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**The Development of Industrial Buyer-Seller
Relationships in a Chinese Context**



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The Development of Industrial Buyer-Seller Relationships in a Chinese Context

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ABSTRACT

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Studies concerning industrial buyer-seller relationships have focused on the Western world. However, when conducting business in, for example, China, one should acknowledge the role *guanxi*, briefly translated as connections, plays in the society. In China, relationships are not limited to the buyer and seller, but governmental officials, customs officials, and trade associations also influence the smoothness of the business activities of the companies.

This study explores the manner in which industrial buyer-seller relationships develop in a Chinese context between a China-based buyer and a Finnish seller with presence in the Chinese market. The main research question of the study is: *How do industrial buyer-seller relationships develop in a Chinese context?* This question is divided into three research subquestions: (1) How does the relationship between a Chinese industrial buyer and a Finnish industrial seller develop? (2) How does the relationship of a Chinese industrial buyer and a Finnish industrial seller develop according to the current industrial buyer-seller relational process models? and (3) How does the relationship of a Chinese industrial buyer and a Finnish industrial seller develop based on the current development models of *guanxi*?

In order to answer the research questions, an action-analytical approach was chosen. The research was conducted as an inductive multiple case study. Four case relationships were studied: (1) a former Sino-British joint venture as the buyer and a Finnish seller based in China, (2) a Hongkongese buyer and a former Asian-Finnish joint venture as the seller, (3) a Chinese distributor as the buyer and a Finnish seller based in China, and (4) a Chinese subsidiary of an originally U.S.-based parent company as the buyer and a Finnish seller based in China. The companies participating in the four case relationships vary with regard to industrial type and international experience. The commonalities are that all the Finnish sellers are based in the Greater Shanghai area providing both products and services and all except one of the buyers have a plant in mainland China.

From the empirical and theoretical data, it was noted that the development of successful industrial buyer-seller relationships in China follows a common path for the first three states, which was depicted in a framework. Firstly, one of the actors needs to acknowledge the other in the Searching State. If the two parties do not share common background, they remain as outsiders to each other, existing in each other's tertiary network with only instrumental ties. Otherwise, the actors are already associates within each other's secondary networks with both instrumental and personal ties. Secondly, the actor contacts the prospective business party and tries to attract the other by, for example, having a local plant and R&D center. As the parties get to know each other

more, the parties move to each other's secondary networks as outsiders. The ties are now mixed, instead of only instrumental. If the parties are confident enough in each other, first orders are made and delivered. Thirdly, the relationship between the actors will continue to grow if the first order is handled well. The company representatives remain in contact at least at a biannual rate or more preferably at a bimonthly rate, and possibly new orders are made. As the parties trust each other more, they become associates instead of only outsiders. If the actors had a previous mutual background, they may have remained as associates in each other's secondary networks with mixed ties. From this point onwards, the relationship may develop in any manner through different middle states or it may end.

Another main finding is that the Dormant or Inert State of relationships, which was previously considered to be only an end state, should be seen as a hybrid state being both a middle state and an end state. The relational actors may choose to have a quiet period in the relationship due to the inability of either to contribute to the relationship during a certain period, although they see a prosperous future for the relationship in a couple of years. The actors, hence, do not decide to end the relationship but just to have a short break from it.

Government officials and customs officials may affect the relationship by causing a slowdown for no apparent reason. Hence, it is important to cultivate and maintain relationships with these actors. However, as such they do not participate in the particular industrial buyer-seller relationships. Overall, the time in which the relationships remain in certain states may be longer in China than in the West due to, for example, bureaucratic issues in both the government and the organizational culture of the local companies.

PREFACE

The process of my Doctoral Dissertation went surprisingly smoothly. The process itself was somewhat of a whirlwind with me, for example, backpedaling the methodology and method of the study and limiting it only to the Chinese context. However, this in a sense, prepared me to better understand the chaotic circumstances of China and its business environment. The process has also improved my skills developing and using my own guanxi network.

I am truly thankful for all the comments my pre-examiners, Professor Kimmo Alajoutsijärvi and Associate Professor Tony Fang, have provided me through the process. I also want to acknowledge my appreciation for my supervisor, Professor Olavi Uusitalo, who has provided support, motivation, and thought-provoking discussions throughout the process.

The Finnish Cultural Foundation, the Foundation for Economic Education, the Finnish Doctoral Program in Industrial Engineering and Management, and the Department of Industrial Management at Tampere University of Technology funded the study. I truly appreciate the opportunity I have been granted.

Without the eight case companies who participated in the study, this Dissertation would not exist. I cannot express how grateful I am for being allowed to visit your companies and gather data. I hope you enjoyed the interviews at least half as much as I did.

I would also like to thank everyone who helped me during my interview period in China. Thank you, William and Christine, for acting as translators and dealing with practical matters. Daisy, thank you also for your help. I am also grateful to Irja and Pekka for taking me under their wings.

Several academics have participated in the process. Without naming all of you, I would like to thank everyone who motivated and helped me during the process at Alliance, DOME, DPIEM, KATAJA, the Nordic Centre, TUT, and UTA courses, the Marketing Tutorials in 2009 and 2010, the NFF'09 Ph.D. Workshop, and the IMP Doctoral Colloquium of 2009. Specially I would like to show my appreciation towards Pia Polska and Fan Xiucheng, from who I have learned a lot. In addition, I am thankful for all the comments I received at the conferences I have attended. Without the academic community, I would not have been able to find my way.

I am thankful not only to the more senior academic community, but also to all my fellow doctoral candidates. To name a few, Elina, Teea, and Toni, I have enjoyed working with you. Without our extracurricular activities, the courses and conferences would not have been as enjoyable (and educational, of course).

The academic community would not function without all the people running it. Without the help of Mrs. Marita Nikkanen, I would not have been able to take care of all the practical issues regarding the Doctoral Dissertation and graduating. Thank you so much!

I appreciate all the hard work Gail Jaraki has done to improve the language of the dissertation. I feel that I found a gem in you.

My parents, Marja and Antti, have provided the spark for my academic career in international industrial business. I want to thank you for all the opportunities you have provided me since I was small. Without your support and motivation, I would not be what I am now. The same applies to this Dissertation.

Finally, I want to show my gratitude towards my extended family and friends. Thank you for supporting me during this journey! *Pirkko-mummo, sinua parempaa isoäitiä en olisi voinut toivoa. Kiitos kaikesta rakkaudestasi!* For example, Jatta, you are truly priceless! Anna, Katri, and Mari, thank you for being there. Marika and Juha, thank you not only for accommodating me during my visits to Vaasa but for being such enjoyable company.

Tampere, October 2010

Anna Kaunonen

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1. INTRODUCTION

1.1. Background and Motivation

In Asia, companies should rely more on the relationship marketing strategy and, hence, aim at developing long-term industrial buyer-seller relationships (e.g., Abramson and Ai, 1997; Backman and Butler, 2007; Boos, Boos, and Sieren, 2003; Hammond and Glenn, 2004) even if the Chinese are moving to a more short-term perspective (Faure and Fang, 2008). Håkansson and Snehota (1998) actually suggest that the tendency towards relationships will be universally true. The benefits of this strategy are that the supplier's understanding of the buyer and its needs improves as well as the supplier's ability to conduct more efficient marketing activities due to closer relationships. The buyer may also make its purchasing activities more efficient because of a closer relationship with its supplier(s). (Andersson, Forsgren, and Holm, 2002) However, the majority of relationship marketing research has been conducted in the West (Wong and Chan, 1999), which can be considered somewhat ironic as relationships and networks were the dominant transactional governance manner in China long before relationship marketing and network research gained popularity in the West (Davies et al., 1995).

In order for companies to consider the cultural factors of their (prospective) business partners, they should employ representatives who are empathetic and world-minded instead of ethnocentric. The representatives also need to be able to read cultural-specific body language. In addition, they should be able to deal with stress, develop and interact in personal relationships, and use culturally appropriate communication style. (Bush et al., 2001) The lack of cultural sensitivity may seriously jeopardize one's relationships (Schultz, Evans, and Good, 1999). According to Huang, Rayner, and Zhuang (2003), research on intercultural competence in the Chinese business context, especially while developing industrial buyer-seller relationships, is still lacking.

Several academics have discussed the development of relationships (Arora, 2008) but not at the international level (Jones and McCleary, 2004). Petison and Johri (2008) have noted that the current academic views on the stages of relationship development are generally based on the buyer-seller relationships within the developed markets. Actually, relationship marketing as a domain has been developed based on Western economics, psychology, and management theories (Flambard-Ruaud, 2005). However, members from different national cultures may understand relationships and relationship management in various ways (ibid.) as the basis for developing relationships and the relative significance of relationship-related attributes differ across national cultures

(Buttery and Wong, 1999; Chua, Morris, and Ingram, 2009; Dunning and Kim, 2007). For example, the Chinese believe that transactions follow a relationship (Ambler, 1994; Luo, 2007; Park and Luo, 2001; Vanhonacker, 2004) while Westerners view relationship developing through occurred transactions (Ambler, 1994; Luo, 2007; Park and Luo, 2001) or more precisely through contracts or deals (Vanhonacker, 2004). The different viewpoints on relationships are still a novel research area (Flambard-Ruaud, 2005).

Fletcher (2004), Fletcher and Fang (2006), and Ha, Karande, and Singhapakdi (2004) state that research on both culture and relations has been based on developed countries. Additionally, little research regarding the cultural-specific factors affecting relationship marketing has been conducted (Bianchi, 2005), including that completed by the IMP Group (Fang and Kriz, 2000; Hyder, 2008) even though culture is significant in relationships (e.g., Fletcher, 2004; Fletcher and Fang, 2006; Hewett, Money, and Sharma, 2006; Nes, Solberg, and Silkoset, 2007) and in business in general (e.g., Hofstede and Hofstede, 2005). However, utilizing a Western relationship marketing model is questionable in the Asian context, including that of China (Wang, 2007).

National culture has been recognized as a key environmental characteristic causing systematic differences in buyer-seller behavior. It acts as the foundation for generating beliefs and behavioral standards which affect the interaction manner of individuals. (Dash, Bruning, and Guin, 2007; Harris and Dibben, 1999) Pressey and Selassie (2002), however, have found that national culture does not matter in industrial buyer-seller relationships. Their definition of the impact of national culture is limited as they do not think it affects or determines the national business environments (*ibid.*).

In research regarding China, relationship management and negotiations have been discussed in a limited manner, but there are still big gaps in the research that need to be examined (Ho and Lee, 2007). For example, the development of *guānxì* (关系)¹ has scarcely been deliberated on (Kaunonen, Polsa, and Fan, 2010). This may be due to recent Chinese history. While Chairman Mao Zedong (毛泽东) governed China, the nation had a supply-driven economy and, hence, marketing did not play a big role. After Deng Xiaoping (邓小平) opened the Chinese market with the introduction of socialist market-oriented thinking in 1978, the importance of marketing grew. (Ambler, Styles, and Xiucun, 1999) Western managerial theories have also begun to influence the Chinese business culture (*ibid.*) as China is now more open to foreign concepts,

¹ In the Anglophone academic and business literature, *guānxì* (关系) has been written in several ways, i.e., with pin-yin, with characters, with a capital G, or in italics. In this dissertation, the Chinese character and pin-yin will be provided the first time a Mandarin Chinese concept is used. Afterwards, the term will be written as in English without capitals and italics.

cultures, lifestyles, and technologies (Faure and Fang, 2008). Foreign investments in China, globalization, and the Internet have all increased the exposure to these foreign issues (ibid.). However, the Chinese market is still quite traditional in the sense that it depends on relations (Ambler, Styles, and Xiucun, 1999).

1.2. Purpose of the Study

The initial purpose of this study was to describe the development of industrial buyer-seller relationships outside the Western world. However, with my recognizing the limitations of the method (see Chapter 2 for more on this), the purpose of the study now centers especially on the case of relationships between a Chinese industrial buyer and a Finnish industrial seller. The focus is on the impact national culture has on relationship development. Initially, when beginning the inductive case research, the main research question was defined as follows:

How do industrial buyer-seller relationships develop in different cultural environments?

After the case relationships were identified, the main research question was limited:

How do industrial buyer-seller relationships develop in a Chinese context²?

In order to study this, the following research subquestions have been identified:

1. How does the relationship between a Chinese industrial buyer and a Finnish industrial seller develop?
2. How does the relationship of a Chinese industrial buyer and a Finnish industrial seller develop according to the current industrial buyer-seller relational process models³?
3. How does the relationship of a Chinese industrial buyer and a Finnish industrial seller develop based on the current development models of guanxi?

² By Chinese context, one means the location and the cultural, institutional, and social context within which the Case Relationships operate (Li and Tsui, 2000). The Chinese context includes mainland China, Hong Kong, and Taiwan (Li and Tsui, 2002). In this research, focus is placed more on guanxi as a significant cultural and social institution in China as this kind of cultural variable may play a larger role than any process variable (Leung, Wong, and Tam, 1995). Therefore, when illustrating the relationships through chronologies in Chapter 5, the main developments in China and the specific industries are noted, but the development of China and the industries are not described in detail.

³ Industrial buyer-seller relational process models have also been called industrial buyer-seller relationship development models and industrial buyer-seller relationship process models. In this study, to distinguish between industrial buyer-seller relational process models and guanxi development models, the concept industrial buyer-seller relational process model is used.

As noted, this study focuses only on the Chinese context and, hence, is exploratory in nature. This research is an initial attempt to understand whether industrial buyer-seller relationships are cultivated differently in different cultural contexts. In order to study this, four case relationships were chosen, as presented in Table 1-1 (for more information about the method and methodology, please refer to Chapter 2).

Table 1-1. The Case Relationships⁴.

Case Relationship	Buyer	Seller	First Contact
Dragon	Former Sino-British joint venture	Finnish	1996
Red Bird	Hongkongese	Former Asian-Finnish joint venture	1999
Turtle	Chinese distributor	Finnish	2001
White Tiger	Chinese subsidiary of an originally U.S.-based parent	Finnish	2002 (regarding China)

The business culture in China is relatively different from that in the West, on which the previous industrial buyer-seller relational process models have been based. In order to analyze the impact the context may have on the relationships and their cultivation, the differences between the East and the West need to be acknowledged and understood. Hence, the dissertation also discusses what is meant by *guanxi*, briefly defined as connections or relations in the Chinese context, and how the academic literature has portrayed its development. It should, however, be noted that generally *guanxi* is considered at the individual level while industrial buyer-seller relational process models are considered at the organizational level, due to which care is maintained when these two concepts and the models related to them are compared.

1.3. Relevance and Significance of the Study

This doctoral dissertation aims at contributing in several ways to academia and the practitioners. First of all, it discusses the development of industrial buyer-seller relations outside the West. Buttery and Wong (1999) claim the study of relationships can only be conducted in a certain cultural context. Michailova and Worm (2003) further suggest that the economical, historical, political, and social contexts also need to be considered. This research is conducted in the Chinese context. The culture can be viewed as the East coastal business culture of China since the interviews are conducted with companies with Asian head offices located in Hong Kong, Qingdao, Shanghai, and Suzhou. During the research, the Chinese cultural context, which is influenced by economical, historical, and political contexts, is considered in-depth and the concept of *guanxi* especially is referred to.

⁴ The Case Relationships are still on-going, because of which the last contact has not been tabularized. All the Case Actors were in contact with other during January-February 2010, when the interviews were being conducted.

Business researchers should focus on guanxi and guanxi-related systems as Western businesspeople are increasingly encountering non-Western business systems and need to adapt to them in order to operate in these environments. It is suggested that the Western business system will also change to one more similar to the guanxi system, because of which it is important to understand the current guanxi system. (Lovett, Simmons, and Kali, 1999) The objective of this research is to do this, i.e., to consider the current industrial buyer-seller relational process models in the Chinese context.

Secondly, the development of guanxi is illustrated. Chen and Chen (2004) suggest that there are two possibilities for studying the development of guanxi: (1) by conducting a longitudinal study or (2) by requesting the interviewees to recall critical events which have occurred during the guanxi development process. This study asks for the interviewees to recall the development of the industrial buyer-seller relationship they shared with either a Chinese buyer or a Finnish seller.

Up to this point, guanxi has generally been studied only at the individual level even though implications also exist at the organizational and societal level (Fan, 2002). On the other hand, the Western dominance in business research has resulted in studies that look at the organizational level instead of the individual level (Michailova and Worm, 2003). This research aims to discuss relationships, especially the Chinese form of guanxi, at both the individual and organizational level, i.e., relationships between organizations and the representatives of these companies.

Therefore, this research combines Western and Eastern business practices. Luo (2007) suggests that guanxi should be better understood in the business context. Academics should consider all the existing paradigms and theories and implement them in the Chinese context (*ibid.*). The purpose of this study is to consider the development of industrial buyer-seller relationships in the Chinese context by first elaborating on the existing process models, which are generally based on the Western context (Petison and Johri, 2008), and to evaluate their usability in the Chinese context.

As can be noted, this research considers different levels of analysis, i.e., the individual and the organizational level as well as the functional level. The Western industrial buyer-seller relational process models exist at the organizational level while the development of guanxi at the individual level has been studied (Kaunonen, Polsa, and Fan, 2010). This research aims at combining these two research branches.

In addition, this study looks at the industrial buyer-seller relationship from both sides, i.e., buyer and seller. Ambler, Styles, and Xiucun (1999) state that the ideal situation would be one in which both members of the trading dyads are studied. This study is conducted in this “ideal” manner. Gummesson (2003) has noted that in business-to-business research, this, however, is usually not the case.

