 1985). Therefore the nature of relationships can affect the occurrence and handling of conflicts and vice versa (Holmlund & Törnroos, 1997). Sociologists have suggested that if economic actors are faced with uncertainty about a partner, the actors tend to adopt a more social orientation towards one another. They tend to address for instance concerns of opportunism in economic transactions by resorting to existing networks to discover information that lowers the risk of opportunism (Granovetter, 1985).

There is much evidence that business relationships are mixed up with social relationships. Business relationships spill over into sociability and vice versa, especially among business elites (Granovetter, 1985). The essential role that social relationships are seen to play in business relationships are worth noting (Salmi, 1995). Non-business personal relationships can provide underlying preconditions and support for industrial and business activities (Hallén, 1992).

An important feature of business relationship development is its informal character. Personal relationships increasingly supplement formal role relationships, because in many cases business relationships are based on relationships that evolve between individuals in the firm. Through social exchange processes the firms learn over time to cooperate and as a result learn to coordinate their activities. These social networks between individuals in the firms are patterns of lasting social relationships between people (Jenssen & Koenig, 2002). If actors work together to the same end mutual understanding can occur. Understanding

also influences commitment to the relationship. As firms interpret each other in order to understand one another they form expectations and build mutual orientation (Johanson & Johansson, 1999).

Empirically it is difficult to distinguish between the social, information and business exchanges taking place when actors interact. It is also difficult to determine where one network ends and another begins. Many interactions in predominantly social relationships may have an impact on business-related issues, regardless of whether monetary values are exchanged or not (Walter, 1999). Theoretically there is also a large overlap between the industrial network and social network approach, and several components can be found in both approaches. Interaction in business relationships comprises processes of exchange, including business, information, and material resources (Håkansson, 1982). The social network builds on interactions consisting mainly of social exchanges, but information and business exchanges can also take place. Other dimensions found in both approaches are information sharing, coordinating activities, learning, adaptations, trust, social interaction, social bonds, and commitment.

### **6.3 Important dimensions in the industrial and social network approach**

The following chapter deals with dimensions that are considered important in relationships between firms from different contexts. This chapter presents six relationship dimensions. Although there are additional relationship dimensions, for instance information sharing, these six dimensions are chosen because they are especially interesting in the context of this study. These six relationship dimensions, learning, adaptation, trust, commitment, social interaction and social bonds were chosen partly based on commonalities found in industrial and social network theory, and partly based on the analysis of institutional distance in the previous chapter.

#### **6.3.1 Learning**

Based on the institutional comparison in the previous chapter, where the institutional distance between the Finnish / Swedish and ethnic Chinese context was found to be high, learning takes on a central importance in business relationship between Finnish / Swedish and ethnic Chinese firms. Because the overall institutional distance is high, firms are confronted with highly different network logic, i.e. Finnish / Swedish firms are embedded in foremost an inter-organizational network, while ethnic Chinese are embedded in an inter-personal network, consisting of interconnected families. Underlying cognitive structures are also different, for instance concerning country culture where Finns / Swedes in chapter 5.1 were found to be self-reliant and individualistic, as oppose to ethnic Chinese who live in a complex social network of relationships and obligations and are collectivistic. Many ethnic Chinese firms are also family firms, and since the society consist of networks of interconnected families, Finnish / Swedish firms are not dealing with singular firms, but with families that also make decisions based on the overall considerations of the network. Other normative structures which are different are authority and control systems. In other words, learning is important for the formation of a business relationship between firms from these two contexts because of a high distance regarding cognitive structures.

Learning is the process by which companies reduce (or increase) their uncertainties (Ford, et.al, 1998). It is also a process of learning how to live with some uncertainties that cannot be reduced. Only by interacting with firms in the network it is possible to learn what the partner needs and what they can and are prepared to do in different circumstances. A continuous learning process between the partners has to take place to exploit the potentials of a business relationship (Walter, 1999). Basically companies learn in two ways: through their own experiences or through the experiences of other organizations. Learning from others means the transfer of knowledge embedded in products or processes or the transfer of knowledge in a more pure form (Håkansson et al., 1999). The more two actors show interest and are prepared to both learn and teach, the more each can benefit from the relationship. But it has to be kept in mind that the parties can vary with regard to their ambitions with the relationship and their competencies in teaching and learning different matters (Håkansson et al, 1999).

Through social exchange processes over time, the partners mutually learn to cooperate and thereby to coordinate their activities. The way a relationship evolves is closely related to what the two companies learn about each others' uncertainties and abilities, what they need from the relationship and what they can offer to it. Learning is also about finding out more subtle and complex issues, such as what their counterparts mean by things they say and attitudes they show. This is especially true for partners that come from cultures different from their own (Ford, et al, 1998). Hence, learning takes on an important meaning in relationships with firms from fundamentally different cultures. Interacting with foreign actors can on the other hand also make the firm learn about it, such as how it behaves when exposed to unfamiliar behavioural patterns or how able and willing it is to adapt to demands and requests. By interacting with foreign actors, the firm can gain an understanding of how actors in foreign networks are interconnected and dependent upon each other (Johanson et al., 1999).

### 6.3.2 Adaptation

Drawing on findings from the institutional analysis, several issues support the notion of including adaptation as one dimension when studying Finnish / Swedish firms' relationship processes in the ethnic Chinese context. Foremost, because the institutional distance on the cognitive level is high, and because cognitive structures are highly resistant to change, Finnish and Swedish firms are not able to change or influence these structures. Hence, they are left with the option of adapting to structures in the ethnic Chinese context. Furthermore, distance on the normative level was also found to be high, which means that for instance ethnic Chinese business mores are unfamiliar to Finnish / Swedish firms. Although normative structures are more prone to influence and change, for instance the concept of *guanxi* is a deeply rooted practice in the ethnic Chinese context, Finnish / Swedish firms' most likely need to adapt to them. Business based on *guanxi* principles is very different from Finnish / Swedish business principles, and since *guanxi* is the prevailing business more in the ethnic Chinese context, ethnic Chinese are not likely to deviate from this business more. In other words, adaptation becomes important because the distance on the cognitive and normative level is high, and these structures are resilient to change.

A prerequisite for relationships is that companies need to adjust to make them work. Mutual adaptation of some kind is generally a prerequisite for development and continued existence of a relationship between two companies (Dubois & Håkansson, 1997). Adaptations make firms more similar and therefore strengthen the bonds between them (Johansson and Mattsson, 1987). Adaptations are not limited to a certain type of firm; all firms are at some points, and to some extent, adapting. Adaptations can vary greatly in scale and formality (for instance simply involves a change of communication style) and play an important role in aligning the resources (broadly defined) of the parties to a relationship. Generally speaking, adaptations will be more significant the larger the differences between two firms (Gadde & Håkansson (1993).

Adaptations can occur for several reasons. Dynamic changes in the environment might cause firms to respond (Easton, 1992). Firms might need to do adjustments in order to increase benefits for both parties. Adaptations might also be necessary so that firms are able to deal with each other over extended periods of time (Dubois & Håkansson, 1997). Adaptation is also a result of interaction; interaction creates possibilities and expectations change during the interaction (Ford 1980, Gadde et al., 1993). Entry into new networks and unfamiliar exchanges might require amendment. Regardless of the reasons for adaptations, it will have consequences for the involved companies (Brennan and Turnbull, 1998)

Adaptation is a continuous and ongoing process (Brennan & Turnbull, 1998), and adaptations take place continuously as the relationship develops through its different stages (Easton, 1992). Adaptations might occur during initial stages of relationship and often continue as companies develop a greater understanding of each other (Dwyer, et al. 1987, Ford, 1980, Hallén et al. 1991). Adaptations are also likely going to look different when studied at different times of the interaction process. After adaptations are made the bonds between the companies will be tighter.

It is easy to find research and literature on technical adaptations, especially in a dyadic context (Brennan & Turnbull, 1998). Firms in inter-company relationships are commonly adapting some features of product or production processes, to be combined in a sufficient way (Gadde & Håkansson, 1993). There might also be adaptations regarding logistics, administration, knowledge, quality, financial and/or R&D (Johansson et al., 1987). All these adaptations imply both possibilities and requirements in terms of techniques (Gadde & Håkansson, 1993).

However, not only transaction specific investments take place between firms; behavioural modifications might also occur, for instance adapting goal and objectives or operating philosophies and corporate cultures (Hutt, Stafford, Walker & Reingen, 2000). Choosing to make such adaptations in turn indicate that a company is committed (Anderson & Weitz, 1992). The one adapting also signals that he trusts the other partner (Hallén, 1992). Behavioural modifications are initially designed to meet the other organization's needs, on the individual, group, or corporate level (Brennan & Turnbull, 1995). Behavioural adaptation typically requires the firms to make adaptations to their normal procedures to suit each other. Making behavioural adaptations might mean that team-members have to be carefully chosen to match the each others for instance rank and experience. If adaptations are successful, many of these adaptations will result in companies coming to rely on each



other and hence, creating compatibility; similarity of the firms size and status, in goals and values, policies and procedures (for instance bureaucratic structure or decision making), and personal relationships (for instance communication and proactive information exchange (Halinen, 1994).

Adaptations can be both formal and informal. Formal adaptations are often laid out in contracts, while informal adaptations will be agreed upon in order to cope with a problem or by request of the counterpart. Adaptations are likely to be costly, both financially and time-wise, and therefore adaptations need to be managed carefully. Although two firms in a relationship have adapted to a great extent to each other, it does not guarantee a conflict-free relationship. Actually, cooperation and conflict usually takes place at some degree in relationships, regardless of adaptations (Ford et al., 1998).

Adaptations can also be either part of a conscious relationship strategy, or may be 'unconscious'. A company's commitment and motivation can be interpreted based on whether it makes conscious or unconscious adaptations (Håkansson, 1982). Consciously investing in a relationship signals a higher motivation than unconsciously adapting. Unconscious adaptations can be interpreted as something the company is forced to do and not actively and independently chooses to do on its own (Halinen, 1994). Adapting could also be interpreted as passively responding to the requirements of the other party or to the demands of a contextual setting or the changes in it (Halinen, 1994).

### 6.3.3 Trust

Trust is an interesting dimensions to study in relationships between Finnish / Swedish and ethnic Chinese firms. As Finnish and Swedish firms attempt to develop and later manage relationship with the ethnic Chinese, among several things they will realise that since they do not belong to an ethnic Chinese family they are automatically considered out-group members. Hence, trust is not granted automatically to them as it is to in-group members. Additionally, in the Finnish / Swedish context trust exists foremost between organisations, while trust in the ethnic Chinese context exists between persons. These differences, which relate to the cognitive institutional level, means that trust is likely to be approached in a different way in the ethnic Chinese context. Furthermore, Finnish / Swedish firms are accustomed to strong legal institutions. In the ethnic Chinese context, however, legal institutions are weak, and hence do not support business transactions. Hence, in order to guarantee reliability in business transactions firms rely on personal relationships. The importance and interest for trust in relationships between Finnish / Swedish and ethnic Chinese firms is, hence, a result of a combination of high distance on the regulative level, but also on the cognitive level.

Trust is an important issue for inter-firm cooperation (MacAulay, 1962; Håkansson, 1989; Young & Wilkinson, 1989), and marketing scholars as well as practitioners have recognized that trust is a substantial dimension in interaction in networks (Håkansson, 1982; Håkansson & Snehota, 1995; Ravald & Grönroos, 1996). It has been noted that existence of trust between two organizations can lead to enhanced co-operation, informal collaboration in networks, governance cost savings (management cost), cost for

internalization (acquisition), capability improvement, increased strategic flexibility, as well as stimulating continuation of the inter-firm relationship, increasing loyalty and promoting more open communication, information sharing and conflict management (Gulati, 1998).

Trust in a business context is a multidimensional and complex concept (Wong, 1996), and is therefore perhaps easiest understood using words such as credibility, confidence, loyalty, reliance, expectation, belief, willingness, reciprocity, predictability, loyalty, fairness, and openness (Ravald & Grönroos, 1996; Blomqvist, 1997; Uzzi, 1997). Having trust indicates a willingness to do more than is formally expected and also a willingness to have confidence in a partner's reliability and integrity (Morgan & Hunt, 1994; Sako, 2000). Trust is the firm's belief that another company will perform actions that will result in a positive outcome for the firm (Anderson & Narus, 1990). It also a belief that the other party will not take unexpected actions that would result in negative outcomes, i.e. that a relationship partner will act in the best interests of other partner (Anderson & Narus, 1984; Morgan & Hunt, 1994; Wilson & Möller, 1995). The supply of trust increases rather than decreases with use, and trust can become depleted if not used (Powell & Smith-Doerr, 1994). Competition, opportunistic behaviour, underlying motives and hidden agendas are factors that destroy trust. If trust in a relationship erodes, personal relationships become strained (Dean & Holmes, 1997; Hutt et al., 2000).

It is possible to distinguish between two components of trust, cognition and behaviour. Cognition based trust is based on confidence in the role reliability of a partner (McAllister, 1995). Role reliability involves the ability to perform at a set level, and to adhere to specific written or oral agreements. Contractual trust is shown for instance when partners uphold ethical standards, i.e. keeping promises. Cognition based trust is based on confidence in the intentions (behaviour) of a partner, for instance to place the other other's interest ahead of their own (Sako, 2000). Cognition trust builds on a rational approach to risk taking based on good reasons and evidence of trustworthiness. Emotional bonds exist between individuals and there is confidence between the parties that the other party is reliable (Morgan & Hunt, 1994; Perry McAllister, 1995; Cavaye & Coote, 2002).

It is possible to distinguish between organizational and individual trust. Organizational trust is for instance a buyer trusting a selling organisation to keep various promises, for instance quality or delivery. One way of expressing organizational trust is reputation. Individual trust can either be professional trust, having to do with how tasks are completed, or social trust, which is based on personal traits, membership of a social or cultural group and the like (Jansson, 2005).

Firms develop trust through ongoing interactions and mutual trust, respect, and friendship arise out of close interaction between partners (Gulati, 1998; Kale, Singh & Perlmutter, 2000). Every relationship has a specific history of how they have treated each other. The degree of trust and commitment that has been build up is hence, based on past experience of each other (as well as on expectations of future exchange) (Ford et al., 1998). Social relationships may indeed be a necessary condition for trust and trustworthy behaviour (Granovetter, 1985). Although close personal relationships foster trust and absence from opportunistic behaviour, they are not sufficient to guarantee these (Granovetter, 1985). Nevertheless, businessmen often prefer to rely on "a man's word", for instance a brief

letter, a handshake, or “common honesty and decency”, even when the transaction involves exposure to serious risks (MacAulay, 1962).

There is a cultural aspect to trust in relationships (Dryer & Chu, 2000; Coote, Forrest & Tam, 2003). Because trust is a socially embedded phenomenon, trust relies on social norms, values, and underlying behavioural assumptions, i.e. trust is influenced by institutional, organizational, and individual factors (Zucker, 1987; Svensson, 2001). There are variations between national contexts, for instance different values about what is and is not work in life, different assumptions regarding the environment, and different expectations about relationships among people. Sako (2000) has found that there are significant differences for trust dimensions between US, Japan, UK, Germany and Europe. These differences may result in different bases for and different perceptions about trust (Hofstede, 1980; Harris and Dibben, 1999), i.e. creating context specific factors that trust (Sako & Helper, 1998; Zabkar & Makovec Brencic, 2004).

#### 6.3.4 Commitment

Commitment is included in this study in part because of high distance on the normative and regulative level between the Finnish / Swedish and ethnic Chinese context. The interest for this dimension is foremost directed towards differences in views on enterprise specialization and development, on one hand, and enterprise coordination and interdependence, on the other hand. Finnish and Swedish firms are interdependent on other firms in its network. In the ethnic Chinese context, however, firms are not dependent upon other actors for business, because business is conducted on the basis of interconnected actors. But interdependence is managed on a short-term contractual basis policed through reputational networks rather than by long-term mutual dependence relationships (Whitley, 1991). Consequently, long-term alliances are not preferred nor is there extensive coordination of activities across sectors. Furthermore, Finnish / Swedish relationships are relatively weak and generally represent short or mid-term economic interests. Ethnic Chinese business networks are relatively strong, last over the long term, representing a continuity of collective common interests (families, communities and sets of friends and relatives). Nordic firms, on the other hand, have more unstable and changing business networks. Since Finnish / Swedish and ethnic Chinese firms have such different views on enterprise specialization and development, as well as coordination and interdependence, the concept of commitment can be expected to be managed in a significantly different way.

When a relationship develops its actors will judge each other's commitment to the relationship. Commitment is intention to continue the relationship in the future, and willingness on the part of both partners to make short-term sacrifices to realize long-term benefits in the relationship (Dwyer et al., 1987; Anderson & Weitz, 1992). Both firms make an effort to ensure that the long-term relationship remain (Anderson & Narus, 1984; Dwyer et al., 1987; Morgan & Hunt, 1994; Wilson, 1995). Hence, relationship commitment exists when a partner believes that an ongoing relationship with another firm is so important that it warrants maximum effort to maintain it (Moorman, Desphandé & Zaltman, 1993). Commitment is characterized by mutuality, involvement, dedication to shared goals, willingness to invest resources, personnel assignments, and hands-on involvements (Hutt et

al., 2000). Sometimes a company will not be committed to a long-term relationship, but will try to take short-term advantage in order to gain something; information, technology, know-how, etc.

There is an abundance of concepts related to commitment, although, commitment is perhaps best explained using four broad components of commitment; calculative, affective, attitudinal, and behavioural. The first component, calculative commitment, sees commitment as instrumental, where customers and suppliers stay in a relationship because of cost and profitability reasons (Allen & Meyer, 1990). The choice of a relationship rests on calculating gains and costs, and comparing them with other alternatives. Calculative commitment deals with the idea of switching cost (Weitz & Anderson, 1992). Relationship partners' technological and product inputs binds them together, for instance product and technological investments and adaptations, and hence, interdependency is created (Håkansson, 1982; Ford, 1990). Switching costs, in turn, are created since the partners are interdependent. Because of these switching costs in the relationship, at least one of the partners is "locked in" into the relationship. The partner(s) who is "locked in" is not able to switch to another supplier since it would involve for instance costly re-engineering of its processes (Perry et al., 2002). Because firms want the alternative to move to alternative choices they will attempt to maintain a high degree of mobility, but high commitment delimits the actors' switch to market alternatives (Johanson & Mattsson, 1987).

Affective commitment can be considered the opposite of calculative commitment. Affective commitment is based on motives such as emotional attachment, belonging and respect for each other. It is non-instrumental and relies on satisfying counterparts in a relationship. The partners want to continue the relationship because they like it and because the satisfying relationship provides them with enjoyment (Sharma, Young & Wilkinson, 2001; Zabkar & Makovec Brencic, 2004). The effect of affective commitment is that partners will become closer to each other, which leads to participants sharing common beliefs about behaviour, goals, and policies (Allen & Meyer, 1990). Since affective commitment relies on the participants' attachment to each other it also ensures that the relationships will continue into the future.

Attitudinal commitment is concerned with the intentions, preferences and orientation of relationships (Sharma et al., 2001). Through attitudinal commitment partners develop strong preferences for each other, and for the continuation of the relationship (Anderson & Weitz, 1992). A positive commitment develops when a partner stays in the relationship to realize certain economic gains or benefits. However, there is also a risk that negative commitment might occur, which takes shape as partners' tendency to maintain a relationship because of the costs and penalties associated with switching. Attitudinal commitment can also arise because external and social pressures on the individual. The fear is that society will develop negative feelings about a person who cannot continue his/her relationships (Sharma et al., 2001).

Behavioural commitment means that the parties demonstrate their state of mind and signal their intentions to their partners through behaviour, i.e. that they are making a valuable contribution to the relationship. This contribution is more than merely a promise of remaining in the relationship. It is dedicated investments in the relationship, for instance

personal investments such as effort invested in the relationship, disclosure of confidential information about market strategy, competition and proprietary knowledge about product design, technology, research and development (Granovetter, 1985; Johanson, 1989; Sharma et al., 2001).

### 6.3.5 Social interaction

As mentioned throughout chapter five, business relationships in the ethnic Chinese context are based on a strong personal relationship. In the Finnish / Swedish context ongoing social interaction shapes the relationship. In the Southeast Asian context business relationships are built on social relationships, and personal relationships are often a prerequisite for the development of other types of business activities. In other words, social relationships are an input to a business relationship, not an outcome of the relationship as in the Finnish/Swedish context. While the Finnish and Swedish inter-organizational networks are built on mutual interests, the inter-personal Chinese networks are built on the individuals having some kind of common background or 'guanxi'. Because of these differences, relating to distance on the cognitive and normative level, how Finnish / Swedish firms manage social interaction is an important aspect in relationship between Finnish / Swedish and ethnic Chinese firms.

Cultivation of relationships and strengthening of personal relationships has a central role in relationship management. Business relationships are built up as social exchange processes in which the individuals that take part become committed beyond strictly task content. Social exchange processes will eventually create a web of personal relationships, and these relationships will expedite communication, conflict resolution and learning. Social interaction takes place both through formal and informal meetings between individuals from each firm. These formal and informal meetings will strengthen social bonds between the individuals.

The goal of social interaction is to foster friendship and personal relationships between actors from each company in order to increase openness and communication frequency. This is important because in any relationship, communication and information flows are crucial in resolving disagreements, speeding decision-making and achieving a shared understanding of goals. Although relating to alliances, it may also be true that many relationships fail to meet expectations because little attention is given to nurturing close relationships and personal relationships (Hutt et al., 2000).

### 6.3.6 Social bonds

Because of for instance weak legal institutions, social bonds are important for the development of business relationship in the ethnic Chinese context. It is common that a local businessperson openly expresses that he or she will refuse doing business with someone they do not have a social relationship with. Business network relationships in the ethnic Chinese context are governed by relational norms rather than contractual obligations, and the social language styles depend on age, gender, familiarity and social status. In fact, the ethnic Chinese paradigm is much more informal, and characterized by affection,

diffuseness, particularism, ascription, and collectivism. The boundaries between formality and informality are quite clear in the Finnish / Swedish context, while they are blurred in the ethnic Chinese. Social bonds take on an important role in business relationship in the ethnic Chinese context for several reasons, among other things distrust in the legal system, business based in friendship, and obligations, i.e. a combination of cognitive, normative and regulative structures, all of which were scoring high on the distance scale.

An important dimension of a business network is the strength of bonds between specific individuals (Björkman & Kock, 1995). There are several types of bonds connecting relationship partners, such as economic, social, technical, logistical, administrative, informational, and legal (Easton, 1992). Bonds can also be cultural, ideological, geographical and psychological (Liljander & Strandvik, 1995). Social bonds require the partners to invest time and energy, which is hoped to create positive personal relationships between the partners (Granovetter, 1973). Technical bonds are the opposite of social bonds. These are created when companies make economic or structural adaptations, for instance product or process adjustments (Perry et al., 2002).

Social bonds are important for mutual trust and confidence in interaction between individuals, and they emerge between individuals as they act according to common accepted norms and rules (Håkansson, 1982; Håkansson & Snehota, 1995). For instance social meetings and gatherings can foster social bonds. Social bonds between individuals are largely invisible and mostly unknown to others outside the network, and it is not always possible to extend a bond to a third party. Therefore personnel turnover can have a detrimental effect on social bonds (Hinttu, Forsman & Kock, 2003). Social bonds usually take a long time to form, but once they have been created, they can last for long periods of time.

Social bonds are often the result of recurring exchanges where commitment to the relationship has been increasing over time. Social bonds also emerge as a result of conflicts, since social bonds provide an alternative route for resolving conflicts. Social bonds are usually weak or nonexistent when the relationship is initiated. Bonds develop over time when partners cooperate, i.e. getting to know each other. This will also occur through informal events; “winning and dining” makes social bonds grow stronger (Wendelin, 2000). If a business relationship ends for one or another reason, social bonds between people may still remain intact. The business relationship can be activated later if the social bonds have remained intact (Perry et al., 2002).

Social bonds can also be used as a mechanism for reducing cultural distances between individuals (Björkman & Kock, 1995). Bonding has been identified as an important concept for examining the performance of business relationship between countries (Williams et al., 1998). In some markets, social bonds typically precede business bonds (Björkman & Kock, 1995). On some markets social bonds might even be a prerequisite for business relationships. Personal relationships work as an important trust building mechanism in transforming economies, because it has been suggested that social (personal) relationships take on the role of an important internal institution substituting for formal institutional support, for instance an underdeveloped legal framework (Salmi, 2000).

### 6.4 Relationship process in a Western context

Previous research has established that the relationship process in a western context can be divided into separate stages (Ford et al., 1998; Jansson, 2005). Although this development process is divided into stages, in reality there is no clear separation between the different stages. It is also important to realize that relationships do not move into each stage in a pre-determined way. Many relationships fail to develop at all after the initial contact, while other are rather short-lived for one or many reasons, for instance because their usefulness disappears or either party being unable or unwilling to develop the relationship. In contrast, some relationships develop into long lasting relationships, and pass through some or most of the stages. In short, business relationships are not linear processes that move in one direction towards an ideal state. Instead developing a business relationship is about coping with different circumstances at different times and with varying aims. Also expectations and ways of dealing with each other will vary, and some of these ways will be constructive while other will damage the relationship.

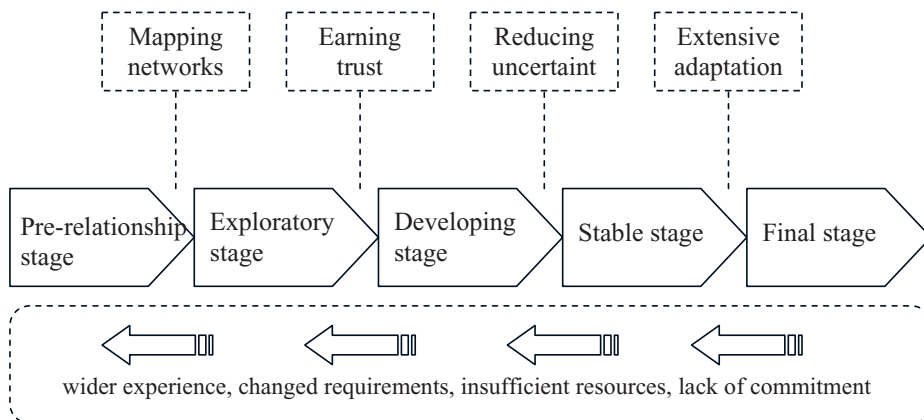


Figure 10 The relationship process of Finnish Swedish firms in their home context (Ford et al., 1998; Jansson, 2005, modified)

Most developed relationship will most likely go through periods of development and several periods of stability. Some relationship will not reach stability, for instance because of insufficient resources, one company only having transitory needs, lack of skill, inattention, lack of efforts or failing to appreciate the value the company gets from the relationship. In either case, developing a relationship in the direction a company wants requires considerable management skill (Ford et al., 1998).

#### *Pre-relationship stage*

The first stage in the development process is a preparatory stage. Most likely the companies have had some prior contact with each other. This first stage takes up marketing activities before the relationship begins, for example planning to take over a customer from a competitor, or planning to change suppliers, etc. Most of the work done during this stage evolves around evaluating partner alternatives. One or both of the partners will attempt



making a network map in order to learn more about the position, strength, dependencies, etc among the actors. Looking for a new partner takes a great deal of time and effort, because the uncertainty is high, there is no commitment and adaptation is zero (Ford, 1982; Jansson, 2005).

*Early stage / exploratory stage*

With networks mapped and relationships identified exploration of these start. Focus in this stage is on specific actors, and both partners are engaged in serious discussions or negotiations. Commitments are made to focus on specific partners in order to reduce the considerable distance between them. There is a lack of trust as well as concern about the other's commitment, and there is also great uncertainty about future benefits of the relationship. It is of great importance that initial trust is established, and demonstrating commitment is a way of earning trust. Both parties have only marginal experience of each other, and there is a need to learn about each other. As experience builds up trust and commitment is being established. This stage is a mutual learning process, and although adaptations are few, the amount of learning is greatest at this stage. There is also exchange of information, which is critical because commitment is vital if the relationship is to go to the next stage (Ford, 1982; Jansson, 2005).

*Development stage / developing stage*

Business and communication between actors starts to grow, because relationships between actors become deeper and broader. This leads to intensive mutual learning which in turn leads to increased experience for both partners. As the partners learn more about each other uncertainty is reduced and trust and commitment increases. They also increasingly share resources and hence, business grows in volume.

At this stage most uncertainties about ambitions and abilities has been reduced, when trust is build on action rather than promises. Both companies are keener on finding out about adaptations. Adaptations become important, because they are a way to show that a company can be trusted. There is not only formal but also informal adaptation, which means that both are attempting to change social behaviour of personnel to fit the other's expectations. A willingness to adapt demonstrates commitment, and informal adaptations are a major indicator of commitment. But this development does not continue inevitably, and either party can consciously or not cause development to slow or even revert to previous stage (Ford, 1982; Jansson, 2005).

*Long term stage / stable stage*

The long term or stable stage is characterized by continuous interaction between the partners. This stage occurs when the companies have reached certain stability in the learning about each other. It is not possible to place a time scale on reaching this stage, and some relationships will never reach this. The partners have learnt to know and trust each other and the relationship becomes more and more a routine. There is extensive adaptation and partners exhibit common thought styles, mutually accepted norms of conduct, standard operating procedures and they demonstrate both formal and informal adaptations. Common



to this stage is that distance is low and commitment high, which combined with extensive adaptations leads to low handling costs.

The aim of building relationships is to reach this long-term stage. But this stage can lead to problems, because routines may not be questioned and might therefore become less suited for companies' evolving requirements. This process is referred to as institutionalisation. Other potential problems are that one partner can become over dependent on the other, and stability could also give impression to one that the other is no longer committed. If an ongoing long-term relationship is not accomplished, the relationship may retract to an earlier stage, even to the pre-relationship stage (Ford, 1982; Jansson, 2005).

#### *Final stage*

In this final stage the relationship is extensively institutionalised, with commitment even being taken for granted. The relationship is more of a habitual relationship, than one based on fulfilment of needs and demands. There is great risk that partners become complacent because of the high level of trust between them. Although distance as well as uncertainty between the partners is low, there is a great risk that the partners are not attentive to changes in the environment. Therefore the relationship is sensitive to being broken due to changes in the firms' environments, or attacks by competitors. There might therefore be a need to de-institutionalise the relationship (Jansson, 2005).

### **6.5 Relationship process in an ethnic Chinese context**

It is perceived in Chinese culture that one's existence is largely influenced by one's relationship with others. An individual is fundamentally a social or relational being, and developing and cultivating relationships is a common preoccupation and a form of social investment (Yau, Lee, Chow, Sin & Tse, 2000). Relationships tend to be individual, and personal network relationships are important (Björkman & Kock, 1995). Relationships, and especially their social dimension, are often viewed as a prerequisite for doing business (Yau et al., 2000). The meaning of the term "relationship" itself is subtle and complex. Trust is vital, but it is bound by the closeness of kinship. Trust serves as a way in which actors in social relationships can cope with uncertainty. It moreover functions in a manner that brings about stability in relationships (Yau et al., 2000). Empathy, face, bonds and reciprocity are dimensions that govern relationships in the ethnic Chinese context.

While western business tends to focus on relationships between an individual business and customer, the Chinese tend to prefer long-term and personalized and mutual cooperation as the basis for most of their business dealings. The ethnic Chinese believe that one should first build a long-term relationship. If the long-term relationship is successful then transaction will follow. This is in contrast with Westerners who first build transactions and if the transaction is successful a relationship may follow. Westerners approach an exchange situation by emphasizing formal agreements while the Chinese seek to determine whether the other party can be trusted or not (Yau et al., 2000).

There are four important dimensions in a true, healthy, and lasting relationship, which are bonding, reciprocity, empathy and mutual trust. Chinese tend to interact with others by

building informal ties, which become strong bonds leading to the growth of a network. One has to be sufficiently trusted to be included in these private systems (Wong & Leung, 2001). Bonding serves to control social and business behaviour in society by addressing the similarities between two parties in terms of origin. It also serves to removing doubt (Yau et al., 2000). The actor in the relationship network is confined by mutual obligations. Reciprocity (pao) “to return” is the very basis for social relationships. Whenever a favour is obtained, there is an obligation to return it in order to maintain reputation and face (Yau et al., 2000). Over time these obligations can occur through a conscious manipulation of face and renqing (favour).

Empathy is to “get personal” with the other partner. Empathy is defined as the ability to understand someone else’s desires and goals. People have to be willing to acquire in-depth knowledge of their partners and to know what appeals to their needs. Chinese expect people to anticipate others’ needs or to know their feelings without asking or being told. It can be applied in several ways in a marketing approach; understand the other party’s position, desires, needs, and wants, other party’s business, strengths, weaknesses, and personality, and possess a general appreciation for the other party (Yau et al., 2000). The Chinese find it difficult to come to terms with neutral relationships where they cannot “read” trustworthiness (Yau et al., 2000). Trustworthiness is tested by using mutually known intermediary connections or through members of a reputable clan (Wong and Leung, 2001). Relationship building requires guanxi activities. Establishing guanxi or seeking relationship basically involves the establishment of relationships (Wong et al., 2001).

Renqing has three components. The first is emotional responses, consisting of happiness, anger, sadness, fear, love, hate, and desire. In psychological terms, renqing is similar to empathy. If someone is indifferent to another person’s emotional responses, he or she is described as “not knowing renqing”. The second component is providing gifts during social interaction. A gift may not only be in the form of a small physical token, because a gift can also be in the form of transfer of resources. The third component is social norms, and there are two basic kinds of social behaviour. The first is the occasional exchange of gifts and visits within one’s social network and the second is the offering of help and showing empathy to other members of the network. In other words, it is of crucial importance to keep in contact with the acquaintances in one’s social network. It is implicitly understood that one should be aware if one member gets into trouble and that another member should sympathize or offer help and “do a renqing” (Wong et al., 2001).

The ethnic Chinese relationship process can be viewed as a three-stage process; pre-relationship, consolidation, and “old friends”. I have developed this model using a collection of findings in literature.

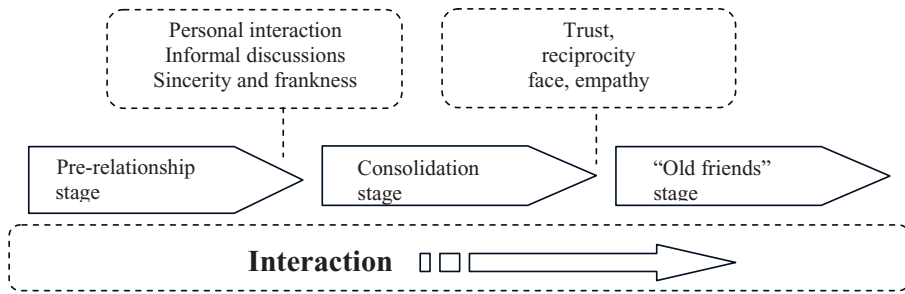


Figure 11 The relationship process of ethnic Chinese firms in their home context (own)

### *Pre-relationship stage*

The pre-relationship stage concerns how to find some common relationship bases. A basis of commonality or familiarity has to be constructed to bridge the gap between two parties by becoming part of the inner circle. This may include such activities as sharing a group identity, or identifying common interests that come from working together. It is important in the early stages of the relationship to identify and find an appropriate network catalyst. These catalysts might be external, such as some regulatory agencies, for instance the Asian development bank, or internal in the form of another network member. The pre-relationships stage is *guanxi* dominated, and the relationship starts with *guanxi*. To establish *guanxi*, an introduction by a third party is merely the first step in constructing a relationship (Wong & Leung, 2001).

### *Consolidation stage*

Consolidation involves addressing various relationship issues (social interaction, information discussion, gift giving, non-business favours, and building trust) in order to consolidate the four dimensions in a working relationship (identified earlier as bonding, reciprocity, trust, empathy). While developing social relationships, one has to construct a personal relationship. One way of doing this is through informal discussions, during which both parties may share inner feelings and disclose personal secrets, indicating sincerity and frankness. In other words, one has to show interest in the others needs preferences and priorities. In practical terms in means that one has to enhance influence through social interaction that includes feelings of familiarity, personal recognition, friendship, and social support. Gift-giving is an indication of goodwill and respect, and it is a way of building long-term relationships, not a fee-for-service. Social interaction is not only limited to gift-giving, it can also extend to emotional or affective responses. When one has difficulties, acquaintances are expected to render substantial assistance (Yau et al., 2000).

### *"Old friend's" stage*

During the "old friends" both parties are bonded by trust, and the partners maintain the relationship by addressing important relationship issues (Yau et al., 2000). Gradually a relationship may extend from a social level to the business level. Building trust is extremely important, especially if there is high uncertainty in market exchanges (lack of legal

framework) (Yau et al., 2000). To the Chinese, friendship leading to business is more attractive than business leading to friendship. They are more willing to honour a deal as long as the friendship is more valuable than the deal itself (Yau et al., 2000). The final stage is characterized by mutual commitment of the relationship partners, although it may have been achieved through a different process.

### *Interaction*

Through interaction, a positive or negative flow determines whether the relationship moves up, down or laterally (Wong & Leung, 2001). Getting to the 'old friends' stage, which also can be regarded as becoming an 'insider', usually takes considerable time and effort. Maintaining trust is vital. Even if there is a binding between two parties, the Chinese may continue to work together, but will treat the other party as an outsider.

## **6.6 Finnish / Swedish and ethnic Chinese networks compared**

Drawing on the comparison of network contexts, and analysis of differences between the Finnish and Swedish context in chapter five, some important differences in network structures and principles can be highlighted. These differences relate to all three institutional levels.

On the surface, the Ethnic Chinese form 'classic' external business networks like those found in the west, but business networks in East and Southeast Asia differ sociologically, organizationally and economically from inter-firm networks in the west. The ethnic Chinese community itself has a network like structure by which principles the society is organized (Hamilton, 1996). Families become interconnected through relationships between friends and their friends, and these interconnected relationships form extensive networks. These networks are regulated by implicit principles. Each relationship in a person's network is defined in terms of dyadic, hierarchical social relationships. Hence one can say that networks are socially constructed by people who want to conform to the demands of the relationship (Bjerke, 1998). These networks are the institutional medium of economic activity in the ethnic Chinese community (Hamilton, 1996), and therefore it is not a question of becoming part of a certain type of network, but a question of becoming a trusted member in a networked society.

Most people know that the ethnic Chinese operate in networks, but these networks are not highly organized. Instead they consist of loosely connected individuals and companies, forged together by mutual obligations and trust. Just as the Internet is a network of millions of computers and networks, the ethnic Chinese are tens of thousand of networks together (Bjerke, 1998). The networks exclude foreigners, especially if a foreigner is not from the same family, village or clan (EAAU, 1995). Ethnic Chinese do not join networks in the way westerners join organizations. Categories of networks are largely pre-defined as sets of binding relationships. Unlike westerners, the Ethnic Chinese do not distinguish between business related, family related and socially related networks (Haley et al., 1999). Most often business relationships are built on a strong personal relationship making it difficult to distinguish between networks of social relationships and network of business relationships.

For example, social relationships can be tapped when entering into a business relationship and those relationships can for instance be clan- or dialect based.

The main focus of the Finnish / Swedish network context is centred on the units in the network, i.e. the firms. The focus of the Chinese business network context, on the other hand, is on the network itself (Jansson, 2005). Ethnic Chinese business networks are hierarchically structured. Relationships in a person's network are therefore dyadic and hierarchical as well as normatively defined. Relationships among Nordic firms are more lateral. They are relatively weak and generally represent short or mid-term economic interests. Ethnic Chinese business networks are relatively strong, last over the long term, representing a continuity of collective common interests (families, communities and sets of friends and relatives). Nordic firms, on the other hand, have more unstable and changing business networks (Håkansson & Johansson, 1993).

Finnish and Swedish business networks are organizational. Contractual and transactional relationships between the actors are often formed based on goals of the actors, which may be individual, idiosyncratic, and opportunistic (Lasserre & Schutte, 1995). Business networks in the ethnic Chinese context are personalistic, and relationships emerge from the person and are interpersonal or social. While the Finnish and Swedish inter-organizational networks are built on mutual interests, the inter-personal Chinese networks are built on the persons having some kind of common background or 'guanxi' (Johanson, Polsa & Törnroos, 2002).

Relationships build on reciprocal favours or 'renqing' between the individuals rather than on a common interest based on costs and benefits. Thus, relationships are personal, shared and defined, and governed by sets of established social rules as well as prescribed behaviour. Networks are formed around means of action, rather than goals of actors and mutually recognized conventions structure the action itself (Jansson, 2005). Guanxi and renqing often combine to make the business networks closed or secret rather than open and therefore hard to enter. This low transparency is behind the corrupt practices – the 4<sup>th</sup> dimension – typical of the 'crony capitalism' of Southeast Asia.

While business in the Nordic business network model largely evolves around optimisation and efficiency, business in Southeast Asia evolves around harmony. It is created through the Yin and Yang ('both-and') principle of having a balance between major alternatives rather than choosing the best alternative according to an 'either-or' principle. Another major characteristic of relationships within the Chinese business network closely related to harmony is face behaviour, which contrasts to the more conflict oriented base of the Nordic business network model.

In the Nordic countries, it is mostly autonomous individuals of firms that are interconnected, and these relationships rest on rational and logical calculation and (voluntary) individual action (Tixier, 1996a). Trust between firms in the Finnish/Swedish context is organizational and professionally based. In these business networks, employees enter as buyers/sellers, and the person is an official, and has a professional role. Chinese businessmen, on the other hand, tend to have a more holistic thinking. Individuals in ethnic Chinese organizations functions as a person and the role is usually personal and private,

and trust is individually based (Whitley, 1999). Employees also enter as a person in business transactions. Related to this aspect is the strong emotional dimension or 'genqing' of the Chinese. A common metaphor for this strong emotional content of the relationships is the heart, while the brain more symbolises the less emotional Nordic business relationships (Jansson, 1987).

In the Southeast Asian context, business relationships are built on social relationships, and personal relationships are often a prerequisite for developing other types of business activities. Since the world of business cannot be separated from social aspects, gaining legitimacy through social behaviour is as important as efficiency. Furthermore, relationship in the ethnic Chinese context does not only develop as a result of acts and counteracts. It develops as result of the individual being able to act in a respectful manner, and showing respect for local traditions and rules. In other words, the firm's strategic orientation is legitimacy in this context, meaning that it adheres to number of rules, regulations, values and norms in order to maintain environmental support (Jansson, 2005).

A comparison of the Finnish / Swedish and ethnic Chinese relationship processes as well as network characteristics show that relationship and networks in these two context are quite different. Comparing these two contexts side by side provides some arguments in favour as well as against some of the propositions proposed in chapter one. Proposition three suggest that Finnish / Swedish firms will be unable to identify familiar relationship dimensions and aspects in the ethnic Chinese context. As has been shown, two different network approaches can be used to explain these two systems, and commonalities have been identified. Although there certainly seems to be differences in the way relationship dimensions are managed in these two contexts, the same dimensions nevertheless exist in both contexts. These dimensions are emphasized in both contexts, although they are highlighted at different stages of the relationship. An early indication is therefore that there is not clear support for proposition three. Rather, Finnish and Swedish firms can expect to meet familiar relationship dimensions and concepts in the ethnic Chinese context.

Proposition four suggested that Finnish / Swedish and ethnic Chinese business network logics are different and that the Finnish / Swedish firms network behaviour will not fit in the ethnic Chinese context. It is certainly tempting to claim that there is support for this proposition. As has been highlighted in chapter 6.6, and previously in chapter five, Finnish / Swedish and ethnic Chinese firm have quite different network behaviour, issues ranging from network building blocks (cognitive structures) to ways of exchanging various resources (normative structures) and ways of governing transaction (regulative structures). A comparison of the Finnish / Swedish and ethnic Chinese network systems offers strong support in favour of proposition three.

### 6.7 Summary

Relationship processes in the Finnish / Swedish and ethnic Chinese context are different. A considerable part of the differences depend on the fact that business relationships in the ethnic Chinese context build on a strong personal relationship, and that business network are overlapping with other networks in society. Hence, firms from the Finnish / Swedish context focus on various relationship dimensions at different stages of the relationships.

	Pre-relationship stage	Exploratory stage	Development stage	Stable stage	Final stage
<b>Commitment</b>	None	Low	Increased	High	Taken for granted
<b>Trust</b>	None	Low	Increased	High	High
<b>Social bonds</b>	None	Weak	Increased	Strong	Complacent
<b>Learning</b>	Minimum	High	Extensive	Routine	Low
<b>Adaptation</b>	None	Low	Increased formal and informal	Extensive	Institutionalised
<b>Social interaction</b>	Minimum	Increased	High	Extensive	Habitual

**Table 14 Relationship dimensions in a Western context (Ford et al., 1998; Jansson, 2005, modified)**

The table above summarizes the relationship process for Finnish and Swedish firms in their home context. The table also identifies how various relationships take shape throughout the process.

	Pre-relationship stage	Consolidation stage	'Old friends' stage
<b>Commitment</b>	Low	High	Mutual
<b>Trust</b>	Common familiarity	High	High
<b>Social bonds</b>	None	Enhanced	Institutionalized
<b>Learning</b>	Low	High	Low
<b>Adaptation</b>	Low	Medium	Low
<b>Social interaction</b>	Introduction by third party	High	Habitual

**Table 15 Relationship dimensions in an ethnic Chinese context (own)**

The table above summarizes how different relationship dimensions take shape throughout the relationship process of ethnic Chinese firms in their home context.

The following can be stated about differences in relationships in the Finnish / Swedish and ethnic Chinese context. In the Finnish / Swedish context relationship omits from the organization, and relationships are interorganizational. Relationships in the ethnic Chinese context omit from the person and relationships are interpersonal. Finnish and Swedish business networks are organizational while ethnic Chinese business networks are Personalistic (bamboo networks). In business transactions Finnish / Swedish employees enter as buyers / sellers, although ethnic Chinese enter as persons. In a Finnish / Swedish

organization the person is an official, and has a professional role. Individuals in ethnic Chinese organizations functions as a person and the role is usually personal and private. Consequently trust between firms in the Finnish / Swedish context is organizational, while trust is individually bound in the ethnic Chinese context; trust for the product through the person.

Finnish / Swedish relationships		Ethnic Chinese relationships
Honour		Face
Mind		Empathy / heart
Connections		Guanxi
Exchange		Reciprocity
Social relationships		Personalistic relationship
Favour		Renqing

Figure 12 Dimensions governing relationships in Finnish / Swedish and ethnic Chinese context

Figure 1 illustrates different dimensions that govern relationship in the Finnish / Swedish and ethnic Chinese context, and how these dimensions approximately corresponds to in the opposite context. Relationships in the Finnish / Swedish context are governed b honour, mind, connections, exchange, social relationships, and favour, while relationships in the ethnic Chinese context are governed by face, empathy/ heart, guanxi, reciprocity, personalistic relationships and renqing. Although the terms are not interchangeable, some of the dimensions in one context correspond to dimensions in the other. For instance connections and guanxi correlate to each other, as does favour and renqing, exchange and reciprocity, as well as honour and face. The list is not intended as a comprehensive list of dimensions governing relationships in each context. Rather is attempts to highlight some significant elements, and how a person from one context roughly could interpret dimensions in the other context using own vocabulary.



## 7. The relationship setting

This chapter deals with the empirical findings from the 28 interviews conducted in October and November 2003 with managers from Finnish / Swedish firms located in Singapore, Malaysia and Thailand. This chapter is divided into two main parts. The first part presents how Finnish / Swedish managers describe their local Chinese partners. The second part studies how various relationships dimensions take shape when the Finnish / Swedish firms develop and manage their relationships in the ethnic Chinese context. The final part of this chapter looks at some differences in the way Finnish / Swedish manage relationship dimensions in their home context compared to the ethnic Chinese context. When considered necessary and relevant, explanations for specific types of behaviour are drawn from chapter five and explained in short.

### 7.1 Finnish / Swedish perceptions about local firms

*“You have to keep in mind that if you are a foreign company here and dealing with local people, it’s like the skin of an apple. You meet only a very thin skin, but what is inside the skin of the apple, you never meet as a foreign company.”*

- Respondent A, Malaysia, 3.11.2003

The local business climate is considered different from the Finnish / Swedish home markets. On an everyday basis Finnish / Swedish firms are reminded that they are foreign firms, because they are treated differently than local firms. This is not, however, felt as a negative issue, because locals are also more tolerant towards foreigners’ mistakes, since they realize and accept that foreign firms cannot know all the customs and norms of local business. The Finnish / Swedish firms feel that they are respected for the knowledge and expertise that they possess. Although the level of education and especially management education is significantly lower compared to the Finnish / Swedish business people, local businessmen have high respect for education and hence, are eager to learn. Yet local firms need to feel that the Finnish / Swedish firms are there for the long term.

*“You deliver what you promise and they will like you. You make it easier for them, and they will like you even more.”*

- Respondent D, Singapore 16.10.2003

Much of business is highly money driven. By generating money and contributing to the local partner’s cash flow, local firms are likely to have a positive attitude towards the foreign firm. Finnish / Swedish firms feel that their local partners are more open about the issue of making money than Western firms, which is something that originates in Confucian teachings (ethnic culture, chapter 5.1.1). The Finnish / Swedish welfare model has created a system of equality and sharing, and firms and individuals are expected to contribute to the society as a whole. Among the ethnic Chinese it is overall acceptable to make money, and the accumulation of wealth is considered a token of success and a result of hard work rather than a source of envy and negative feelings.

*“One could say principally that in business life in Asia it is accepted that business men make money. One can observe it in many different situations that they make money. It’s a clear objective to make money.”*

- Respondent F, Singapore 21.10.2003

Work is important to the ethnic Chinese and they spend a lot of time with their businesses, also deriving from Confucian teachings. Business hours are seldom the typical “9 to 5 model”, which is common practice in the Finnish / Swedish countries and hence, it is not unusual that partners call late in the evening to discuss business. The respondents feel that the tempo is different. Although working hours are long, efficiency is not high. One possible explanation for this lesser efficiency is that the ethnic Chinese have a different perception of time. Time is not viewed in a linear way such as in the west, but is considered cyclical (Lewis, 1996).

*“Asians have one commodity which they are really rich of - it is time. So they take a lot of time.”*

- Respondent A, Malaysia 3.11.2003

Long term planning is considered difficult and results are typically difficult to receive immediately. More than elsewhere, patience is a virtue. This is in sharp contrast with business practices in the Finnish / Swedish countries where decisions are usually made rapidly, based on facts that are present “on the table”. Although this trait can be contributed to a different perception of time, another influence is that the ethnic Chinese are reputation and face driven, compared to Finnish / Swedish firms that are accomplishment driven, which is a direct result of respective countries cultures (see chapter 5.1.1) This means that decisions have to be considered against the overall network of relationships between firms not to cause loss of face for anyone in the personal network. Because the overall personal network can be large, planning might take considerable time.

*“If you are not able to wait, you should not come here.”*

- Respondent G, Malaysia 5.11.2003

The business logic of local firms causes difficulties. It is felt that local firms are guided by intuition and business is based on feeling. While Finnish / Swedish business people make decisions rationally, the ethnic Chinese decide emotionally, and the way of thinking is not logical in the sense that westerners understand. Ethnic Chinese firms are also seen to engage in rather little pre-planning, and it is not always clear how the organization works. This could be interpreted as a result of the local firms’ tendencies not to have evolutionary strategies<sup>14</sup>, i.e. they are likely to seize unrelated opportunities as they present themselves. Business decisions might be perceived as emotional because the ethnic Chinese takes into consideration personal and mutual relationships, i.e. influenced by cognitive structures.

*“I don’t really know what goes on in their minds. You end up with surprises every day.”*

- Respondent H, Thailand 20.11.2003

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<sup>14</sup> See chapter 5.3 for further discussion.

There are differences in the way local Chinese behave. Although some are still quite traditional, more and more local companies are increasingly modern. They are also moving towards a more modern way of communication and conducting business. This can be contributed to several factors. The first is that more Chinese managers, especially younger generation managers, have a university degree from a western university of business school, foremost in the US, UK or Australia. The other is that more local firms are increasingly exposed to foreign business and are adapting some of their practices and hence, becoming more experienced in doing business with foreign firms, i.e. changing business mores.

*“But what I am saying is that even if there are cultural differences, they are not preventing normal communication.”*

- Respondent E, Singapore 20.10.2003

There are some aspects of eC firms and business practices that cause concerns and large challenges. The first issues relates to the eC firms poor performance of making decisions or taking initiative, relating to the decision making style<sup>15</sup>. Because eC firms are very hierarchical, there is typically no room for middle or lower managers to make decisions. The ethnic Chinese are also quite poor at delegating. This top down approach means that an employee rather makes a mistake than asking advice from superior managers. Finnish / Swedish managers feel that they need to work on several layers in the partner firms, and they also have to be involved in many more aspects of daily business. A major reason is that coordination and control procedures are informal<sup>16</sup>. There is, however, an agreement that once decisions are made, they are crystal clear and implemented quickly.

*“The challenge is to find the one that is allowed and able to make decisions.”*

- Respondent H, Thailand 20.11.2003

The respondents feel that ethnic Chinese likes to be clever; not asking help from others. Examining this issue from an institutional perspective, it is clear that high respect for authority, risk of loosing face if not knowing, and aloof managerial style contributes to this type of perceptions, i.e. mostly due to cognitive elements. A person looses face if he is unable to provide information, and the hierarchical structure of eC firms prevents employees from seeking advice from higher ranking persons.

The perhaps greatest concern of Finnish / Swedish firms when doing business with Chinese partners is that trust is not taken for granted. Trust has to be earned, and one has to show that one can be trusted, since foreign firms are considered out-group members and are not automatically granted trust, and understood as family/clan related behaviour. In the Finnish / Swedish countries people are typically trusted until they have proven that they cannot be trusted. The ethnic Chinese feel the other way round. If a person or company lacks reputation, it is not trusted automatically. It is also hard to trust the other party because there often seems to be a hidden agenda. The matter is complicated even further since written papers and documents are not respected. The ethnic Chinese do not only distrust foreign firms, they are also careful with other local firms.

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<sup>15</sup> See chapter 5.1.3 for further discussion

<sup>16</sup> See chapter 5.1 for further discussion

*“Lying is not so bad. Families always do what is best for the family.”*

- Respondent I, Malaysia 6.11.2003

It is difficult to pinpoint a reason for this type of behaviour. A contributing factor might be that legal institutions are weak, which means that breach of contracts or agreements are not likely to cause any legal sanctions. On the other hand, once trust has been earned and a personal relationship has developed, it is unlikely that an ethnic Chinese partner would engage in activities that would harm the relationship. Breach of trust and a resulting loss of face are likely to cause severe social sanctions.

The Finnish / Swedish managers consider local companies difficult to map and understand. In Finland and Sweden organization charts are clear and much is public information. Ethnic Chinese organizational charts look quite different, and there is also an informal organizational chart. Therefore it is a challenging task to finding the right persons in partner firms, and identifying those that are able to make decisions.

*“I remember one project in Saba. I had been talking to the chief engineer, and finally went to see them. My mistake, I should have gone earlier. But I wasn't sure they were serious, so I thought I would just go and say hello. In that meeting there was a lady, a nice looking secretary, very quiet, didn't say anything. Then we went to lunch, she didn't come, and I went with the boss I thought. Then we came back to the factory tour, and then it became clear that the lady was the factory owner's daughter. She was the decision maker, but she didn't have a card or something.”*

- Respondent A, Malaysia 3.11.2003

The management style of the ethnic Chinese are at times a source of challenges. There are on the surface some significant differences between the Finnish / Swedish and ethnic Chinese management style.