1.4. Structure of the Dissertation

This first chapter introduces the dissertation's topic and justifies the need for the study, as seen in Figure 1-1. As the dissertation is an inductive case study, i.e., the theoretical models and empirical data are referred to simultaneously in an iterative manner (Gummesson, 2003; 2005), and the research methodology and research method are discussed before going through the current academic views on the development of industrial buyer-seller relationships and guanxi in Chapter 2, Chapter 3, and Chapter 4, respectively. The four case relationships will be illustrated in Chapter 5, based on the information gathered during interviews and from secondary sources. In Chapter 6, the case relationships are compared with each other and current academic views on industrial buyer-seller relational process models and guanxi development. The final chapter, Chapter 7, concludes the dissertation, discusses the limitations of the study, and provides theoretical and managerial implications. In addition, future research stances are suggested.

Chapter 1	<ul style="list-style-type: none"> • Introduction to the Topic • Justification of Study
Chapter 2	<ul style="list-style-type: none"> • Research Methodology • Research Method and Trustworthiness
Chapter 3	<ul style="list-style-type: none"> • Different (Types of) Industrial Buyer-Seller Relationship Process Models
Chapter 4	<ul style="list-style-type: none"> • The Historical Stance and Meaning of Guanxi • The Development of Guanxi
Chapter 5	<ul style="list-style-type: none"> • The Information Gathered during Interviews and from Secondary Sources
Chapter 6	<ul style="list-style-type: none"> • Discussion of the Results from the Data Gathering in Comparison to the Current Academic Views
Chapter 7	<ul style="list-style-type: none"> • Summary and Evaluation of the Study • Managerial and Theoretical Implications

Figure 1-1. *The Structure of the Dissertation.*

2. METHODOLOGY AND RESEARCH METHOD

2.1. Research Approach

According to Burrell and Morgan (1979), ontology, epistemology, and human nature affect the research approach, i.e., the methodology or research strategy of a study. These three sets of assumptions can be seen as continuums. The positions that the researcher and the study have on the continuums affect whether the research approach is more subjectivist or objectivist, as shown in Figure 2-1.

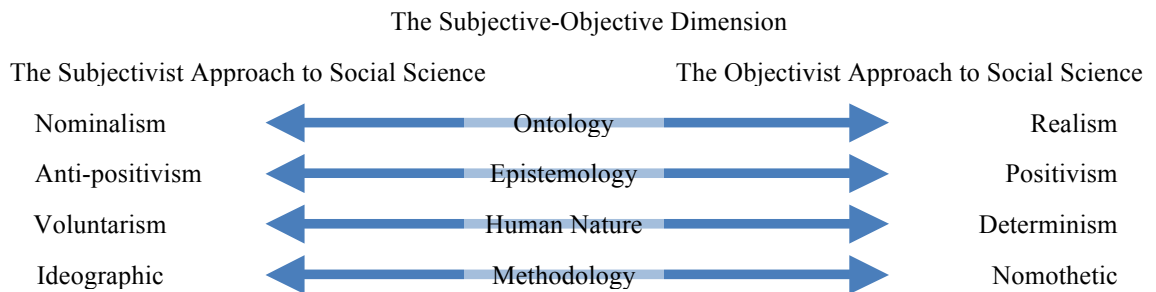


Figure 2-1. *The Sets of Assumptions Affecting the Research Strategy (adopted from Burrell and Morgan, 1979, p. 3).*

The basic ontological question that researchers in the social science field, in which industrial marketing can also be included, need to ask themselves is whether the investigated “reality” is internal or external to the individual. Internality means that the “reality” is a product of one’s cognition; while with externality, the “reality” is “out there”, i.e., it is seen objectively. (ibid.) The aim of this research is to view the “reality” objectively and allow the collected data to speak for itself. Hence, on the continuum of nominalism-realism (see Figure 2-1), I see myself and this research as being more realistic, i.e., I believe that individuals are born into a social world that has a “reality” in itself and that this social world exists without individuals appreciating it (ibid.). Since this study is on two abstract concepts, namely relationships, especially in the Chinese context, and, hence, also on guanxi, it would be impossible to conduct the study as a nominalist as nominalism does not recognize abstract concepts (ibid.).

Epistemology deals with the grounds of knowledge, i.e., how one sees the world, begins to understand it, and further communicates to others one’s own knowledge (regardless of the level of knowledge). Epistemology also concerns whether knowledge can be acquired or gathered or whether one needs to personally experience everything before it becomes part of one’s knowledge base. (ibid.) In my view, one does not need to

experience everything oneself but may learn from others, i.e., I would claim that I am more of a positivist (ibid.). The objective of this study is to understand how industrial buyer-seller relationships develop in China. In order to complete this task, I will try to understand and portray the regularities occurring in industrial buyer-seller relationships in China (ibid.). If the research had been completed through an anti-positivist view, I would have had to personally participate in each relationship under study. Only if I had been working for the case companies and, therefore, participating in the relationships, would it have been possible to complete this task in an anti-positivist way. However, as I was not employed by any industrial company with business in China, i.e., I was an outsider, it was impossible. Also, in order to study relations in this way would require a longitudinal study, which was not possible due to my time constraints; it did not fit this research.

In this case, the relationship that human beings have with the environment and vice versa is what is meant by human nature. As depicted in Figure 2-1, the two ends of the human nature continuum are voluntarism and determinism. According to voluntarists, human beings are independent of the environment and have free will while determinists claim that the situation or “environment” in which one exists is the only factor that determines how one acts. (ibid.) I personally believe that humans may choose their own actions (at least to some extent). I believe that in industrial buyer-seller relationships, the two actors within the relationship choose how and when to develop the relationship. At times, they may decide on this together, but every now and then, one party may decide to, for example, exit a relationship while the other will want to continue it. However, the previous action of the other may have led to this situation.

Based on these three sets of assumptions (ontology, epistemology, and human nature), the research is more objectivistic than subjectivistic. According to Figure 2-1, the research approach, thus, should be more nomothetic than ideographic. The nomothetic approach is based on systematic protocol and technique (ibid.), i.e., it is strongly based on the nature of quantitative research methods (Adler, 1983; Burrell and Morgan, 1979; Neilimo and Näsi, 1980; Olkkonen, 1994; Salmi and Järvenpää, 2000). However, I feel that the research questions determined in Chapter 1.2 could not be answered through a quantitative study, especially as they are “how” questions and as I do not have control over (Yin, 2007) the relational episodes (Schurr, 2007). However, I have access to individuals who have participated in the relational episodes, and because of this fact, case study is suitable as a research method for this dissertation (Yin, 2007). In addition, case studies are more suitable than other methods especially when the data is gathered over borders and cultures (Ghauri, 2004) as the researcher remains more honest towards the data gathered during case studies (Eisenhardt and Graebner, 2007).

The ideographic approach, on the other hand, claims that one can understand the social world only by personally experiencing the phenomena (Burrell and Morgan, 1979). As mentioned above, this is not possible in the case of this research.

In Finland, the research strategies in studies conducted in the business sciences, including that of industrial marketing, have generally been divided into five categories based on whether the research is descriptive or normative and theoretical or empirical: (1) Conceptual Analytical Approach, (2) Decision-Methodological Approach, (3) Nomothetical Approach, (4) Action-Analytical Approach, and (5) Constructive Approach (Kasanen, Lukka, and Siitonen, 1991). This study also basically follows one of these approaches, as presented in Figure 2-2.

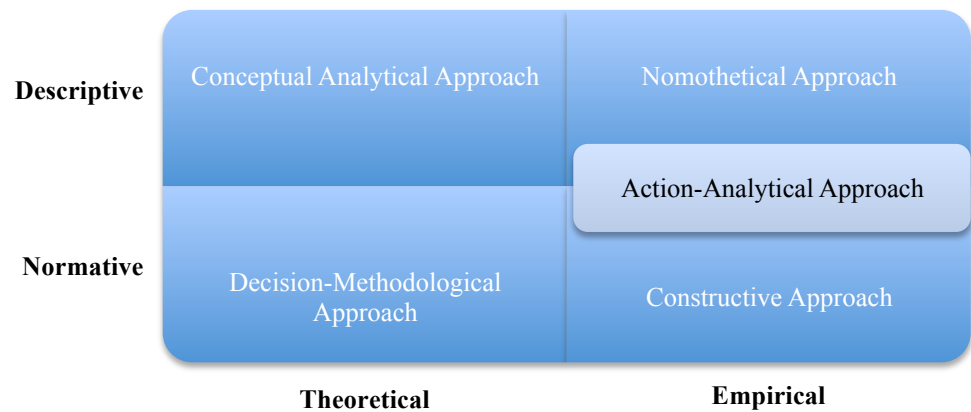


Figure 2-2. *The Positions of the Different Research Strategies in Business Sciences (adopted from Kasanen, Lukka, and Siitonen, 1991, p. 317).*

To fully understand industrial buyer-seller relationships and their development in China, one needs empirical bases. Accordingly, of the five research approaches (see Figure 2-2), the conceptual analytical approach and decision-methodological approach are not appropriate. As mentioned above, neither is the nomothetical approach suitable. Of these five approaches, therefore, the action-analytical approach and constructive approach are left. Both of these approaches usually use case studies as the method (Okkonen, 1994). As mentioned previously, the study is more descriptive in nature, and, thus, follows the action-analytical approach.

The action-analytical approach is a mixture of descriptive and normative (Kasanen, Lukka, and Siitonen, 1991). The aim of the action-analytical approach is to understand the problem being studied (Neilimo and Näsi, 1980; Olkkonen, 1994). Sometimes there are also normative, i.e., explaining, and modifying purposes. One should note that there is a philosophical difference between understanding and explaining a phenomenon. (Neilimo and Näsi, 1980) The objective of this research is more descriptive, i.e., to understand how industrial buyer-seller relationships develop in China. This is why the research approach cannot be nomothetical (ibid.).

The background of the action-analytical approach consists of teleological explaining, hermeneutics, cognate approaches, and the view of humans as intentional beings (ibid.). Hence, it is closer to voluntarism of human nature (Burrell and Morgan, 1979), which is

closer to my view of human nature. The action-analytical approach highlights the purpose-orientedness of the activity, which represents the teleological point of view (Olkkonen, 1994), as shown in Figure 2.3.

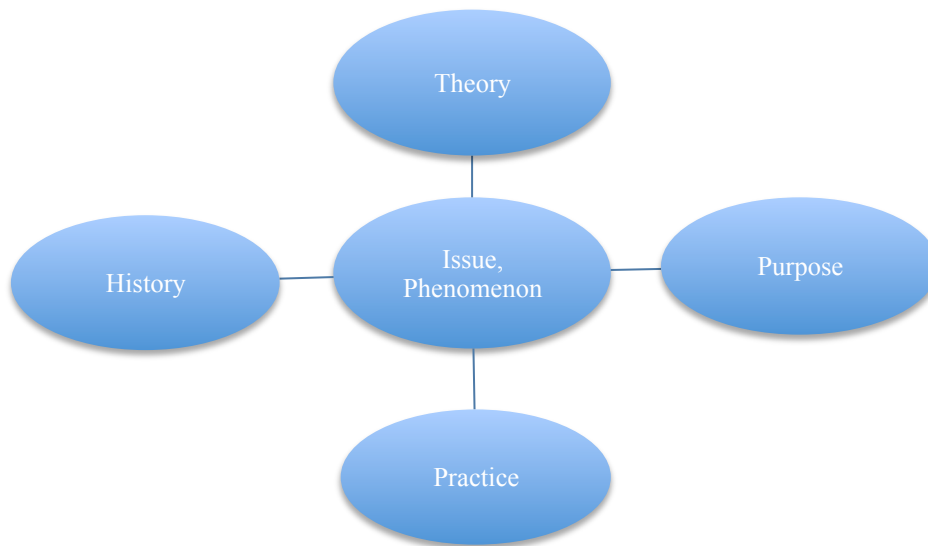


Figure 2-3. *The View of the Action-Analytical Approach on the Research Issue or Phenomenon (adopted from Olkkonen, 1994, p. 75).*

History, practice, and theory affect the studied issue or phenomenon under the action-analytical approach (ibid.), as presented in Figure 2-3. In this research, all of these three were consulted somewhat simultaneously because this is an exploratory inductive multiple-case study. The theory discussed is that of the industrial buyer-seller relational process models and the development of guanxi while the practice part comes from the Case relationships. The purpose of the research is to illustrate how industrial buyer-seller relationships develop in the Chinese context.

The action-analytical approach tends to highlight the human sciences and Aristotelianism (Neilimo and Näsi, 1980). This study aims to understand how relationships at the individual and organizational level develop in the Chinese context, i.e., the company representatives are tangled in the relationships and one cannot study only the firms as such (Olkkonen, 1994). Research which studies a development process also fits the action-analytical approach as the studies based on this research strategy usually deal with organizational actions, management, problem solving, decision-making, and/or development and change processes (ibid.). The results are presented as chronologies since the thought process is linear. In addition, it is believed that each action is done somewhat on purpose with a certain goal in mind. This also follows voluntarism (Burrell and Morgan, 1979).

Positivism requires that the knowledge be generalizable and the outcome of the study be a theory (Vaihekoski, 1994) and also that there exist external, neutral observations (Olkkonen, 1994). However, in industrial marketing, theories, as such, cannot be truly

generated, but instead frameworks and approaches are more common. Hence, the action-analytical approach is based on anti-positivism, i.e., the action-analytical approach usually studies issues for which neutral observations do not exist (ibid.). Bonoma (1985) advises the use of case studies if the phenomenon under study should not be removed from the social context. This is also the case of guanxi as it is a culturally embedded concept and should not be studied outside the Chinese society.

The results from research following the action-analytical approach are based on the interpretation of one or more researchers (Olkkonen, 1994). Often the action-analytical approach is chosen because the research population is not sufficient in size to be studied with a quantitative method (ibid.), i.e., there often are few target units and the research methods related to the cases are relatively unbound but diverse (Neilimo and Näsi, 1980). This is also a valid statement for this study: there are few cases that can be studied because several data sources are needed. In addition, the research problem is usually holistic and cannot be divided into subproblems (Olkkonen, 1994). This applies to this study also, as relationship development, as such, cannot be divided into subproblems, only into relationship episodes (Schurr, 2007).

The research method used under the action-analytical approach tends to be case studies due to the small number of possible research targets. They should be selected as representing the population as closely as possible, i.e., to be either an average case or a special case, depending on the research purpose. (Olkkonen, 1994) In this case, as the research is exploratory, four different types of case relationships were chosen to represent the population: (1) a former Sino-British joint venture as the buyer and a Finnish seller based in China, (2) a Hongkongese buyer and a former Asian-Finnish joint venture as the seller, (3) a Chinese distributor as the buyer and a Finnish seller based in China, and (4) a Chinese subsidiary of an originally U.S.-based parent company as the buyer and a Finnish seller based in China. The cases are usually viewed from an inside perspective by interviewing company representatives who participate in or who have an opinion about the research topic. In addition, other secondary sources may be used. (ibid.) This holds for this research as the relationships are seen from within by the company representatives interviewed from both sides of the relationship. A vast number of secondary sources are also used (see Appendix 5) to understand the relationship development and validate the data received from the interviews.

A small amount of methodological norms and guidelines are related to the action-analytical approach. Only some have been mentioned in the literature for use in interpreting and reasoning. It is difficult to structure the research process beforehand. (ibid.) The research method followed in this study is inductive case research, which is based somewhat on ground theory. This means that the research process I followed was also difficult to structure ahead of time. In order to ensure that the study is reliable, the research process was structured as carefully as possible and is documented in Chapter 2.2. Literature on inductive case research, interviewing techniques, secondary source

usage, and chronologies was consulted in order to ensure that the processes were conducted as accurately as possible.

The results of the action-analytical approach are often concept systems at different levels or so called “languages” by which one attempts to parse and plan the world (Neilimo and Näsi, 1980). This research aims to develop a framework which illustrates how industrial buyer-seller relationships develop in a Chinese context. The general structure of the action-analytical approach and the structure of this study will be further elaborated on in Chapter 2.3.

A major problem with the action-analytical approach is the generalizability of the results as there are only a small number of cases being studied (Olkkonen, 1994), which is also the case with this study, as discussed in Chapter 2.4. The results need to be seen more as a probable hypothesis which needs to be further studied (*ibid.*). This study is an exploratory one, the results of which give only a hunch of what the actual situation is. The study is limited to relationships between China-based industrial buyers and Finnish industrial sellers which have premises in China. The results of this study are compared to the current academic views on industrial buyer-seller relational process models and the development models of *guanxi*, as Olkkonen (1994) suggests should be done.

The problem with the research approach is verification. The verification may be done by adding a study with a nomothetical approach or it may be left for the future. However, the results may be proven to be practically beneficial by comparing them to previous ones, e.g., the current academic frameworks or models. The final verification may only be received when the results prove to be applicable in practice. (*ibid.*) This verification issue is also relevant regarding this research (see Chapter 2.4). The statistical verification of the results of this study is left for future research, as expressed in Chapter 7.4. The practicality of the results could not be proven during the timeframe of this research. In Chapter 7.3, managerial implications of the study, however, are discussed.

This study aims to illustrate the development of industrial buyer-seller relationships through an exploratory multiple case study (Gummesson, 1993). In order for the data to “speak for itself,” the case study method will be influenced by grounded theory and, hence, the inductive case study method is used (Gummesson, 2003; 2005).

2.2. Research Design

When research is conducted through the action-analytical approach, the study commonly begins with identifying a problem area, the understanding of which the research aims to deepen (Olkkonen, 1994; see Figure 2-4). In this case, the problem area is the development of industrial buyer-seller relationships.

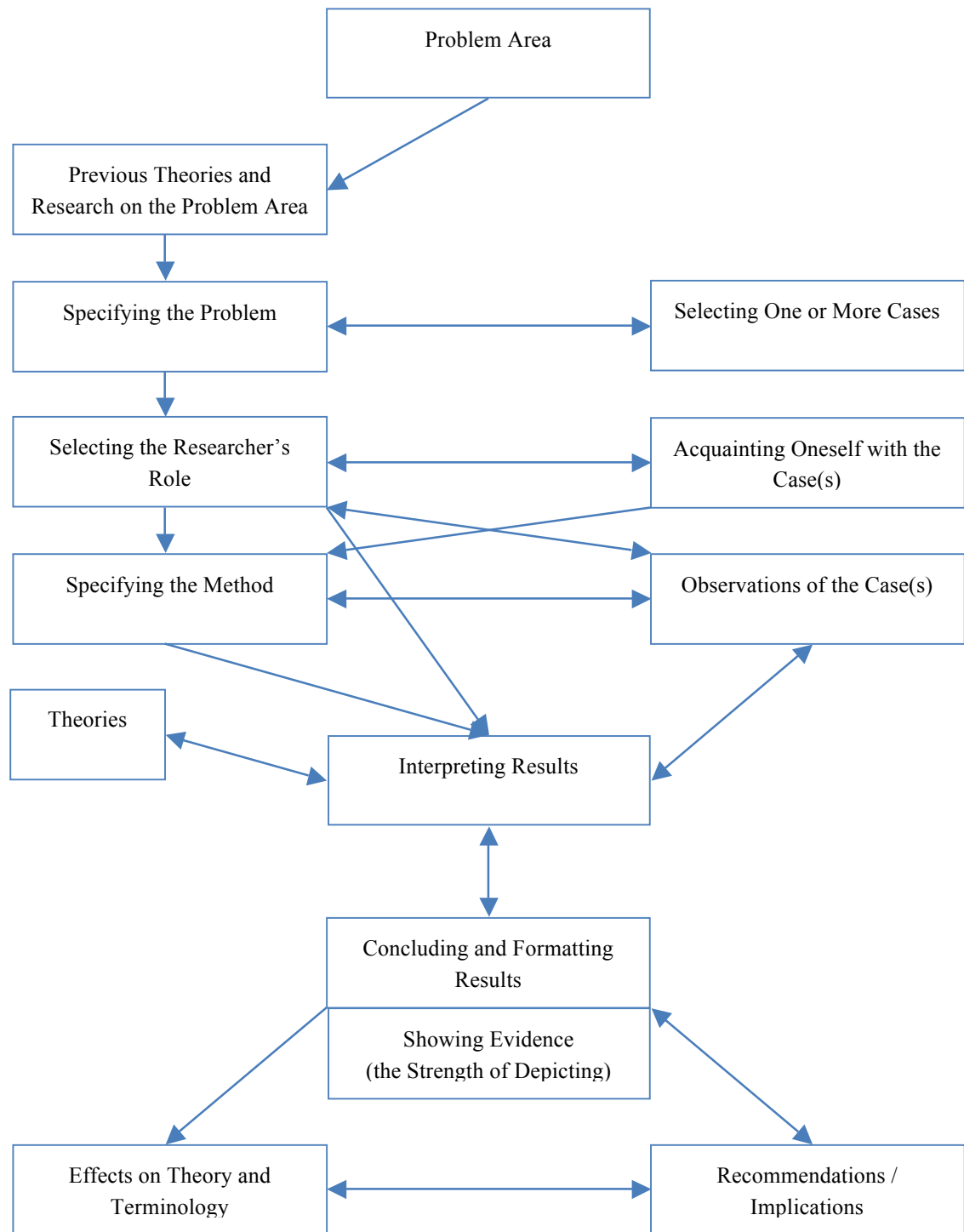


Figure 2-4. *The Structure of an Action-Analytical Study (adopted from Olkkonen, 1994, p. 72).*

The second stage in conducting action-analytical research is to discuss the previous theories and the research conducted regarding the identified problem area (Olkkonen, 1994). In order to understand the different ways in which the development of industrial buyer-seller relationships has been studied, a thorough literature review was conducted.

The search term “industrial buyer-seller relationship development” was inserted into both the Google Scholar search engine and the EBSCOHost database, which is directly linked to Springer Link and Emerald Insight databases, resulting in over 14,000 journal articles, conference papers, and books. Of these 14,000 items, first of all, the title was checked. If the title was such that the item possibly discussed industrial buyer-seller relationships and especially their development, the keywords and abstracts were checked. If the item still was classified as an item on industrial buyer-seller relational process models, the introduction and conclusions were read and the figures and tables browsed. Finally, if the item was still thought to discuss industrial buyer-seller relational process models, the whole item was read.

In addition, the references in these search results were checked and the same process was conducted. Based on the titles and abstracts of the search results, 45 accessible journal articles, conference papers, and books regarding industrial buyer-seller relational process models were identified. They are briefly introduced in Chapter 3.3 through Chapter 3.5.

Hence, for example, the internationalization theories were left out of this conceptual-analytical review, as they relate more to (the governance of) a focal firm than a dyad. Academic literature regarding agents or mediators, on the other hand, discusses whether a company should use either one to build a relationship with another company or how an agent or mediator cultivates a relationship for a company. Generally, the international business models considering culture usually discuss the context, i.e., different value models or different concepts regarding distance have been suggested, but they do not discuss how this context or distance affects actors developing a relationship in the industrial market.

Based on the literature review, the problem was specified and cases were selected (Olkkonen, 1994). In this study, it was revealed that the development of industrial buyer-seller relationships outside the West has been scarcely studied. Hence, case relationships between Finnish sellers and local buyers in China and Chile were chosen as targets. These countries were chosen as they are important markets for the Finnish companies. For example, China is the most significant business partner for Finnish companies in Asia (Lehtinen, 2006). The researcher independently tried to find possible cases. However, an insufficient amount of case relationships in Chile or Latin America were found. As a result, this research focuses on four case relationships involving a Chinese industrial buyer and a Finnish industrial seller.

As the Chinese context is a unique context for the development of industrial buyer-seller relationships, the specific business culture traits and habits need to be understood. Therefore, Chapter 4 discusses *guanxi*, or connections in China. The literature review on *guanxi* was conducted similarly to that of the industrial buyer-seller process models.

The same search engine and databases were used for the term *guanxi*. Based on the search, 80 accessible journal articles, conference papers, and books were found.

The researcher visited China in 2000 for the first time. The researcher gained knowledge of the Chinese business culture and especially that of the more westernized form in the coastal area prior to this research study while she was working in a Finnish multinational enterprise in the greater Shanghai area in 2006. Wider understanding was also gained during the period her close relatives lived and worked in Shanghai. As a result of these experiences, the researcher has maintained relationships with Shanghainese friends. In addition, she has Western friends who have been working in Shanghai. To increase her knowledge of the Chinese business culture, the researcher has participated in courses on Asian business and business culture, including that of China, at the University of Tampere, where during the academic year 2008-2009, she completed a minor and at Fudan University in Shanghai in 2009. She has continually, since her time working in China, discussed how business is conducted in China with individuals (both Westerners and locals) who are doing business there. To deepen her knowledge of China and the Chinese way of thinking, the researcher has learned Mandarin Chinese (both written and spoken).

The role of the researcher in this study was that of an information gatherer. The researcher did not observe how the relationships occurred but gathered information through in-depth interviews and secondary sources (see more information about the research process in Chapter 2.3).

I wanted to allow the data gathered during the process to speak for itself. Thus, I tried to keep my mind open and not to base my interviews too much on the existing theories but instead to allow the respondents to tell how they saw the development of the particular case relationship to have occurred. However, when I interpret the data gathered, the theories of both the industrial buyer-seller relational process models and the *guanxi* development models are discussed. This can be seen in Chapter 6.

Finally, in Chapter 7, the study is concluded. Thus, the effects that this research has had on the existing theories and concepts are discussed. In addition, recommendations and implications for the academic world and practice are provided.

2.3. Data Collection Methods and Analysis of Data

Generally stated, case studies in management studies are illustrations of managerial situations (Bonoma, 1985; Ghauri, 2004) which involve the use of multiple data sources (Bonoma, 1985; Eisenhardt and Graebner, 2007; Ghauri, 2004; Rowley, 2002; Yin, 2003; 2006; 2007). The data sources may be primary or secondary (Bonoma, 1985) as well as internal or external (Proctor, 2005), and the data itself may be either qualitative or quantitative (Daymon and Holloway, 2002; Eisenhardt, 1989; Eriksson and

Koistinen, 2005; Ghauri, 2004; Gummesson, 1993; Rowley, 2002). In this study, interviews were the primary qualitative data sources and annual reports, internal documents, websites, and journal and magazine articles in English, Finnish, and Mandarin Chinese, as well as the interviewer's diary, were used as secondary data sources (see Appendix 5).

Studying business-to-business issues, such as industrial buyer-seller relationships across nations, is very challenging (Johnston, Leach, and Liu, 1999), especially, if the secondary sources being used cannot be automatically considered reliable. The secondary data from China needed to be evaluated thoroughly because data are often manipulated due to the political pressures in China. In addition, reliable performance data of companies are often non-existent. (Walters and Samiee, 2003) Due to the confidential nature of the information received from the case companies, the secondary data sources cannot be elaborated on, as Perry (1998) suggests should be done. However, the objectivity of the secondary data needed to be checked even though it was not produced by any of the company representatives participating in the study and, hence, could be considered objective. An author always has some purpose for writing a document, which needs to be considered when one uses it. (Johnston, Leach, and Liu, 1999)

Documentation and archival records, in general, are stable and can be repeatedly reviewed. They are objective in the sense that they have not been created only for the case study. They should be exact and detailed and have existed for a long time span. However, access to these may be difficult, the accessible documents may cause biased selectivity, and the researcher may report on the findings in a biased manner. (Yin, 2007)

The multiple data sources imply that the research is perceptually triangulated and, hence, allow for a more in-depth description of the case under study (Bonoma, 1985; Eriksson and Koistinen, 2005). On the basis of triangulation, multiple perspectives or sources help to overcome the weaknesses of an individual perspective or source (Brinberg and Hirschman, 1986).

The research itself was conducted through a multiple case study of an inductive nature, i.e., the cases are allowed to tell their own story without its being in the terms of the current theoretical models or accepted concepts (Gummesson 2003; 2005) even though case studies have not always been recognized as a proper scientific method (Dubois and Gadde, 2002). Case studies, however, allow the development of a theory with in-depth analyses of complex empirical phenomena (Dubois and Gadde, 2002; Eisenhardt and Graebner, 2007; Eriksson and Koistinen, 2005; Gummesson, 1993; Yin, 2007) in their contexts (Dubois and Gadde, 2002; Eisenhardt and Graebner, 2007; Gillham, 2005; Yin, 2003; 2006; 2007). Hence, the use of case studies is encouraged when investigating relationships (Lindgreen, 2001) or networks (Halinen and Törnroos, 2005). The

importance of the Chinese context needs to be recognized and the method adjusted accordingly as it differs significantly from the Western one (Eckhardt, 2004).

According to Dubois and Gadde (2002), Eisenhardt (1989), and Gummesson (2003), case study research should not be conducted by means of a standardized process, but instead, the researcher should go back and forth from one type of research activity to another, i.e., from the current academic literature to empirical data sources and vice versa. This study was conducted as a mixing and matching process: first, the industrial buyer-seller relational process models were studied, as well as the literature on *guanxi*, i.e., making the study theoretically triangulated (Eriksson and Koistinen, 2005). The latter literature review, however, was done only on the surface level before conducting the interviews in China. Even though inductive case research is based somewhat on grounded theory (Gummesson, 2003), when conducting interviews, it is important not to completely discard the knowledge gained during the literature reviews, as should generally be done when conducting pure grounded theory –based research (Goulding, 2005).

After the interviews, the *guanxi* literature was gone through in more depth before the analysis of the primary and secondary data sources. The chronologies were sent to the interviewees to allow them to check and comment on them. Only after this, were the case relationships compared across each other and with current academic models, as suggested by Gummesson (2005) or grounded theory –based research (Goulding, 2005), and were conclusions given. Thus, the researcher had the opportunity to familiarize herself with each case separately before comparing them, which according to Eisenhardt (1989) is beneficial for the cross-case comparison. At this stage, recognition of patterns was sought across the case relationships with the help of previous theory and constructs (Eisenhardt and Graebner, 2007). Due to the deadlines of conference papers, the theoretical and empirical data were combined every now and then, which allowed for creating and adjusting the final model.

As suggested by Eisenhardt (1989), this research studies four case relationships between a Chinese industrial buyer and a Finnish industrial seller. The sampling method used was that of convenience (Fletcher and Plakoyiannaki, forthcoming): members belonging to the Finnish Business Council in Shanghai were contacted, as well as representatives of Finnish companies known to function in the greater Shanghai area, and, as a result of this, to have personal experience of functioning in industrial relationships between a Chinese buyer and a Finnish seller. The area of greater Shanghai was chosen because it is the most important establishment location in China (Lukkari, 2006). The e-mail sent to the prospective case suppliers is presented in Appendix 1. Convenience sampling may diminish the level of information and credibility of a study (Fletcher and Plakoyiannaki, forthcoming); however, in this study it is not thought to be of much significance since relationships are being studied instead of individual companies and a variety of relationships are under study. On the other hand, the sampling method may

also be considered theoretical (ibid.; Yin, 2007) as the interviewees permitted the researcher to access even very confidential information, which otherwise could not have been acquired.

Even though the sampling method is that of convenience, theoretically intriguing cases and phenomena were not ignored intentionally. Instead, this sampling method was chosen because finding companies willing to participate in the study was difficult. Many of the companies which were contacted expressed no interest in participating in the study or did not have time to participate in it. The rough economic situation affected the workload individuals in companies were having, i.e., people had been laid off and, as a result, those remaining workers had increased workloads, which affected the willingness of companies to participate in the research. As their customers were also needed for interviews in order to gain insight from both sides, the willingness of companies to participate in the study was lower. The Finnish sellers did not always want to bother their customers or did not feel that they had appropriate customers who could be studied. Another reason which also affected the willingness of companies to participate in the research was the affiliation the researcher had with competitors. An additional issue that restricted the sample was that only one company from a certain industry was chosen to participate in the research in order to have a broader sample. The Finnish industry structure, hence, also affected the possible participants. Also, the Finnish company needed to have been present in China for a certain length of time in order to have certain kinds of relationships, which also limited the possible case companies. The willingness of companies to participate was limited because access was required not only to certain customers but also to certain confidential information.

In the end, the first four companies which agreed to participate in the study were chosen as the sample.⁵ The contact people in these Finnish industrial sellers were asked to select a potential Chinese buyer for the study. The relationship with the chosen Chinese partner needed to be at least three to five years old. Based on the selection, four different types of case relationships were under study: (1) a relationship between a Finnish seller and a mainland Chinese buyer (former joint venture), (2) a relationship between a Finnish seller (former joint venture) and a buyer based in Hong Kong, (3) a relationship between a Finnish seller and a Chinese distributor, and (4) a relationship between a Finnish seller and a Chinese subsidiary of an originally U.S.-based firm. In this case, the Finnish seller is a Chinese subsidiary. All these companies function in different industries. The cases can be considered to be theoretically diverse (Yin, 2006).

During the interviews with the representatives of the companies participating in the case relationships (altogether 17 interviewees, listed in Appendix 3), each was asked to illustrate how the relationship had developed up to that point and what the affect of

⁵ The process for finding each case seller is represented in Appendix 2.

culture and *guanxi* had had on the relationship. The contact persons at both the buyer and seller were allowed to identify suitable interviewees. It was hoped that many representatives of the organizations would be allowed to participate in the interviews as the representatives of the different organizational levels within an organization might have a different view on the issue (Holmlund, 2004).

The number of interviewees is low, according to Perry (1998), who states a doctoral dissertation should have 35 to 50 interviewees. However, as the research was conducted in Asia, where it is difficult to get interview access to more than one person within the organization (*ibid.*), the number can be considered acceptable. Perry (1998) suggests that in Asia, one should also interview other parties, for example, industry associations, consultants, and government officials. However, for this study it would not have brought more information if the representatives of these organizations had been contacted as they do not actively participate in the case relationships but are only on the sidelines of the case relationships. Also, as the recipients were interviewed in an in-depth manner, a smaller number of interviewees is justifiable. The amount of interviews is not the most significant issue when conducting qualitative research, but instead, it is the data which is gathered during the interviews. In this study, the interview data could be considered sufficiently rich, especially as a vast amount of secondary sources were also used.

Academic research in the field of industrial marketing is dependent on the willingness of companies to participate in the research. The researcher is dependent on the degree of access the participating companies will accept. The companies in this study were asked for access to as many people as possible for the interviews, but 17 was the number the researcher was allowed to interview. The companies wanted the interviews to be finalized well before the Chinese New Year (which was celebrated on February 14 in 2010) as the weeks before that are busy for them due to social activities they, their sellers, or their buyers host. In addition, after the Chinese New Year, the companies would have been too busy to participate in the research due to financial documentation pressures. And because the country is so large, businesspeople in China travel a great deal, a fact which presented constraints on the possible interviewees. The researcher tried to be as flexible as possible with her schedule to allow the interviewees to select the time and locations where the interviews took place. Chinese people tend to arrange their appointments only a couple of days prior to the date, which also complicated the interviewing process.