*“Typically the Asian management style is that the boss is boss, and boss dictates what subordinate do. We, Finns, Scandinavians, are used to delegating, and we are kind of coaches, and we expect subordinate to come up with ideas, and then we discuss and come up with solutions. Here you just order them.”*

- Respondent O, Singapore 29.10.2003

These differences are also identifiable from the respondent's statements. Yet, these differences are not felt to pose great difficulties or strains on the business relationship. The Finnish / Swedish managers typically work on more levels and they need to maintain relationships and communicate with as many individuals as possible on different (managerial) levels. It is also necessary to be involved in many more aspects of various activities, and also to have a more thorough control over various parts of the exchange in the relationship.

Some difficulties occur because middle management is not part of the decision-making process in many Chinese firms. Middle managers typically never want to make decision or take responsibility, because many eC firms are family firms, and owners maintain strong

and personal control over most activities of the firm (authority and control systems). In Finnish / Swedish firms employees have respect for each other even on different levels and people listen to each other. In Chinese firms everything flows from the top down. It is much regimented what employees can do, and therefore employees also do not take any initiative.

*"So many errors arise because one never talks directly with someone else. Since one goes through all these filters, so many errors can occur. Or, the issue never arrives to the person.*

- Respondent J, Thailand 20.11.2003

The respondents are dealing with management problems by structuring the interaction process thoroughly, and identifying whom to contact in the partner firm. Team working is a Finnish / Swedish strength; being able to work with local partners without being commanding. They are also able to look outside organization charts to get things done. The lack of involvement of middle management in Chinese firms, however, means that relationship issues are dealt with only when the boss (or owner) is involved. This creates a delicate situation for Finnish / Swedish managers.

*"Middle managers never want to make any decisions or take responsibility. Therefore it is not a good idea to first contact middle manager, because that might not ever lead you to meet the boss."*

- Respondent T, Thailand 18.11.2003

On one hand, top management or the owner is the real decision maker. On the other hand, a lot of the expertise and knowledge lies with middle management or even lower in the organization (relating to division of labour). Facilitate a quick solution to a problem means discussing directly with the owner or top management. But doing that would quite effectively destroy relationship to persons on the lower levels.

*"The challenge is to find the one that is allowed and able to make decisions. I don't want to waste time talking to people who are not able to make decisions."*

- Respondent B, Malaysia 5.1..2003

In part because of the hierarchical and authoritative management style, and in part because of the relationships network structure, managing the relationship process takes considerably more time than in Finland and Sweden. Some particular matters that would be solved immediately with a Fin/Swe firm might take several months to solve if a local Chinese partner is involved, because they are influenced also by many non-business issues. Finnish and Swedish firms are discouraged from actively attempting to solve issues, because the Ethnic Chinese dislike being pushed.

*"You have to be patient. That is the only way. Sometimes I become mad, because I am a bit impatient and I would not like to do them slow going and timing. But many things you cannot do as quickly as in Europe and especially in Finnish / Swedish countries. Moving quick here does not work and I never do it."*

- Respondent U, Singapore 17.10.2003

Another issue that causes friction between the Finnish / Swedish and ethnic Chinese firms is that eC have a hard time taking responsibility and admitting to wrong doings. Some errors can even occur because middle managers prefer making a mistake rather than taking council from a superior manager. The reason is that face is lost if someone does not know or is not able to do something. However, once decisions are taken, they are clear and precise. The main challenge for Finnish / Swedish manager is to introduce more western problem solving into the relationship. Instead of finding someone to blame, effort is put on finding a solution and learning from it.

*"If something goes wrong, it's always somebody or something else. Here you need someone to blame if something goes wrong. It's a challenge for them to admit on mistakes and take responsibility"*

- Respondent O, Singapore 29.10.2003

There is some evidence that management behaviour is changing among the Ethnic Chinese. Although a large proportion of the small and medium sized firms are traditional, there is an increasing number of firms that are more modern and where also middle management is involved, because of an increasing amount of people with western business education, mainly from the US, UK or Australia. These western educated businessmen are well familiar with western ways, they are able to implement changes and modernize the management systems.

The Finnish / Swedish managers feel that decision-making is a hierarchical and slow process. Decisions are not taken at lower levels in the organization. Even if lower management is allowed to make some decisions, the owner or boss needs to 'bless the deal'. If the owner or boss is away from the company it of course leads to further delays. This is for the ethnic Chinese context typical institutionally deduced behaviour, which relates to authority and control systems and division of labour.<sup>17</sup>

*"Nobody wants to make any decisions here. In Finland everybody wants to make decisions."*

- Respondent K, Singapore 23.10.2003

There are no rules about how long it takes for the partner to reach a decision. The respondents are unwilling to push the other side to a decision; they are willing to wait until the local firm is ready to make a decision. Although arriving at a decision may take considerable time, once the local partner has made up its mind, things typically progress quickly. Decisions are direct and implementation is quick.

*"Patience is perhaps the most important thing. One tries to avoid becoming frustrated about the long process. If you become frustrated, you loose."*

- Respondent N, Singapore 23.10.2003

*"Sometimes they give you to days to make an offer, but then it takes them 3 months to make a decision."*

- Respondent X, Malaysia 4.11.2003

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<sup>17</sup> See chapter 5.1.3

A clear distinction can be found between the decision making style of the older generation of ethnic Chinese business people and younger and more modern. The older generation is traditional, and some respondents feel that they more or less are able anticipate how they think and make decisions. The younger generation is modern and their decision making style is to some extent westernized. However, a part of the respondents feel that there often seems to be a hidden agenda, and that the ethnic Chinese are on their guard against being cheated. A probable explanation for the duality of responses from the Finnish / Swedish managers is the industry they are operating in. In project industries decision-making seems to cause more discomfort than in goods or merchandize industries.

*"It seems as if they don't have a plan. Maybe they have, but we cannot see it. It's not logical, although one should not maybe say so. So, one becomes a bit surprised."*

- Respondent Q, Singapore 14.10.2003

Many of the managers feel that price has a big impact on decision-making. There is a high degree of revenue orientation and price seems matters most. One explanation is that the ethnic Chinese are used to a sort of spot-mentality –“going for the best possible deal”, and minimizing risk.

*"If the price is right very instant, very supportive. If the price is not right, then very instant as well, not supportive."*

- Respondent U, Singapore 17.10.2003

This is a result of historical aspects; high political risk, uncertainty and occasional hostilities. It takes a lot of effort to convince the eC that there is typically better total economy by making a bigger commitment or investment. Gradually this mentality is changing and there is more quality awareness. Although the respondents are well aware of the top-down decision making style, they are sometimes amazed how small decisions go to the top. This top-down approach is also expected from the Finnish / Swedish firms. The local firms become uncomfortable or even confused if the Finnish / Swedish firms do not have a similar top approach

*"One problem with decision making is that you are actually dealing with the owner wallet, their personal money. Not like our corporations that have faceless money."*

- Respondent U, Singapore 17.10.2003

A real challenge for many respondents is making sure that key issues are really decided and that decisions are made about the right issues. The respondents believe they need to be clear Finnish / Swedish managers need to be clearer when communicating decisions, because the local partners are unlikely to tell if they have not understood or failed to implement it a decision. Therefore it is better to check what both parties have agreed, so that both are really talking about the same issue. Another challenge is navigating the partner's organization. It is not always clear that the obvious person is the top person. Especially in family firms different members of the family have responsibility of different sectors, and therefore it is important to find a way in the partner's organization.

*“So it is not always clear that how their organization work. Brother does this, other brother this, and sister this. Generally it helps if you talk to everybody.”*

- Respondent A, Malaysia 3.11.2003

## 7.2 Relationship dimensions

In chapter five I described and compared the network contexts of Finnish / Swedish and ethnic Chinese firms. The institutional network profile I developed was used as a base for analysing distance between these two contexts. Based on the analysis of institutional distance, several relationship dimensions were identified to be of importance in relationships between firms from these two contexts. In chapter six I discussed the industrial and social network approach, and highlighted common elements in these. Several relationship dimensions were thus identified. Based on the institutional analysis I was able to narrow down these to six dimensions, which I conceptually discussed in chapter 6.3. During the conceptual discussion I also linked each relationship dimension to various institutional levels, thus explaining why these six dimensions are interesting and relevant for this study. This chapter presents how Finnish and Swedish firms relate to and manage these six relationship dimensions in the ethnic Chinese context.

### 7.2.1 Learning

*“But because I don’t speak mandarin I have a difficulty in getting close to some people. But they have developed an understanding for the way I do things. It’s so much easier to business when you know them a bit personally and the history behind it.”*

- Respondent K, Singapore 23.10.2003

Based on the institutional comparison of the Finnish / Swedish and ethnic Chinese contexts it is expected that learning and information sharing will be problematic. There are large differences in education level, legal framework and view on contractual agreements. Several of the respondents stated that it in fact takes considerable time to learn about their local partners, even though they have been introduced by former managers. The respondents receive as much assistance as possible from local employees. The advantage of using local employees is weighted against the disadvantage of making it harder to establish personal social relationship. Learning is perhaps more about learning to understand the person as the company and products, which is institutionally explained by the ethnic Chinese principles of doing business based on a personal relationship. Learning to understand a person is even more important if it concerns a family firm, since a family often has different business motives.

*“There could be a fair amount of friction sometimes because you look in very different way at the business and how value is derived. So it’s not a question about the relationship, but more of looking at business differently.”*

- Respondent L, Thailand 18.11.2003



The opinion among the respondents is that the ethnic Chinese are more listeners than talkers. This is sometimes interpreted as if they are “fishing for something”. It is unusual that ethnic Chinese openly start talking about themselves. Since the ethnic Chinese prefer to approach various issues indirectly, a challenge for the respondents has been to avoid approaching issues directly like they are used to in their home context. Learning also means realizing that there is no right-and-wrong mentality; rather harmony and compromise (relating to Confucian teachings). Learning takes place both on a formal and informal level. The formal learning process focuses on the company and the business, while the informal learning process focuses on the person. Informal learning usually starts during formal learning occasions, such as company meetings, sales or purchase meetings, etc. Informal learning facilitates the social relationship and takes place during dinners, golf and other social functions.

Access to information is a delicate matter in Southeast Asia. Because Finnish and Swedish firms are considered outsiders they do not obtain access to information for within the ethnic Chinese networks. A partial solution to this problem is having local employees. Locals are naturally tuned to the local way of thinking and understand how to communicate with the partners. Typically the Finnish / Swedish firms have no difficulties in acquiring skilled employees, but it is more difficult to find skilled communicators, i.e. people who are able to function as a bridge between the local partner and the Finnish / Swedish firm. Good communicators are rare because local employees have grown up in a business environment where they are not supposed or used to making decision or taking initiative.

*“I don’t understand them [the customers], but I understand my salespeople pretty well. As long as I understand them and they are open to me and are able to tell me when I do something wrong.”*

- Respondent E, Singapore 20.10.2003

Many of the Finnish / Swedish firms have longstanding and close relationships with their partners, and some firms even have joint strategic planning. Although the local partners are unlikely to share sensitive market information with the Finnish / Swedish firms, the overall atmosphere is positive and there is joint recognition of the advantages of working closely together. There are several factors contributing to this positive atmosphere, not least that there is an increasing number of local managers with western education, as well recognition that Finnish / Swedish firms are able to contribute with important skills and knowledge.

### 7.2.2 Adaptation

*“When I came to Asia I was used to the Scandinavian system, where you give orders, which are followed, and when you ask for answers you want the answers to be clear and precise. It should be yes or no; either the paper file is black or white, there is no in between, not such thing as maybe it is black or white. I have had to adapt myself rather much to this in working life here, both internally and with customers. In the beginning I was very frustrated that I could not get any clear answers.*

- Respondent P, Singapore 16.10.2003

Many of the respondents feel that their local partners are not adapting to them. When inquiring about possible reasons for the local partner's unwillingness to adapt, the opinions of the respondents go apart. Some of the respondents say that they are required to adapt because they are the seller or the foreign company.

Other respondents feel that the local Chinese want to adapt but they have difficulties doing it. According to this latter group of respondents, ethnic Chinese do adapt but it takes time. However, there are a growing number of local Chinese who are travelling to America and Europe to do business, and they are more comfortable with the Western way of managing business relationships. Although some of the local partners are making some adaptations, adaptation is often on the operational level. An unwillingness to make product or process adaptations might be explained by weak legal institutions, i.e. risk of for instance pirating.

*"You have to. They have a really hard time adapting. They simply don't want to. Therefore you have to adapt, because if they want it I guess you have to do it."*  
- Respondent E, Singapore 20.10.2003

One of the larger challenges for the respondents has been to find suitable working forms and methods, i.e. adapting to different business mores. This typically means that the local organisation (subsidiary) has to function differently than its parent company. Employees visit their partners and customers more often than they would at home. In a few of the Finnish / Swedish firms there are even some internal jokes that their sales personnel have their own office in their partner's organisation. Some of the respondents claim that a particular strength of many Finnish / Swedish firms is their ability for cooperation. Many Finnish / Swedish firms have at an early stage been forced to grow internationally, and are therefore used to dealing with different contexts. Therefore the respondents feel they are well suited to adapting to, or following their partners' way of doing business.

*"The largest part of adaptation takes place on my part. Of course there is adaptation from their side, they adapt in their way, but you maybe don't notice it because you think it's their way of doing it. After all, I experience that they think it's easy to work with us."*  
- Respondent Q, Singapore 14.10.2003

The respondents also feel that their Asian organization is more sensitive to its surroundings and more people oriented than the parent organization, which can be interpreted as adaptation to cognitive structures (people being judged on loyalty, engagement and fellowship). Many of the respondents claim they were prepared for the challenges they would face, and therefore it required no big sacrifices from them. A few even claimed that they needed to adapt less than they had anticipated and what is popularly believed. One issue worth mentioning is that some of the respondents said that there are a lot of non-business related issues, such as traffic jams, high noise levels, that causes stress and therefore affects also business life, especially in cities such as Bangkok and Kuala Lumpur. They were not prepared for these other issues and it took a lot adapting and getting used to and. Still most of them feel that there are more possibilities in the ethnic Chinese context than in their home context. The ethnic Chinese seldom say no; nothing is impossible, everything can be done.

### 7.2.3 Trust

*“There is a different idea of what trust is between a Finnish and a Thai company. Serious business relation never start from zero, they always start through recommendations. So if I recommend someone, and I am a trusted friend, I would never recommend someone that is not trusted. So therefore it is not so straight forward about the issue. In Finland we trust people until they can prove they cannot be trusted while here people are distrusted until they can prove trustful. So that is another reason why you need local people.”*

- Respondent T, Thailand 18.11.2003

The issue of trust provided the most unanimous answers among all the respondents. None of the respondents stated that trust is not a critical issue when conducting business with the ethnic Chinese. If trust is not handled in a correct way, it can easily destroy a business relationship.

*“The importance of trust is enormous. You have to have the trust before you can really expect creating a lot of business here. If they trust you, they come to you time after time.”*

- Respondent D, Singapore 16.10.2003

Trust in the eC context is different from the Finnish / Swedish context. First of all, trust starts with the foreign firm having a local presence. Firms who only visit the region occasionally will have a hard time creating trust. There are two reasons for this. The first is that local firms fear that firms without a local presence will ‘pack their things’ and leave at any moment. The other reason is that firms without a local presence lack a history of accomplishments that the local business people can rely on.

*“You have to be honest with them, and they will be honest with you. It’s the history. They will call anyone to check what we have done, how we have paid. If it’s the first time with a new company, it’s so much distrust. And distrust builds distrust. If you meet someone new, they always talk to their friends about you, ask if they know about you. “*

- Respondent A, Malaysia 3.11.2003

Second, trust is not taken for granted, but have to be earned, since Finnish / Swedish do not belong to the family / clan that automatically is granted trust. There is typically a lot of distrust between people who do not have a prior relationship or history. Trust is quite much related to continuity of behaviour, and showing commitment to the other over time.

*“There is a different idea of what trust is between Finnish and Thai company. A serious business relation never start from zero, they always start through recommendations. So if I recommend someone, and I am a trusted friend, I would never recommend someone that is not trusted. So therefore it is not such a straightforward issue like in Finland. We trust people until they can prove they cannot be trusted while here people are distrusted until they can prove trustful.”*

- Respondent T, Thailand 18.11.2003

Trust exists foremost between individuals, not between companies. The firm naturally represent something that has been build over a long time, and there is respect for the brand, but the relationship is foremost between persons, not organizations. Local business people refer to a person - a business card - never to a company name. The eC commonly believe that it is the person who creates the organization, not wise versa, which basically means that they will see through the person what they want to see in the company (relating to normative structures and business based on personal relationships).

*“The company is known, the name of the company is known, and the market knows what the name stands for, for instance leader in something. But the real contacts are personal contacts.”*

- Respondent S, Thailand 19.11.2003

Because the ethnic Chinese exist in extensive networks of relationships (as identified in the institutional analysis), loosing trust with one person typically means loosing trust with a large part of that individual’s network. On the other hand, once trust has been established, the relationship moves into a “paperless” phase, meaning that many contracts are based on verbal contracts, while written contracts are loose and often “just for looks”.

*“An owner of a Chinese firm, an elderly man, was contacted by a person and asked if the owner could help him with some project. The elderly man said it was ok, and he would help. As the person one week later was travelling in that area, he went to visit this elderly business owner and had already drawn up a contract. As he came to the elderly business owner, he said that he had drawn the contract. It was a several million project, and asked the owner if he could sign it. The owner looked up and asked him “Don’t you trust me?” and the person never got the project.”*

- Respondent T, Thailand 18.11.2003

Since trust is foremost persona based, not organization based, it has some important implications. Some of the respondents admit fearing that if an important employee would leave their company many of the customers would leave with him. This raises a serious dilemma. While a change of personnel can bring new ideas and new relationship, it can at the same time be catastrophic for previous relationships. A number of the firms attempt to solve this dilemma by bringing up more local employees to management positions, as well as allowing Finnish / Swedish managers to stay for longer periods in the region. Firms also introduce new personnel slowly and thoroughly to their local partners.

*At the end of the day, I think it’s me as a person. They want to feel that they know the guy, how he is, how he behaves, how he negotiates, what he like and doesn’t like - and that they have come to know me. If there is a new person, they also feel that they need to invest in the relationship again.”*

- Respondent L, Thailand 18.11.2003

One respondent mentioned that if a partner is in a difficult situation, for whatever reason, he would build much trust by helping out and being plentiful. Equally important as offering help when needed is to deliver on promises. If the company reputation is spoiled, trust is

almost certainly ruined. To correct that kind of a problem takes an enormous amount of time. Many of the respondents mentioned they are able to build trust by learning their partners' local culture and showing an understanding for their way of thinking. The respondents also mentioned that an important element in building trust is showing respect for older people, and also over a long period behaving in a way that the locals have expected. Giving and gaining face<sup>18</sup> will have a large impact of how trust is developed in a relationship.

*"You can destroy a large amount of trust by being too transparent and open about things. If somebody loses face by you pointing out an obvious mistake or blunder in the Thai organization, you will destroy trust. You need to be very selective and careful. A very good way of destroying trust is if you have several Thai organization people around the table and you somehow select one of it becomes obvious that what you talk about is about someone. Even the others around the table might feel that this is not good and they in turn might feel that there is a risk that would happen to them."*

- Respondent L, Thailand 18.11.2003

Finnish / Swedish firms maintain a level of caution when conducting business with the local Chinese. There is a long history of problems between foreign and local companies. Although trust is developed over time, the respondents do not take it for granted, especially if the relationship is young. There is a risk that trust exists during the first transaction, but then there are many examples of local firms stealing technology and starting production by themselves. These kinds of problems originate in weak legal institutions / systems (regulative structures).

*"They have a really easy time lying about their companies. I don't think there is anyone who would admit that his or her company is not doing well, that business is not good. Every company goes well here, but in reality it is not that way. In that sense they are not open. They have 5 different accounting systems, one for the bank, one for the wife, one for the business partner, one real and one dream vision."*

- Respondent T, Thailand 18.11.2003

#### 7.2.4 Commitment

*"The significance of commitment is everything. If you are not committed, they will not be committed, and there is no business."*

- Respondent D, Singapore 16.10.2003

Virtually all the respondents stated that commitment, especially long-term commitment, is an important issue in a relationship to an eC partner. Although all the respondents agreed that it is important to show commitment, some of them claimed that it can be difficult to receive an indication if the local partner is committed. One explanation for this behaviour could be that the ethnic Chinese have traditionally shown little commitment to business

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<sup>18</sup> See chapter 5.2 for further discussion.

partners<sup>19</sup>. There are of course also firms that are highly committed to the Finnish / Swedish firms. One manager even claimed that there are some local firms that exist because of the Finnish / Swedish firm.

Showing commitment is important to the local partners partly because they prefer long term mutual relationships instead of short term contractual relationships. This preference is unfamiliar to Finnish / Swedish firms. They are accustomed to more short term contractual agreements, which derive from prevailing normative structures in their home context (see business mores). Commitment becomes important partly also because the local firms have experience of western firms, which have had an opportunistic approach to business. Two of the respondents explicitly stated that they talk of a partnership rather than customer relationship when they refer to their local partners. This indicates that it is important to the local partners that they feel they can trust the foreign firm.

*“For us a way to show commitment is that we treat Asia as the rest of the world.”*  
- Respondent K, Singapore 23.10.2003

Two other issues frequently came up while discussing commitment. The first issue is local presence and the second issue is personal commitment. Local presence, and having local managers, is seen by the Finnish / Swedish firms as one of the main ways of showing commitment to their local partners. The respondents believe that also lifting up local employees to management positions is a way of showing commitment.

*“If you run your business with only expatriates and maybe only the secretary is Thai that is an indication that you can just pack and leave at any time.”*  
- Respondent L, Thailand 18.11.2003

Having a local presence signals continuity and hence, sincere commitment to local markets and partners. One of the respondents stated specifically that a main reason why they are doing so well in the region is because they have been present for over 20 years. Other respondents gave similar motives for doing well. One possible explanation for success as a result of having a local presence is that many of the local firms are not typically looking actively for new suppliers or partners. They refrain from doing business with companies they do not know.

*“The success of Japanese in some places is that they are there. The locals do not bother to look for sources elsewhere; they do with those that are present.”*  
- Respondent M, Thailand 17.11.2003

Some of the respondents believe that if a company representative visits the region only occasionally it would not promote business. They felt that a Finnish / Swedish firm would not be able to show commitment if they visit the region occasionally for one or two weeks at a time. Local firms would not be interested, because they would feel that the firm is not committed for the long term.

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<sup>19</sup> See chapter 5.3 for further discussion.

*“The local see it as commitment that we have an office here.”*

- Respondent K, Singapore 23.10.2003

Showing commitment requires presence not only in good times but also during times when it economically would make more sense to leave the market. If a business relationship is broken due to poor market conditions, then the firms breaking it might not be allowed to rebuild the business relationship. Because the ethnic Chinese have extensive social networks, neglecting to support a partner during bad times is likely to cause a bad reputation throughout the network.

*“Take Indonesia for example. Four years ago when things were the most restless there we did not close our office, while our Finnish friends did. And they still suffer from it.”*

- Respondent N, Singapore 23.10.2003

One method for showing commitment is the ability to show a track record of having a local presence. The local Chinese need to feel that the foreign firm is there for the long run and that the whole firm is committed. Yet, personal commitment is more important than company commitment. Because business relationships are built on a strong and mutual personal relationship, showing interest and a genuine will to learn more about the other signals that a person is looking for a long-term relationship.

*“I often say that we would be probably much more successful here in Asia if we would pay as much attention here as to Russia. Although it's convenient, if we would pay more attention to Asia we would have bigger success. That's why I am happy to be here. If I would be visiting, one week here two weeks there, that is not really commitment”*

- Respondent A, Malaysia 3.11.2003

Changing personnel in Southeast Asia is problematic. In the Finnish / Swedish context it is said that change of personnel only causes a “hiccup” in the relationships between two firms, since the market is characterized by inter-organizational relationships. A businessperson is a representative of the firm, and persons in a business relationship can quite easily be replaced because firm reputation is more important. In the ethnic Chinese context, however, a business relationship is represented by people, not by firms. It means that replacements can have a very negative impact on the overall relationship between two firms. All the respondents agreed that replacing personnel in Southeast Asia is risky.

*“One problem with commitment is that locals know that expats come and go. They are here for a while, they commit, but then they leave and they have a successor. “*

- Respondent O, Singapore 29.10.2003

Many Finnish / Swedish managers have an advantage over competitors from other Western countries because they are often allowed to stay for a longer time. Many of the respondents have been located in the region for more than five years, and there are some who have been there for more than ten years. Those who have arrived recently admit that it takes quite some time to get to know their partners, despite being thoroughly introduced by their



predecessors. Continuity in the sense that the same person should continue and maintain the relationship is therefore important. Although many Finnish / Swedish firms have a long and successful track record in the region, they are still considered as “outsiders”. This means having to work more with the partner and showing that the firm stands behind its partner.

*“So it’s a little bit old style to think that when you come here you have to do something completely different than before. Maybe it was so 20 or 100 years ago and the cultural difference was bigger. But now at least the business partners are quite similar. “*

- Respondent O, Singapore 29.10.2003

Showing commitment requires communicating more actively with partners than Finnish / Swedish firms would do with companies in their own context. According to one respondent, one way of communicating commitment is by sending a larger group of individuals to a meeting. Sending more people to a meeting signals more commitment, especially if people are brought to the meeting from the parent company in Finland or Sweden.

*“Its better to give a little too much than a little bit too little, because then you get a reputation of respecting and caring about them, rather than being seen as a person who cares only about himself.*

- Respondent O, Singapore, 29.10.2003

### 7.2.5 Social interaction

*” If you don’t like to meet people, you don’t go to Asia. I don’t mean that you have to hang in the bar every night, but even in restaurants you can meet some people. But the fact is that in Asia business is done by individual people, not companies. It is not [Company x] and Mister X doing business, its Mr. Kari and Mister X running business. In Europe I can send even you to say you are a [Company x] man to Spain and settle a claim, and they treat you as a company member. But here you have to be a person who they know.”*

- Respondent U, Singapore 17.10.2003

Personal relationships and social interaction are the main building blocks of a successful business relationship in Asia. This dependence on personal relationships in business derives fully from cognitive and normative structures. Those respondents that have experience from business relationships in other parts of the world unanimously agreed that social interaction and personal relationships are naturally also important in other parts of the world, although in the ethnic Chinese context they are totally essential even for starting a business relationship. While social interaction in the West has more of a supporting than a deterministic role for the business relationships, social interaction is more clearly and specifically expressed in the ethnic Chinese context. It is for instance common that a local businessperson openly expresses that he or she will refuse doing business with someone they do not have a social relationship with.



*“In Sweden we are pretty poor at social relationships; we simply work ourselves to death.”*

- Respondent C, Singapore 28.10.2003

An interesting aspect of social interaction is that it most often takes place outside the home. It is rare that a local Chinese will invite a business partner to his or her home. Social interaction takes place in restaurants, golf courses, and so on. None of the respondents gave an explanation for the Chinese unwillingness to invite business partners to their home, but it is possible that the home reserved for the extended family<sup>20</sup>. Since a foreign business person will never be part of this extended family (unless married into it), he or she will never be invited to an ethnic Chinese home.

In the west it is normal that two firms start a relationship by presenting a good offer. After a good offer has been presented, things move along and a relationship is developed. Ethnic Chinese business relationships mostly start with a good personal relationship; only thereafter the business relationship starts.

*“Basically the product and your performance are secondary. It doesn't mean that if you have a relationship you can sell shit, but your product doesn't make it if you don't manage your relationship.”*

- Respondent L, Thailand 18.11.2003

*“I want to emphasize the importance of personal contacts, not the company. If the company have a good reputation, that is fine, great, but when it comes to the deal, it's still the personal contact. If we have problems, as there always will be, if we have a good personal relationship, we can overcome them, and we have a good chance of solving it.”*

- Respondent B, Malaysia 5.11.2003

The overall response from the respondents is that they do not consider building business relationship overly difficult in this context. Still the managers feel that relationships are easier to develop and manage in Western markets. The ethnic Chinese are more sensitive to human character than business people in the West. They often look for commonalities in their partners, and personal characteristics and chemistry have an influence on how long it takes to develop a relationship. This kind of dependence on social relationships causes some challenges. Changing to a new a supplier means you not only changing business partners, it almost certainly means breaking a previous personal relationship.

*“Let us play with the thought. First of all, let's assume that I have a very good relationship to my customer, and it is based on them portraying me in a certain way. If I would quit my company and go to one of the competitors, then I would take with me a large part of the customers. As long as my new employer would not prohibit me to act in the same way as before, then it would be much easier than in any other environment for the new employer to build a relationship to my customers. This is totally different than in a western environment.”*

- Respondent N, Singapore 23.10.2003

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<sup>20</sup> See chapter 5.1 for further information.

Social events have a big role in business life, especially eating. The function of social events is to learn about each other and develop trust, while meeting in a relaxed setting to cultivate the relationship. The setting is typically informal during these social occasions, and many issues can be more openly discussed. A significant difference compared to social events in Finland and Sweden is that also business discussions can take place during social events.

In addition to eating together, playing golf is important for developing social relationships, and virtually all local respondents play golf, and they also regularly play golf with important partners. Those respondents who did not play golf prior to arriving in Southeast Asia were recommended to start playing golf. The setting is informal and relaxed on the golf course, and this can result in partners telling each other things that they normally would not. Since continuity is important in social interaction, meeting regularly on the golf course give the partners the opportunity to spend time with each other.

*“But if you want a good way, I would say golf is a good way. Golf has global rules; they are the same in Florida, Finland and Asia. I have met more people playing golf than hanging out in clubs. If you play golf it helps you much more than if you don’t play.”*

- Respondent U, Singapore 17.10.2003

Many respondents stated that the process of entering social networks has become more westernised. Some traditional norms still need to be followed, for instance non-confrontational social behaviour, but local businessmen are more accustomed to western business practices, including acceptance of different business behaviour.

*“But when you come to think of it, if you are a foreign company selling products to local business people, you are more likely to be in touch with such people that have studied abroad and are in the same background that you have. I don’t think that there is anything special in that sense that you have some super skills, which you can use as to enter into the companies or create networks. If you are here, and they want to see you, it can somehow be organized. But if you look at Singapore, these are so Western style. You can just call them and say I have something to tell you, so it goes like that.”*

- Respondent A, Malaysia 3.11.2003

Although e-mail and mobile phones have become more widely used business tools also in the ethnic Chinese context, it is still rare that business deals are finalized using these tools. In Finland and Sweden it is entirely possible that contracts are verified over telephone or e-mail. In the ethnic Chinese context contracts can be drawn up over the telephone or using e-mail, but contracts are signed face to face. Interestingly enough, although telephones and emails are not the preferred medium for business activities, local business people nevertheless expect their partners to be reachable at any time during the day, even on weekends.

*“But here people have a hard time to understand the mentality if you have a company telephone in Finland you turn it off after business hour. But here you*

*have it on all the time; people need to reach you every day, even Saturdays and Sundays. More often than not you put your mobile number on your business card."*

- Respondent T, Thailand 18.11.2003

### 7.2.6 Social bonds

*"[Company Y] had a big project with a local partner and send a half Finn and half French person to set up the project and to be project manager for the project. The project went very well and was very successful, and this manager was very diplomatic person and easy going with everybody, even with persons on the highest level. Two, three years went by and the project started to be ready, and it started operations, and [Company Y] started to plan a new project with this partner, another plant somewhere else. They took a new person from Finland, and introduced this new guy as the new manager for the project. But the Bamboo owners said that "Why are you bringing us this new guy? We have learned to know this guy and we trust him. We don't know this new guy". [Company Y] did not have a choice but had to send this new manager home and continue for 2-3 years with the old manager for the new project.*

*So, when you build the relationship, you should not change the guy, and that is the big problem with Scandinavian companies - that they change people quite frequently, one or two years. There needs to be continuity."*

- Respondent H, Thailand 20.11.2003

It is clear from the respondents' answers that social bonds have significant importance for the formation and duration of business relationships in the ethnic Chinese context; more important than in Finland or Sweden. Having strong social bonds does not, however, automatically grant access to the local partner's personal networks. However, gaining access to local networks does not seem to be a priority for the respondents. One respondent even claimed that access to social networks is not a requirement for strong relationships. Another claimed that good relationships with local employees are more important than access to local social networks.

*"You must make use of the locals' skills and networks. One has to realize that. Those that do business are the local persons. It just has to be like that. I can't, it is through my sales people, and they have the contacts. I have contact with them. It's of course a bit risky, but you have to trust them, and have good contact with them and good relations. Of course I talk directly to the customer when I go to them, but it's better to let the own personnel do the talking."*

- Respondent E, Singapore 20.10.2003

Many respondents mentioned that there is no clear distinction between formal and informal relationships. There is a combination of formality and informality, typically floating together. For instance, business letters can be formulated quite formally, but discussed in a rather informal fashion over lunch. Informality is typically introduced at an early phase in the relationship, but informal relationships are created in a more formal fashion.

Strong social bonds also give a “*fourth dimension*” (Respondent H, Thailand 20.11.2003). This “fourth dimension” refers to the ability of performing some business deals that do not strictly follow the rule of the law. Although this “fourth dimensions” is not found in Finland or Sweden, it is a typically a common element in many business transactions in Asia.

*“Being a friend to a partner means that some business can be done under the carpet. Under the table is the old term, the new term is under the carpet.”*

- Respondent Z, Singapore 23.10.2003

### **7.3 Relationship dimensions of Finnish / Swedish firms in their home compared to foreign context**

In this chapter I will compare how Finnish and Swedish firms relate to the relationship dimensions in their home context compared to the ethnic Chinese context. I will not offer a rich description on these dimensions. The focus is rather on highlighting some distinct differences.

#### *Learning and adaptation*

Learning in their own context means that Finnish and Swedish firms search, filter, judge, and store information about the organizations, strategies, goals, potentials, and problems of the partners (Walter, 1999). Learning from others means the transfer of knowledge embedded in products or processes or the transfer of knowledge in a more pure form (Håkansson et al., 1999). Adaptation focuses on making goals and objectives more complementary, and also working on making operating philosophies and corporate cultures more similar. Adaptation typically requires changes to normal procedures, such as the product, product process and administrative procedures. Since for instance the decision making style does not fundamentally differ between firms from the same institutional environment, the challenges to learning are more about taking the time and effort to getting to know the partner, rather than the firms ability to learn and adapt and maybe radically changing the relationship behaviour.

When Finnish / Swedish firms operate in the ethnic Chinese context, learning is less about products and processes, and more about culture, and personalities. Adaptation is required concerning decision making processes and management styles. Adaptation does not occur as much regarding product and processes, but rather regarding business philosophies and operational issues.

#### *Trust*

Trust between firms from a western context is seen to develop as business partners repeatedly interact with each other (Friman, Gärling, Millet, Mattsson & Johnston, 2002). It is believed that trust can only be built during a process of acts and counteracts. Trust can be an economic issue, which means that one firm trust another based on knowledge of the firm’s skills and capabilities. On the other hand, trust is also considered a very time consuming activity that not all managers are willing to invest in (Mavondo & Rodrigo, 2001). Trust formation in the Finnish / Swedish context is an important aspect in the initial stages of a relationship, although it develops in later stages of the relationship. In the pre-

relationship stages, when there is little or no trust between the partners, firms rely on written contracts and documents. In later stages of the relationship trust begins to mature as partners become more involved (Cann, 1998).

The most obvious difference compared to Finnish and Swedish firms relationship processes in the ethnic Chinese context is that trust is an input to a relationship; not an outcome. Trust is initially established through a common acquaintance. Furthermore, trust does not only develop as a result of acts and counteracts, but as result of the individual being able to act in a respectful manner, and showing respect for local traditions and rules. Also, if a Finnish/Swedish manager is not willing to invest in trust formation, there will be no business relationship.

### *Commitment*

Commitment, especially mutual commitment, is seen as a corner stone of relationships between firms in the Finnish / Swedish context, and crucial to the development of effective business relationships (Burca, Brannick, Fynes & Glynn, 2001). Showing commitment gives an indication that two organisations are mutually important to each other, which in turn leads to an implicit or explicit pledge to continue the relationship (Heffernan, 2004). In the early stages of a relationship there is very little commitment, but through cooperation the partners will develop commitment, and it will eventually lead to commitment (Cann, 1998). Much of commitment occurs at a personal rather than organizational level (Mavondo & Rodrigo, 2001). Once commitment is reached, the partners will continue to show high levels of commitment towards one other and the relationship will establish norms that guide conduct (Heffernan, 2004).

When Finnish and Swedish firms develop relationship in the ethnic Chinese context, commitment does not exist prior to the relationship. Commitment is developed through communication and cooperation as an ongoing process. Only at the mature stage (final stage) of the relationship, commitment is taken for granted. This indicates, implicitly, that both partners in a relationship are throughout the process unsure about the others commitment to the relationship. Finnish / Swedish firm are in their relationship processes in Southeast less hesitant to be first / last, lesser / greater beneficiary and reciprocation is not expected to be equal (Mavondo & Rodrigo, 2001).

Another large difference is that the Finnish/Swedish respondents state that they need to show commitment very early during the process. Commitment is long-term, and even if there are no motives business-wise for continuing a relationship, commitment extends also to the personal relation, which is very long-term – perhaps even life-long. Commitment and mutuality requires a long-term perspective from both partners in a business relation. There are no large differences in the way Finnish/Swedish firms address the issues of long-term in their home and ethnic Chinese context. A second important differences between the Finnish / Swedish firms processes in their home and ethnic Chinese context is that Finnish and Swedish firms tend to view long term orientation or continuity is an outcome of a relationship (Mavondo & Rodrigo, 2001), but in the Southeast Asian context they see long term as an antecedent to a relationship.

A third important difference is the notion that a relationship can be terminated. A Finnish / Swedish firm can decouple its relationship to another Finnish / Swedish firm because the purpose for the relationship no longer exists, or the relationship is no longer current (Heffernan, 2004). Although the termination cost restricts or prohibit dissolutions (Cann, 1998), monetary rewards, or rather lack of monetary rewards, can be enough a reason to terminate a relationship (Friman et al., 2002). In similar fashion, a negative critical incident may result in the termination of the relationship (Friman et al., 2002).

### *Social interaction*

Social interaction has a central role in relationship management in the Finnish / Swedish context. Individuals will become committed to each other also beyond strictly task content through social interaction. Social interaction will enhance communication, conflict resolution and learning. A potential partner is said to be more interested in a business relationship if a personal relationship develops. As a result of developed technical facilities (or perhaps a higher use of technical facilities enabled by), written documents are frequently used. Since a lot of communication is done by written documents, relationships between actors are often much formalized (Håkansson, Wootz, Andersson & Hangård, 1979). The importance of social interaction increases with higher uncertainty, i.e. social exchange becomes very important when high uncertainty (Håkansson et al., 1979).

In the Southeast Asian context, the Finnish / Swedish firms' business relationships are preceded by social interaction. In their home environment, Finnish / Swedish firms do not consider social interaction as a necessity prior to business relationships (Li, 2004). In Southeast Asia, however, a local businessman might even refuse to do business with a person he or she does not have a personal relationship with. Such behaviour is highly unlikely in the Finnish / Swedish context. Despite some differences, there are also some similarities. A majority of exchanges in both environments are based on oral agreements and tacit understanding (Lichtenberg, 2004). There is also a strong emphasis in both environments on personalizing business relationships (Burca et al., 2001).

### *Social bonds*

Social bonds are important part of firm relationships (Campbell, 2001). There is a notion that bonding is considered a success if there is a fit between the firms product and/or services (Li, 2004). Although the western paradigm is very formal, there is a considerable level of informality between firms (Burca et al., 2001). A formal paradigm is characterized by neutrality, specificity, universalism, achievement, and individualism. In the Western context, social bonds tend to hold a relationship together (Campbell, 1997), and social bonds contains elements of social interaction, friendship and closeness that are all integral parts of social bonding (Williams et al., 1998).

By creating social bonds firms reduce the risk of opportunistic behaviour (Friman et al., 2002). The context is also very competitive (Campbell, 1997). Behaviour is mainly based on own thoughts, feelings and actions (Pornpitakpan, 1999), and the concept of right or wrong is strongly present in most relationships (Li, 2004). Throughout the process of building social bonds, there are serious negotiations regarding the style and structure of the

relationship. The idea of closing the sale or winning the deal seem to be looming close by in a number of relations (Li, 2004). Yet, they choose business counterparts with whom they feel comfortable and enjoy working with (Campbell, 1997).

#### 7.4 Summary

Compared to their home environment, Finnish and Swedish firms in Asia are more focused on chemistry between persons, and achieving social harmony, i.e. the firm's social behaviour is much more emphasized. An important difference is that friendship leads to business, which is distinctly different from business relationship in the Finnish / Swedish context where business leads to friendship. Relationships are governed by relational norms rather than contractual obligations and the social language style depend on age, gender, familiarity and social status. Finnish and Swedish managers are sometimes more inflexible and resort to more confrontational methods of resolving problems when a more appropriate way would be to be flexible and to compromise. However, because of the importance of social behaviour, Finnish and Swedish firms are to a larger extent adopting a non-confrontational approach. Additionally, the Finnish and Swedish businesspersons are considered out-group members and receive differential treatment.

Findings in chapter seven clearly show that Finnish and Swedish firms are able to identify familiar relationship dimensions in the ethnic Chinese context. Proposition three stated that Finnish / Swedish firms will be unable to identify familiar relationship dimensions and aspects. Based on empirical findings presented in this chapter, there does not however seem to be support for proposition three. Although many of the relationship dimensions in the ethnic Chinese context are build on different premises, the underlying meaning is still the same and they fill the same function as in the Finnish / Swedish context. In other words, the dimensions are the same, although the mechanisms behind these dimensions are different. Not only are Finnish and Swedish able to identify familiar relationship dimensions and structures, they are also findings methods for dealing with differences. This further indicates that there is no support for the third proposition.

Findings in chapter seven also indicate that there is limited support for proposition one. Proposition one states that since Finnish / Swedish and ethnic Chinese firms are from different network contexts, they will have major challenges managing a relationship in the ethnic Chinese context. Based on the institutional analysis in chapter 5, some support arose in favour of proposition one. The institutional distance on the cognitive, normative and regulative level was high, thus implying large challenges for relationship management. This is not however in line with current findings in chapter seven. Although Finnish / Swedish and ethnic Chinese firms are from contexts that prove to have a high institutional distance, there seems to be factors and circumstances that mitigate this distance. One is that there seem to be characteristics in the Finnish / Swedish culture that fits well in the ethnic Chinese context, for instance a sense of humbleness. Finnish and Swedish firms are also accustomed to relationship processes in foreign contexts. Furthermore, Finnish and Swedish firms also seem to rely on local employees to a large extent. In short, there seem to be some support to proposition one, in the sense that Finnish / Swedish and ethnic Chinese firms approach relationships in different ways, but limited indication supporting the notion of major challenges to relationship management.



## PART IV

### 8. Compiling important findings

In this chapter I will compile important findings, and I am presenting my three main contributions. These contributions are; 1) a dynamic relationship model called the mixed relationship model, where I establish that different relationship dimensions have different importance at various phases of the relationship. The mixed relationship model is presented in chapter 8.1 and draws foremost on findings in chapter seven; 2) an identification of different types of relationships, and how firms representing different types of relationship relate to various relationship dimensions. These relationships are presented in chapter 8.2; 3) a (re)-definition of well established relationship concepts in the context of this study, i.e. in the ethnic Chinese context. These indicators for relationship concepts are presented in chapter 8.3. This chapter also contains a discussion about contradictions in the respondents' statements, as well as a presentation of the revised / modified institutional network framework.

#### 8.1 Process of developing a relationship – the mixed model

*“Getting into the customer is a fairly big project, to get your foot in at all. Once you have gotten in, it is maybe a bit easier to stay in.”*

My initial theoretical framework builds on Ford's stage model, which has been further developed by Jansson (2005). After conducting a number of interviews I realized that it was increasingly difficult to identify specific steps in the relationships. Not only did I experience difficulties in identifying specific steps, I was not able to identify some of the steps at all. It was also difficult to identify specific factors that determine when the relationship moves from one step to another. Many of the respondents actually claim that they feel that the process moves very “naturally” along, with increasing interaction, more commitment, and so on. It seems nearly impossible to determine that certain activities belong to one stage but not the other. The original model by Ford (1982) and Jansson (2005) also points out that the relationship can ‘move backwards’ as a result of for instance changed requirements, or wider experiences. However, none of 28 respondents mentioned the possibility of ‘moving backwards’ in the relationship. Although partners are not engaged in business exchanges, the relationship is still maintained through social visits.

In light of my empirical findings I have revised my understanding of the relationship process. A more accurate way of understanding relationships is seeing them as life-cycles. Firms will pass through different mini-cycles throughout the life-cycle of the relationship. A cycle (or phase) can be understood as;

1. A particular point in the time of a cycle; measured from some arbitrary zero (Princeton University, 2004)
2. A fractional part of a period between a reference time and a particular time of interest (Equipment Reliability Institute, 2004)



A relationship consists of different cycles, and many micro processes may occur during each cycle. Studying a relationship is then about looking at distinct time periods in the relationship, with the purpose of identifying some issue-/process-/activity patterns in these distinct periods. A high frequency of activities indicates a likely pattern in the relationship. Such a pattern does not, however, exclude the same activity from occurring in other phases of the process. Certain activities are merely more frequent in one phase than in other. Activities undertaken in one phase strengthen the process and deepen the relationship, i.e. the process is self-reinforcing. This is desirable in a healthy relationship. However, in a relationship 'turned sour' a negative spiral is also self-reinforcing, making the relationship increasingly difficult to manage.

When the Finnish / Swedish relationship model is compared with the ethnic Chinese, some major differences are apparent (as identified in chapters 6.4 and 6.5). Although the process more closely resembles the ethnic Chinese relationship model, there are some differences. Hence, my conclusion is that the Finnish / Swedish relationship processes in the ethnic Chinese context is a mix of both models; a mixed relationship model.

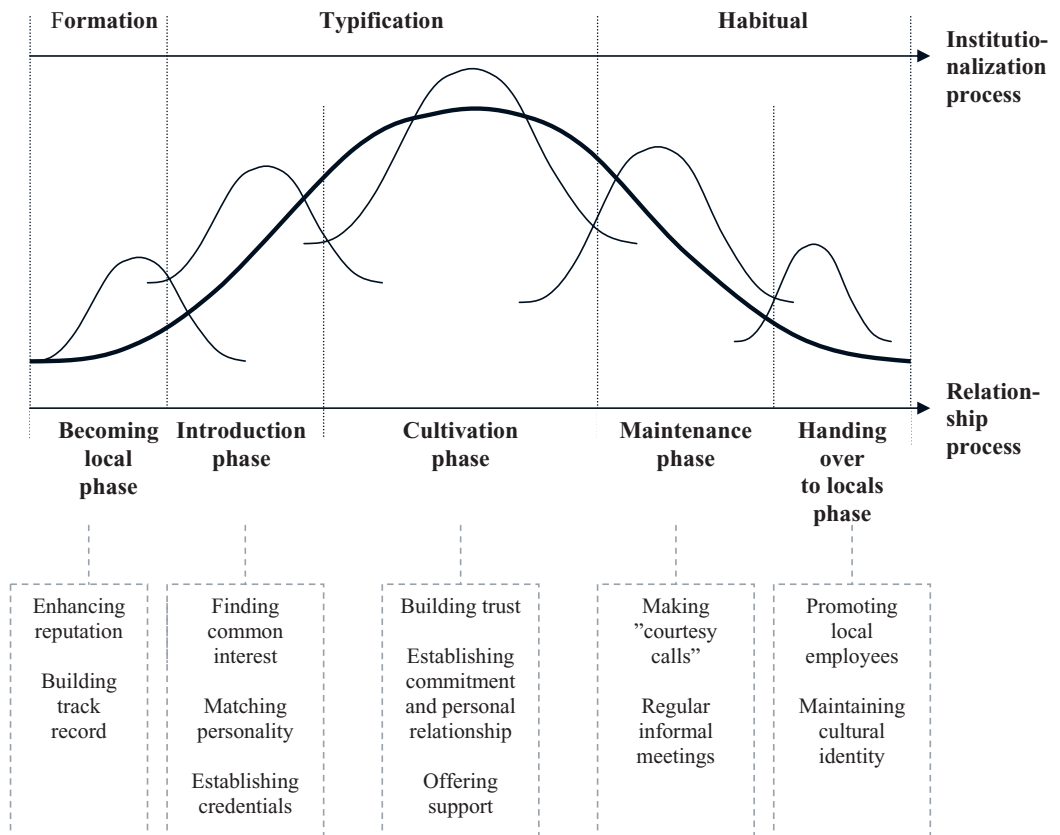


Figure 13 Finnish / Swedish firms relationship process in the ethnic Chinese context; the mixed model

I have identified patterns in the relationship development process that indicate that the relationship process with ethnic Chinese partner consist of five different phases; becoming local, introduction, cultivation, maintenance, and handing over locals. All firms would not, however, undergo all phases. A firm would undergo all five phases only if it has no previous presence in the context. A firm that is already located in the context would undergo the next four phases.

### *Becoming local phase*

The first phase in the model is relevant for firms who are not present in the region. A local presence is necessary in order to grow business in region.

*"Business volume quite much correlates with how much the Finnish manager comes here."*

- Respondent T, Thailand 18.11.2003

The local firms are reluctant to commit to firms that visit the region only once or twice a year. It will also be difficult to build trust, since trust is build through continuous social interaction.

Initial **adaptation** is required in order to cope with the different concept of time (cyclical time view) as well as decision making style. Finnish and Swedish firms are accustomed a more rapid decision-making process and the communication style in the Finnish / Swedish context are also more direct. In the ethnic Chinese context people typically approach issues indirectly, especially sensitive issues.

The amount of **learning** is largest at this phase, and also takes a lot of effort. Much effort goes into attempting to learn as much as possible about the other individual, and getting familiar with local traditions, norms and values. The firms are also leering about different cognitive structures, foremost that there is no winning-losing mentality. A healthy and working relationship is characterized by harmony (both – and, instead of either – or), where both partners attempt to give face to the other.

The ethnic Chinese firms are unlikely to show any **commitment** to Finnish / Swedish firms at this phase, since they are not able to refer to a prior history or record of accomplishment. Finnish / Swedish firms are emphasising their commitment to potential partners by showing that they plan to stay in the region for a long time. Finnish/Swedish firms build good reputation by behaving in a manner, which indicates to the local firms that the firm is offering the support they need and the sincerity that they want. This increases the chances of attracting the interest of local firms.

*"The Thai partners don't like the idea that there is a new person, absolutely not, they do not appreciate it. They like that they know they guy, how he is, how he behaves, how he negotiates, what he like and doesn't like."*

- Respondent L, Thailand 18.11.2003

Firms that are already present in the region are in a much better position since they can provide concrete evidence of commitment to doing long-term business in the region. However, a local presence alone is not sufficient to attract partners. Reputation is also important, and for instance if a firm has a bad reputation among the ethnic Chinese, they will most likely find it difficult to establish new relationships. A bad reputation is also likely to spread far within the ethnic Chinese networks, because local firms ask for references from other contacts in their extensive network of relationships. A lack of references or a bad reputation will have a very negative impact on attempts of initiating a business relationship.

During the becoming local phase it is important to establish trust. Initial trust can be established foremost by getting a recommendation from a trusted person. Initial trust is further developed as a direct result of being sensitive to the local culture, and showing a willingness to learn basic cultural behaviour. Unless trust can be established during this phase, ethnic Chinese firms are not likely to continue the business relationship.

**Social interaction** will be very formal during the becoming local phase. The ethnic Chinese are restrictive and passive (regarding information sharing) during initial meetings and discussions, and are listening more than talking. Finnish / Swedish firms are expected (since they are Western firms) to be experts in their area, and Finnish / Swedish firms spend time on accrediting themselves as technical experts and specialists. Hence, initial meetings and discussions evolve around products and technical specifications, and price and money will not be discussed.

*“The initial phase is a few meetings, so you kind of get the basic understanding of who is this person that they see that we mean business and they can trust that things will be done. You have to show, talking doesn’t take you very far. You can say many nice things but if you don’t deliver them they won’t believe you.”*

- Respondent L, Thailand 18.11.2003

### ***Introduction phase***

The second phase of the model involves the introduction of persons to a potential partnership. The second phase can be very short, as short as a couple of meetings. If it is a new relationship, the local partner is going to be interested in the history of the firm and where it acquired contact information about the local firm. It is often necessary to obtain a recommendation from someone who has a prior relationship to the partner. Those firms which are new to the region and are unable to acquire a recommendation from an established firm uses the Finnish/Swedish trade commission or embassy as a reference.

*“Basically they know very little from Finland. If I say I even come from Europe, they also know very little about Europe. No comments because they simply don’t know. I often say that I come from the same company as this Nokia phone, so that’s the best introduction I can give.”*

- Respondent A, Malaysia 3.11.2003

In addition to going with someone's recommendation an important element in this early phase is raising the local firm's interest. This would involve offering insight on new product ideas, technology improvements.

*"Giving them something they can sell, they like that".*

- Respondent O, Singapore, 29.10.2003.

When Finnish / Swedish firms send experienced personnel (i.e. experience from relationship processes in other foreign contexts) to be responsible for the relationship process, less **adaptation** is required than is commonly believed, especially during the introduction phase. Experienced personnel usually adapt fairly quickly to the cognitive structures. However, there are non-business related issues that may influence business, for instance traffic problems, noise levels, and pollution. Although these are non-business related, in cities such as Bangkok and Kuala Lumpur they are a constant source of stress. Compared to the largest cities in Finland and Sweden (Helsinki and Stockholm) traffic, pollution and noise levels in the mega cities in Asia (more than 10 million people) are of such magnitude that adaptation is a real issue.

Finnish and Swedish firms' expectations are not always met and differences in normative structures require patience. There are seldom clear and direct answers, and pre-planning is difficult. It might take even several months to arrange a follow-up meeting, partly because the ethnic Chinese firms are hierarchical and therefore decisions passes several hierarchical levels before being approved. Another difference in normative structures that cause challenges is management style. The ethnic Chinese management style is best characterized as "top-down". Final decisions are made by the top manager or boss, and the ethnic Chinese require meeting with a person in the same position. Although the ethnic Chinese' philosophy is that 'nothing is impossible, everything should go' the ethnic Chinese firms are unlikely to adapt during these early phases of the relationship.

*"To me it looks like the westerners are adapting more than Singaporeans. A good example is for instance food. If you go out and eat, then usually we eat Asian food. I sometimes find it difficult in my private thoughts to figure out why they have to eat Chinese food every day. Will they really die if they don't get their daily rise? I think they would... When we have people to our country, they need to have their own restaurant; they would not go to a western restaurant. So I think that shows a little bit of their adaptation. They are very Chinese in their minds in that way."*

- Respondent U, Singapore 17.10.2003

Two other issues are important during this phase. The first is **learning** about the partner's organization, which requires the ability to identify key persons in the partner organization, and second, matching personalities. Personal characteristics are important for local businessmen, and being "a nice person" builds a positive image and atmosphere. Personality, as in "chemistry between two persons", is more important than Finnish/Swedish business people are used to. Personal characteristics can play a surprisingly essential role in this phase of the process, more than would be the case between Finnish/Swedish firms. This means that firms spend considerable time learning more

deeply about individuals, in order to find common interests, since the ethnic Chinese expect that partners know each other personally before they start doing business.