The interviews were both individual and small-group (Hall and Rist, 1999) semi-structured (Saunders, Lewis, and Thornhill, 2009) in-depth ones (Gummesson, 1993; Yin, 2007). Because the cultural context was China and some of the people interviewed were local Chinese, it was important to design the method in such a way that they felt free and to discuss the issues frankly since in China it is believed that those who know do not speak while those who speak do not know (Walters and Samiee, 2003). The

atmosphere of the interviews was kept as relaxed as possible even though the majority of the interviews were recorded. The main reason that interviews could not be recorded was due to the location. Some of the interviews took place during plant visits/factory tours and due to the noise, taping was not possible. The interviews were more like discussions than interviews. The interview guide is found in Appendix 4. Even though the majority of the interviews were recorded, they are not transliterated, but instead, the tapes may be consulted if needed (Perry, 1998). During the approximately two-hour interviews, notes were continuously taken on a word-by-word basis and after the interviews were completed, the notes were checked and clarified, if necessary.

The language used during interviews may affect the situational atmosphere and the manner in which the recipients answer (Marschan-Piekkari and Reis, 2004). The interview languages used in this study were English, Finnish, and Mandarin Chinese, as shown in Appendix 3. The interviewer had native skills in English and Finnish and intermediate skills in Mandarin Chinese. Accordingly, for the interviews in Mandarin Chinese, an interpreter was hired. This situation, of course, was not ideal, i.e., the interviewer should have been fluent in all three (Eckhardt, 2004), but this was the best possible option in this case. The interpreter was known to be a true professional and, therefore, he should not be considered a gatekeeper of information. All the interviewees were given the choice of having the interpreter present in the interviews; however, only one interviewee chose this option. The interviewee who chose this option was the representative of the only truly mainland Chinese company. Eckhardt (2004) has suggested that the interviewers with the mainland Chinese should be indigenous, which appears to be true for this case also as the interpreter acted more like the interviewer and the interviewer as a listener and note-taker.

The use of interviews allows direct focus on the subject and identification of causal inferences and explanations (Johnston, Leach, and Liu, 1999; Yin, 2007). However, in order for this to occur, the interview guide needs to be developed systematically (Johnston, Leach, and Liu, 1999). Otherwise, if the recipients do not recall the occurrences correctly, the interviewees may provide the answers that they suspect the interviewer wants to hear (*ibid.*; Yin, 2007). In this study, the interview guide was developed based on the literature reviews (see Appendix 4) and was discussed with fellow scholars. In order to ensure that the interviewees would recall the occurrences as accurately as possible, the research themes were sent beforehand. In addition, the interviews of the buyer and seller sides were compared against each other and secondary sources were consulted in order to ensure that the data gathered were as correct as possible. Since this topic is quite objective, in the sense that it is about relationship development, and the interviewees were aware that their information was being cross-checked in some manner, it can be assumed that the recipients related the correct details of the relationship development instead of discussing issues that they thought the researcher wanted to hear. The researcher tried to develop the questions in such a manner that they were not biased (Yin, 2007).

In addition to interviews, a vast amount of secondary sources were used (see Appendix 5) in order to get a fuller picture of the relational episodes and general and industry-specific events. The secondary sources were also used to compare and contrast with the interviews to ensure that the data were valid.

Case studies should note the context in which they exist, as well as the dynamics (Bonoma, 1985; Daymon and Holloway, 2002; Gerring, 2004). In order to better understand the Chinese business culture, i.e., the context of the study, the concept of *guanxi* is discussed in Chapter 4. The temporal dimension was considered by asking the interviewees to illustrate by either drawing or explaining the timeline of how the case relationship had developed. Therefore, the relationship was seen to contain different relational episodes, as suggested by Schurr (2007).

The data analysis method is somewhat different than general case studies as this study is exploratory without initial propositions being made (Rowley, 2002). The data gathered are illustrated in Chapter 5 by means of chronologies (Eriksson and Koistinen, 2005; Ghauri, 2004; Yin, 2007) as suggested should be done by Gerring (2004). With the help of these chronologies, it is possible to study the relationships which the episodes have and to find a possible pattern between the development paths of the case relationships (Eriksson and Koistinen, 2005). These chronologies are compared across each other and with the current academic industrial buyer-seller relational process models and the *guanxi* development models in Chapter 6.1 and Chapter 6.2, respectively.

The results that the case studies bear are basically concerned with how the researcher interprets the data gathered (Bonoma, 1985). This, however, does not mean that case studies should not be used as a method in research since the process of going back and forth allows the researcher to be more creative and to look at the research problem from different perspectives (Eisenhardt, 1989). One should also remember that all research is actually interpretative (Gummesson, 2003).

As the method used in this research is inductive case research, the reasoning process is based on idealization. The manner in which the theoretical explanation is developed from the empirical data is primarily based on eliminative and enumerative inductive reasoning, i.e., the claims are based on the grounds. The reasoning is based on a more Spartan view than an explanationist view, i.e., one tries to find the “truth” from the data instead of basing the reasoning on interestingness, novelty, plausibility, and simplicity because inductive case researchers may practically extract their own involvement during the reasoning process. Generally, in idealization the rules and procedures are explicit and established. However, this is not true in inductive case research for which an established method does not yet exist. (Ketokivi and Mantere, 2010)

2.4. Assessment of the Study

Overall, the problem with inductive case studies is that only particular past events may be studied instead of generalizations (Ketokivi and Mantere, 2010). This is also the case with this study: interviewees could be asked only about occurred relational episodes (Schurr, 2007). Of course, the research was kept as current as possible by asking about the current and the prospective situation of the relationship. However, this is only forecasting and cannot be considered completely reliable even though the company representatives in high positions were asked to evaluate this. As seen in the past, one can never be absolutely sure about, for example, the financial situations in a year.

In addition, the study is based on inductive reasoning, so the results may include an error since inductive reasoning as a process is incomplete (Ketokivi and Mantere, 2010). The researcher and several others have checked the reasoning process throughout the preparation of this dissertation in order to ensure that the results are as error-free as possible. The research process has been portrayed in as detailed a way as possible to ensure that the results are reliable.

For research to be reliable, the results need to be generally reproducible (Orum, Feagin, and Sjoberg, 1991; Stenbacka, 2001; Yin, 2007) using the same procedures (Orum, Feagin, and Sjoberg, 1991; Yin, 2007). Reliability in case studies is difficult to assess as case study research cannot be repeated in constant conditions (Fidel, 1984) and does not have a process as explicit, orderly, and transparent as that of quantitative studies (Gummesson, 2005). To ensure reliability in case research, one should conduct a thorough literature review (Riege, 2003), develop, modify, and use a case study protocol (ibid.; Rowley, 2002; Stenbacka, 2001; Yin, 2007), record data, and use multiple sources (Riege, 2003) as was done with this study. Using multiple researchers would have made this study more reliable (Riege, 2003); however, as this study was a doctoral dissertation, this was not possible. Pre-printing examiners and opponents automatically review the study, as it is a doctoral dissertation, which improves the reliability of the study (ibid.).

Validity is the degree to which the researcher has studied what she or he intended to research (Fidel, 1984). The validity of case research has been harshly questioned as it has been seen as lacking rigor (Patton and Appelbaum, 2003; Yin, 2007), being subjective (Patton and Appelbaum, 2003), and generating ungeneralizable results (ibid.; Yin, 2007). It should, however, be remembered that the generalization of case studies is not statistical but analytical, i.e., the results are compared against the current academic models (Rowley, 2002; Yin, 2007). Generally, to ensure that one's case research is valid, one should choose strategically important interviewees who are not forced to participate or to voice their opinion (Stenbacka, 2001).

There exist six different forms of validity: (1) construct validity, (2) content validity, (3) internal validity, (4) interpretative validity, (5) contextual validity, and (6) external validity (Lindgreen, 2001). These are elaborated on below.

(1) Construct validity ensures that the subjectivity within the study is exposed and decreased (Rowley, 2002). It can be ensured by using several sources (Lindgreen, 2001; Riege, 2003; Yin, 2007), showing the research method step by step, and by allowing the interviewees to comment on the draft (Riege, 2003; Yin, 2007) as was done with this study. Hence, the constructs used during this study and their operationalization should be valid (Yin, 2007).

(2) Content validity may be improved by asking interviewees to define the concepts being used in a study (Lindgreen, 2001). In this study, the interviewees were asked to define the development of the case relationships, as well as guanxi as a concept. This confirms that the terms being used during the interview were understood similarly by both the interviewee and the interviewer (ibid.).

(3) Internal validity concerns only explanatory case studies (ibid.; Yin, 2007). Therefore, it is not discussed in this exploratory study.

(4) The validity of the interpretations that a researcher makes during a study can be checked by conducting two or three rounds of interviews (Lindgreen, 2001). In this case, the interviewees were asked to check the interpretation that the researcher made and comment on it. Due to time constraints and the requests of the majority of the interviewees, this was the strategy chosen.

(5) Contextual validity can be established by recording the interviews (ibid.). The majority of the interviews conducted for this study were recorded. In some situations this was not possible.

(6) By sharpening the specifications of the particular population of interest, external validity may be confirmed (ibid.). This means that external validity ensures that the study may be replicated in the future (Rowley, 2002). The interviews were conducted by creating a guide, copying it (Riege, 2003; Yin, 2007), and using it for each interview. The scope of the research was defined in the beginning of the dissertation and the limitations of the generalizability of the study in this chapter. The results of the data gathered are compared with current academic literature in Chapter 6.2. These practices should ensure external validity (Riege, 2003).

2.5. Summary of the Research Methodology and Method

This dissertation is conducted as an inductive case study. It is an exploratory multiple case study focusing on the development of four Chinese industrial buyers and four Finnish sellers. (1) Case Relationship Dragon focuses on a former joint venture between

a Chinese company and a British company with a Finnish seller. (2) Case Relationship Red Bird involves a Hongkongese buyer and a former joint venture between a Finnish firm and an Asian firm. (3) Case Relationship Turtle is between a Chinese distributor (buyer) and a Finnish seller. (4) The final case relationship—that of White Tiger—is one between a subsidiary of an originally U.S.-based company and a Finnish seller.

For multiple case studies to be successful, the research needs to be built on five elements: (1) analytical generalization, (2) analytical pattern-matching logic, (3) theoretical sampling, (4) triangulation, and (5) validation through juxtaposition and iteration (Pauwels and Matthyssens, 2004). As the dissertation is a multiple case study, statistical generalizing methods cannot be used. Instead, idealization as an inductive reasoning method is used in order to generalize the findings analytically.

The data gathered during the process from both interviews and secondary sources, namely, annual reports, internal documents, the interviewer's diary, websites, and journal and magazine articles, are arranged in chronologies depicting the different relational episodes. These chronologies are compared against each other and against the current theoretical models of industrial buyer-seller relational process models and guanxi development models.

The sampling method can be considered one either of convenience or of theoretical suitability, i.e., the Finnish firms functioning in the greater Shanghai area were approached for participation in the study. The first four companies which agreed to participate in the study were chosen as the sample. These firms allowed the researcher access to their internal documents, as well as one of their Chinese customers, which is not always permitted.

As the case uses different sources during the data-gathering period, it can be considered to be perceptually triangulated. In addition, because different theoretical fields, i.e., those of industrial buyer-seller relational process models and guanxi, are reviewed and the case data compared, the study can also be considered theoretically triangulated.

Cross-case analysis was completed during this doctoral dissertation, because of which the study is validated through juxtaposition and iteration. Actually, the whole research method is such that the theory and case data are also compared against each other continually, which should lead to an increase in the degree of validation.

The reliability and validity of the study have been checked. Based on this discussion, the study should be reliable and valid even though, in general, reliability is difficult to determine for case studies. As the study is exploratory in nature, the internal validity could not be assessed. However, construct, content, interpretative, contextual, and external validity should exist for the study.

3. THEORETICAL BASES AND EMPIRICAL APPLICATIONS OF THE DEVELOPMENT OF INDUSTRIAL BUYER-SELLER RELATIONSHIPS

3.1. Defining Industrial Buyer-Seller Relationships in the East and in the West

Marketing literature has suggested that companies employ either long-term relationship marketing or short-term transactional approaches to industrial buyer-seller relationships (Abramson and Ai, 1997). However, what is meant by relationships remains vague as only a few academics have attempted to define the term (Zolkiewski, 2004).

Industrial buyer-seller relationships are dynamic processes in which suppliers interact with their prospective, current, or former customers (Bolton, 1998; LaBarbera and Mazursky, 1983; Rust et al., 1999). They are a form of partnerships in which representatives from different organizational levels interact in order to plan the offerings and their deliveries so that both parties are satisfied. As the actors are in more and more contact with each other, they are also more willing to manage and share the risk and rewards of the offering and its delivery together. (Ellram, 1991; Frazier, Spekman, and O'Neal, 1988; Palmer, 2007) The contact itself is both formal and informal as the representatives of the companies become familiar with each other (Frazier, Spekman, and O'Neal, 1988; Palmer, 2007).

Even though the activities occurring within a relationship are planned for the long-term (Ellram, 1991; Frazier, Spekman, and O'Neal, 1988), the focus is on the separate transactions (ibid.) and on increasing their volume (Palmer, 2007). The deliveries occur regularly (Frazier, Spekman, and O'Neal, 1988; Palmer, 2007). The main emphasis is still put on the main offerings, but also some value-added subofferings are noted (Frazier, Spekman, and O'Neal, 1988). The assets used within the relationship may be shared. In order for the relationship to continue, either the buyer or the seller may need to financially assist the other through tough times. This is a way for the business partners to show their commitment to the relationship and each other. (Ellram, 1991) The investments made within the relationship are at a moderate level and, thus, the firms are dependent on each other only in a few functional areas (Frazier, Spekman, and O'Neal, 1988).

Industrial buyer-seller relationships are characterized by eight different attributes. (1) The seller needs to be *customer oriented*, i.e., it should analyze and identify the customer's needs and try to solve the customer's problems. In the international market, the seller cannot be ethnocentric, but instead it should acknowledge the manner in which the foreign companies function. (Cunningham and Homse, 1986)

(2) The seller needs to have strong *technical expertise*. It is not sufficient for only the research and development (R&D) department to understand the technicalities, but also the marketing staff should have at least a basic understanding of them. The seller needs to be willing to develop new technology and offer it to its customers. It is especially important to acknowledge the customer's needs and wants during the R&D process. (ibid.)

(3) The seller should be *commercially competent*. It should provide adequate and quick responses to its customers, especially in the case of complaints. (ibid.)

(4) The seller needs to be *flexible and adaptable*. The seller should not act ethnocentrically towards its administrative processes, delivery dates, offerings, payment systems, or processes, but instead it should be open-minded and willing to adapt to the local practices to some extent. (ibid.)

(5) The seller needs to have *supply performance capability*. It should provide reliable deliveries, information, and offerings at a certain, consistent quality level. (ibid.)

(6) The seller should have *competitive pricing* and needs to be willing to negotiate on it. The price not only covers the offering but also may include other auxiliary issues, such as logistics costs. (ibid.)

(7) The seller's *organization* should be *effective*. The organizational structure and functional expertise coordination need to fulfill the customer's needs as this affects the contacting system between the representatives of the buyer and the seller. (ibid.)

(8) The seller needs to be ready to *socially integrate* and create an environment of closeness, cooperation, commitment, legitimate exercise of power, and trust. (ibid.) Relationships should not only be seen as instrumental but also contain some emotional ties (Kaunonen, Polsa, and Fan, 2010).

Transactions, on the other hand, are one-time sales or purchases, depending on whether they are considered from the point of view of sellers or buyers. As the transaction is only short-term in nature, both of the companies try to carry as small a risk as possible, simultaneously aiming at a high reward. (Ellram, 1991; Frazier, Spekman, and O'Neal, 1988) The two firms remain separate organizations with no common financial ties (Ellram, 1991). The information shared is very limited, covering only that required to complete the delivery of an offering as successfully as possible. Often only a small

number of representatives participate in the negotiations and overall are in contact. (ibid.; Frazier, Spekman, and O'Neal, 1988; Palmer, 2007) Price is often the focus of the negotiations. As the company representatives may not be familiar with each other, communication remains at a formal level. Since there is a low level of interaction between the actors, they remain fairly independent. (Ellram, 1991; Palmer, 2007)

In addition to relationships and transactions, Palmer (2007) has suggested a third form exists: sustained transactions, which are between transactions and relations. Sustained transactions are such that a low level of loyalty exists, but more than one transaction takes place. Therefore, the actors are highly dependent on each other. Power is more balanced than in transactions, but it may be opportunistically used and, thus, a win-lose situation exists. (ibid.)

Ellram (1991) has also identified a third possible relationship form: strategic alliances, or vertical integration. Frazier, Spekman, and O'Neal (1988), on the other hand, have suggested their own third option for the form of industrial buyer-seller relationships. They call these just-in-time (JIT) relationships after the Japanese philosophy (ibid.). The characteristics of the four different forms are listed in Table 3-1.

Table 3-1. *The Major Characteristics of Different Industrial Buyer-Seller Relationship Types (adopted from Ellram, 1991, p. 14; Frazier, Spekman, and O'Neal, 1988, p. 55).*

Factor	Relationship form			
	Open-market	Partnership	Just-in-time	Vertical integration
Degree of risk / reward	Minimize risk, maximize reward	Manage / share risk and reward	Manage / share risk and reward	Absorb or manage risk and reward internally
Focus	Price of core offering	Emphasis on core offering, with some attention to value-added subofferings	Joint emphasis on core offering and value-added subofferings	Joint emphasis on core offering and value-added subofferings
Relationships	Single contact between firms; tends to be formal	Multiple contacts / levels; both formal and informal	A tangled web of relations across functional areas; both formal and informal	Multiple contacts / levels; both formal and informal
Information	Limited-only as needed for current transaction	As required for planning output, processes, and technology	Joint product-, production-, and logistics-related	Fully integrated
Planning	Short term transaction	Moderate to long term, on-going	Long term, on-going	Long term, on-going
Problem-solving	After the fact and reactive	Largely reactive	Proactive and oriented toward prevention	NA
Asset ownership	Completely separate	May be shared, or some financial assistance / commitment	May be shared, or some financial assistance / commitment	Fully owned internally

JIT relations are similar to partnerships, noticeable in Table 3-1. The difference is that the risk related to this relationship is higher as the actors need to share more confidential information. Usually the seller is the only supplier, which also increases the risk the buyer carries. In JIT relationships, the business partners work together more tightly to create a competitive advantage. There are several smaller scale deliveries and purchases, which often are adjusted at the last minute. Therefore, the level of interaction between the companies is very high. (Frazier, Spekman, and O’Neal, 1988)

Strategic alliances are separate organizations which the two parties fully own, as noted in Table 3-1. In this separate entity, the several representatives from different organizational levels of the two actors come together to share a high level of information and generate new knowledge. The separate organization manages its own risk and reward and plans on a continuous manner for the long-term. (Ellram, 1991)

Webster (1992) suggests that all interactions between an industrial buyer and seller are relationships, as is presented in Table 3-1 with the notion “Relationship form.” However, there exists a range of these relationships from transactions to vertical integration, as portrayed in Figure 3-1.