*“Personal chemistry is very, very important.”*

- Respondent Q, Singapore 14.10.2003

Trust and **commitment** goes hand in hand during this phase. The level of trust is very low since during this phase since the Finnish / Swedish firm have a short history of accomplishments and references. Commitment and trust are gradually established as the Finnish / Swedish firms establish their credentials. One important aspect regarding commitment is emphasising and indicating personal commitment, rather than organizational commitment. Such commitment is established during social interaction and social events. Initially formality is high, but as social meetings become more informal, the Finnish / Swedish firms emphasize continuously their long-term commitment to the region. Emphasizing long term personal commitment is necessary since it reduces the ethnic Chinese uncertainty and fear that the foreign firm might leave the region.

*“I remember when we moved the office to Singapore. The customers felt that they would have the chance for more business, and the phone was at that time ringing non-stop. People were also calling because they felt that now this company is here and wants to sell more.”*

- Respondent K, Singapore 23.10.2003

As the Finnish / Swedish firms formally and informally meet more often, **trust** also develops as a result of acting in a manner that the ethnic Chinese expect. Respecting the local culture and showing a willingness to adapt to local traditions, norms and values makes the ethnic Chinese more comfortable. It also indicates that the Finnish / Swedish firms are willing to learn more about their partners. A central element in cognitive structures is mastering the concept of face, i.e. behaving in a manner that does not cause loss of face.

*“You can gain trust is fundamentally that you understand the people, their values, the way of communication, which goes down to body language, face expression, dress codes, concept of time. Small stuff, you need to understand the culture, because it reflects how you communicate. It helps a lot if you can show that you are not just a passer by, that you are committed to the long term here.”*

- Respondent H, Thailand 20.11.2003

The amount of informality in **social interaction** increases during this phase. Interaction becomes fairly quickly less formal and meetings take place at various unofficial occasions. The purpose with increasing informal interaction is to develop an understanding for each other, since business relationships are built on a personal relationship. These kinds of informal social meetings can be as simple as dinner or lunch, or visiting a trade show of common interest.

*“In Singapore, at least when it concerns our friends, they are not keen to go out in the evenings. They don't expect us to take them to karaoke, not in the pubs, they don't demand this.”*

- Respondent K, Singapore 23.10.2003

Playing golf is a very popular social event, as is eating together, which serves the purpose of increasing social interaction.

*“It’s not a question if you are good at playing, but that you play. I get a lot of invitations to play golf. If I call them and tell them I am here, then they ask what about golf, Friday is free or Saturday is free, let’s go. When you are on the golf course they are more relaxed also. And you they might tell you something that they would not normally would.”*

- Respondent U, Singapore 17.10.2003

**Social bonds** are slowly being cultivated during this phase. Therefore introduction of persons to each other, especially by whom and how, is important in the case of personnel change. If there is a change in personnel, ethnic Chinese feel that they need to invest considerably in learning about a new person. This is the case even if the ethnic Chinese have known the Finnish / Swedish company for a long time and they have good relationships to the previous Finnish / Swedish manager. Common trips to for instance the European factory, informal meetings, dinners, and golfing are used as tools for introducing and handing over to a new person.

### ***Cultivation phase***

The third phase of the relationship, the cultivation phase, is most time consuming, because continuous social interaction is required to develop trust and commitment. It is fundamental to learn the person’s background, key decision-makers, stakeholders, and players in the other’s social network.

*“Basically it is a very complicated thing. It can be very simple here as well, if all go nice, at least in our business. You don’t need to go through countless drinking nights and eating and all that stuff. It can be very easy, you just find a common interest you agree on it, I deliver, they deliver, we both like the result we both happy, we decide to continue. It starts like that. It really doesn’t have to be overly complicated with bars and stuff. I have never actually been in any bars, thank god for that.”*

- Respondent D, Singapore 16.10.2003

In addition to being a long process, this phase can also involve other difficulties. One set of difficulties can arise from the fact that many Finnish/Swedish firms are technologically more advanced, and might have better knowledge of the (global) industry, and hence, local partners might be quite conservative. Therefore, Finnish/Swedish firms might find themselves in a position where they might need to coach their partner in a new direction. This requires sensitivity on behalf of the Finnish/Swedish partners, since there is always a risk of causing the partner to loose face. Other differences in normative structures, foremost differences in enterprise specialization and development, require organisational adaptation.

The amount of **learning** that takes place is great during this phase. The partners learn about each other's preferences and working methods. Learning is as much about learning about the person as learning about the organization, i.e. learning takes place on the cognitive as well as normative level. Finnish and Swedish firms learning processes include learning different business mores, meaning how to give and gain face, guanxi relationship processes and linking personal and business life. It is also a question of learning the "yes" mentality of the ethnic Chinese. In many ways, refusing something causes loss of face.

Personal **commitment** and personal relationships are central elements during this phase. The local partner expects the Finnish/Swedish partner to show long-term commitment and that business will be conducted based on friendship. It can take months (if not years) to establish this kind of acceptance, and it can only be achieved by developing an informal and personal contact. The second essential element in building a sense of commitment is showing sincerity to the partner, as well ability and willingness to offer support and help. The local businessmen are likely to look for some kind of proof that if ability and willingness to help in the future, also during difficult times. Help and assistance is also extended to non-business related matters. One indication that acceptance has been achieved and the relationship is deepening is the partner's willingness to share information of a more personal nature, for instance family matters.

*"We took an active part in doing whatever we can to fix the problem, and giving them something extra afterwards. And finally the agency was very happy with us and they saw that we showed interest in their problem and trying to help them in any ways that we can. That is a way of showing commitment and that makes the relationship even stronger."*

- Respondent D, Singapore 16.10.2003

Continuity is important for building **trust**. It is necessary that the same individuals develop the relationship; a change of personnel can have a severe impact on the future business relationship. Another central component for enhancing trust is to be delivering what has been promised, i.e. building a track record of accomplishments. Trust is also enhanced between partners through efforts that go beyond basic requirements, i.e. offering something little extra. Although such additional offering could be considered illegal bribes in the Finnish / Swedish context, such extra offerings are typical and welcomed in the ethnic Chinese context. For practical purposes, building trust can also be seen as an instrumental process. Furthermore, although the product and the company are important, these are secondary to personal trust.

*"It's like building blocks, you build it over time. Little gifts for Muslims at the ending of fasting month. Nothing large, some flower box. Chinese, they don't care much for fasting, but Chinese New Year. It takes time to build this trust. You can't win it over night, you have to build it."*

- Respondent A, Malaysia 3.11.2003

**Social interaction** is at its highest frequency during this phase, and social relationships are cultivated during numerous meetings and visits, with several individuals in the partner firms, on several hierarchical levels. This phase is also characterised by a higher degree of

social and informal meetings, such as golf, dinners, different side events and so on. There is usually very little, or no, business discussions early in this phase. By making these kinds of social events a regular occurrence, continuity is signalled to the partners; a willingness to make it a long-term relationship. The time spend together is done solely with the purpose of building trust and commitment. The separation between formal and informal is blurred; in fact, informal social meetings can also have formal elements.

*“There is a mix here, but that goes to the issue of understanding the culture here. I have learned that sometimes you need the social type, casual type of interaction, to really build and deepen and cement the relationship. And then you need to find a way to make sure that the other partner understand that it is only social, no business. Casual place, casual dress, and a place where people feel comfortable. Then you also need the other thing. That if some important person or boss comes, you need to make sure that it is a business meeting or more business setting.”*

- Respondent H, Thailand 20.11.2003

**Social bonds** develop as result of being able to act in a respectful manner, and showing respect for local traditions and rules. Establishing social bonds creates a sense of closeness between the partners, both mental and emotional closeness. This mental and emotional closeness, which is not found in relationship in the Finnish / Swedish context, are a key success factor in a long-term relationship. Social bonds are fostered through social, informal events, and playing golf has a central function in the ethnic Chinese context. Partners would typically quite early start playing golf.

*“Food and golf besides the ordinary business. The fact is that it builds the relationship.”*

- Respondent Q, Singapore 14.10.2003

### **Maintenance phase**

Socializing is less extensive during the maintenance phase than during the cultivation phase. Essential **trust** has been build during the cultivation phase, and is maintained during this phase, and partners continuously emphasize **commitment** to each other. Since the previous phases can take up to several years to pass, Finnish and Swedish firms might at this phase come to a stage where personnel changes would normally occur. As has been mentioned previously, the consequence of a change of personnel is that the local partner feels that it has to “re-start” the relationship and “re-invest” in the new relationship. Hence, Finnish / Swedish firms normally allow their employees to remain in the ethnic Chinese context for a longer period.

*“But in Finnish culture we tend to be too humble and undersell and over perform, which is a good way to build trust. That is an advantage.”*

- Respondent L, Thailand 18.11.2003

Some extensive **adaptations** may occur during this phase, although commonly only on the operational level. Although the partners have found functions working methods, decision-making is still a slow process. The amount of **learning** becomes less during this phase



since the relationship is moving into the habitual phase. Since Finnish / Swedish firms at this phase are likely to employ local people, learning takes place inside the organization. Local employees are used to a more hierarchical organization, and it may require some extensive learning to accustom the local employees to a flatter hierarchical structure.

The partners are still regularly and continuously in contact with each other but meetings are often very informal and more “courtesy visits” than real business meetings. Regular and daily business functions are carried out by local employees. A lot of these **social interactions** and meetings actually take place on the golf course. These informal meetings can also function as forum for bringing up issues that need to be discussed later. It is common these kinds of informal meetings continue even if the partners do not conduct business anymore. During the maintenance phase the partners have developed strong **social bonds**. One manifestation of strong social bonds is that the business relationship is virtually paperless, in the sense that written contracts are seldom used or referred to. The mutuality in the relationship also gives the fourth dimension to the relationship, and issues of sensitive nature can be discussed.

#### ***Handing over to locals phase***

During the final phase of the relationship local employees are taking over a large part the regular business activities with the local partners. The daily contacts are typically taken care of by local employees in both companies.

*“If you have any form of sizeable business you of course need Thais but if you also have Thais that are competent and are developing to take on more responsibility that is a very important indication of commitment and you are here for long term.”*

- Respondent L, Thailand 18.11.2003

There might initially be some difficulties since local employees are not used to having such responsibilities, and working in an organization with little hierarchy. Despite some initial challenges, local employees usually appreciate the Finnish/Swedish type of organization. Although local employees are taking care of much of the daily contacts Finnish and Swedish managers are usually present when a larger business deal is at hand. This arrangement is not because the local employees’ inability to manage business deals, but because the partner expects contracts to be signed between the management of both companies. Promoting local employees is also a way of enhancing reputation, since it signals long-term commitment.

Promoting local managers is also a way of maintaining relationships in case of transfer and change of Finnish / Swedish managers. However, most Finnish / Swedish firms are likely to maintain at least one Finnish / Swedish manager in the region. This is necessary since the subsidiary also need to maintain relationships with the parent company. Finnish / Swedish manager will be better at tapping resources in the parent company. There is of course a certain wish to keep a level of “Finnishness / Swedishness” about the company.

The following table summarizes the relationship process and how various relationship dimensions take shape throughout the process.

	Becoming local	Introduction	Cultivation	Maintenance	Handing over to locals
Commitment	Low	Low	Required	High	High
Trust	Through recommendation	Increased	High	High	High
Social bonds	None	Increased	Medium	Strong	Strong
Learning	High	High	Extensive	Low	Habitual
Adaptation	None	Medium	High	Institutionalized	Institutionalized
Social interaction	Low	Increased	High	Habitual	Medium

**Table 16 Relationship dimensions for Finnish / Swedish firms in the ethnic Chinese context**

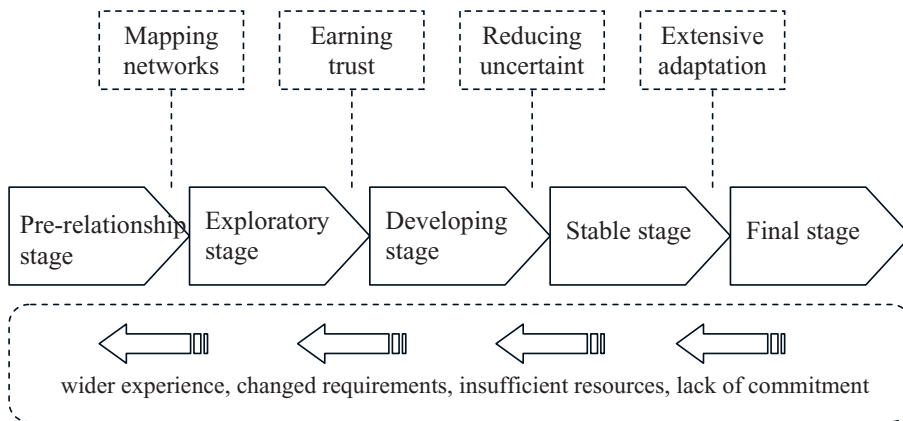
### 8.1.1 Relating phases model to previous stage models

The previous chapter has identified the relationship process of Finnish / Swedish firms in the ethnic Chinese context. Upon closer examination it is evident that the Finnish/Swedish firms' relationship process is different in the ethnic Chinese context than in their home context<sup>21</sup>. In this sub-chapter I will highlight some important differences between the Finnish / Swedish and ethnic Chinese relationship model and the mixed model.

#### *Comparing mixed model and Finnish / Swedish model*

When comparing the mixed relationship model to the Finnish / Swedish relationship model, some differences are easily identified.

<sup>21</sup> See chapter 7.4 for discussion on the relationship process of Finnish / Swedish firms in their home context



**Figure 14 The relationship process of Finnish Swedish firms in their home context (Ford et al., 1998; Jansson, 2005, modified)**

Evaluating partners and mapping networks are activities carried out in the pre-relationship stage (Heffernan, 2004). Finnish and Swedish firms can most often choose from several potential relationship partners in their home context, partly because they know where and how to look for partners and partly because they have access to information about potential partners. Therefore firms are able to evaluate different partners based on different sources of information (yearbooks, earning reports, media, and government statistics). An immediate problem in the ethnic Chinese context is that Finnish / Swedish firms are unlikely to gain access to such information. This lack of information has to be compensated by the Finnish / Swedish managers' experience, know-how and intuition, meaning that firms are evaluating personalities rather than organizational performance. Consequently, personal characteristics and matching personalities are more important aspects in the early phases of the mixed relationship model than in the Finnish / Swedish relationship model.

The amount of learning that transpires at the first stage of the Finnish / Swedish model is at its highest level of any stage in the relationship lifecycle (Heffernan, 2004). In the mixed model, however, learning is not at the highest level in the first phase of the relationship. There is little learning at the earliest phases because the amount of distrust is greatest; potential partners are not yet committed and hence, only attempt to get a feeling for the other partner (matching personalities). Learning is at the highest level when the parties engage in extensive social interaction.

During the developing stage of the Finnish / Swedish model firms have a high level of engagement and interaction. The parties are making investments and necessary adaptations. In the mixed model firms would also be engaged in interaction in similar fashion, however, firms would not be making sizeable investment and adaptations. That would occur later in the process.

The last stages in the Finnish / Swedish model are characterized by extensive adaptations, and a high level of social interaction. Social relationships are also occurring during the final stages of the relationship. In the mixed model the relationship would never proceed to later stages unless the partners are able to create a social relationship at the onset of the relationship. Even though the relationship has proceeded this far, it is unlikely that such extensive adaptations would take place. Firms are simply worried about theft of technologies, processes or research. In their home context are Finnish and Swedish firms able to terminate the relationship for various reasons. Terminating a relationship is typically not possible in the ethnic Chinese context, since terminating a business relationship also means terminating a personal relationship. Unless there are extremely severe problems in the relationship, firms typically continue to have regular social interaction although there are no direct 'business motives' for continuing the relationship.

Literature covering the Finnish / Swedish model often mentions moving backward and terminating the relationship. Moving backwards in the relationship would occur as a result of changing requirements or needs. The relationship would be terminated if the fundamentals of the relationship would not exist anymore. However, termination of the relationship was not brought up a single time by the respondents during the interviews. Although there would be no business exchanges between the partners, a relationship would still be maintained through periodic social meetings. Hence, the business relationship could be 'activated' if necessary. Since the relationship continuously moves towards greater understanding and learning there is really no mechanism for moving backwards in the relationship, i.e. no way of de-learning or de-understanding. Therefore there the relationship does not move backward in the mixed model.

*"I think the difference is that in a western context, at the end of the day what matters is the performance. The business relationship can be broken if the performance is not there, or if the parties feel that it does not really work. In an Asian context it is more that we started this together and we live this through together. There is an expectation that you really continue as a friend and a partner. And even if either party starts feeling that this doesn't really work that well, then there is still an expectation that the relationship still continues, even if business go down and there is a slow period. You do not easily give up relationships.*

- Respondent L, Thailand 18.11.2003

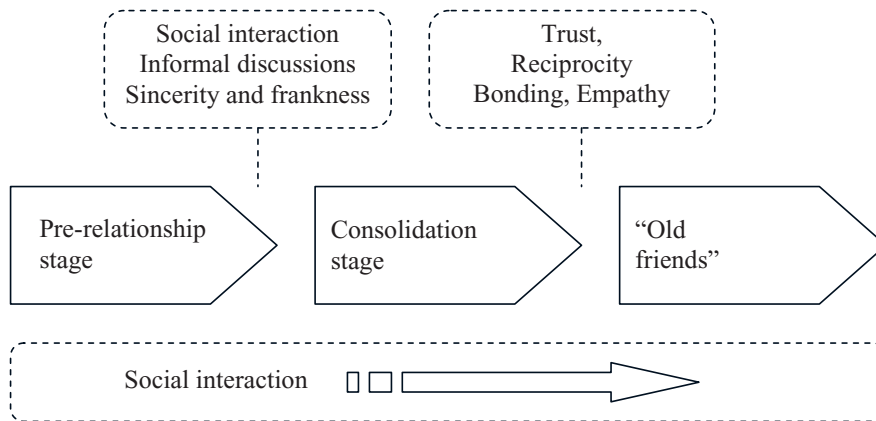
In the mixed model firms are more often in contact than in the Finnish / Swedish model. Since economic performance is the central element in relationships in the Finnish / Swedish context, there is little need to interact when there are no business transactions. However, the Finnish / Swedish firms are regularly in contact with their business partners in the ethnic Chinese context, even though there are no business transactions. There is a need to maintain the personal relationships, and therefore partners meet on a regular basis.

*"I try to be in contact with the customers at least once every three months. The most important [customers] I am in contact with every month, sometimes every second month."*

- Respondent Z, Malaysia 6.11.2003

*Comparing the ethnic Chinese model and mixed model*

Prior to conducting this study I anticipated that the Finnish and Swedish firms would adopt their partners' relationship process when conducting business in the ethnic Chinese context, as state in proposition two. To my surprise, the mixed model is different in several ways, although there are many resemblances to the ethnic Chinese model.



**Figure 15** The relationship process of ethnic Chinese firms in their home context (own, based on previous literature)

The mixed model exhibits many similarities to ethnic Chinese model. The pre-relationship stage and introduction phase resemble each other. A difference is that the Finnish / Swedish model focuses more on introducing partners to each other and matching personalities.

*“If you are being recommended by someone that is trusted, then it shortens the time of getting trust, and of course it depends on how close the persons are, the one recommending and the one receiving. If they are in the same group or family, you can gain trust rather easily. If it is just a word of mouth, someone happens to meet, then it takes more time.”*

- Respondent L, Thailand 18.11.2003

It is understandable that introductions and personal characteristics receive more attention since the partners have different cultural backgrounds. Hence, it takes more effort to de-codify cultural characteristics. Furthermore, personal characteristics and personality, such as facial characteristics, posture, politeness, behaviour, and so on influences the relationship much more in the ethnic Chinese model.

*“If the personality doesn’t match, you cannot build a relationship.”*

- Respondent H, Thailand 20.11.2003

The consolidation stage is similar to the cultivation phase. The clearest difference is that the ethnic Chinese spend more time and effort building trust and commitment with Finnish / Swedish firms than they would do with other ethnic Chinese firms. This is understandable since more learning and adaptation is needed because cognitive characteristics must be de-codified. Another slight difference is that the ethnic Chinese are more formal and address more business issues than they would in a relationship with other ethnic Chinese firms. This is clearly a strong influence from the Finnish / Swedish model, since they are accustomed to addressing business issues much earlier in the relationship. There seem to be no drastic differences between the ethnic Chinese model's old-friends stage and maintenance phase of the mixed model.

## **8.2 Thee different types of relationship**

Based on my finding I have concluded that there are some differences in the way the respondents' develop and manage their relationship, which in turn is dependent on what kind of relationship they represent. I was not able to conclude that these different relationships were a result of typical relationship structures, for instance buyer-seller, supplier-distributor. Nor did these differences relate to for instance industry, size of firm, or market position. Naturally there are some differences in the way firms develop relationship based on such variables, but none of those variables gave differences that would be unique to this context.

However, I was able to identify three additional types of relationship, and each type of relationship shows unique characteristics in the way the relationship evolves. These relationships I have identified as dependency vs. independent relationship, simple vs. complex structure relationship, and high vs. low leverage relationship. The differences that occur between these relationships do not indicate that one type of relationship succeeds better than the other. Instead there are differences in the way various relationship dimensions are emphasized within a specific relationship. For instance, while some respondents strongly emphasize personal relationships and interaction, others talk much about acting correct, having the right concept and product, and some talk about the importance of staying in contact frequently. Some of the firms would represent one or several of these relationships. For example a firm like Nokia would be independent with its partners, since it has a strong brand pull and hence attracts a lot of interest. It would also have a high leverage relationship, since it is a global leader and strong market positions, and hence could steer the relationship in any direction it wants.

In the following chapter I will briefly explain the relationships that I identified and how I have codified them. Thereafter follows a discussion about how various dimensions are emphasized differently in these relationships.

### **8.2.1 Dependency or independent relationship**

Since there might be some confusion regarding the terms dependency and independent relationship, I will begin by explaining my underlying thoughts about them. In a working relationship it is likely that partners are dependent on each other to some degree, for

instance for growth, expertise, information, and so on. Some dependence would be ‘natural’ since there is a large degree of mutuality and common interest. Because of mutuality and common interests partners are unlikely to consider themselves either dependent or independent.

However, I am using the terms dependency and independent to explain how firms are to a higher or lesser degree able to work dependently or independently with partners. One example of a dependent relationship (the way I use it) is a firm that has a small share of the market, or a firm that is one of many suppliers to its partner. An example of an independent relationship is a firm that is large, uses many partners, and has a large share of the market. Although the latter firm need various types of partners, it can have a rather independent relationship to its partner(s).

If a firm is small, or has a small share of the market, it might heavily rely on its local partner to promote business. Because of its weak position in the market, it is unable to attract a larger number of partners, and can not thus force the partners to compete for business. If a firm has a large market share, it is able to attract many partners and is hence, not reliant on a single or a few partners. Partners would compete for the firms business, rather than the firm competing for the partners’ attention. For example, Finnair’s (Airline carrier) and Blöndahl’s (household appliances) partners have many options when it comes to purchasing services and products, while Ericsson’s (telecom/system supplier) UPM Kymmene’s (paper and pulp) partners do not have that many options. Hence, the latter firms are in a different, more independent position concerning their relationship strategies.

My findings indicate that those firms that have an independent relationship to their partners are building commitment during the cultivation phase by offering support for their partners. Perhaps surprisingly, they attempt to involve themselves to a high degree with their partners, and to assist their partners in solving problems. Mutuality is often stressed by the respondents when describing their relationship. This is surprising since a firm with an independent relationship towards its partners would be in a position to steer the relationship in any direction they want, and could also have a very dominant position in the relationship.

*“You always have to be prepared to follow their development and to adapt to them and also they adapting to us.”*

- Respondent N, Singapore 23.10.2003

*“Also other activities that you do in Thailand, like training. How you transfer competence and how you contribute to the partner.”*

- Respondent L, Thailand 18.11.2003

*“Often yes. Their success is our success and vice versa”*

- Respondent S, Thailand 19.11.2003

*“We attempt to be a partner for our customers”*

- Respondent V, Singapore 22.10.2003

*"We have adopted, but after all we do business together. In a way there has always been mutuality in our partnership."*

- Respondent N, Singapore 23.10.2003

*"We attempt to listen to them. This is important because we are a big multinational company, and we are dealing with small companies. And they can easily feel that they mean nothing to us."*

- Respondent V, Singapore 22.10.2003

Firms from both types of relationships emphasize the importance of personal relationships and trust. Developing trust is essential for business relationships with the ethnic Chinese. However, respondents from firms with independent relationships often mention that the firm itself, their brand, and product are important determinants of trust, even more important than employees. Those firms with independent relationship are rather clear about trust for the organization; surprisingly so considering the fact that they at the same time all state that relationships builds on a personal relationship. Firms with dependent relationship, on the other hand, tend to emphasize that it is foremost the person that is trusted, and the firms and products are secondary.

*"The relationships they have are not only to me, but to [company x] as a company"*

- Respondent N, Singapore 23.10.2003

*"The relationship is important. The product is important"*

- Respondent F, Singapore 21.10.2003

*"I would say that it varies. In several cases it has been clear that customers have had trust to a person in our organization. But against that there is still the strategic, that there is respect for the brand. You can have good salespeople that have good reputation and that is in the bottom. But the respect for the brand has to be there. It is a combination."*

- Respondent F, Singapore 21.10.2003

*"A good business relationship starts with a good offer to begin with."*

- Respondent V, Singapore 22.10.2003

*"I think they feel that it is we have know-how and knowledge that they need to develop the economy. They feel working with us is a learning opportunity. That is often the expectation. If they feel that the learning doesn't take place or a feeling that the foreigner is milking the opportunity dry and leaving or a sense that it could happen, it strains the relationship."*

- Respondent L, Thailand 18.11.2003

*"It is the company. But it's not one or the other. All who are employed knows and act in accordance to [Company T]. So yes, the person is important, but the organization is at least as important."*

- Respondent V, Singapore 22.10.2003



Although there is certainly mutual learning and adaptation, these independent firms are to a much lesser extent adapting to their local partners. At times, these firms are also teaching and educating their partners about various issues.

*"It's much about educating them and teaching them to be more long-term. We have helped many of our distributors back on their feet. We help them to build their own competence, for instance inventory, human resource, marketing, and so on."*

- Respondent V, Singapore 22.10.2003

Because they are one of many firms offering the same or similar product, they are not well known and are therefore using their record of accomplishments as a reference when contacting and dealing with partners. According to these respondents, they adapt more than their partners. Those firms that have a dependency relationship almost without exception never discuss the importance of brand, product or company. They are, however, strongly stressing the issue of commitment, especially emphasizing that they have to be able to show they are committed to their partner.

*"Commitment is very, very important. They are used to agents that are not left for very long. Very important that they can trust the company."*

- Respondent Z, Malaysia 6.11.2003

*"Trust come with time, you need to take actions that the customer realizes that this guy means what he says. If you make a mistake, you need to correct it quickly. To respond to problems quickly and correct them. Sometimes it's better to make some mistakes and then make good corrections, then you can build relationship."*

- Respondent Y, Thailand 17.11.2003

*"Commitment is important. It shows in different ways, for instance how often you contact the customers, how often you take them to dinner, and this and that. It is a measure of commitment how much you spend time with each other, and how much you show that you respect the relationship you have with your customer."*

- Respondent X, Malaysia 4.11.2003

*"We are trying to be very flexible, and very cooperative with them whatever they suggest. We more or less support them, and we don't want to disappoint anybody in that relationship because we know it's a very long-term relationship, and we have been working with these agencies, some of them, already from the beginning, about 17 years. So those are very true to [company p] and we try to do whatever we can to support their business."*

- Respondent D, Singapore 16.10.2003

An interesting point is that the independent firms meet with their partners more often, although one would think that it should be otherwise. There may be two explanations. One is that the dependent firms might feel they should not meet with their partners too frequently, because "you do not want to bother them too often. Another explanation could be that the independent firms meet with their partners more often since they emphasize the

need for assisting their partners. This means that they have to meet regularly in order to know whether there are problems or potential problems. They also meet regularly because they are working on various development programs.

As a summary, it is possible to identify some interesting differences between firms with independent and dependency relationships. Two issues clearly stand out when firms describe their relationships in general terms. The first issue is that independent firms are brand conscious, which means that there is a clear focus on maintaining brand the brand name and brand values. This means that organizational issues are important in their relationships. The other issue is that they emphasize that it is not only the person that is important, but also the company. Some of the firms with independent relationship even claim that the company is more important than the individual. Since the company is more important than the person, they do not believe that changes in personnel would have a very negative impact on the relationship.

*"It is not really so damaging to change for instance the Vice President every few years, because there are local persons who have been in the company for 20-30 years, and their role is very significant. So, the long-term perspective is on the middle management level. Upper management's role is to give support to middle management."*

- Respondent S, Thailand 19.11.2003

*"I think so, pretty strongly, of course it is not black and white. It's both in the organization and between the organizations that the company as such. The company is known, the name of the company is known, and the market knows what the name stands for, for instance leader in something."*

- Respondent H, Thailand 20.11.2003

*"It doesn't really matter. It's the picture of integrity and professionalism that the company gives. What matter is that you are a partner that is in for the long term, and has integrity."*

- Respondent V, Singapore 22.10.2003

In contrast to the independent relationships, firms with dependency relationship continuously stress that the person comes first, and the company is second to the person. Firms with dependency relationship are also concerned about personnel change, and the impact that personnel change would have on their ability to show commitment to their partners.

*"So, the presence alone is not enough, although it helps. It has to be commitment in real business, by answering questions, visiting customers sometimes, and taking part in exhibitions. All these things are also important."*

*Sometimes we have problems in the company that originates in Finland, and people don't understand this and then some people might question our commitment."*

- Respondent K, Singapore 23.10.2003

*“It’s me they trust, not the company. If I move to another company, they might follow. But, customers might demand companies to move for them. The customers in Singapore demanded us to go to Malaysia because they were going there.”*

- Respondent B, Malaysia 5.11.2003

*“The significance of commitment is everything. If you are not committed, they will not be committed, and there is no business.”*

- Respondent D, Singapore 16.10.2003

*“A big weakness of Finnish companies is that they can easy change persons in the company and Asian don’t like that. My strong point is that they know me. I have been 18 years here, that’s why they accept me. If a person has been here or is here only a year, they say they don’t like you.”*

- Respondent U, Singapore 17.10.2003

### 8.2.2 Simple or complex structured relationship

A relationship with a simple structure is characterised by short and numerous transactions. Transactions are often standardized, and do not change much over time. They involve only few persons and levels in the organization, and decisions do not involve many parameters. Complex structured relationship involves many levels in both partners’ organizations, and decisions involve many parameters. There is much transaction customisation between the partners and the transaction take place over a long period. It may also take a lot of time to reach a decision about transactions. Examples of firms with simple structured relationships are Outokumpu Copper (industrial tubes) and Raflatac (wooden flooring). Examples of firms with complex structured relationships are Volvo Bus and Wärtsilä (ship power supplier).

There are some clear differences how these different firms focus on relationship dimensions. The first issue that came up during analysis relates to interaction and communication with partners. Firms with complex structured relationships strongly emphasize the need to meet often and regularly with their partners.

*“I have to be in contact regularly, cannot be out of the context. Either me or my Finnish assistant, either or sometimes both, somewhere. Smaller projects, lesser extent, but can never say not involved. Normally at the beginning and at the end anyway. I try to meet up with them, even if I don’t have anything to say, just to say hello, how are things, any problems. After job is started, I try to step aside. Still, I go to see them once a month maybe, to check it out, or even to play golf.”*

- Respondent T, Thailand 18.11.2003

*“We have spent surely a total amount of time of 2 months, all in all if you count all the time, all the trips we have made there without any business at all. And spent a lot of money on it, driven there, taken them out and to eat. I am in contact with the most important once a month. Singapore is our contact point, but I travel*

*at least half of the time, mostly in Thailand and Malaysia. I spend one week every month in Thailand, time with the local office”*

- Respondent P, Singapore 16.10.2003

*“The fact that you communicate actively, more actively than they would prefer or would need. They are very happy when they get quick response. You have to show your face, not only you but your principals. Some customers become very unhappy if I will not be in contact with them. Even if I don’t call about business.”*

- Respondent A, Malaysia 3.11.2003

*“Our salespeople are in contact with our customers daily. It’s easy since we are here. In Asia it’s the only way, to keep in contact with the customers.”*

- Respondent X, Malaysia 4.11.2003

*“Not every day, but once a week.”*

- Respondent Q, Singapore 14.10.2003

Those firms that have a simple structured relationship do not to the same extent emphasize the need for being often in contact with their partners. These respondents do of course state that maintaining regular contact with their customers is important for the overall relationship, although the need to meet often is less emphasized, especially the need of the respondents to personally meet with their partners. A part of the regular contact they have with partners goes through their local employees.

*“Initially technical people are very important, because the product needs approval of several kinds. When it’s approved, soon after that is the purchasing department.”*

- Respondent K, Singapore 23.10.2003

*“You shouldn’t visit too often. They don’t have time for you if you come all the time. People are a little impatience if you try to approach them too much or often.”*

- Respondent U, Singapore 17.10.2003

*“I can’t, instead it goes through my sales department. They have the contacts. I have contact with them. Of course it is a little bit risky, but you have to trust them, and have contact with them and relationship with them. It’s enough that I have good relationships with them.”*

- Respondent E, Singapore 20.10.2003

*“Sometimes I am in contact, but not so often, not with all of them. I am in contact 2-3 times a year. I don’t want to be in contact too often because I don’t want to take that away from the sales personnel. I only meet the more important customers myself.”*

- Respondent Y, Thailand 17.11.2003

*“But of course I am not visiting all customers all the time. But our staff here gets orders on a daily basis.”*

- Respondent U, Singapore 17.10.2003

*"We also have large area too, so we can't meet every customer every day. Of course the most important customers' senior management, it's them I meet. But there is no large difference to this; you also do it in for instance America."*

- Respondent F, Singapore 21.10.2003

*"Initially technical people are very important, because the product needs approval of several kinds. When it's approved and soon after that is the purchasing department."*

- Respondent K, Singapore 23.10.2003

These respondents representing complex structured relationships also very often talk about the importance of commitment and trust. These respondents all know their partners personally, and they also know individuals at different levels in the partner's organization. Personal characteristics also have a big role in the early phases of the relationship. The significance of social relationship is large, and learning about the partner takes a central role in interaction. The respondents stress the importance of personalizing the company (interface). This means that it is foremost the reputation of the individual that is important. Although the company might have a good record of accomplishments, the company name is secondary to the person. Another implication is that business is done on a personal level though various meetings, often informal meetings such as playing golf and eating together.

*"Then it really goes to the issue of creating trust, depends whether you have time or not how much you can spend time, but you need to do it."*

- Respondent H, Thailand 20.11.2003

*"Exactly that! That is precisely what it is, you said the word. That is really the key word here, in everything. They want commitment, and then it works."*

- Respondent P, Singapore 16.10.2003

*"The verbal contract is contract, the written is just for looks, and it is very loose. A lot of things are based on trust. If you have the trust of top management, you don't need contract."*

- Respondent B, Malaysia 5.11.2003

*"You need to start the personal relationship first. If you are a newcomer, a cultural lesson is advisable. You also need to consider face."*

- Respondent O, Singapore 29.10.2003

*"Social relationships are very important. If you get an invitation to a Chinese home party, then you are in. I want to emphasize the importance of personal contacts. Not the company, if company have good reputation, that is fine, great, but when it comes to the deal, it's still the personal contact. Of course, the company must still be ok, deliver. A person can here establish a company if he is reputable person, he doesn't even need a company, he can do what he wants to."*

- Respondent B, Malaysia 5.11.2003

*“[Company H] had a big project and send a project manager, a half Finn half French, to set up the project and y be a project manager for the project. Project went very well and was very successful, and this manager was very diplomatic person and easy going with everybody, even with highest level. Two three years went and the project started to be ready, and it started operations, and [Company H] started to plan new project with this partner, another plant somewhere else. They took a new person from the Finland and wanted this other guy, and introduced this as the new manager of the project.*

*But the Bamboo owners said that why are you bringing us this new guy, “we have learned to know this guy and we trust him” we don’t know this new guy. [Company H] did not have a choice but had to send this new manager home and continued for 2-3 with the old manager for the new project. So, when you build the relationship, you should not change the guy, and that is the big problem with Scandinavian companies that they change people quite frequently, one or two years. There needs to be continuity.”*

- Respondent H, Thailand 20.11.2003

*“Compared to Finland, of course, social relationships are important everywhere, no doubt at all. In Finland, compared to Asia, generally speaking, the customer supplier relationship is more easy. You can change, and changing is not a big deal. Here, if you have a personal relationship, if you then buy from somebody else, it’s like you break your relationship. Not totally, but in that direction. The social relationship is behind the business, and this is stronger than in Finland”*

- Respondent O, Singapore 29.10.2003

Respondents in firms with complex structured relationships stress the important of trust as a vital component for developing the business relationship. Because the individual has such a central role in this type of relationship, trust will be given to a person. These respondents feel that their local partners have basically no loyalty towards the organization although the local partner might have done business with the firm in the past. If there is a change in personnel in the foreign company, trust is not inherited automatically. However, firms in simple structured relationships consider trust important but not vital. They also believe that record of accomplishment is more important than personal commitment.

*“I stress track record, 30 years in Asia. Make some jokes with them, a little local dialect .They know [company K], I refer to them. I have been here 30 years, there is no reason we can’t make it 30 more. I tell them that”.*

- Respondent Z, Malaysia 6.11.2003

*“Trust is a part. But then you have to also deliver on your promise.”*

- Respondent F, Singapore 21.10.2003

*“Business involves relationships, but relationships have nothing to do with business. Business has to be a product, en philosophy, have to have a policy in your company that you can sell.”*

- Respondent E, Singapore 20.10.2003

*"Nothing really works with relationships. The product and the value offer must be there. It doesn't really help that you have your two best friends there. Your product still has to be what your customer wants and correspond to his expectations."*

- Respondent F, Singapore 21.10.2003

*"Baseline is that you must deliver; you cannot tell anything that you cannot deliver. Then it's all about delivering what you promise, the history."*

- Respondent Y, Thailand 17.11.2003

Although personal contacts are important for firms with simple structured relationships, the firm's sales department and local employees are greatly involved in the interaction. Social interaction has an important function in the early phases of the relationship. Social interaction is not as important after the relationship is established as for complex structured relationship. The key persons do not meet as often, and there is also a feeling that the foreign firms should avoid meeting their partners too often. One explanation is that the Finnish/Swedish firms delegate this task to their local employees. Firms with simple structured relationships are adapting to their local partners way of doing business, and there is a belief that the locals are not adapting to the foreign firm. Learning seems to take place more because the firms do business continuously than as a result of social interaction.

*"You have to. They have a very hard time adapting. They simply don't want to. Therefore you have to adapt, because they want it and therefore you have to do it."*

- Respondent E, Singapore 20.10.2003

*"Less adaptation is required than is believed. One should not trust practical handbooks. They should be removed, they only destroy. Adaptation problems exist if you have inexperienced personnel."*

- Respondent V, Singapore 22.10.2003

*"Mostly it is us adapting, but we now of this in advance so it is no big surprise."*

- Respondent U, Singapore 17.10.2003

*"To me it looks like the westerners are adapting more than Singaporeans."*

- Respondent D, Singapore 16.10.2003

*"To some extent they do it. Not culturally, but operationally. If it takes a month to get paper from Finland, of course they adapt to that. Of course they adapt to some extent. For example when they communicate with me they don't speak their mother tongue."*

- Respondent F, Singapore 21.10.2003

*"Seldom. They don't have the experience or the openness. In Singapore it's a little different, but in the other countries not. They don't know what Sweden is. They don't know what Swedes are. There is only one way – we have to adapt."*

- Respondent E, Singapore 20.10.2003

Another interesting observation is that the respondents of simple structured relationships frequently mention money and price. They mention for instance trust less often, and seldom strongly emphasize the need or importance of trust, or mutual trust. Firms with complex structured relationships, on the other hand, strongly emphasize the importance of trust. One explanation for the simple structured firms' emphasis on price, value and money is possible that customers are more price sensitive because their products and transactions are fairly standardized.

*"We have to listen to the customer all the time, and find out what we can do better. Except lowering the price."*

- Respondent F, Singapore 21.10.2003

*"Yes. Easy to quote kilos and prices."*

- Respondent Y, Thailand 17.11.2003

*"It depends on the market. Singapore wants the best of everything. In Thailand it is the price that is most important."*

- Respondent F, Singapore 21.10.2003

*"It is always the product and the price. In top of this we have the good relationships."*

- Respondent K, Singapore 23.10.2003

*"When dealing with Chinese of course, the main thing is money all the time. Chinese are very interested in making money, generating revenue. That is their basic criteria. That is why they meet you, why everything happens."*

- Respondent D, Singapore 16.10.2003

*"Unfortunately price is often number one. Very short-sighted. They look shortly at everything. Cheapest possible. It's a long process to convince them that there is better economy in the end by making a larger investment now."*

- Respondent Z, Malaysia 6.11.2003

*"What makes me surprised is that it is very much money driven. Money is much more important than for the Finns. We think that all these material things are nice, nice house, toilets, cars, but these people respect more if they get cash. Nice room, nice furniture, it doesn't matter. Maybe some people who think like that, but I think that their first priority is money. Money is the key, money is God."*

- Respondent U, Singapore 17.10.2003

The differences between simple and complex structured relationships are rather clear. Trust, commitment and mutuality are important elements throughout the process in complex structured relationships, while they have less weight in simple structured relationships. Social interaction and learning is key ingredient in complex structured relationships, while firms in simple structured relationship focus on price, quality and being able to deliver on promises. Firms representing both types of relationship emphasize that business is personalized. However, firms with complex structured relationship accentuate



the importance of personal interaction for creating trust and hence, developing trust, while firms with simple structured relationships more stress the personalized way of doing business.

### 8.2.3 High or low leverage relationship

Depending on what kind of leverage a firm has in the market, it will have more or less options when it comes to developing and managing relationships. Firms with strong brand names (strong brand pull) are naturally in a more advantageous position when it comes to dealing with partners than firms with less known brand names. In addition to a strong brand pull, firms with knowledge and technology advantages will also have more advantage in their relationships.

I will not, however, discuss whether a firm chooses or not to take advantage of its high leverage. A firm's motivation for using its leverage will most likely vary from case to case. High leverage is often related to the size of the firm, because a large firm has more resources at its disposal. However, leverage does not always relate to the size of the firm, because other factors, for instance influence and personal networks, can play an important role. Of those firms I have interviewed, the best examples of firms with high leverage are Nokia (telecom) and SKF (bearings and seals) and good examples of firms with low leverages are Technomen (telecom).

A key issue for firms with low leverage is reputation and good relationships. These firms also highly emphasize personal relationships. Because they are rather unknown to the local firms, they need good references and relationships in order to initiate a relationship. Therefore these firms spend a lot of time creating relationships.

*"You need to sell yourself first. If you sell yourself well, it could be that the persons recommend that you meet some of their friends or relatives to meet."*

- Respondent T, Thailand 18.11.2003

*"Social relationships are very important, very important. "In Sweden we are pretty poor at social relationships; we simply work ourselves to death."*

- Respondent C, Singapore 28.10.2003

*"Its very much eating lunch, dinner, singing karaoke, playing golf. Very important. For Finns and Swedes it doesn't sound sensible, but it's important for Chinese."*

- Respondent Z, Malaysia 6.11.2003

*"The personal contact with the customers is important. That is why our guys are much more out with the customers than in Finland. It's not enough that you are in contact with one or two persons at the customer. You must have contact with many persons in their organization at different levels."*

- Respondent X, Malaysia 4.11.2003

*"Serious business relation never start from zero, they always start through recommendations, so if I recommend someone, and I am a trusted friend, I would never recommend someone that is not trusted."*

- Respondent T, Thailand 18.11.2003

*"Person to person contacts are important, no doubt about that."*

- Respondent A, Malaysia 3.11.2003

*"I cannot really say. For instance if I had a Finnish product, like Nokia, the locals will basically come to you. But I don't have such a product and they won't come to me. Some things I will sell as a Finnish product and idea, and in the beginning that had an impact. But we just have to market ourselves really much."*

- Respondent G, Malaysia 5.11.2003

*"It's a measure of commitment how much you spend time with each other, how much material you send, and how much you show that you respect the relationship you have with your customer."*

- Respondent X, Malaysia 4.11.2003

*"You have to be a person expert. It requires motivation, its uphill, but it goes. And you have to work much with them."*

- Respondent I, Malaysia 6.11.2003

Several of the respondents of low leverage relationships stated that "What matter is not what you know, but whom you know". Because personal relationships are important, it means that the relationship evolves around one or two key persons. Change of personnel would have a very negative impact on the business relationship. Meeting regularly face to face is the only way of creating personal commitment, which is essential for low leverage relationships.

*"One way of showing commitment is that you don't change people who meet with locals every two or three years. Being old friends. Continuity in the sense that the same person should continue and maintain the relationship"*

- Respondent T, Thailand 18.11.2003

*"It's trust in a person. Finns often forget this, and have a high turnover with people in their company. Although business stays, people here follow face. It's a great disaster to move people here. Very often it happens that a Mr. Nokia leaves the company and the customers follow him. It's the guy; they could care less about the link to the company."*

- Respondent A, Malaysia 3.11.2003

*"It should be the organization. If it's only me, then it's too superficial. If I disappear then also our customers leave. I don't think its [too frequent changes in leadership] good for relationship building."*

- Respondent C, Singapore 28.10.2003

Firms with high leverage see the relationship as a mutual relationship, where both partners are adapting to each other. These firms also assist their local partners, and help solving their problems. Personal interaction is important, but changing personnel is not believed to be a decisive factor for the relationship. Personal relationships and references are hardly mentioned by the respondents of high leverage relationships. This can be interpreted as local firms seeking out the Finnish/Swedish firms rather than Finnish/Swedish firms seeking out local partners.

When comparing firms with high and low leverage relationships, it is clear that firms with low leverage relationship pay a significant amount of attention to showing commitment and creating personal networks.

*“You have to give your everything. You have to offer the best possible product. On the other hand they are only willing to pay a minimal price.”*

- Respondent G, Malaysia 5.11.2003

*“That you show that you stand behind the customer, and that you want to work with the customer. And that is shown to a large degree on how much people you, so to say, bring with you. When we make a service agreement then we arrange for one guy to sit with the customer daily to deal with these kinds of smaller things. If they don't have anything else to do, they will swipe dust.”*

- Respondent X, Malaysia 4.11.2003

*“Very, very important. They are used to agents who don't stay very long. Very important that they can trust the company.”*

- Respondent Z, Malaysia 6.11.2003

*“The significance of commitment is everything. If you are not committed, they will not be committed, and there is no business.”*

- Respondent D, Singapore 16.10.2003

*Well, it is important. If you loose your trust you can say goodbye to the client and probably to someone else. So, never loose the trust.*

- Respondent A, Malaysia 3.11.2003

Firms with high leverage relationship do not mention commitment as a critical issue for success in business relationships with the ethnic Chinese, and during the interviews these respondents do not mention commitment very often. They are, however, more strongly emphasizing the importance of helping their partners, and working with them to create mutual advantages. Firms with high leverage relationship also indicate that they are not adapting to any large extent to their partners, instead they indicate that partners are adapting to them. Furthermore, firms with high leverage relationship state that personal relationships are important, but that it is not necessary to create extensive personal networks in order to do business.

*“My partners don't interfere today with that I do. Maybe I am lucky that I have a good partner. One hopes that it is my way of doing things that has made them to*

*adapt. I still have my Western mentality when it comes to quality, responsibility for my work, but I have a little of the Thai in this. A combination is perhaps best."*

- Respondent M, Thailand 17.11.2003

*"But the Thai understand that the western need a contract, especially those that have exposure to western companies, so it is not typically difficult to get a contract done."*

- Respondent L, Thailand 18.11.2003

*"I haven't actually seen is as a requirement for success that I have to get into the local social networks. Not in the way that it cannot be handled."*

- Respondent N, Singapore 23.10.2003

Firms with high leverage relationships seem to consider adaptation as an unimportant issue. However, firms with low leverage relationships consider adaptation important. These firms are concerned with adaptation and feel the need to adapting to a large degree to their local partners, as well as learning the personal characteristics of their partners.

*"It is without a doubt we who adapt to the customers. I would say that it is a must here. One has to take the local culture into consideration and do business, so to say, on the customers' terms."*

- Respondent X, Malaysia 4.11.2003

*"They would like to adapt, but they have difficulties doing it. In principle it's correct that the Chinese have difficulties adapting, but there are persons who travel to Europe to do business. But their own food they always seem to want."*

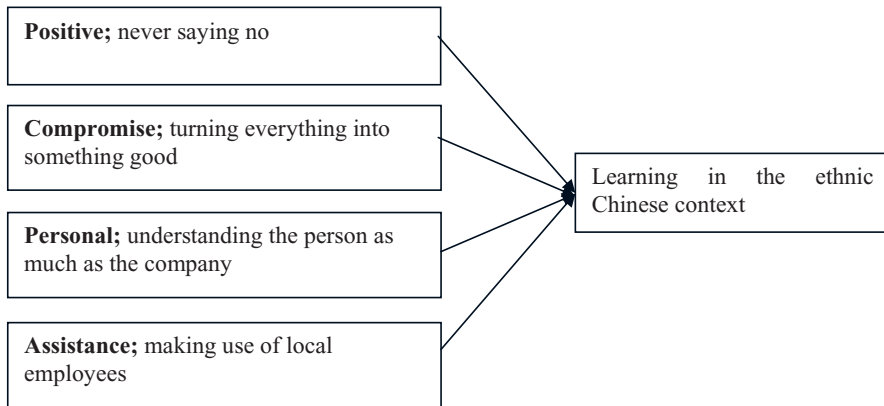
- Respondent I, Malaysia 6.11.2003

*"The Chinese are not inventors, they don't come up with own ideas."*

- Respondent G, Malaysia 5.11.2003

### **8.3 Relationship concepts in the ethnic Chinese context**

Those relationship dimensions that are used in this chapter are well-used concept from the network literature. The concepts are, however, originate from a western perspective, and therefore are not always easily transferred to another context. In this chapter I will take those relationship concepts I have used in this study and re-define them in an ethnic Chinese context.

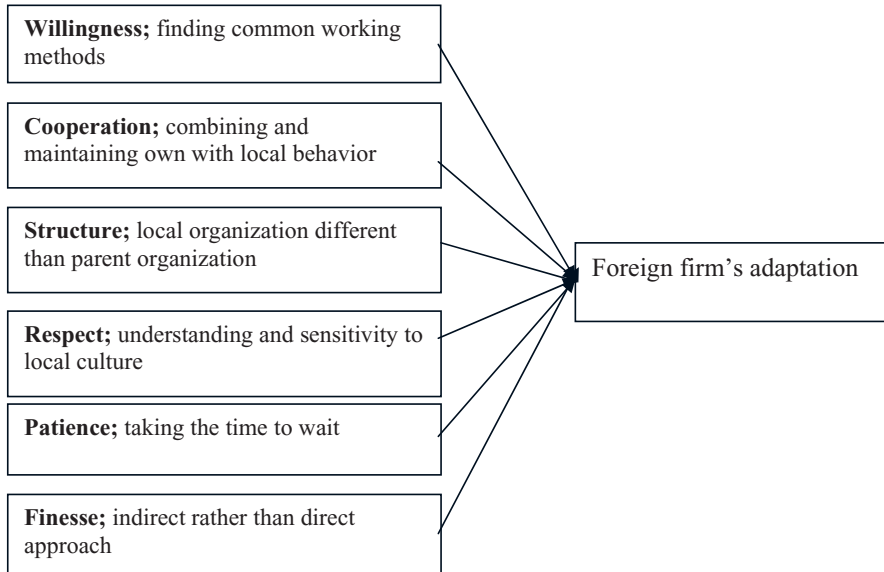
**Learning**

Learning the ethnic Chinese context evolves around learning about the person before learning about the organization. The expectation is that individuals know each other personally before engaging in business activities. A significant challenge is the cultural trait that ethnic Chinese are listeners rather than talkers; ‘you talk, they listen’. Another expectation is that everything should be turned into something good. Ethnic Chinese are known for never saying no, and for always attempting to find solutions that saves or offers face to everyone involved.

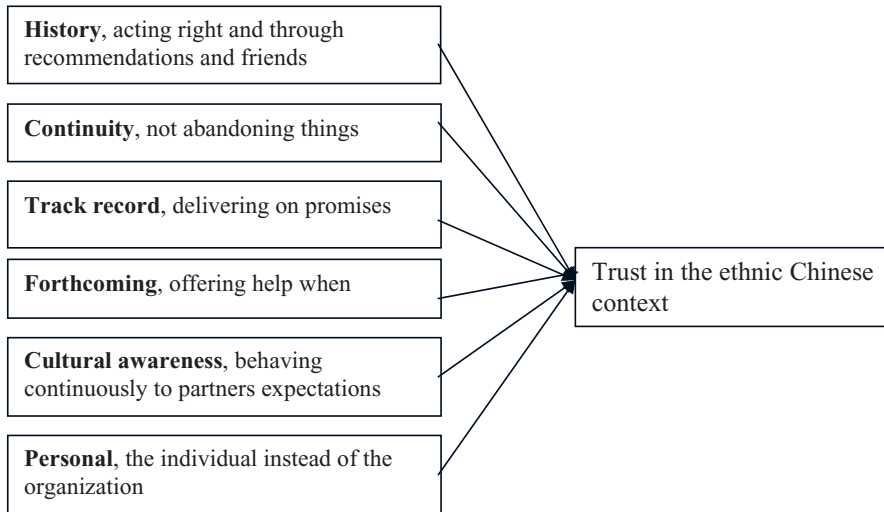
*“There are a hundred ways to say no, but 99 of them will start with yes”*

- Respondent T, Thailand 18.11.2003

Hence, learning means becoming accustomed to the fact that a right and wrong attitude does not exist. Since individuals in the ethnic Chinese culture place a lot of emphasis on behaviour, foreign MNC’s get assistance from local employees when learning about their partner.

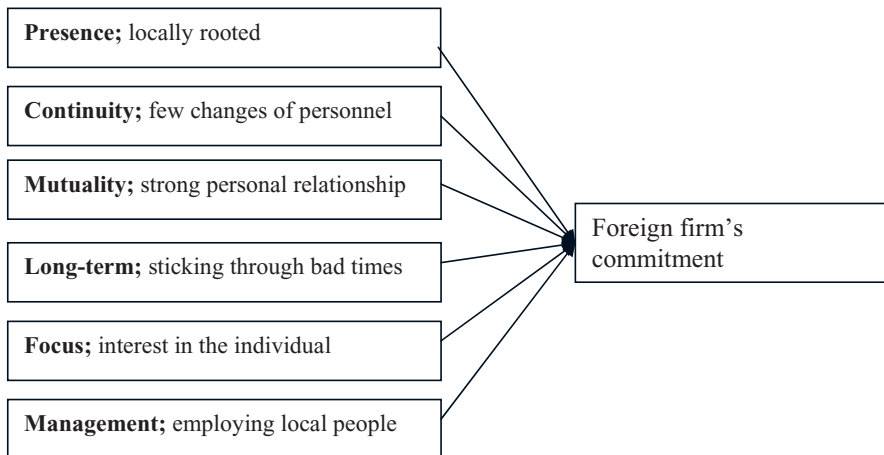
**Adaptation**

The foreign firm's adaptation in the ethnic Chinese context firstly means finding common working methods. This often means adaptations on the operational level, and more rarely on the production/product level. There need to be a willingness to follow the local partner's way of doing business. At the same time the foreign MNC is appreciated for maintaining some of its native behaviour. The MNC's local organization functions differently than its parent. Employees meet with customers more often, the organization is more sensitive towards the needs and behaviour of its partner, and personnel reshufflings are kept to a minimum. Decision-making in the ethnic Chinese context is more time demanding, which requires the MNC to have patience. It is seldom possible to 'push' decisions, and Swedish and Finnish managers need to slowly work at reaching a decision. It is also necessary to approach most issues in an indirect manner, foremost to avoid causing the partner to lose face in case the partner is unable to provide an answer/assistance/information and so on.