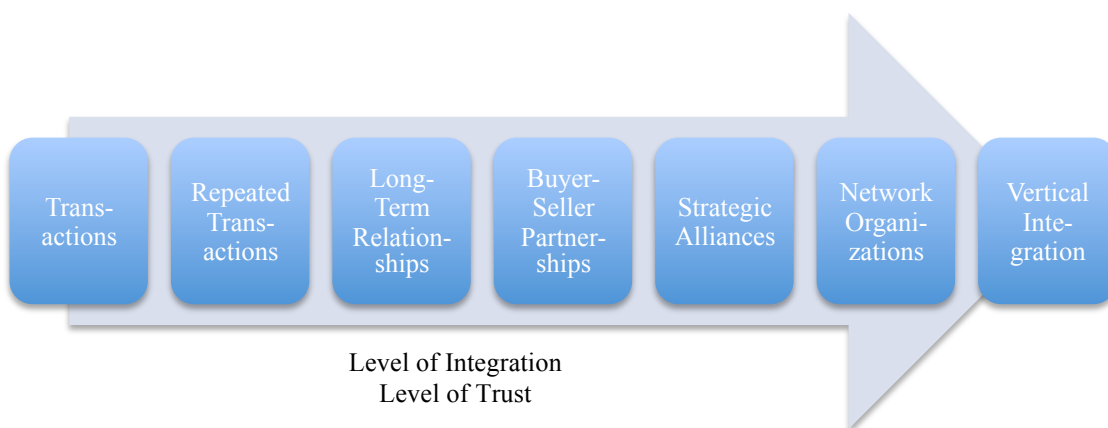


Figure 3-1. *The Range of Marketing Relationships (adopted from Webster, 1992, p. 5; the arrow labels added).*

The arrow in Figure 3-1 portrays the level of integration and, hence, the dependence of the two parties, i.e., the buyer and the seller, within a relationship. Transactions can be one-time events. In vertical integrations, however, two companies become one and, therefore, operate conjointly and are in daily contact. The trust level between the two parties also increases as the partners become more acquainted with each other. (Webster, 1992) As can be seen, the JIT relations, as suggested by Frazier, Spekman, and O’Neal (1988), are not presented in Webster’s (1992) model.

To choose the appropriate relationship type, one needs to consider the market and the situation. The availability of alternatives, the supply market dynamism, and the significance and the complexity of the supply affect the decision. (Cannon and

Perreault, 1999) When selecting one of these strategies, one also needs to consider the objectives that the other has for the duration for the relationship (Barnes, 2005).

The relationship duration is affected by four factors: (1) legitimacy and compatibility, (2) economic and shared values, (3) social relations, and (4) learning bonds (ibid.). Hence, sellers, considering the attractiveness of the customer and the amount of revenue it creates, may classify their customers as (1) Tomorrow's customers that sellers are trying to attract, (2) Today's special customers with large purchase quantities and intimate exchanges, (3) Today's regular customers with large purchase quantities but less intimate exchanges, and (4) Yesterday's customers with small sales volume (Campbell and Cunningham, 1983). The cultural environment in which the relationship occurs affects the manner in which time and, therefore, relationship duration are seen (Abramson and Ai, 1997; Dash, Bruning, and Guin, 2007). That is, there is a difference between existing in a long-term-oriented or a short-term-oriented culture (Hofstede and Bond, 1988)⁶.

The dynamics within the relationships also vary, as shown in Figure 3-2. This means that the buyer needs to adjust its purchasing strategy and the seller its marketing strategy. (Campbell, 1985)

		Marketing Strategy		
		Competitive	Cooperative	Command
Purchasing Strategy	Competitive	Independent Perfect Market	Mismatch	Independent Seller's Market
	Cooperative	Mismatch	Interdependent Domesticated Market	Dependent Captive Market
	Command	Independent Buyer's Market	Dependent Subcontract Market	Mismatch

Figure 3-2. *Classifying Industrial Buyer-Seller Relationships Based on Buyer-Seller Dynamics (adopted from Campbell, 1985, p. 36).*

Dependent, independent, and interdependent relationships occur in different situations, as depicted in Figure 3-2. The marketing and purchasing strategies differ across the situations. Competitive strategies are used when there are several buyers or sellers and cooperative strategies are used when both of the actors are willing to work together and the relational environment is open and trustworthy. In situations in which one of the actors has the upper hand, a command strategy is used. (ibid.)

⁶ Hofstede's fifth national value dimension has been criticized by others, e.g., Fang (2003), but it is used here only as a simplified example. The operationalization of the value dimensions is not discussed further.

Several factors affect the dynamics of relationships and, thus, the development of the relationships (Alajoutsijärvi, 1996). Alajoutsijärvi (1996) has divided these based on whether the relationship becomes (1) more cooperative, (2) more competitive, or (3a) more or (3b) less dominated by the buyer.

(1) Cooperativeness in a relationship is mostly derived from the seller. The seller may direct itself into the area the customer desires, be flexible and helpful, and/or be successful in the other factories within the same conglomerate. In addition, its deliveries may be successful in the eyes of the buyer or the significance of the seller's representatives may increase. Also, when, a competitor fails, the buyer needs to develop forms of cooperation in product or service development or it wants to develop cooperative relationships with the seller so that cooperative actions occur within the relationship, all of which enhance cooperativeness in the relationship. (ibid.)

(2) The relationship's becoming more competitive is also more related to the seller's performance or actions. The seller may leave the area the customer wants it to be in or may fail in the particular relationship or at other factories of the same conglomerate. The buyer may also feel that the seller is becoming a monopoly or that the technology that the seller provides does not meet its needs. In addition, the competitors of the seller may aggressively try to develop a relationship with the buyer. (ibid.)

(3a) When the seller aggressively attempts to develop a relationship with the buyer, it becomes more dominated by the buyer. (3b) However, when the relationship becomes more cooperative, the dominance of the buyer diminishes. (ibid.)

Interaction within relationships varies on the bases of (1) capability, (2) mutuality, (3) particularity, and (4) inconsistency. (1) Capability defines the benefits the relational actors may receive from the relationship through the functions the other conducts. (2) Relational actors tend to share at least some common goals or interests within relationships, i.e., the parties are on mutual ground about how they view each other in the long term: whether they see each other as taking part in only one transaction or in several in order to cultivate closer cooperation. (3) Particularity of a relationship refers to the uniqueness of the relationship and the interaction within it when compared to the relationships that other companies have with the relational actors in question. (4) The smoothness or lack of it in the interactions occurring in the relationship is included in inconsistency. (Ford, Håkansson, and Johanson, 1986)

Relationships may be understood differently in the East and in the West. Chinese relations, or *guanxi*, differ from Western relational exchanges (Gu, Hung, and Tse, 2008), as can be noted in Table 3-2.

Table 3-2. *Differences between Relation Exchanges and Guanxi (adopted from Gu, Hung, and Tse, 2008, p. 14).*

		Relational Exchange	Guanxi
As a Construct	Nature of construct	Social networks that an individual builds	A form of social ties and connectiveness popular in the Chinese context
	Cultural context	<ul style="list-style-type: none"> • Individualist • With legal and professional institutions well established 	<ul style="list-style-type: none"> • Collectivist-familistic (Fukuyama, 1995) • Family bonds above all other social bonds and loyalties
	Operating rules / norms	Conscious social accounting involving cost-benefit analysis and consideration of alternatives before acting	An in-group approach that views an individual as a part of a web of social relationships, strong in-group favoritism
	Initial formation	Mostly by individuals through their social behaviors and activities	Paternal in nature, born in family and villages
	Growth and extension	Mostly through increasing social activities of the individual	Through increased social activities and network growth, expandable by transfers
	Operating mechanism and processes	Trust and social norms that drive cooperation and commitment	Favoritism and reciprocity that drive commitment and loyalty
	(Source of) Social capital	<ul style="list-style-type: none"> • Voluntary association of individuals or firms with complementary skills • Loosely organized (Fukuyama, 1995) • Infrequently done, exceptional 	<ul style="list-style-type: none"> • Kinship and variants • Tight social ties • Often done, becomes a norm
	As corporate resource	Seldom used	Important resource for entrepreneurs and firms that do not have other resources
As Governance Structure	Relational benefits	Few and weak, typically stay at the interpersonal level	Can be strong because it obliges all in the network to help, can be transformed to corporate level
	Shared values in network	Some common values but often not enforced to converge	Strong, at times may be enforced to converge
	Maintenance process	<ul style="list-style-type: none"> • Interfirm agreements and contracts • Being fair and even 	<ul style="list-style-type: none"> • Reciprocity, indebtedness, and gift-giving • Deepened through accumulated obligations
	Daily use	Occasional	Frequent and in many facets of life
	Antecedents	Interdependency, the ability to provide other with reward and obtain profits in return	Bounded solidarity <ul style="list-style-type: none"> • Ascribed traits • Achieved characteristics • Shared experience
	Positive effects	<ul style="list-style-type: none"> • Sustain commitment through trust and norms in uncertain environment • Fairness and openness to build strong relational commitment 	<ul style="list-style-type: none"> • Respect / face • Privileged access to information and resources • Sustained in uncertain environment
	Negative effects	<ul style="list-style-type: none"> • Uncertainty because of open competition • Costs of disengagement 	<ul style="list-style-type: none"> • Bribery, corruption • Obstacle to the rule of law • Overdependence, domino effects
	Transferability and duration	<ul style="list-style-type: none"> • Limited transferability • Heavily dependent on the identity of each party • Can withdraw / disengage 	<ul style="list-style-type: none"> • Organic process, transferable • Bounded solitary • Can pass from generation to generation

In China's collectivist culture, family and kinship ties are regarded as important social resources, as noted in Table 3-2. Guanxi, as such, can be considered as a special Chinese form of relational exchange, which has been influenced by Chinese institutions, or actually the lack of formal institutions. (Gu, Hung, and Tse, 2008) The major

difference between *guanxi* exchanges and Western relational exchanges is the philosophy and its assumptions behind the individuals participating in the exchange (Lovett, Simmons, and Kali, 1999). While the Chinese follow Taoism (Ambler, 1994), e.g., the principle of *yīn* (阴) and *yáng* (阳), which is a continuum between differences (Faure and Fang, 2008), Western thought is based on Aristotelian (linear) logic (Ambler, 1994). For example, as Westerners tend to be straightforward with their wants and needs, the Chinese tend to suggest issues. This, however, has somewhat changed due to the more westernized business cultures on the coast and the businesspeople may be more frank (Faure and Fang, 2008)⁷. The difference between the Chinese and Western ways of thinking is visible, for example, in the written languages (Chen, 1999). While the Chinese use characters (or *hànzì*, 汉字), Westerners use the Latin alphabet. This difference still seems to be the main driver in the different ways of thinking between the Chinese and Westerners (Faure and Fang, 2008).

The way in which *guanxi* is practiced may be thought unethical from the Western point of view as the Western principles of “fairness” and “equal opportunity” may be violated (Lovett, Simmons, and Kali, 1999) and because Westerners view issues having clear alternatives while for the Chinese, issues may be more blurred, i.e., “both and” instead of “either or” (Ambler, 1994), based on *yin* and *yang* (Faure and Fang, 2008). *Guanxi* has also been related to corruption (Fan, 2002; Luo, 2008), which has been termed “bad *guanxi*” as opposed to the “good *guanxi*” of favor exchanging and of close friendly relationships (Fan, 2007).⁸ *Guanxi* can be seen as the enabler of corruption in China (Fan, 2002; Luo, 2008). Even though the items that are exchanged differ, *guanxi* is based on exchanging favors for the long-term. On the other hand, money usually changes hands at one point in time or during a short period of time in corruptive actions (Luo, 2007). However, in 2007 Luo (2007) believed that as China was demoralizing, the separation between *guanxi* and corruption would widen. A year later, though, Luo (2008) found that the situation might not be that clear, but instead, the separation of *guanxi* and corruption would depend on the type of *guanxi*.⁹ The *guanxi* between family members would be more moral and legal while the same could not be said for that between strangers (*ibid.*).

⁷ For example, in Shanghai, the Chinese tend to be business savvy, bottom-line oriented, detail-focused, confident, arrogant, materialistic, more tactical compared to people from other parts of China, more willing to westernize, and obsessed with getting forward in their careers. Hence, there tends to be a larger number of younger people in higher positions. (Tung, Worm, and Fang, 2008)

⁸ Although the existence of two types of *guanxi* has been noted, the corruptive form is not discussed in depth, but instead only “good *guanxi*” is elaborated on as the Finnish case sellers need to obey Finnish laws, which are strict about not practicing corruptive actions. This is not to say that Finnish companies would not conduct illegal activities, but at least it could be suggested that they would not admit to them during interviews.

⁹ The types of *guanxi* are elaborated on in Chapter 4.2.

Hammond and Glenn (2004) have noted that guanxi and the Western social network theory have three similarities in common. Firstly, the role of information is important in both guanxi and social network theory. The level of information which is shared between two actors distinguishes insiders (strong ties) from outsiders (weak ties). Secondly, trust needs to be built between the two parties. However, trust as a concept differs in the East and the West. Thirdly, randomness and order are at the core of both paradigms. Both suggest that order and chaos are relative terms. However, guanxi is more about certainty and trust while social network theory allows for chaos. For example, in societies based on guanxi, divorces are rare occurrences. In contrast, in the West the divorce rate has increased as divorces are not socially so condemned. (ibid.)

Several differences between these two points of view also exist. First of all, guanxi is based on collectivism, but the Western personal networking is more influenced by individualism. Even though networks are important in both societies, in the East, networks can be considered of even vital significance. Networking in China is extremely common while in the West, exchanges are more discrete in nature. The Chinese, to some degree, are more private and, as a result, the exchanges usually occur at the workplace. In contrast, Westerners like to socialize outside the workplace. (Michailova and Worm, 2003) The exchange in the East is both social and business in nature. In the West, however, one tends to keep business exchanges as business and not to mix in friendship (Pearce and Robinson, 2000). Being a feature of a collectivistic society, guanxi usually consists of at least a triad while Westerners network at a dyad level and, therefore, the exchange itself is more direct compared to the Chinese, who often utilize mediators. In the end, the relationships between the Chinese are more personal. Westerners, on the other hand, view their own networks as non-personal. (Michailova and Worm, 2003)

3.2. Approaches for Modeling Industrial Buyer-Seller Relational Process

Industrial buyer-seller relational process models draw from several different fields. For example, the model suggested by Dwyer, Schurr, and Oh (1987) is based on modern contract law (Macneil, 1980) and the exchange theories of social psychologists (e.g., Scanzoni, 1979; Thibault and Kelley, 1959). Frazier (1983), on the other hand, bases his model on marketing literature and related behavioral science disciplines. Wilson and Mummalaneni (1986) build theirs on marketing models (Håkansson, 1982; Wilson, 1995), bonding models (McCall, 1970; Turner, 1970), and finance through the investment model (Rusbult, 1980). Social psychology, sociology, relationship management, and marketing theories act as the basis for the model proposed by Zineldin (2002).

Industrial buyer-seller relationships have been regarded as different forms of relationships. Some (e.g., Borys and Jemison, 1989; Das and Teng, 2002; Doz, 1996;

Ring and Van de Ven, 1994) view them as strategic alliances and others (e.g., Edvinsson, 1985; Grönroos, 1980, 1982; Wackman, Salmon, and Salmon, 1987; Yorke, 1990) see the sellers as service providers. Several authors (e.g., Dwyer, Schurr and Oh, 1987; Ford, 1980; Wilson, 1995) mainly consider industrial buyer-seller relationships as collaborations between two business partners. Some researchers (e.g., Millman and Wilson, 1995) study only relationships between sellers and their key account customers.

The different industrial buyer-seller relationship process models have scarcely been categorized. Batonda and Perry (2003a) have identified three types of approaches for studying the development of industrial buyer-seller relationships: (1) joining theory, (2) stages theory, and (3) states theory. The stages theory can further be divided into two categories: (2a) life-cycle models and (2b) growth-stage models. Growth-stage models include models analogous to dating. (ibid.; Rao and Perry, 2002) These different industrial buyer-seller relational process models are discussed in more depth below. The different stages, or states, of the models are compared. In addition, the method used and the influence that culture has in the models are considered.

3.3. Joining Theory

Joining theory is based on the work of Thorelli (1986). According to Batonda and Perry (2003a), the position a new member takes when entering an inter-firm network determines how well a relationship and the whole network of which the relationship is part will function. It also affects the direction in which the relationship and network in which the relationship exists will process. Members in a network may reposition themselves and exit the network and, hence, terminate the relationship shared with an industrial buyer or seller. The initial position, however, determines how the new member may reposition itself within the network and, thus, develop relationships. Repositioning as a process is similar to the network entrance process. (ibid.)