**Trust**

Trust in the ethnic Chinese context is not a result of the relationship process; it needs to be established prior to starting the business relationship. When a foreign MNC's intends to initiate a new relationship, it will need to establish trust either through a recommendation from a trusted person, through a friend or friend's friend, or through its track record of accomplishments. Trust is also having a local presence, and continuously showing that the firm is committed for a long time. This also requires that the firm does not 'abandon' its partner even when the short-term economic performance is lacking. If the firm is able to deliver on all its promises over a long period of time it will gain a significant amount of trust.

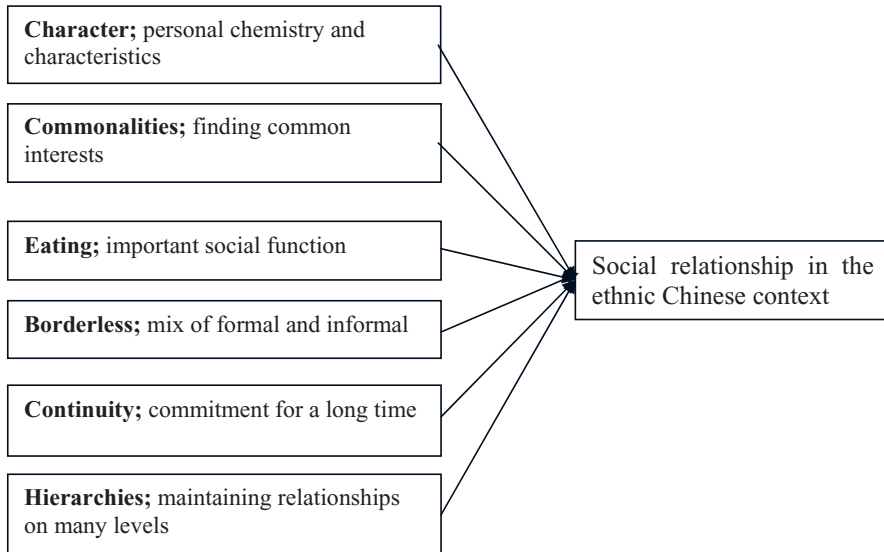
Furthermore, trust in this context is linked to being forthcoming, i.e. being helpful and offering help when help is needed. Since the ethnic Chinese live in a society where emphasis is strongly placed on behaviour, trust exists when the Finnish / Swedish firm is able to behave over a long time in a way that the partner has expected. Thus, a requirement for trust is to understand local businessmen and their values, and to be sensitive to and adopt the local culture. Respect for the elderly is a cornerstone of social relationships. Trust is personal, not organizational; the ethnic Chinese believe that it is the person that creates the organization. For instance if a trusted employee leaves a company, his or her customers are likely to follow the employee to the new organization.

**Commitment**

Finnish and Swedish MNC's commitment in the ethnic Chinese context builds on their local presence. The local partners need to feel that the foreign firm is strongly rooted in the country. Another important building block for commitment is continuity, i.e. that there are as few personnel changes as possible. Continuity also in the sense that the same person should continue and maintain the relationship. A business relationship builds on a strong personal relationship, and therefore personnel change means that the local partner need to invest time and effort in getting to know a new manager personally.

Since Swedish and Finnish managers typically stay only for a certain period of time in the region, local presence becomes even more vital; that the company is there for the long-run, even through bad times. Commitment also means interest in learning about the other individual, in order to build a strong a mutual personal relationship; to become 'old friends'. Commitment is foremost a commitment to people, not to the organization. Furthermore, employing local people and local management also signal strong commitment.



**Social relationship**

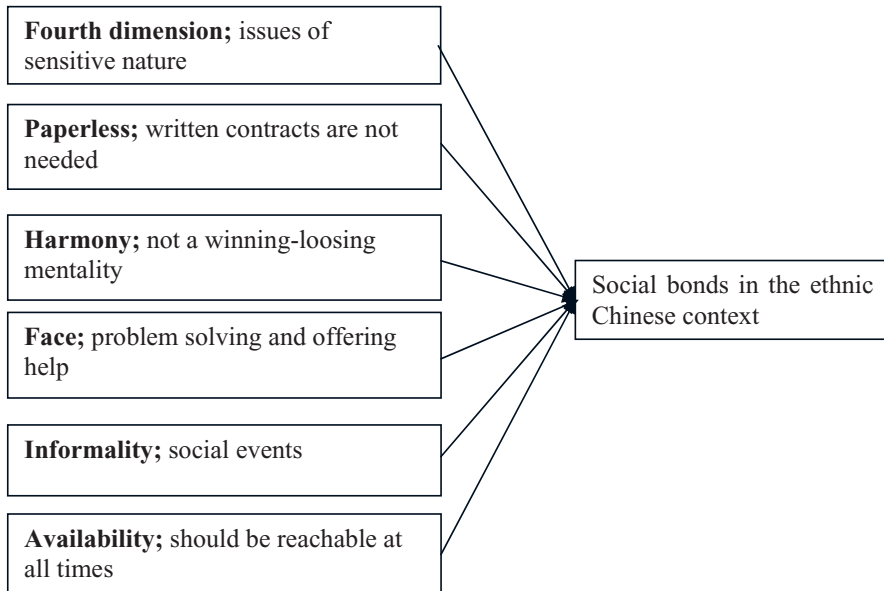
Ethnic Chinese are sensitive for personal characteristics. Human character and personal chemistry have a determining influence on the continuation of the relationship. The personal relationship comes first, and the business relationship builds on a strong and common personal relationship. Finding commonalities and common interests are central elements of social relationships. Social events have a central role on social relationships, and a large spot is reserved for eating.’

*“Eating creates a huge smile on the Singaporeans face.”*

- Respondent Q, Singapore 14.10.2003

Formality and informality mix in social relationships. Business discussions are common during social events, and there is typically no clear distinction between business and social life. Informality is introduced rather quickly in a new relationship. Social relationships are long-term; often they are maintained even after the business relationship has ended. Further, social relationships are maintained to a larger number of persons in the partner’s firm, and the contact base spans several hierarchical levels.

### Social bonds



Social bonds are an enabler for a large part of business transactions. Access to market information is difficult in Southeast Asia. Strong social bonds give access to scarce information. Social bonds enable a ‘fourth dimension’ in the business relationship, allowing the partners to deal with sensitive issues, for instance gift giving. Strong social bonds also mean that written contract are considered merely a ‘piece of paper’; never referred to even if conflicts arise. Harmony and face are central building blocks or social bonds. Ethnic Chinese are not used to a winning-losing mentality. Causing some to loose face destroys enormous amounts of trust and probably ends the business relationship. Social bonds are strengthened through informal social event. In fact, breach of formal rules is seldom serious, but breach of informal rules can have severe consequences. Business is not conducted between individuals that do not get along socially. Strong social bonds indicate that partners should be available at all times, even during weekends and evening.

### 8.4 Contradictions

While going through the roughly 350 pages of transcribed material, I came across some interesting remarks and comments that warrant some enlightenment. Provocatively labelled contradictions, these statements are in fact contradictory, not only because these remarks go against what is normally thought about business in Asia, but also because the respondents are also contradicting each other and sometimes themselves. The contradictions are grouped into three general themes; about being foreign but not being foreign, about having difficulties but not having, about having an advantage but not having.

### 8.4.1 About being foreign but not being foreign

The first theme deals with the issue of being a foreign firm when doing business in Southeast Asia. One respondent said that “if you come to stay in Singapore and do business here, you are no longer an outsider”. Another respondent said that “being a foreigner makes no difference; the critical issue is how a person acts all the time”. A third respondent claimed that he did not see “anything special about the way he as a foreigner meet people and get into networks”. According to him, it is “only human to humans talking”. Other respondents said in similar fashion that they “feels it is quite easy to build relationships with the ethnic Chinese”, and “much easier than for instance with the Malay”.

These kinds of responses are very interesting because they imply that the respondents do not consider it a disadvantage being a foreign firm. They imply “that nationality does not matter”, and that “it all has to do with personality”. This is in contradiction with an overwhelming amount of findings in most literature on cross-cultural business (relationships).

One explanation is of course that these respondents have been working in the region for such a long time that they have become attuned to the local way of doing business. That is why they do not consider it more difficult to conduct business as a foreigner. However, I would also like to bring forward another issue, which may offer an alternative explanation. It is likely that more and more firms in Southeast Asia are accustomed to doing business with foreign firms. Although the Finnish/Swedish businessperson might not realize it, it is likely that the local business people are also changing and adapting their behaviour towards the western way of managing business relationships. Another issue that might have an impact is that quite a number of local business people, especially younger individuals, have a degree from a Western business school. These western educated businesspersons are quite accustomed to manoeuvring and combining the ethnic Chinese and Western way of managing business relationships. This increasing tendency for ‘Westernizing’ business practices is probably because local firms need access to Western expertise, both technical and managerial. They also realize that to grow further they eventually have to move to international markets and are hence, ‘practising their skills’ with their foreign partners.

My final argument that I want to bring forward is that cultural differences might be exaggerated. There are of course differences in behaviour, values, and norms between different countries, but these differences do not prohibit normal communication between people. Instead of talking about cultural differences, one should perhaps talk about branch/industry cultures. In other word, for instance the paper and pulp industry has its set of norms, values and ways of doing business that are unique to the industry. Other branches/industries have other codes of business conduct.

It is entirely possible that specific industry values, norms, and codes of conduct are alike everywhere in the world. Consequently, any internationally active firm will be sensitized to its specific industry culture and will start behaving like the other firms in that industry. This might explain why some of the respondents said that it did not matter where they develop relationships; the building blocks are the same. This would also explain why the same

respondents claimed that it is as simple to develop a relationship in Southeast Asia as in for instance the United States. My underlying argument is that if a businessperson is able to adapt to his specific industry culture, he or she is able to manage business relationships virtually everywhere in the world.

*“We are too much cultural oriented. But what I am saying is that even if there are cultural differences, they are not preventing normal communication.”*

- Respondent U, Singapore 17.10.2003

#### **8.4.2 About having difficulties as a foreigner but not having**

The second theme relates to the challenges, or perceived difficulties in doing business in a foreign context. The popular dogma is that developing and managing relationships is more difficult in a foreign context than in a home context. The wealth of literature about doing business in foreign cultures is further proof of this prescribed doctrine – surely there would be no interest for cross-cultural research if conditions were similar everywhere.

But some of the respondents seem have another opinion. Their comments were so contradictory that they virtually challenged me to address this issue. Why are these respondents stating that business relationships are easier to manage in a foreign context than in their home contexts?

The following two citations will represent the collection of contradictory comments I received about developing and managing relationships in foreign contexts.

*“Finland and Scandinavia are very complicated in decision-making. There have to be all kinds of discussions all the time and all kinds of complications in the way. Everything from what the law says about this, what the company travelling policy is about, if there is any mandate that is important from our side, how that is in regard to company policy in general and how that would affect their workers, and so on. Sometimes things are very complicated, where you end up being in a total standstill. I have my limits where I can go and the other side is not moving anywhere, because of this endless list of complications such as if we do this we cant do that, and if we can do this then we certainly we cant do that.*

*So, actually, promoting business is for us easier with the local ones than with the Finns and Finnish companies.”*

- Respondent D, Singapore 16.10.2003

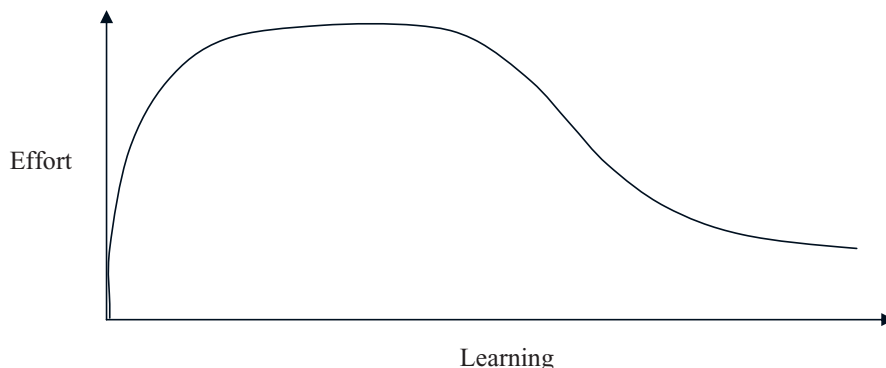
*“When I go to Finland, people are teaching me all the time. People here do not teach you. Behaviour is much more smooth here.”*

- Respondent K, Singapore 23.10.2003

I have been able to establish that Finnish and Swedish managers regard a) ethnic Chinese organizational structure very hierarchical, b) their hierarchies' time consuming to navigate, and c) decision-making slow. They also state that d) it takes time and effort finding persons who can make decisions, and f) that the local management-style causes some problems

since middle management is virtually non-existent. The respondents claim that this multitude of difficulties makes relationship management problematic and challenging in the ethnic Chinese context. However, at the same time the respondents claim that 1) business is actually easier with the ethnic Chinese than with Finnish/Swedish, 2) that they feel it is prestigious to be a foreign firm, 3) that they receive better treatment from local firms than the local firms would treat other local firms, 4) that mistakes are more easily forgiven, 5) that there is fundamentally no difference in business behaviour between Chinese and Finnish/Swedish firms, and 6) that some respondents do not even change their business behaviour much. The respondents claim that this multitude of advantages makes relationship management easier in the ethnic Chinese context.

There are two plausible and related explanations for this contradiction; learning curve and institutional structures. First; learning does not occur linearly. Resistance to learning is strongest in the beginning, and decreases over time. The learning curve is very steep in the beginning of a relationship, especially for firms with little experience from relationship management in this context. Learning requires initially a lot of effort, and although a lot of effort is made, little learning takes place. The businessmen feel that the ethnic Chinese context is very different, and there are many things that they are not used to.



**Figure 16 Learning curve for firms that start developing a relationship with ethnic Chinese firms (Own)**

Gradually learning becomes easier and it takes considerably less effort to develop and maintain the relationship. As Finnish / Swedish businessmen become more accustomed to the ethnic Chinese context, learning also becomes subconscious and automatic.

Second; institutional structures are looser. When a Finnish/Swedish firm start learning more and becoming more acquainted with relationships management in the ethnic Chinese context, they start realizing that some institutional structures in this context are much looser than in their home contexts. In short, the Finnish and Swedish managers feel that there are more possibilities, less restrictions, more options and more room to manoeuvre.

*“If a person comes from Finland, someone always has to be right, and someone has to be wrong, and they have to find someone that is guilty. That is the Lutheran thing. That is what they are NOT doing here.”*

- Respondent B, Malaysia 5.11.2003

There are several institutional factors making the business climate, and I will briefly mention some of the more contributing factor. First; in the ethnic Chinese context people dislike written and formal contracts. Although this can be very difficult at first for Finnish/Swedish firms, once they learn to work with it, they typically realize that this lack of written contracts often provides more room to manoeuvre and negotiate. If conflicts or problems occur, local firms never refer to or enforce written contracts. Conflicts are dealt with person-to-person and with an open-minded spirit.

*“There is a will to solve a problem in every possible way. Over here there are surely 10 ways to solve a problem, while in Sweden there is only one. Here you maybe not solve the problem in a good way, but you try to solve it. If it isn’t solved well, then you solve when it appears again.”*

- Respondent J, Thailand 20.11.2003

Second; the government influences the business climate to a high degree. The governments in this region have adopted carrot and stick methods for promoting economic development. If foreign firms are willing to locate in this region, they are likely to gain access to various government benefits, such as lower taxes, investment incentives, and so on. The governments often have a pragmatic approach to business life, and there are often as many exceptions as rules in business life. The legal system is closely linked to the government. The legal system is person oriented and legal institutions are often poorly developed. Hence, it is common that rules and regulations are not followed completely according to the letter of the law.

Third; education and training is becoming more important. An increasing number of young people are well educated and many have received business education abroad. Although Finnish/Swedish firms might first believe that there is a large knowledge and experience rift between them and their partners, this rift is getting smaller; and fast. Western educated ethnic Chinese have similar (or even the same) education, background and experiences as many of the Finnish and Swedish businessmen. Therefore they discover that they have a common platform to build on and also a common (business) language that they can use.

### **8.4.3 About having an advantage but not having an advantage**

The final theme concerns how the respondents on one hand claim that nationality (Finnish/Swedish specifically) is an advantage, while on the other hand claiming that nationality does not matter; it is personal characteristics that matter. I have previously shown that the respondents feel that it is an advantage coming from the Finnish/Swedish context when developing relationship with the ethnic Chinese<sup>22</sup>.

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<sup>22</sup> See chapter 5.8.1 for more information.

The respondents feel that being Finnish/Swedish is more advantageous than for instance being American, German or British. The respondents are able to list several cultural characteristics that are appreciated by the ethnic Chinese, for instance sense of right and wrong, openness, trustworthiness, directness, etc. In the first sentence their message is, briefly summarized, that Finnishness / Swedishness is what gives them an advantage over other nationalities.

In the next sentence, however, the respondents stress that their ability to portray professionalism and integrity gives them the advantage. Their companies are not known as 'Finnish or Swedish companies', rather organizations that keep their promises, are good partners, and deliver what has been agreed. Their local presence and focus on continuity has guaranteed them strong and close relationships. Since the local firms do not have knowledge about Finland and Sweden, and even less knowledge about Finnish and Swedish cultural traits, it is personal characteristics that matter most. A plausible explanation to this contradiction is that although many local firms do not have knowledge about Finland or Sweden, there are still cultural characteristics that fit very well with the ethnic Chinese. Although the respondents are not perhaps consciously pressing the issue of nationality, culture still influences their behaviour and hence, also the way their local perceive them<sup>23</sup>.

### 8.5 Revised theoretical framework

The building blocks of my theoretical framework were discussed in chapter 2. I developed the framework to guide data collection and analysis. The framework was also relevant for answering my main research problem. However, during data collection and especially data analysis some thoughts and ideas slowly developed which caused me to turn my attention back to my original framework. In light of some interesting findings, I have revised the theoretical framework to more closely resemble my new insight into relationship processes between firms from different institutional contexts.

Originally I considered the institutional environment of the firm as mainly consisting of proximate and distant institutions. These correspond to Whitley's business systems framework. In my revised theoretical framework I see the institutional environment in more specific terms. The environment consists of three pillars of institutions (Scott, 2001). These pillars form a continuum moving from the conscious to the unconscious, from the legally enforced to the taken for granted (Scott, 2001). Drawing on work by Whitley (1991, 1992a, 1992b, 1999), Scott (2001) and Jansson (2005), Kostova (2002) as well as empirical findings, I have been able to develop the framework so that industrial networks are treated as business systems. This allows a comparison of industrial networks, and highlights the important consideration that firms from different network systems address various relationship dimensions in different ways.

The cognitive pillars can be understood as the society's underlying (unconscious) thought patterns, and the cognitive structures are highly resilient to change. The normative pillar

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<sup>23</sup> See chapter 5.1 for further information about Finnish / Swedish cultural characteristics

exists on a more conscious level and provides individuals with normative rules telling them what actions are acceptable or not (Scott, 2001). The regulative pillar is the most conscious and visible, and it can be identified through various informal or formal codes of conduct. All three pillars are relevant when studying firms in various contexts. Cognitive structures typically evolve with the development of society as a whole, and are highly resilient to change, and firms can only adapt to current cognitive structures. The influence is one-way, i.e. cognitive structures influence firm behaviour and structures, but firms are not able to influence cognitive structures. Normative structures are less resilient to change. Still it is unlikely that a single firm is able to change normative structures in a society, although a group of firms may already influence these structures. For instance business practices in a country will be influenced by foreign firms as these begin conducting business in the country. The larger the foreign firm, the more it, or a group of firms, is able to influence institutions. Regulative structures are least resilient to change. It is entirely possible that, for instance, a single influential foreign MNC is able to force changes to current legislation in a country.

A major characteristic of institutions is that they govern relationships between organizations as well as between individuals and groups. Relationships between these actors can be defined as networks, and from an institutional perspective this implies that institutions influence network structures. That in turn means that the MNC and its networks actors are influenced by various organizational fields surrounding these networks, for example systems of property rights and other legal rules such as judicial and penalty systems. Other examples of institutional complexes of importance are family, clan, religion, culture, political system, trade unions, the government (through for instance local laws and regulations), business associations, business mores and conventions, and so on. All these institutional structures will have an impact on what goes on inside a network.

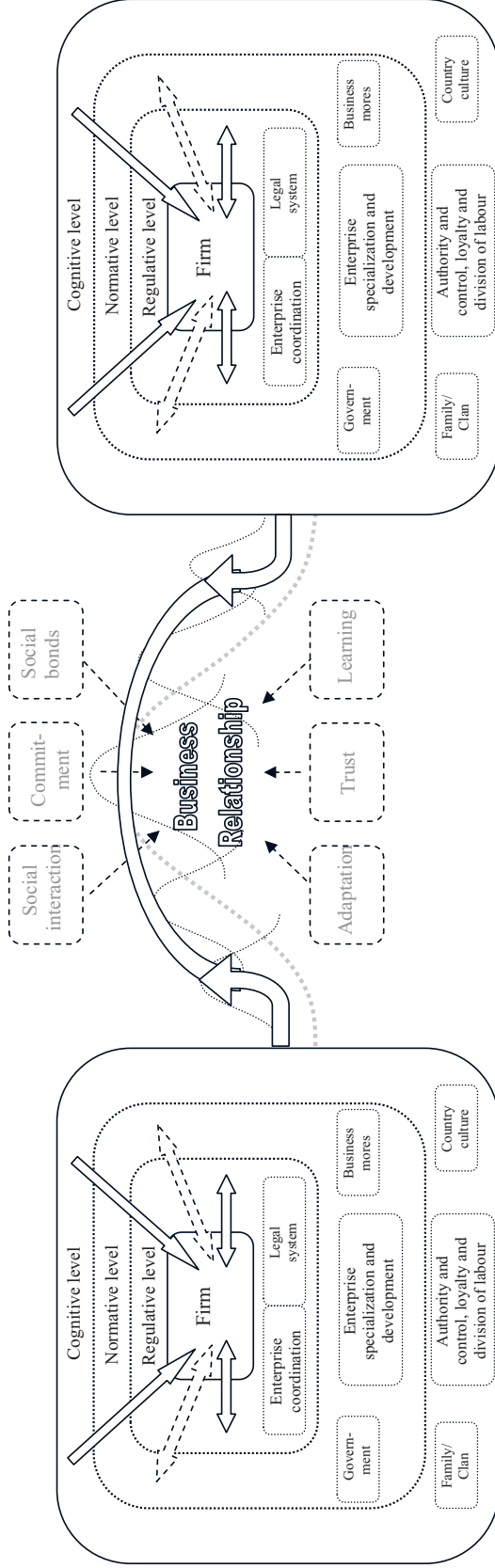
A firm's relationship behaviour is reflected by its home institutional environment. Firms develop specific behaviour in order to gain environmental support, i.e. gain legitimacy. As the firm enters a new institutional environment, it has little knowledge about actors, resources and activities in various networks in this environment. Its relationship behaviour might therefore not match this new institutional environment. Hence the performance of the firm in foreign institutional contexts depends on how well the firm is able to identify various institutional structures, and how well it is able to gain environmental support. When firms move away from their home institutional context, they are in the habitual phase of their relationship, meaning that the firm's behaviour and structures are institutionalized to its specific home context. The larger the institutional distance between two contexts, the likelier it is that the native and foreign firms' institutional relationship behaviour is not going to match. More or less behavioural change is going to be required by either, or both, firms.

Differences between institutional contexts will take shape inside the relationship as the native and foreign firms start developing their relationship. The firms will address various relationship dimensions in different ways. Depending on specific institutional context, various institutions and relationship dimensions are selected in order to study the relationship process. Studying the institutional environment of a firm is useful for two reasons. First, by studying the institutional environment of firms in emerging markets, it is



possible to gain an understanding for why social relationships are important in business relationship in emerging markets. Second, studying the institutional environment will also provide clues regarding what relationship dimensions to include in a study in a relationship between firms from two specific contexts.

Without taking a position on matters pertaining the dynamics between various relationship concepts and dimensions (for instance social interaction developing trust leading to commitment, etc.) the framework focuses on how differences between network systems take shape and how firms manage these differences. When firms' develop relationships they work with various relationship dimensions. These dimensions influence the way the relationship develops. Since firms are influenced by their home institutional characteristics, different firms will address relationship dimensions in different ways. Over time the firm will increase its understanding and knowledge of how to best approach such dimensions as trust, information sharing, social bonds, adaptation and commitment in order to successfully develop business relationships with firms from unfamiliar institutional contexts. The framework further emphasizes that institutions influence firms continuously; it is not a one-time process. Relationships are also seen as a life cycle, during which several phases occur. The initial framework identified relationship processes as a step-by-step process.



Finnish / Swedish network system

Ethnic Chinese network system

## 8.6 Summary

Chapter eight compiles empirical findings from previous chapters, in order to highlight some important and interesting findings. The first major finding concerns the relationship process of Finnish and Swedish firms in the ethnic Chinese context. The conclusion is that the relationship process is a mix between Finnish / Swedish and ethnic Chinese. Furthermore, the relationship is not seen in terms of steps or stages, rather, as a cycle consisting of various phases of activities. There is an increased frequency of specific activities during each phase, although activities occurring in one phase also occur in other phases. The second finding concerned different types of relationships. The conclusion is that firms with different types of relationship relate to relationship dimensions in different ways. However, this does not suggest that one type or relationship is more or less successful than the other. The conclusion is that they behave differently depending on the type of relationship.

A third major finding deals with institutional pressures towards conformity. The conclusion is that Finnish / Swedish firms are to some extent shielded from pressures towards conformity. They are not expected to be aware of all local behavioural expectations, but they are, nevertheless, sensitive to the local context, and adhere to local norms, values, regulations and so on. A fourth major finding deals with contradictions in respondents' statements. These contradictions are categorized and further explored. The conclusion is that most of the contradictions can be traced to the amount of time respondents have spent in the region. The last two major findings present a redefinition of relationship concepts in the ethnic Chinese context, as well as a revised theoretical framework.

This finding indicates that there is limited support for proposition two as stated in chapter one. Proposition two suggests that Finnish and Swedish firms will behave in the same way as local firms in the ethnic Chinese context. The proposition is based on the notion that special institutional characteristics in the ethnic Chinese context, foremost a need to maintain legitimacy, would impose pressures on Finnish / Swedish corporate behaviour. The proposition was also based on the notion that relationship not only develops as a result of acts and counteracts, but also as a consequence of individuals behaving according to expectations.

As has been shown in this chapter, there is also some, but not conclusive support for proposition four, i.e. that the Finnish / Swedish relationship behaviour will not fit in the ethnic Chinese context. The Finnish / Swedish relationship model as such is different from the ethnic Chinese model in several aspects. But many of these differences relate to timing, i.e. that specific activities occur at different phases of the relationship, and are emphasized differently. As was shown in chapter seven, Finnish and Swedish firms are able to identify familiar relationship dimensions, although the mechanisms are different. Furthermore, since mutual adaptation takes place, resulting in a mixed relationship process, it shows that both the Finnish / Swedish and ethnic Chinese relationship behaviour is flexible enough to mix together.

## 9. Summary and concluding discussion

In the first section of this chapter I will elaborate on my four propositions, which I formulated in chapter one. Chapter 9.1 serves two inter-related purposes. I will lead a discussion related to the research propositions, and since the propositions are a part of the overall structure of the thesis, the discussion related to the propositions also serves as a summary of the main findings and areas of interest. The chapter also highlights two main themes that occur throughout the empirical study, namely hierarchies and long-term perspective. Chapter 9.1 ends with a discussion related to my research questions and overall research problem.

### 9.1 Managing business relationships in a foreign context

In this chapter I will address the propositions that I presented in the first chapter. I will address each proposition and conduct a discussion around each proposition. Since these four proposition draws on findings from each major chapter, the discussion in this chapter also servers as the summary for this thesis. The first two propositions in chapter one focused on institutional aspects, and the two latter on relationship aspects of cross-institutional relationships.

**Proposition 1:** Since Finnish and Swedish firms are from a predominantly inter-organizational context and Southeast Asian firms from an inter-personal context, they will have different relationship behaviour and also approach relationships in different ways. Because they are from different network contexts, Finnish and Swedish firms will have major challenges managing a relationship in the ethnic Chinese context.

Findings throughout this thesis does not provide support in favour of proposition one. There are still a lot of templates and clichés about business in Asia. Everyone from government officials, to academics to practitioners have various pre-understandings of business relationship in Asia. Much of this pre-understanding circles around the idea that business in Asia is very difficult, especially among those that have no personal experience of the Asian market. And understandably so, because my interpretation is that a lot of literature on Asian business is rather problem focused. Business issues are approached with the pre-conception of differences and difficulties, and hence a lot of literature is focused on ‘solving problems’, some of which may not actually exist in the first place. My conclusion is that business in Asia is not more difficult than in other emerging markets. The geographical distance is probably not the main reason why the ethnic Chinese context feels so foreign. The distance between Japan and Southeast Asia is almost identical to the distance between Finland / Sweden and Southeast Asia, or equal to the distance between Finland / Sweden and Chicago. I believe Asian markets feel different and difficult mainly because of mental distance between the Finnish / Swedish and ethnic Chinese context. If there was as much attention (for instance media coverage) on Asia as on Russia, this distance would be far smaller. My findings clearly indicate that business relationship in the Finnish / Swedish and ethnic Chinese context are not as difficult as is popularly believed. The situation was most likely different ten or more years ago, but the economic crisis that swept through Asia in the late 90s has brought along changes. Also, as more foreign firms

locate to Asia, more local firms become acquainted with western business practices. The same relationship principles apply in Asia; it is just the mechanisms that are different. It is perhaps time to see past previous templates or clichés.

Although the Finnish and Swedish firms originate from a predominantly inter-organizational context, personal relationships have an important function in their home context. The perceived difference to the ethnic Chinese context is that the intensity of and emphasis on personal relationships is higher. Finnish and Swedish managers spend more time socializing with their partners in the ethnic Chinese context. They are also more sensitive to personal characteristics. The Finnish and Swedish managers are also careful not to cause their partners to lose face.

The importance of face and emphasis on personal relationships has some consequences for operational aspect of business relationships. The ethnic Chinese decision making style is slow and cumbersome, but the Finnish / Swedish firms are not able to force or speed up decisions; they would risk causing their partner to lose face by forcing decisions. Ethnic Chinese decision-making is characterized by spontaneity, intuition and seeming a lack of planning. It does not mean that the ethnic Chinese don't engage in any planning, but their plans are not obvious or always visible to the Finnish / Swedish firms. A degree of adaptation is required in order to combine Finnish / Swedish and ethnic Chinese decision-making styles. For example, an ethnic Chinese firm may require an offer within a couple of days, but may take several weeks or even months to reply with an order or inquiry. Being prompt with offers and answer indicates to ethnic Chinese firm helpfulness, willingness to assist and therefore trust increases between the firms. Despite advances in IT technology, decisions are still made face-to-face. Matters can be worked out over telephone or Internet, but the final deals are made face-to-face.

The institutional distance between the Finnish / Swedish and ethnic Chinese context was established in chapter five. A comparison of these two systems shows that the distance is high. However, Finnish and Swedish firms do not come across overwhelmingly large problems when managing business relationships in the ethnic Chinese context. One explanation is that there might be distinctive features in the Finnish / Swedish context that fit well in the ethnic Chinese context, for instance a rigid sense of honesty, modesty, and trustworthiness, as well as high education and strong legal structures. Another possible explanation is that Finnish and Swedish firms come from small markets, and have been forced at an early stage to internationalize, and therefore they are experienced in managing relationship in foreign contexts. Furthermore, since these countries are small, ethnic Chinese typically know little about them. This in turn means that Finnish and Swedish firms start with a neutral image. Despite being small countries, some firms have become global leaders in their fields. Such achievements are admired in the ethnic Chinese context. These institutional features in combination with the respondents' genuine willingness to work in the ethnic Chinese context make the transition from one context to another less difficult.

**Proposition 2:** Because of specific institutional characteristics in the ethnic Chinese context, Finnish and Swedish firms will comply with institutional pressures imposed on corporate behaviour by rules, regulations, values and norms, and behave in the same way as local firms.

Although Finnish and Swedish firms are adapting to the ethnic Chinese way of doing business, there is no direct support in favour of proposition two. On the contrary, Finnish and Swedish firms are at time appreciated because they behave differently. One important observation is that the relationship process between Finnish / Swedish and ethnic Chinese firms is a mixed relationship process, dissimilar from either firm's native processes. Another important observation is that many of the Finnish and Swedish managers do not regard the ethnic Chinese institutional context as less developed. A common view is that the ethnic Chinese context is 'loose' rather than 'under-developed'. Finnish and Swedish firms for instance feel that there are more possibilities and options in the ethnic Chinese context than in their home context. The business climate is more 'straight forward' in the sense that business men are more open about the issues of making money. To create wealth and to openly portrait wealth is accepted behaviour in the ethnic Chinese context. Equality is desirable in the Finnish and Swedish context, and firms are expected to contribute to the overall welfare of society. Hence, Finnish and Swedish firms are in a sense more able to make money, be profitable and use profits for own purposes in the ethnic Chinese context. Although it takes a lot of initial effort of learn to understand the ethnic Chinese institutional structures, once the firms become familiar with the institutional profile, they find it easier to promote business than in their home environments. Firms typically need to adapt less than they anticipated and what is commonly believed.

Mutuality is often stressed in relationships between Finnish / Swedish and ethnic Chinese firms. The atmosphere of the relationship is one of flexibility, possibilities and compromising. The Finnish and Swedish firms are adapting to institutional structures in the ethnic Chinese context, although they are maintaining a level of 'Finnishness / Swedishness'. Furthermore, the findings show that Finnish and Swedish firms are not expected to comply with all rules and regulations, norms and values of the ethnic Chinese context. They are also at times appreciated for and expected to show foreign behaviour. This is in line with Kosovo's (2002) findings, suggesting that foreign firms to some extent are buffered from local institutional pressures. Nevertheless, the Finnish and Swedish firms comply with cognitive structures, and adapt their behaviour accordingly. At times, however, and depending on the type of relationship, the Finnish / Swedish firms require their partners to adapt to them. Firms that have independent and high leverage relationship are in a position where they can influence the relationship to a high degree.

Maintaining a good reputation is critically important in the ethnic Chinese context because the society as a whole has a network structure. Loosing the support of even one local firm in such a networked society might have severe consequences for the continuing existence of the firm in the market. Ethnic Chinese firms are unlikely to take another firm to court. Instead violations can lead to the banishment from society as a whole. Becoming blacklisted is far worse than beings sued since the entire network will refrain from doing business with the guilty party. Such considerations usually outweigh the need for disregarding institutional norms and values.

**Proposition 3:** Because of differences in institutional contexts and structures, the nature of business relationships is different in ethnic Chinese context compared to the Finnish / Swedish context. This means that the Finnish / Swedish firms are unable to identify familiar relationship dimensions and aspects in the ethnic Chinese context.

There are no findings in support of proposition three. Although proposition one and two are supported to some extent and under certain conditions, proposition three is clearly not supported. A characteristic of emerging markets is that they are undergoing change. This market change is also a part of a general reformation of the whole society. In the emerging markets there is a shift taking place, where relationships of business networks are changing from being mainly personal to impersonal. There is also a shift from price to quality orientation. The consequence of such shift is of course that business practices in emerging markets are becoming more similar to practices in western markets. Because of this westernization Finnish and Swedish firms are able to identify familiar structures in these markets, and relationship dimensions are becoming more similar as well. One reason is that ethnic Chinese businessmen are increasingly sending their children to Western educational institutions to receive business education. As they return to their home environments, they are well familiar with western business practices and structures. Finnish and Swedish firms realize that the same relationship dimensions apply in relationships with ethnic Chinese although the mechanisms are different.

These mechanisms are still different to such extent that learning is required by the Finnish and Swedish firms. If Finnish and Swedish firms are only travelling occasionally to the region, it will be very difficult for them to learn these mechanisms. It will also be difficult to gain the local firms' trust. Since local firms are known for not actively looking for new partners, it will be difficult to get noticed if only visiting the region occasionally. One year or less time is typically not enough to gain the trust of local partners, and hence continuity and maintaining the same persons in the region is initially very crucial. The ethnic Chinese believe that an organization is created by the individual. Therefore social interaction makes the relationship evolve. Because this inter-relatedness of business and social relationship, social relationships are maintained even though partners have no business transactions.

**Proposition 4:** Shaped by different institutional influences, ethnic Chinese business networks function differently compared to Finnish / Swedish. Because networks differ and because different logic applies to relationship processes the Finnish / Swedish firms' relationship and network behaviour will not fit in the ethnic Chinese network context.

A fundamental difference in business behaviour between Finnish / Swedish and ethnic Chinese firms is that Finnish / Swedish firms are achievement oriented, while ethnic Chinese firms are face oriented. All aspects of ethnic Chinese business behaviour are guided by the principles of face. Face is mutual; what is received has to be returned. Furthermore, friendship and interpersonal relationship are highlighted in business relationship between ethnic Chinese firms. Hence business relationships are based on personal trust and obligation. Since interpersonal trustworthiness is of utmost importance, Chinese businessmen usually only deal with those with whom they are familiar. Another fundamental difference is that western firms embrace the notion of competition, even

between individuals. The ethnic Chinese focuses on conflict free, group based system of social relationships.

Finnish and Swedish firms have adapted their behaviour to the ethnic Chinese behaviour. Business relationships are founded on a strong personal relationship, and the managers more indirectly approach various issues in the relationship. The Finnish and Swedish firms emphasize that it is foremost the individual rather than the organization that is committed to the relationship. In addition to differences in decision-making style and management style, business planning is also different between Finnish / Swedish and ethnic Chinese firms. Many ethnic Chinese firms do not engage in western-style business planning. Ethnic Chinese firms' planning is incremental, i.e. a series of short-term plans are guided by a set of business principles and long-term vision. Ethnic Chinese firms decision making proceeds from concrete situations rather than abstract models, and they rely on personal interface and commitment rather than formal systems and written rules.

The overall observation of the Finnish / Swedish relationship process in the ethnic Chinese context is that it is different from the process in their home context. On the other hand, Finnish and Swedish firms are not either adopting a 'pure' ethnic Chinese relationship process, instead there is a mix of relationship behaviour. Hence, a re-institutionalisation takes place when Finnish/Swedish and ethnic Chinese firms develop relationships with each other. Neither firm are following their typical way of building relationships. Although Finnish/Swedish firms are changing their behaviour to a larger extent than ethnic Chinese firms, both are adapting to each other and behaving in a manner, which they would not do with firm from their own institutional context. Hence, the conclusion is that there is no support for proposition four.

### 9.1.1 Recurring themes

There are two themes that occur throughout the interviews with the respondents. Firstly, hierarchy emerges frequently as a topic and turns up as an underlying factor of many relationship dimensions. First of all, the ethnic Chinese firm is hierarchical, and there are many hierarchical layers/levels in the ethnic Chinese organisation. The decision-making approach is top-down, which means that lower level managers usually don't participate in the decision-making process. Even the smallest decisions are directed up in the hierarchy. Such an approach involves the risk that problems get distorted before they reach someone with the authority to make decisions. Since positions in family firms are not handed out based on competence, a set of challenges is that it is not always obvious who is in a decision-making position. Often many of the family members have different positions in the organization, but organizational charts rarely reveal who the real decision-makers are. Individuals that seemingly have little or no formal position might turn out to be persons with great influence.

Another consequence of the hierarchical system is that Finnish / Swedish firms communicate with many more levels in the partners' organisation than they would prefer or do in their home context. However, ethnic Chinese top managers expect to meet with top managers in the Finnish / Swedish firms, and they are not comfortable with the less



hierarchical structure of Finnish / Swedish firms. Therefore social interaction / events primarily take place between top management or the owners. On the other hand, the Finnish / Swedish firms also need to maintain social interaction with lower level managers, since top managers or owner might not have a good insight into daily operations.

Another recurring theme is time. The ethnic Chinese system is long-term focused. Maintaining a long-term perspective is critical for Finnish / Swedish firms in the ethnic Chinese context. Learning to navigate the hierarchical organisation of their partners takes time. Too frequent change of personnel can have a detrimental effect on the relationship. There is an expectation by the ethnic Chinese that the same person should maintain the relationship for a long time. Changing personnel too often would also make it difficult for the ethnic Chinese to be spontaneous and intuitive, since they will maintain a mental distance to new contacts.

The ethnic Chinese fear that foreign firm might suddenly end the relationship and leave the region. Such fear can prohibit development of for instance commitment and trust. Overcoming such prejudice is accomplished by showing a track record of commitment and convincing partners about commitment to the region in the future. At times it may be required to postpone short-term financial goals in order to maintain long-term commitment. Firms that leave due to a lack of short-term economic performance are likely to find it very difficult to earn back trust. They are also likely to get a bad reputation throughout their partner's extensive relationship network. The Chinese firms are said to have a long memory when it comes to such incidents. Hence, relationship endurance is important.

A long-term perspective is also important concerning many of the relationship dimensions. Although long-term perspective has been identified as important in previous studies, this study reaffirms that a long-term perspective is still relevant when developing relationships in the ethnic Chinese context, even though the ethnic Chinese firms are adopting more western style business practices. A long-term perspective is essential for creating trust, navigating the hierarchical structure of local firms, learning about the partner and for establishing commitment, as well as for continuity in social relationships, not abandoning things, and behaving over a long period according to the expectations of the partner.

## **9.2 The study in a nutshell**

In addition to stating four propositions, I also formed four research questions in order to approach my empirical material. The first research question concerned a theoretical / conceptual framework, targeting issues on comparing different contexts. In chapter four I am developing a framework for comparing networks from different institutional context. I am also developing an institutional network profile for both contexts in this study, thus highlighting important and interesting aspects in each context. Through an analysis of the institutional distance between the Finnish / Swedish and ethnic Chinese context, I conclude in chapter five that the distance between these contexts is high.

Based on findings in chapter five, and a theoretical discussion in chapter six, I am identifying six relationship dimensions, which are under investigation in chapter seven. This part of the thesis is related to research questions two and attempt to shed light on how

Finnish and Swedish firms manage various relationship dimensions in the ethnic Chinese context. Each relationship dimension is investigated in detail, providing insight into how Finnish and Swedish firms manage these relationship dimensions. Findings in this chapter support a discussion relating to foremost proposition one and three. Findings in chapter five are also used in order to provide explanation and understanding for specific types of behaviour.

In chapter eight I am presenting a mixed relationship model, and based on this model I am outlining how the relationship process looks like for Finnish and Swedish firms in the ethnic Chinese context and, hence, providing an answer to research question three. The conclusion is that a re-institutionalisation process takes place, and firms from both contexts are making deviation from their native relationship processes. The discussion in chapter eight also acts as foundation for a discussion relating to propositions two and four.

The last research questions attempt to provide some normative guidelines for professional practice, and it draws on, more or less, all findings in the thesis. Chapter 5 is a source for highlighting important differences between the Finnish / Swedish and ethnic Chinese contexts

Through analysis and discussion relating to my four propositions and four research questions I have been able to address and reach my overall goals and objective for this research. In other words, theoretically I am sorting out various models relating to business relationships in foreign contexts. I have been able to develop a framework for comparing network contexts, a model that can be applied to relationship process in foreign context, and an overall institutional network framework for studying relationship processes between firms from different institutional contexts. Empirically I have managed to describe how Finnish and Swedish firms manage various relationship dimensions in a foreign institutional context, specifically Finnish and Swedish firms in the ethnic Chinese context, hence increasing understanding of relationship management processes between firms from these two contexts.

Finally, in chapter eight I am able to present three major contributions. These contributions are 1) a dynamic mixed relationship model, 2) an identification of three different types of relationships, and 3) a (re)-definition of relationship dimensions in the context of the study. I am also attempting to add a small methodological contribution by elaborating my adductive research process in chapter 3.3.1.

### **9.3 Implications of the study for professional practice of applied settings**

Selecting an EC partner will be the most difficult and crucial aspect for establishing a presence in the Southeast Asian context. A variety of partners are, but it is important to find a partner whose qualifications correspond to the company's objectives. Another issue that makes partner selection crucial is because expansion and success will to a high degree depend also on the partner.

Before a western multinational decides to start developing a relationship with a local Chinese partner, it needs to consider what motives it has for engaging in a potential

partnership. There might be three different motives for approaching a potential partner. One is seeking exploiting market potential. A second type of motive is extractive, i.e. one partner identifies a key resource, asset or competence that the other partner possesses. The third type of motive is opportunistic or passive, rather than strategic. This type of motive is to capitalize on citizenship and political contacts or to seek financial return from portfolio investments. The foreign firm may be motivated simply by the need to comply with regulations. Foreign multinationals looking for an ethnic Chinese partner should also consider what expectations it has, in addition to strategic and/or financial achievements. What degree of similarities does it expect in formal education and management education? What kind of decision-making is expected or preferred? What kind of governance (law, public ideals) does the multinational expect from the ethnic Chinese partner? What kind of goals does the firm expect concerning the partnership, and what is the time frame likely to be?

Finnish / Swedish firms need to select a partner that is appropriate for those markets they intend to enter. Not every ethnic Chinese firm is familiar with every Asian market. For instance, if China is the intended market then language needs to be taken into consideration. Many ethnic Chinese living outside China do not speak, read or write most Chinese dialects. In Taiwan, for example, the business language is Mandarin, but many Hong Kong Chinese are not fluent in Mandarin. Other important issues are the extent to which the partner is involved in other networks, current residence and country of origin. As a general rule, the best choice of partner will be an ethnic Chinese firm that is located in the target market.

Investment in relationships is nothing new to western companies. Most western companies spend great amounts of resources on building, maintaining and enhancing relationships with their customers, suppliers, competitors, partners and government officials. What makes the ethnic Chinese firms different is the nature of relationships. The quality and cultivation of relationships is crucial to business success, and Asian entrepreneurs value personal and reciprocal relationships over contractual and transactional. As one Hong Kong banker stated: *"If you are being considered for a new partnership, a personal reference from a respected member of the Chinese business community is worth more than any amount of money you could throw on the table."* This network of family and personal relationships is the basic channel through which the entrepreneurs obtain information to develop their companies and make new business deals.

Openness, honesty and ability to listen are issues that are important when dealing with the ethnic Chinese. By listening and being open one can observe, learn and become aware of many the cultural differences that exist. Integrity is also seen as an important virtue by the local Chinese, which means, among other things, respecting an individual's good as well as bad sides. Respecting other people is something that we tend to forget about in Finland and Sweden. In Southeast Asia it is especially important to get to know the partner personally, since business relationships are build on a working personal relationship. It is therefore important to learn as much as possible about the other person in order to have a conflict free relationship.

There is low morale among employees in eC firms, especially young, non-family managers, because of limited possibilities of promotion to top-management positions and exclusion from participation on corporate strategy. This provides opportunities for Nordic MNC's. Firms should not expect managers in small and medium sized eC firms to have much in the sense of formal managerial education. Positions within firms are not handed out on the bases of education and managerial skill, but they are rather handed out on the basis of network position, family ties and relatedness. eC organizational behaviour is characterized by incremental approach to planning, an inductive approach to decision-making and reliance on personal interface and commitment rather than on formal systems and written contracts.

The ethnic Chinese business system in long-term focused, which at one extreme means that short-term profits are postponed in order to maintain a long-term relationship. Long-term might also mean that more short term business considerations are neglected in order to advance a life-long personal relationship. Finnish / Swedish firms are of course at a disadvantage because managers typically work only for a limited time-period in the region. Finally there is the issue of gift giving, which is a sensitive issue for Finnish / Swedish firms. The law Finland and Sweden is very specific and clear about what constitutes a gift. In Southeast Asia these rules and laws are not as clear, and if they are, they are often not upheld. Balancing morals and values is therefore a difficult issue for the Finnish / Swedish managers.

#### **9.4 Suggestions for further research**

There are indications that ethnic Chinese networks are undergoing some fundamental changes. 'Family management' is being challenged by more professional management practices. Management positions are not automatically awarded to trusted family members, but also non-family members are hired for higher-level positions. Many business practices are also being modernized, because many children of elderly business men are being educated in western business schools. Many ethnic Chinese firms, especially from Taiwan, Hong Kong and Singapore, are increasingly investing in other countries in Asia, linking up with local Chinese firms in these countries. Hence ethnic Chinese firms in less developed markets are also upgraded, and these in turn start investing in their neighbouring countries.

These changes have lead to a 'westernisation' of business practices among some of the ethnic Chinese firms and networks, i.e. firms and networks in Asia and in the West are becoming more alike. An interesting question is to what extent, and in what way ethnic Chinese firms and networks are changing? Are Nordic MNC's more able to manage business relationships and ventures with the 'new breed' of ethnic Chinese?

There are several points of departure for further studies concerning the above mentioned questions. Conducting a round of interview with ethnic Chinese firms would be fruitful. There are of course access difficulties that need to be addressed. Interviewing ethnic Chinese firms would not only shed light on change processes, it could also reveal whether the Finnish / Swedish perceptions about their relationships with ethnic Chinese are shared by their partners. Conducting a longitudinal study would reveal whether, and/or to what extent the relationship behaviour of ethnic Chinese firms are changing. Another point of

departure for further studies would be to compare Finnish / Swedish and for instance Australian or US firms' relationship processes with ethnic Chinese. Such a study could also isolate whether or not there are some unique Finnish / Swedish relationship characteristics. Further studies could also focus in Finnish and Swedish firms in other contexts, mainly China. It would also be interesting to study Finnish / Swedish firms relationship processes in emerging markets outside of Asia, for instance in the Russian context.

I also believe that there need to be research that focuses on specific difference in relationship processes between Thai, Malay, and Singapore ethnic Chinese. The ethnic Chinese are highly integrated into the Thai society, and have possibly adapted some Thai business behaviour. The ethnic Chinese in Malaysia are in a different position in society compared to Singapore and Thailand. It is unclear to what extent differences between countries have an impact on the relationship process between Finnish / Swedish firms and ethnic Chinese firms. Finally it could also be interesting to study ethnic Chinese firms in the Finnish / Swedish context. There are a number of ethnic Chinese firms in Finland and Sweden. Studying how they manage relationships in a foreign context would surely reveal interesting aspects about the relationship behaviour of ethnic Chinese firms.

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## Appendices

### Appendix 1 – Interview guide

#### Local partner

- How many partner(s) do you have?
- Who would your typical local partner be?
- What is your partner's ethnic background?
- For how long have you known your important partner(s)?
- How long has it taken for you to learn about your partner?
- What have the challenges been while learning about your partner?

#### Interaction

- How often are you in contact with your local partner?
- What are your preferred ways of being in contact with you partner?
- Who are you usually in contact with at your partners firm?
- What usually takes place when you interact with a partner?
- What are the challenges when interacting with your local partner?
- Has they way your interact changed over time?
- How is interaction different from interaction in Sweden / Finland?

#### General

- In what way would you say that your business relationships here are different in Fin/ Swe?
- Do you feel that there is a large difference in the way you and your partner do business?
- Do you feel that this makes an impact on your business relationship?
- What are the foundations for a successful relationship between a Fin/Swe and a local firm?
- How do you believe you are perceived (as a business partner) among your local partners?
- Would you say there are any advantages or disadvantages because you are from Fin/Swe?

#### Dimensions

- What are important factors / dimensions in the business relationship?
- What have you focused on in your relationship to your partner?
- What is the significance of commitment?
- In what way do you show commitment / What kind of commitment have you made?
- In what way has commitment changed during the process?
- Is there mutual commitment between you and your partner?
- Do you feel there is mutual orientation in the relationship?
- Has adaptation been needed in order to develop the relationship?
- Has it been personal or organizational adaptation?
- In what way have you / the organization adapted?

- Have your partner also made adaptations?
- What have the challenges been for you concerning adaptation?
- How dependent do you feel that you are on each other?
- What is the importance of trust?
- In what way has trust been built / increased? Maintained?
- Is it trust between individuals or trust in your organization?
- How much transparency is there in the relationship?
- Do you see any advantages or disadvantages by coming from Fin/Swe when building trust?
- How would you describe the role of social interaction? Social relationships?
- What is the importance of formal/informal contacts?
- How have you been able to enter into the social networks?
- In what way have social ties enhanced the relationship?
- What have the challenges been for you when building social relations / networks?
- Is there mutual confidence between you and your partner?
- How would you describe the rules that govern the relationship?
- Do you have good knowledge about your partner?
- How much information and knowledge do you share?
- Of the time you spend together, how much is business exchange and how much is social exchange?
- How would you compare this with business relationships in Finland / Sweden?

#### Process

- Describe how the relationship has developed
- How long has the process of building a business relationship taken?
- Do you see any differences in how relationships develop compared to Finland / Sweden?
- Has the relationship gone through certain stages or steps? Which?
- What did you focus on / what is important in the early stages of the relationship?
- What kind of interaction did you have in the early stages of the relationship?
- What do you feel made the relationship evolve? Any specific factors?
- Are there any events that have had a negative/positive effect on the relationship?
- How do you maintain the relationship?
- How has the level of formality / informality changed during the relationship?
- What have been the biggest challenges to developing the relationship?
- Have any of your attempts to develop a relationship failed? Are you able to comment why?

#### Management and decision-making

- How would you describe your partners management style?
- Do you see any differences/similarities between your and your partners management style?
- What are the challenges to cooperation concerning your partner's management style?

- How would you describe your partner's decision-making style?
- Is there a difference in your and your partners decision-making style?
- Does difficulties arise from differences in decision-making?
- How do you adapt yourself to differences or how do you deal with difficulties?

Influences on business relationship

- Do you feel the government / authorities have an influence on your relationship to your partner?'
- Is there a difference in the way you develop business relationships in Malaysia, Singapore and Thailand?
- How well are you able to understand each other?
- Do you feel there is a fit between you and your partner's goals and objectives, each others agenda?  
Has there always been fit?
- How have you made goals and objectives more complementary/similar?
- What kind of resources do you share? Why / why not?
- How would you say it makes a difference being a foreigner when building relationships?



Recently there has been a vivid discussion in media about Asia. I do not refer to the horrible tsunami that struck the region on Boxing Day 2004. Rather, I refer to the debate about the ever increasing amount of Finnish and Swedish firms moving to Asia, specifically China. The most pessimistic forecasts claim that Finland and Sweden will lose several hundred thousand jobs to Asia and China. That firms are in the hunt for low wage countries for their production facilities is nothing new. What is, however, a new phenomenon is that not only labour intensive firms are moving, but also high-tech firms. What used to be the domain of large multinational companies (MNC's), emerging markets are now catching the interest of small and medium sized firms as well.

One striking feature in East and Southeast Asia's emerging markets is the local firms' propensity to form elaborate and complex networks. Business networks are by no means a new phenomenon or unique to Southeast Asia. In Southeast Asia, however, business networks differ sociologically, organizationally and economically from inter-firm networks in the west. Society as a whole has a structure similar to that of a network, and network relationships underpin all dimensions of both social and economic activities.

Behaviour within networks become institutionalised and attuned to a specific environment, and behaviour is taken for granted as "the way things are done". As networks evolve over time in different parts of the world, institutionally specific business networks are created. Furthermore, differences in institutions between various countries are often so large that distinctive forms of business structures and behaviour are created, i.e. networks that function in different ways are created.

Because Finnish and Swedish firms have evolved in a different network context compared to ethnic Chinese firms, they have also developed a different approach to relationship management and development. Therefore it becomes interesting to study how firms from two very different network contexts manage relationship processes, and what actually occurs throughout the relationship. In essence, how do differences between network contexts take shape when firms from two different contexts meet?

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