None of the industrial buyer-seller relational process models identified during the literature review belong to joining theory. Batonda and Perry (2003a) state that this theory has not yet been empirically tested. As they noted, joining theory is not an appropriate theory for analyzing the development of industrial buyer-seller relationships (ibid.).

3.4. Stages Theory

According to stages theory, industrial buyer-seller relationships develop, grow, or process in a sequential manner over a long time. There exist two forms of stages theory: (1) life-cycle models and (2) growth-stage models. (Batonda and Perry, 2003a) Below, these two types of models are elaborated on. The models are compared based on the five-stage classification for industrial buyer-seller relationships suggested by Baker and Hart (2008).

1. Pre-Relationship Stage
2. Attraction Stage
3. Formation Stage
4. Expansion Stage
5. Ending Stage¹⁰

According to Baker and Hart (2008), the pre-relationship stage is such that the buyer and seller do not yet interact with each other, but they may be aware of the existence of the other. During the attraction stage, either the buyer or the seller contacts the prospective business partner in order to begin discussions on possible collaboration, sales, or purchase. The operation of the relationships is found during the formation stage. The customs that are developed during the formation stage become the standard during the expansion stage. During the ending stage, the relationship is terminated. (ibid.)

3.4.1. Life-Cycle Models

Life-cycle models are based on the Darwinist view of evolution. They usually do not truly discuss the development of industrial buyer-seller relationships but instead deal with inter-organizational issues like product development and process innovations (Utterback and Abernathy, 1975) or industry-related matters, e.g., industry change (Easton et al., 1993; Porter, 1980). Based on the literature review, two life-cycle models were identified, as seen in Table 3-3.

¹⁰ The ending of relationships has been separately studied by e.g., the “Finnish School of Termination” (cf. Alajoutsijärvi, Möller, and Tähtinen, 2000; Halinen and Tähtinen, 2002; Tähtinen, 2001; 2002; Tähtinen and Halinen, 2002; and Tähtinen and Halinen-Kaila, 1997), by Hadjikhani (1996), by Hirschman (1970), and by Geersbro and Ritter (2009; 2010) and Ritter and Geersbro (2010). The “Finnish School of Termination” views that relationships may be ended “beautifully”, i.e., exiting a relationship through different stages with as little harm done to the other as possible. At this point, although the relationship basically ends, the two parties will continue to acknowledge each other. Hadjikhani (1996) views ending a relationship as a natural part of project management. However, his view is almost identical to relationships going to the dormant or inert state (see Chapter 3.4). Hirschman (1970) treats relationship ending as the customer exiting the relationship due to a decline, e.g., a decline in product or service quality. Geersbro and Ritter (2009; 2010) and Ritter and Geersbro (2010), on the other hand, discuss ending a relationship deliberately because the relationship is not financially beneficial to the seller, i.e., it is a burden for one or both of the actors (Håkansson and Snehota, 1998). None of these papers discuss any situation in which the other actor would cease existing and, hence, the actors will remain aware of the other until the situation changes due to competition, as is discussed in Chapter 6.2.

Table 3-3. Identified Life-Cycle Models.

Author(s)	Ellram, 1991	Wackman, Salmon, and Salmon, 1986
Method	Case study	Questionnaire
Model	1. Pre-Relationship	Pre-partnering Decisions
	2. Attraction	Development
	3. Formation	Commitment
	4. Expansion	Integration
	5. Ending	Business / Performance Dissolution
Role of National Culture	-	-

The model suggested by Ellram (1991) is built on a conceptual model, as seen in Table 3-3, which is influenced by interviews with 18 representatives of the purchasing departments of eight large manufacturing companies: six firms based in the U.S.A., one firm based in Japan, and one firm based in France. Wackman, Salmon, and Salmon (1986) base their model on a questionnaire sent to 300 representatives of the advertizing sector and a Milwaukee study (which is not elaborated on). Altogether 182 representatives from the buying side answered the questionnaire. Therefore, both studies can be seen as one-sided, i.e., they do not consider the view of both the buyer and the seller, which can be considered a limitation of both of these models.

Even though Ellram (1991) does not include pre-partnering decisions in her model, she notes that there are several requirements for companies before they can interact within a relationship. It may even require a total philosophical change (ibid.).

Wackman, Salmon, and Salmon (1986) believe a relationship begins before a formal contract or agreement has been made. The stage is concentrated on learning about the prospective business partner (ibid.) or becoming familiar with it (Ellram, 1991). The other partner must become attractive to the potential business partner in order for the relationship to exist (Wackman, Salmon, and Salmon, 1986). Hence, the parties judge whether or not a relationship is possible (Ellram, 1991). For this to be possible, representatives from several different organizational levels are in contact with each other. Often this interaction happens face to face. The actors discuss what kind of expectations they have in order for a relationship to occur. (ibid.) According to Ellram (1991), this is the stage when the first orders take place. However, Wackman, Salmon, and Salmon (1986) view that the first order is placed only after the buyer and seller are acquainted with each other, i.e., in the developing stage.

During the commitment stage of Ellram's (1991) model, the relations are improved and the dependency between the partners increases. Even though this is a high-energy time (Wackman, Salmon, and Salmon, 1986), there are fewer face to face contacts between the parties as other methods of communication are used and the parties become more acquainted with each other and acknowledge the customs and habits that the other has (Ellram, 1991). More substantive issues are discussed within the relationship (ibid.; Wackman, Salmon, and Salmon, 1986).

The relationship needs to be maintained in order to be successful in the long-term (Ellram, 1991; Wackman, Salmon, and Salmon, 1986). The relationship deepens (*ibid.*) as the actors gain more mutual advantage and they trust each other more (Ellram, 1991). The relationship is full of routines (*ibid.*). This tends to be the most productive stage of the relationship (Wackman, Salmon, and Salmon, 1986).

According to Ellram (1991), the relationship may end for either business- or performance-related reasons. Wackman, Salmon, and Salmon (1986) call the different relationship ending possibilities voluntary and involuntary, respectively. If the reason is business-related, or voluntary, then the dissolution is usually conducted in more collaborative terms and both partners aim to minimize the mutual losses. If the relationship is terminated for performance reasons, or involuntarily, the other actor tries to leave the relationship as quickly as possible with as little harm done to itself. Generally, however, both the buyer and seller face considerable upheaval when this occurs. (Ellram, 1991; Wackman, Salmon, and Salmon, 1986)

Neither Ellram (1991) nor Wackman, Salmon, and Salmon (1986) consider the impact that national culture may have on the development of relationships. This is surprising in the case of Ellram (1991) as the case companies she studies have headquarters in different countries. All the authors were based in the U.S.A., at the time the journal articles were submitted, which may have influenced their view of the world.

3.4.2. Growth-Stage Models

The majority of industrial buyer-seller relational process models may be classified as growth-stage models, as can be seen in Table 3-4 through Table 3-7. From the 45 journal articles, conference papers, and books suggesting different industrial buyer-seller relational process models, 36 presented a growth-stage model.

Growth-stage models or process models are sequential in nature (Batonda and Perry, 2003a). Palmer and Bejou (1994) have proven this feature of growth-stage models, thus, their use can be justified. However, several authors (e.g., Rao and Perry, 2002) claim that these models are lacking in the sense that industrial buyer-seller relationships in reality do not follow the growth-stage models and their sequential forms, i.e., as Batonda and Perry (2003a) put it, growth-stage models consist of irreversible stages. Nevertheless, several of the growth-stage models consider this and state that the stages should not be viewed as being in a continuous sequence, but instead stages may be jumped over and gone back to, i.e., the relationship development process is iterative in nature (e.g., Ariño and de la Torre, 1998; Dwyer, Schurr, and Oh, 1987; Ford, 1980).

Growth-stages models have been developed for different kinds of relationships. For example, Andersen (2001), Edvinsson (1985), Grönroos (1980; 1982), Lehtinen (1986), and Yorke (1990) illustrate relationships between service providers and clients. Ariño and de la Torre (1998), Borys and Jemison (1989), Das and Teng (2002), and Doz

(1996), to name a few, describe the relationship development between two actors aiming to establish a strategic alliance. Doherty and Alexander (2004), on the other hand, portray a relationship between a franchiser and franchisee while Larson (1992) discusses the special features of the relationship between an entrepreneur and its business partner. Millman and Wilson (1995) have specialized in relationships between suppliers and their most important customers, i.e., key accounts. Some growth-stage models (Borch, 1994; Doherty and Alexander, 2004; Guillet de Monthoux, 1975; Kanter, 1994; Zineldin, 2002) draw on the dating relationship between humans. These have been separated in Table 3-7 by a dashed line and are discussed separately.

Methods for Modeling Industrial Buyer-Seller Relationship Growth-Stage Models

Of the industrial buyer-seller relationship growth-stage models presented in Table 3-4 through Table 3-7, 13 are purely conceptual models based either on previous industrial buyer-seller process models (Andersen and Kumar, 2006; Chang and Lin, 2008; Das and Teng, 2002; Pett and Dibrell, 2001; Polonsky, Beldona, and Schuppisser, 2003; Wilson, 1995) or on previous theories in various fields. Borys and Jemison (1989) base their model on organizational theories, Conway and Swift (2000) on psychic distance, Dwyer, Schurr, and Oh (1987) on modern contract law and exchange theories, and Frazier, Spekman, and O'Neal (1988) on transaction cost economics, political economics, and resource-dependence frameworks. Ring and Van De Ven (1994) also base their model on economics. Wilson and Mummalaneni (1986), on the other hand, draw from social psychology and marketing theories. Theories from social psychology, sociology, relationship management, and marketing have influenced the dating analogous model of Zineldin (2002).

An equal amount of authors (13 models) conducted case studies. Andersen (2001) studied a single seller, a Danish bank; Ariño and de la Torre (1998) a failed international joint venture between two multinationals; and Liljegren (1988) a relationship between two Swedish daughter companies, one being a seller and the other a buyer in the relationship. Doz (1996), on the other hand, studied two projects in each of three case relationships, all of which between organizations from different nations. Lehtinen (1986) examined three Finnish service providers, i.e., sellers. Ng (2008; 2009), in both of his works, based his model on several regional buyer-seller relationships. The first one studied ten relationships in Taiwan (Ng, 2008) and the second 12 from Australia (Ng, 2009). White (2000) examined only the view of buyers in her case study of 14 British retail-related respondents. Yorke (1990) also studied both sides in the service industry. The sample consisted of altogether 32 relationships (ibid.). In addition, Larson (1992) conducted a multiple case study, but she used ethnographical methods to study the seven alliances, i.e., her sample. The alliances were between entrepreneurs and their partners (ibid.).

Table 3-4. Identified Growth-Stage Models.

Author(s)		Andersen, 2001	Andersen and Kumar, 2006	Ariño and de la Torre, 1998	Borys and Jemison, 1989	Chang and Lin, 2008	Conway and Swift, 2000	Das and Teng, 2002	Doz, 1996	Dwyer, Schurr, and Oh, 1987
Method		Single case study	Conceptual	Single case study	Conceptual	Conceptual	Conceptual	Conceptual	Multiple case study	Conceptual
Model	1. Pre-Relationship	Pre-relationship phase					Pre-Contact	Alliance Environment	Initial conditions	Awareness
	2. Attraction	Negotiation phase	Initiation	Negotiation and Commitment → Initial conditions	Defining Purpose	Formation	Initial Interaction	Alliance Conditions; Formation	Learning about	Exploration
	3. Formation			Execution → Learning	Setting Boundaries	Operation	Development	Operation	Re-evaluation	Expansion
	4. Expansion	Relationship development phase	Development	Re-evaluation → a) Readjustment → Revised Conditions or New Equilibrium; b) Unilateral Reaction	Value Creation	Maintenance	Mature Relationship		Revised Conditions	Commitment
	5. Ending	Termination Phase	Forced / Voluntary Termination + Re-establishment	Dissolution	Hybrid Stability	Dissolution		Outcome	Failure / Success	Dissolution
Role of National Culture		-	-	Cultural distance?	-	-	Psychic distance	-	-	-

Table 3-5. Identified Growth-Stage Models.

Author(s)	Edvinsson, 1985	Ford, 1980	Ford et al., 1998; 2003	Frazier, 1983	Frazier, Spekman, and O'Neal, 1988	Grönroos, 1980	Grönroos, 1982	Jap and Anderson, 2007	Larson, 1982	
Method	NA	Questionnaire	Questionnaire	NA	Conceptual	NA	Questionnaire	Questionnaire	Multiple case study	
Model	1. Pre-Relationship	Initial contact phase	Pre-Relationship Stage	Pre-Relationship Stage	Initiation process	Interest Stage	Interest	Initial Stage	Preconditions for Exchange	
	2. Attraction	Negotiating and test phase	Early Stage	Exploratory Stage		Injection-Rejection Stage	Purchase	Purchasing Process	Exploration	Conditions to Build
	3. Formation	Trial order and delivery phase	Development Stage	Developing Stage	Implementation process	Implementation Stage	Repeat Purchase	Consumption Process	Build-Up	
	4. Expansion	Customer Maintenance and repeat / customer development phase	Long-Term Stage	Stable Stage	Review process	Review Stage			Maturity	Integration and Control
	5. Ending		Final Stage		Outcomes			Perceived service quality	Decline	
Role of National Culture	Relationship itself seen as applied cultural encounters	Cultural distance	-	Characteristics of macro environment	-	-	-	-	-	

Table 3-6. Identified Growth-Stage Models.

Author(s)	Lehtinen, 1986	Liljegren, 1988	Millman and Wilson, 1995	Ng, 2008; 2009	Pett and Dibrell, 2001	Polonsky, Beldona, and Schuppisser, 2003	Ring and Van de Ven, 1994	White, 2000	Wilson, 1995	
Method	Multiple case study	Single case study	NA	Multiple case studies	Conceptual	Conceptual	Conceptual	Multiple case study	Conceptual	
Model	1. Pre-Relationship		Pre-KAM Stage	Pre-relationship Stage		Exploration Phase			Partner Search and Selection	
	2. Attraction	Joining Phase	Establishment Phase	Early-KAM Stage	Early Stage	Exploration Stage	Actualized phase: Relationship initialization stage	Negotiations	Uncommitted	Defining Purpose
	3. Formation		Structuring Phase, Development Phase	Mid-KAM Stage	Development Stage	Recurrent Contracts Stage	Actualized phase: Relationship stabilization stage	Commitments, Executions	Developing	Setting Relationship Boundaries
	4. Expansion	Intensive Phase	Maintenance Phase	Partnership-KAM Stage, Synergistic-KAM Stage	Long-term Stage	Relational Contracts Stage	Actualized phase: Operational relationship stage	Assessments	Mature	Creating Relationship Value
	5. Ending	Termination Phase	Clashing Phase, Termination Phase	Uncoupling KAM	Final Stage	Outcome Stage	Inactive / Deactualised phase	Dissolutions	Declining	Relationship Maintenance
Role of National Culture	-	-	-	-	Culture matters	-	-	-	-	

Table 3-7. Identified Growth-Stage Models (ones analogous to dating separated by dashed line).

Author(s)		Wilson and Mummalaneni, 1986	Yorke, 1990	Borch, 1994	Doherty and Alexander, 2004	Guillet de Monthoux, 1975	Kanter, 1994	Zineldin, 2002
Method		Conceptual	Multiple case study	Multiple case study, Observation	Multiple case study	NA	Multiple case study	Conceptual
Model	1. Pre-Relationship	Need Complementarity	Ignorance		Recognition, Search, Evaluation			
	2. Attraction		Interest	First Meeting		Romance	Selection and Courtship	Discovery Phase (Romance)
	3. Formation	Interactions (Exchanges)	Initiation	The Proposal	Partnership	Affair	Getting Engaged	Development Phase or Basic Relationship Phase (Engagement)
	4. Expansion		Involvement	The Breach of Promise		Marriage	Setting Up Housekeeping, Learning to Collaborate	Commitment Phase (Marriage)
	5. Ending	Outcomes, Satisfaction, Investments, Commitment	Integration	Marriage and Honeymoon		Divorce -> New Romance, New Affair, New Marriage	Changing Within	Loyalty Phase (Ongoing Strategic Business Relationship or Old-Married)
Role of National Culture		-	-	Culture matters		-	Culture matters	-

Borch (1994) used the interviews of five fresh fish exporters (20 interviews in total), as well as the observations of a development fund of which the interviewees were members. However, the research was one-sided, focusing only on the seller-side (ibid.). The research of Doherty and Alexander (2004) is similar in the sense that they studied six UK sellers, i.e., fashion retailers. Kanter (1994), on the other hand, studied both sides of the relationship in her sample of 37 companies and their partners in 11 nations.

Three of the growth-stage models are based on quantitative work, i.e., questionnaires. The model proposed by Ford (1980) and updated by Ford et al. (1998; 2003) is based on the work carried out by the International/Industrial Marketing and Purchasing (IMP) Group. The research studied industrial buyer-seller relationships between actors in Britain, France, Germany, Italy, and Sweden. Both marketing and purchasing personnel were asked to fill out the questionnaire. (Cunningham, 1980) As mentioned by Cunningham (1980), the statistical reliability is questionable due to the convenience of the sample.

Grönroos (1982) further developed his model from 1979 and 1980 by asking seminar participants (executives) to fill out a questionnaire. Grönroos (1982) personally gave the seminar in which the model was introduced. Based on the seminar and the reality of the executives, they were asked whether the model fit the real world or not (ibid.). Hence, the results received may be somewhat biased and lack the view of both sides of the buyer-seller relationship interface.

Jap and Anderson (2007) sent a questionnaire to resellers (i.e., sellers) of an agricultural chemical manufacturer, making it a one-sided research. They claim, however, that this should not affect their results. The sellers were from different nations, but this fact was not considered during the analysis of the results and the model development. (ibid.)

Some of the authors have not clearly stated the base for their model. Edvinsson (1985) further developed the model of Grönroos (1982) and claimed to use a multiple case study. However, he did not elaborate on these case studies. Frazier (1983) also claimed to use a multiple case study to strengthen his model, which is conceptually based on theories about exchange relationships of marketing literature and related behavioral science disciplines. The examples that he provided from the multiple case study included companies acting in the automobile, medical supply and equipment, and industrial supply channel industries (ibid.). Grönroos (1980) did not discuss the background of his model. Apparently, the basis is in service marketing and management theories (ibid.). Millman and Wilson (1995) did not mention the method they used to develop their model. As in the case of Grönroos (1980), it can only be guessed that it is based on previous industrial buyer-seller relational process models (Millman and Wilson, 1995). However, Grönroos (1980) also provided examples from reality. Guillet de Monthoux (1975) stated that his work is based on empirical findings, but the article does not reveal the research method.

The First Stage: Pre-Relationship

In the pre-relationship stage, either the buyer or the seller or both become aware of each other (Andersen, 2001) and show interest in the other (Grönroos, 1980; 1982). Usually it is the seller who first acknowledges the existence of the buyer (Andersen, 2001). Either party may scan the market to identify a prospective business partner (Conway and Swift, 2000). Potential business partners can be identified inside or outside of a company (Ng, 2008; 2009) through, for example, advertisements, brochures, direct mail, or public relations activities (Grönroos, 1982). In the key account management literature, this process, however, is seen differently. The key accounts are chosen from the customer base that the seller already has, i.e., the buyers and sellers have been conducting business for some time. (Millman and Wilson, 1995) Often several feasible partners may be identified, but the party needs to select the one which is the most attractive (Dwyer, Schurr, and Oh, 1987; Edvinsson, 1985), as well as choose the person in the organization who should contact this prospective partner (ibid.).

The buyer or the seller always has a need for which a new partner is being sought (Frazier, 1983). The evaluation of a new potential business partner may be motivated by some episode in a current industrial buyer-seller relationship, the (poor) performance of a current seller, the efforts of a new seller, a strategic decision within the company or a policy decision by the government, or other reasons. The search for a new business partner is affected by the previous relationships the actor has had, uncertainty about the prospective relationship, and the distance between the buyer and seller. (Ford, 1980) According to Frazier, Spekman, and O'Neal (1988), however, this stage ends when either of the partners identifies the need to find a new partner. They see the actual search process as part of the next stage (ibid.).

The business partners need to evaluate the benefits and the costs that might arise from the potential relationship. These include what can be learned from the prospective partner, what kinds of offerings it has, and what the costs are of developing a new relationship, namely, the size of the investment in financial terms and in time. (Ford et al., 1998; 2003; Frazier, 1983; Frazier, Spekman, and O'Neal, 1988) The offering (e.g., capabilities) of the feasible business partner should meet the needs that have been identified by the searching organization (Ng, 2008, 2009). The potential business partner also needs to be trusted (Ford et al., 1998; 2003). A relationship, however, does not yet exist between the two actors as they have not interacted (Conway and Swift, 2000) and are not yet committed to each other (Ford, 1980).

Polonsky, Beldona, and Schuppisser (2003) view the pre-relationship stage to consist of two different stages (1) potential relationship stage and (2) relationship discovery stage. In the potential relationship stage, the parties are either unaware of each other or are beginning to acknowledge the existence of a prospective business partner. The actors are in no contact with each other at this stage. During the relationship discovery stage,

the buyer and seller are not yet in contact with each other, but they do evaluate the other's characteristics for developing a relationship. (ibid.)

Although Das and Teng (2002) do not identify a pre-relationship stage, they claim that the alliance environment, i.e., the characteristics of the firms, industry, and institutions near the business partners, affects the further development of the relationship. Doz (1996) identifies several more initial conditions that will affect the development of the relationship in the future: the task that the partners think the relationship should perform, the routines of the partners, how the interaction between the interfaces is conducted, and the expectations that the actors have regarding the potential relationship and each other. According to Larson (1992), the most important factors, however, are the personal reputations of the company representatives, prior relationships the firms have had, and the image of the company.

In the models analogous to the dating pattern, Borch (1994) claims that the pre-relationship stage is actually the first meeting while Doherty and Alexander (2004) view the stage to be the one in which a need for a partner is recognized and the search for one begins. During this search process, the different possibilities are being evaluated. However, they divide this pre-relationship stage into three different stages. (ibid.)

The pre-relationship stage is critical for the future success of the relationship as the potential relational partner is being chosen. If representatives from each organization already know each other, the relationship has a better possibility of developing in the long-term. (Wilson, 1995)

Although a majority of the growth-stage models neglect the pre-relationship stage as such, it may be included in the attraction stage. However, some models simply do not consider the need for companies to first of all acknowledge a need and motivation to begin interacting with a possible partner. They might just assume the background for the occurrence of relationship development is obvious or discard it as insignificant. Relationships, however, do not develop if both partners are not willing to participate in one. Hence, the next stage will only be reached if the previous stage has been completed in a satisfying manner. However, the stages may overlap somewhat, i.e., the transition of the stages is not always clear.

The Second Stage: Attraction

Dwyer, Schurr, and Oh (1987) have divided this stage into five subprocesses based on the social behavior theory suggested by Scanzoni (1979): (1) attraction, (2) communication and bargaining, (3) development and exercise, (4) norm development, and (5) expectation development. Their attraction stage is one in which, based on the information gained during the pre-relationship stage, at least one of the parties views the other as a truly prospective partner (Dwyer, Schurr, and Oh, 1987).

The marketing conducted during the whole attraction stage is heavily personal selling (Grönroos, 1982). The communication and bargaining begins when either the buyer or the seller contacts the other (Conway and Swift, 2000; Ng, 2008; 2009). The contact may be conducted directly or indirectly (Polonsky, Beldona, and Schuppisser, 2003). This leads to a process of negotiations during which the actors evaluate whether or not to begin developing a relationship with the other (Dwyer, Schurr, and Oh, 1987). During the negotiations, the buyer and seller promise each other various issues, e.g., what is included in the offering that the seller produces for the buyer to purchase (Chang and Lin, 2008). This may require persuasion skills from the other side (Andersen, 2001; Ford et al., 1998; 2003; Millman and Wilson, 1995) as the parties may be anxious about the performance of the other (Andersen and Kumar, 2006; Ford et al., 1998; 2003). Hence, the building of trust between the prospective partners needs to begin as early as possible (Andersen and Kumar, 2006). It is important that the parties state their wants, issues, inputs, and priorities during this stage in order to guarantee a firm base for the future (Dwyer, Schurr, and Oh, 1987; Millman and Wilson, 1995; Pett and Dibrell, 2001). The communication itself needs to be bilateral (Dwyer, Schurr, and Oh, 1987). The negotiations usually end with either an agreement about the first order or the actors conclude that they do not fit each other. However, even if an order is made, the business partners are not yet committed to each other. (Ford, 1980; Ford et al., 1998; 2003) According to Lehtinen (1986), in the case of services, the buyer is using the auxiliary services at this stage and, hence, is getting acquainted with the core service and the core service provider.

Development and exercise is the subprocess in which power and justice is discussed (Dwyer, Schurr, and Oh, 1987). This subprocess overlaps somewhat with the bargaining process (*ibid.*), as bargaining, to some degree, is also a game of power (e.g., Hofstede, Jonker, and Verwaart, 2009).

Based on the way in which the prospective business partner acts during the negotiation process, the other party draws a picture of how this partner will also act in the future, leading to the development of norms (Dwyer, Schurr, and Oh, 1987). However, this does not mean that the actors could not change their ways of interaction in the future (*ibid.*) as no routines have yet been established (Ford, 1980; Ford et al., 1998; 2003).

The expectations that the buyer and seller have of the relationship and of each other concern the likely level of unity, and degree of problems and possible conflicts of interest which may arise (Dwyer, Schurr, and Oh, 1987). During this stage, the parties seriously doubt each other (Ford et al., 1998; 2003). Ring and Van de Ven (1994) view the expectations to be joint prospects of the motivations, possible investments, and perceived business uncertainties instead of individual expectations as Dwyer, Schurr, and Oh (1987) have seen this.

The attraction stage may also be seen as one in which the purpose of the potential relationship is defined (Borys and Jemison, 1989; Wilson, 1995) and the initial commitment to a relationship is made (Ariño and de la Torre, 1998). Allocating resources for the good of developing a relationship shows the commitment. Therefore, the foundations of the relationship and its future are established. (Chang and Lin, 2008) This stage, like the other initial relational process stages, is one which determines the success or failure of the relationship in the future (Conway and Swift, 2000; Larson, 1992). If the relationship has an insufficient base, it probably will not flourish. Thus, a significant amount of work and resources must be invested during this stage in order to guarantee a successful long-term relationship, if that is the goal. The actors need to know each other and acknowledge the habits of the other party in order to interact efficiently and effectively in the future. (Ford, 1980; Ford et al., 1998; 2003)

The learning occurring in this stage may be either behavioral non-learning or cognitive learning. The actors learn more about the characteristics of each other instead of how the actual tasks and processes are carried out. (Doz, 1996) Most learning probably occurs during this stage (Ford et al., 1998; 2003). This stage ends when the business partners have learned enough about each other that their interaction becomes somewhat habitual (Polonsky, Beldona, and Schuppisser, 2003). The relationship between the individuals participating in the interactions is at least at the business friendship level (Wilson, 1995).

From the models analogous to the dating process, Guillet de Monthoux (1975) sees the attraction stage to include evaluating the possible business partner. Several different organizational levels participate in the evaluation (ibid.). Kanter (1994) views the initial meeting as the beginning of the relationship between a buyer and seller. The two companies are attracted to each other. The attractiveness is evaluated based on three issues: (1) the capabilities of the company itself, (2) the chemistry that the two companies share, and (3) the compatibility of the two companies. The compatibility needs to exist at the legacy, philosophy, and desire level. (ibid.)

Sometimes the motivation for beginning a relationship may be the opportunity cost of not participating in the potential relationship (Guillet de Monthoux, 1975; Kanter, 1994). According to Zineldin (2002), the attraction stage is one in which two parties interested in conducting business with each other come together. During this stage, the actors learn about each other and especially about the needs and wants of the potential business partner. An offering is developed during negotiations. The parties need to act according to the expectations of the other for the relationship to deepen. (ibid.)

Even though Das and Teng (2002) state that alliance conditions exist at each stage of the relationship and differ during the relational stages, it is this stage in which the future of the alliance conditions is determined. The buyer and seller need to determine the collective strengths they have; the potential conflicts which may arise during the

relationship; and the interdependencies that exist and are hoped to be present in the relationship. Ariño and de la Torre (1998) have named the alliance conditions of this stage initial conditions. According to Pett and Dibrell (2001), both external factors, such as national culture, government regulations, environmental conditions, industry-specific issues, and internal factors, i.e., organizational issues, affect the attraction stage and, therefore, the whole relationship and its development.

The level at which the relationship is formed differs in the models. In some growth-stage models (e.g., Andersen, 2001; Andersen and Kumar, 2006), the relationship is said to already exist during this stage while in others (e.g., Larson, 1992, Zineldin, 2002), it is claimed that the attraction stage is that in which only the negotiations are held and that the actual formation of the relationship is left to the next stage. Some (e.g., Borys and Jemison, 1989; Wilson, 1995) even say this stage covers only the beginning of the process before the negotiations and learning situation. They see the actual negotiations, i.e., discussing the boundaries of the relationship, occurring in the next developmental stage, i.e., the formation stage (e.g., Borys and Jemison, 1989; Wilson, 1995).

The Third Stage: Formation

During the formation stage, all the issues agreed upon during the initial negotiations are conducted (Das and Teng, 2002). For some (e.g., Ariño and de la Torre, 1998; Edvinsson, 1985) this means the trial order and delivery, i.e., one transaction. While to others (e.g., Das and Teng, 2002), it is a wider issue and may include several transactions. It is important to note that a relationship still does not exist, but one or several transactions take place (Pett and Dibrell, 2001). Generally a contract in which the negotiation results are stated is signed after the negotiations have occurred (Ford, 1980; Ford et al., 1998; 2003; Ring and Van de Ven, 1994). The contract may be a legal one or a psychological one (ibid.). The formation stage may also take place when the deliveries made by the seller are continuous, the volume of purchases has increased, or when new requirements or a new project is being discussed (Ford et al., 1998; 2003). The process and task learning also begins (Ariño and de la Torre, 1998; Doz, 1996). Often, especially in the case of service providence, the customer receives training (Edvinsson, 1985; Ford, 1980).

During the formation stage, the parties contact the other buyers or sellers with whom the prospective business partner has relations in order to better understand the character of the potential business partner (Chang and Lin, 2008). In addition, the actors use the positive experiences and information gathered during the previous stage to enhance trust and commitment in the relationship (Conway and Swift, 2000).

During the formation stage, the partners still have some doubt about each other and accordingly, try to discover whether the other party has a hidden agenda for developing the relationship. In order to complete this task, the actors also learn more about the

goals and skills the other has. The environment in which the relationship occurs is also better understood since one or more transactions have occurred. During the formation stage, the buyer and seller might need to adjust their customs and offerings in order to satisfy the other better and, therefore, ensure a fruitful relationship. (Doz, 1996; Ford, 1980) The most important issue regarding possible adjustments is that the actors are willing to adapt to the new circumstances. Informal adaptations, especially, show one party that the other is committed to the relationship and to cultivating it further. (Ford et al., 1998; 2003)

Communication is the most significant issue in this stage (Pett and Dibrell, 2001). The interaction manners may be extreme. The organizations of the two actors need to be flexible in order to allow borderless communication. (Edvinsson, 1985) The business partners try to influence each other by expressing their beliefs and showing their commitment through their behavior (Frazier, 1983).

According to Dwyer, Schurr, and Oh (1989), the five subprocesses discussed in the previous stage, namely, attraction, communication and bargaining, development and exercise of power, norm development, and expectation development, are also present in this stage, especially, if adjustments are made. The risk of developing a long-term relationship increases as the business partners become more dependent on each other (ibid.). Hence, the business partners show their commitment to the relationship by investing resources in it (Ford et al., 1998; 2003). Even though investments in the relationship are made, the relationship usually allows for cost savings. However, if one party dominates the other, i.e., the exercise of power is not as expected, the relationship often is terminated. (Frazier, Spekman, and O'Neal, 1988)

During the formation stage, the relationship between the two parties may grow, reform, or even terminate (Das and Teng, 2002; Ford, 1980). According to Polonsky, Beldona, and Schuppisser (2003), the relationship may also become inactive or deactualize, i.e., the relationship does not need to be continuously active, but instead periods during which the relationship is on hold can occur. Usually during the formation stage, the knowledge that the buyer has of the seller and vice versa develops to such a level that the business partners are better equipped to judge the potential that a prospective relationship has. The parties acknowledge how the other partner functions and can evaluate whether or not this way is suitable for them and their ideology. (Ford, 1980)

According to Zineldin (2002), whose model is analogous to dating, the formation stage is the engagement phase. The partners have come to an initial agreement, i.e., the engagement, regarding the offering being provided and purchased. Positivity in this stage is significant for the relationship to develop into a marriage, i.e., a loyal relationship. The next stage will occur only if the actors are satisfied with each other. (ibid.)

The Fourth Stage: Expansion

The expansion stage occurs when a certain level of stability between the actors has been reached. Stability needs to exist in the learning, investment, and commitment processes. (Ford et al., 1998; 2003) The companies have acknowledged that they may mutually gain from the relationship (Pett and Dibrell, 2001). Therefore, the firms are integrated operationally, strategically, and through social relations (Larson, 1992), i.e., they trade continuously (Ng, 2008; 2009).

During the expansion stage, it is important for both actors to show their commitment to the relationship and to each other. This can be completed, for example, by visiting the other. (Andersen, 2001) Hence, more personal relationships develop (ibid.; Andersen and Kumar, 2006) and the trust and commitment to the other and the relationship is maintained (Conway and Swift, 2000). The relationship may become so personal that it is personified in individuals (Ford, 1980). Commitment and trust, overall, are the most important factors in the relationship at this point (Conway and Swift, 2000), with trust having the most significant role (Pett and Dibrell, 2001). For Dwyer, Schurr, and Oh (1987) commitment at this stage means the belief that the partners have regarding the continuity of the relationship, i.e., the parties consistently need to invest in the relationship over a long time.

Because both business partners are more committed, they are more willing to take bigger risks for the relationship to be successful (Andersen and Kumar, 2006), for example, by sharing more secretive information (Millman and Wilson, 1995). The risk-taking and the whole relationship often lead to an improved competitive advantage for either one or both of the actors, usually in a way that could not be gained alone (Boryst and Jemison, 1989). There must always be some value that is superior to functioning alone and through transactions (Wilson, 1995). The business partners aim to enhance the competitive advantage even further (Chang and Lin, 2008). This competitive advantage may come in the form of technology, market access, or information (Wilson, 1995). According to Dwyer, Schurr, and Oh (1987), the risk-taking includes committing to only one buyer or seller, instead of using other possibilities. However, the seller needs to balance this act as it should never be too committed to one buyer (Ford, 1980) and vice versa.

More adjustments may need to be made both to the contributions each party makes to the relationship and to the distribution ways (Ariño and de la Torre, 1998). These possible adjustments are made based on the previous efficiency, equity, and quality of the relationship (ibid.; Ring and Van de Ven, 1994), i.e., the attractiveness, trust, and expertise of the personnel (Frazier, 1983). The evaluation of these attributes is made against the previous performance of the company and against the performance of other firms and relationships (Frazier, Spekman, and O'Neal, 1988). The partners continue to learn about each other when evaluating and adapting new practices (Ariño and de la

Torre, 1998). Often, the relationship institutionalizes, i.e., the buyer and seller share common goals and practices (Ford, 1980; Ford et al., 1998; 2003) and conflict resolution manners (Ng, 2008; 2009). This, however, may also have a negative effect as the business partners may stop improving these conducts and, hence, may lose their competitive advantage (Ford, 1980; Ford et al., 1998; 2003).

During the expansion stage, the parties should not try to overly influence each other but should respect each other and the habits and customs each has (Chang and Lin, 2008). However, for this to be possible, the actors need to be familiar with one another (Borys and Jemison, 1989) and to be mutually important (Ford, 1980), i.e., power asymmetry must not exist. Otherwise, the relationship will usually end (Borys and Jemison, 1989).

The level of commitment at this stage influences the outcome of the next stage. If the actor is heavily committed to the relationship, the relationship will generally end in success. However, if either the buyer or the seller or both are not that committed to the relationship, the relationship often fails. The lack of commitment to the relationship may be a result of lowered expectations and/or heightened suspicions of the actions of the business partner or of the other party in general (Doz, 1996). The relationship has several other strains. The transaction costs may increase, the barriers to conduct business with another player may lower, and/or personal or organizational needs may change. There are, however, several benefits for doing business with an established partner. (Dwyer, Schurr, and Oh, 1989) The customs and the efficiency of the other actor and the roles and goals are known (Ford, 1980). According to Edvinsson (1985), this is the stage during which the business partner should be exploited as much as possible before the relationship ends.

The expansion stage may be seen as the marriage phase of a relationship. The buyer and seller are committed to each other in the long-term. The business partners share mutual trust and respect and are satisfied with the performance of the other. Thus, the relationship is strong, close, and interactive. Together the parties are able to create value, i.e., synergy effects. For marketers, it is important to maintain at least a satisfying level of offering quality and performance. (Zineldin, 2002) The top management has to ensure that the goals they aim to gain through this marriage are achieved by committing the lower organizational levels to the relationship. Money, which is often an issue in marriages, is also an item to consider within industrial buyer-seller relationships. A lack of resources may cause the relationship to end. As in marriages, routines have to be established in the industrial buyer-seller relationships. (Kanter, 1994)

Opposed to Larson's (1992) three forms of integration, Kanter (1994) suggests five: (1) strategic integration, (2) tactical integration, (3) operational integration, (4) interpersonal integration, and (5) cultural integration. This means that the companies need to work together at all organizational levels in order for personal relationships within the industrial buyer-seller relationship to develop. For personal relationships to

develop, the representatives of the organizations need to be culturally sensitive. The integration may affect the firms in such a way that they need to change internally. (ibid.)

The Fifth Stage: Ending

Several of the stage-growth models (e.g., Ford et al., 1998; 2003) end at the expansion stage and do not consider the ending state of the relationship. Many of the models (e.g., Andersen, 2001; Chang and Lin, 2008; Conway and Swift, 2000; White, 2000) identify a special ending state but do not elaborate on it.

In the ending stage, the value created is based on the mutual behavior and trust that exists between the two actors. If there is not a sufficient amount of mutual interest in maintaining a relationship and the relational costs are too high, the relationship may be terminated. (Ng, 2008; 2009) Therefore, the relationship may end in a failure or a success (Doz, 1996). According to Doz (1996), a relationship is a failure when it ends, and successful when it continues. Millman and Wilson (1995), also, suggest two possible ends to a relationship: uncoupling may occur or the relationship may become more synergistic. During uncoupling, the relationship ends. In contrast, a more synergistic relationship is more than a relationship; it is a joint value-creating entity instead of two separate organizations. (ibid.)

Some models (e.g., Andersen and Kumar, 2006; Ariño and de la Torre, 1998; Dwyer, Schurr, and Oh, 1987) consider the ending state as only the termination of the relationship. Hence, they always see the ending of a relationship as a possible failure.

Although the relationship may be terminated during any stage of the relationship, if the relationship is terminated after the expansion stage, the ending is seen to cause more severe emotional reactions. The actors feel more hurt if the other does this intentionally. (Andersen and Kumar, 2006; Dwyer, Schurr, and Oh, 1987) The termination often occurs due to the dissatisfaction of one of the business partners. The parties may be displeased with the performance of the other, they may find the relationship unequal in power or benefits, or a conflict may arise. (Frazier, 1983)

There are other views, too. For example, Ford (1980) sees the ending state as one in which the relationship is truly institutionalized. The conducts are industry-specific. Often, however, the other players within the industry view these conducts as illegal. Borys and Jemison (1989), on the other hand, see the ending state as one of stability. The stability may be gained through shared norms and values, industry-specific or economy-specific practices, and/or contracts. Each of these forms, however, has its disadvantages. Shared norms and values are difficult to establish, practices do not generate sufficient barriers to entry, and contracts are difficult to agree upon in uncertain conditions. (ibid.)

Das and Teng (2002) suggest four possible outcomes of a relationship: (1) stabilization, (2) reformation, (3) decline, and (4) termination. A stable relationship is a mature one, i.e., the relationship fits the environment in which it exists and continually adapts to it. Reformation occurs when the relationship needs to be adjusted. The interactions of a relationship may diminish and, hence, the relationship may decline. The relationship is terminated when one or both of the parties decide to end the relationship. The ending state may also be a combination of these four outcomes. If the relationship is reformed or terminated, it does not mean that the relationship would have failed. Instead, the buyer and seller may need to come to this end due to the existing conditions, e.g., governmental regulations. (ibid.)

During the relationship, several outcomes may result. The relationship may have developed a competitive advantage, the relationship may end as a failure, or a residual outcome, i.e., an unexpected positive or negative outcome, may arise. (Pett and Dibrell, 2001)

According to Polonsky, Beldona, and Schuppisser (2003), a relationship does not end, but instead it may become inactive or be deactualized. The buyer and seller do not need to be in continual contact, but instead discontinuities within the relationship may develop (Kaunonen and Uusitalo, 2009). The inactive business partners still acknowledge what the other does even if they do not interact with each other. For example, even though the parties do not purchase and deliver each other offerings, the buyer may still need to purchase auxiliary services related to the offering of the seller (Lehtinen, 1986). Hence, the relationship continues to exist inactive.

Several of the models (e.g., Ford, 1980) do not consider that the ending state is the absolute end of the relationship but that the relationship may return to a previous stage and continue again from there. Andersen and Kumar (2006) have named this stage separately as the re-establishment stage. They claim that a relationship may be reinstated when the actors are not as hurt as they were just after the relationship terminated (ibid.).

The dating analogous models consider the relationship to end sadly, i.e., in a divorce, or to continue happily, i.e., married until death do them part. Guillet de Monthoux (1975) sees the relationship ending in a possible divorce. The divorce, however, does not need to be final, but instead might be a bump in the road, which may lead to a happier time, i.e., the rekindling of the romance. On the other hand, the new romance may also occur with a new partner and, hence, a new relationship may develop. (ibid.)

Borch (1994) sees the relationship ending in the honeymoon and marriage following that. Zineldin (2002) terms the ending stage old-married. The actors are extremely loyal to each other. Even though the couple is married, they should still maintain some of their own characteristics, i.e., they should still differentiate from each other and the

other players in the market. Neither should be too dependent on the other and, thus, both should still maintain a portfolio of customers and suppliers. In marriages, the couple feels more connected to each other during certain time periods and drifts apart during others. The same phenomenon occurs in industrial buyer-seller relationships. The business partners interact, purchase, and deliver more to each other during certain time intervals. During others, the parties are more inactive. (ibid.) Conversely, Kanter (1994), views this stage as one full of changes. In order for a marriage to endure, the actors need to adjust to the shifting environment and the needs and wants of the other. The organizations need to know each other well enough to be able to make the necessary changes. (ibid.)

The Impact of National Culture in the Models

Very few of the models listed in Table 3-4 through Table 3-7 consider the impact of national culture even when the data was gathered from several countries (e.g., Jap and Anderson, 2007). Some models (e.g., Borys and Jemison, 1989; Heide, 1994; Millman and Wilson, 1995; Wilson, 1995; Zineldin, 2002) consider organizational culture. On the other hand, Yorke (1990) inspects the offering-specific culture, i.e., service-related culture, and Borch (1994) the industry-specific culture of entrepreneurial strategic alliances. Below, those models which consider national culture are briefly discussed.

The impact which culture has on industrial buyer-seller relationships and their development is mainly discussed by Conway and Swift (2000) and Ford (1980) and Ford et al. (1998; 2003). Conway and Swift (2000) view the impact that psychic distance has while Ford (1980) and Ford et al. (1998; 2003) consider cultural distance.

Psychic distance and cultural distance are somewhat separate phenomena even though they have previously been used interchangeably (Prime, Obadia, and Vida, 2009; Sousa and Bradley, 2006). However, cultural distance is part of psychic distance instead of being identical terms (Brewer, 2007; Prime, Obadia, and Vida, 2009; Sousa and Bradley, 2006). The difference is that psychic distance is measured at the individual level while cultural distance is determined at the national level (ibid.). Cultural distance has been defined in several ways (Prime, Obadia, and Visa, 2009; Sousa and Bradley, 2006), including one way by Harvey and Griffith (2002) where it is seen as the difference between the norms and values between two societies. Lee et al. (2008) view the distance as rising from differences in languages, business practices, marketing infrastructure, and legal/political systems. Cultural distance seems greater the more “different” the other culture is (Conway and Swift, 2000). According to the CAGE Distance Framework, cultural distance consists of four attributes: 1) language, 2) ethnicity, 3) religion, and 4) social norms (Ghemawat, 2001).

On the other hand, according to Ford (1980), cultural distance is one of five different forms of distance, the other four being geographical distance, social distance,

technological distance, and time distance. Cultural distance is the differences between the norms, values, and operational methods between two firms due to the separate national characteristics the countries of origin have. (ibid.)

However, Shenkar (2001) has criticized the operationalization of this term. He claims that distance as a term implies symmetry because cultural distance is usually measured at one point in time, which conveys stability. Cultural distance is directly proportional to the risk regarding investment, entry mode, and performance. (ibid.) As a measurement, culture distance assumes all the critique that Hofstede (1980) has faced, i.e., the measurement assumes that all organizations from one culture are similar and the culture within a nation is constant. In addition, the measurement as such has not been updated. (ibid.) Neither Conway and Swift (2000) nor Ford (1980), however, use the term as a measurement as such, but instead use it as an explanatory factor. Shenkar, Luo, and Yeheskel (2008) suggest that instead of using the term distance, one should use friction in order to overcome the problems related to distance as a term.

According to Conway and Swift (2000), the psychic distance between the two actors is at a medium level during the pre-relationship stage. The buyer and seller do not yet know each other and, hence, they have culturally-related stereotypes of each other. The business partners need to be open and culturally empathetic, i.e., the parties need to build a positive picture of each other in order to develop a successful long-term relationship. The communication that will occur in the subsequent stages needs to be planned in such a way that the interaction with the potential partner is completed in a culturally aware and empathetic way. (ibid.) Ford (1980) considers cultural distance to be great at this stage if the actors are from different nations.

The level of psychic distance decreases to medium during the formation stage. The actors are now closer to each other through mutual understanding and empathy. (Conway and Swift, 2000) As the social distance lessens, the cultural distance may also be lowered through more frequent social exchanges. The main way for a seller to reduce the cultural distance at this point is to establish an office in some form in the country of the buyer. Employment of locals should also help to decrease the cultural distance. (Ford, 1980)

Psychic distance comes to the lowest levels when the relationships are mature. The buyer and seller are familiar to each other. (Conway and Swift, 2000) The level of cultural distance also is at the minimum (Ford, 1980). However, Ambler (1994) claims that understanding the distances between the culture, language, and geography of two actors is not of assistance when trying to understand the other's way of thinking.

Ariño and de la Torre (1998) do not consider the influence culture has on the development of industrial buyer-seller relationships, but they claim that cultural distance may have an impact. They see that cultural distance may impact organizational

culture and the moral of business people and, hence, also the development of relationships. (ibid.)

Edvinsson (1985) sees culture in a different way. He claims that the relationship itself consists of applied cultural encounters. In order for a relationship to work and trust to be built, several crucial cultural-related factors need to be harmonized. (ibid.)

Frazier (1983) mentions that the features of a macro environment influence the development of industrial buyer-seller relationships. One of these features could be seen as culture. However, Frazier (1983) does not personally mention this. On the other hand, Borch (1994) personally suggests that national culture might have an impact on the “forced” alliances.

From the dating analogous models, the one proposed by Kanter (1994) seriously considers the impact of national culture. She compares the business cultures of China, Europe, and the U.S.A. and gives examples of what needs to be considered at the various stages when developing relationships in these areas (ibid.).

3.5. States Theory

According to states theory, industrial buyer-seller relationships develop through unpredictable states (Batonda and Perry, 2003a; Palmer, 2007). The development path is also capricious (Batonda and Perry, 2003a; Palmer, 2007), i.e., the only definite issue is that there is a beginning state and an ending state (Ford and Rosson, 1982). The development itself, hence, is very complex (Palmer, 2007). In Table 3-8, the states of the different models have been classified in three categories: (1) beginning state(s), (2) middle state(s), and (3) end state(s), as proposed by Rosson (1986). The method used and the manner in which culture is considered in the models is also tabularized.

Table 3-8. Identified States Models.

Author(s)		Batonda and Perry, 2003a	Batonda and Perry, 2003b	Ford and Rosson, 1982	Halinen, 1994	Niederkofler, 1991	Rosson, 1986
Method		Multiple case study	Multiple case study	Multiple case study	Single case study	Multiple case study	Multiple case study
Model	Beginning State(s)	Searching	Searching	New	Pre-Relationship Phase	Negotiations	New
		Starting	Starting		Initial Phase		
	Middle State(s)	Development	Development	Growing	Growth Phase	Strategic Fit	Growing
		Maintenance	Maintenance	Troubled	Troubled Phase	Operational Misfit	Troubled
				Static	Decline Phase	Operational Fit	Static
					Constant Phase	Strategic Misfit	
	End State(s)	Termination	Termination	Inert	Termination Phase	Dormancy	Inert
		Dominant (and Re-activation)				Exit	Terminated
Role of National Culture		Culture matters	Culture matters	Culture distance	-	-	-

Methods for Modeling Industrial Buyer-Seller Relationship Growth-Stage Models

All of the states models listed in Table 3-8 use case studies to justify their structure. Batonda and Perry (2003a; 2003b) first synthesized six growth-stage models into a states model and then tested and adjusted it based on case studies conducted in Australian-Chinese networks.

Ford and Rosson (1982) also used a growth-stage model, that of Ford (1980), to develop a states model. In addition, they refer to an organizational theorist Marrett (1971). They gathered data from Canadian firms (N=21) that exported goods to Britain through an overseas distributor (Ford and Rosson, 1982). However, Ford and Rosson (1982) and Rosson (1986) use the state model more as a tool to further study the nature of relationships between manufacturers and their overseas distributors. Halinen (1994) also uses the model proposed by Ford and Rosson (1982) as a basis for studying a single advertisement agency-client relationship functioning in Finland. As seen in Table 3-8, Halinen (1994) modifies the initial model.

Niederkofler (1991) illustrates a states model based on six case relationships between entrepreneurs and larger companies. The case firms work together through strategic alliances (ibid.).

The Beginning States

According to Batonda and Perry (2003a; 2003b), the initial beginning state is that of searching. During this substate, the actors identify a need and purpose for interacting within a relationship. In order to participate in a relationship, a prospective buyer or seller needs to be found. The potential business partner may be found from intraorganizational or interorganizational sources. When selecting an eligible partner, the competence of the actor needs to be checked. A cost analysis of the competence of the potential business partner against one's needs must be made in order to choose the most suitable company. The social and economic attributes of the prospective company are also considered. (ibid.)

The second substate of the beginning state is that of starting. During this state, the initial contact is made. The purpose of contact is given and the company attempts to attract the potential partner by communicating the opportunity at hand. Developing rapport and testing the fit of the personalities and the compatibility of the companies in general begin a relationship between the representatives of the parties. It is important for the objectives of the two separate firms to correspond. (Batonda and Perry, 2003a)

Ford and Rosson (1982) and Niederkofler (1991) view the beginning state differently. They consider it the stage of negotiations and contract signing. Hence, the actors are not yet familiar with one another and each other's practices and habits (Ford and Rosson, 1982; Niederkofler, 1991).

Halinen (1994), even though based on Ford and Rosson (1982), has modified their model to include two beginning substates: (1) the pre-relationship phase and (2) the initial phase. These states are similar to those presented by Batonda and Perry (2003a; 2003b). During the pre-relationship phase, no business exchanges occur, but there might be some communication between the buyer and seller. The foundation for general trust and attraction are built during this phase as the firms become aware of each other. The main issues impacting this phase are the marketing strategy and organization of the company, the previous and current relationships with competitors, and the key personnel and their contacts. (Halinen, 1994)

According to Halinen (1994), both the initial contacts between the firms and the first assignments are completed during the initial phase. Negotiations in which the communication might be intensive are held. During the negotiations the relational infrastructure is built and the inter-firm roles are defined. The first orders or assignments are made only if the potential partner is attractive enough. There needs to be at least a low level of trust. The parties may already be attitudinally committed to the other actor and the relationship. (ibid.)

The Middle States

Batonda and Perry (2003a; 2003b) have identified two substates: (1) the development state and (2) the maintenance state. During the development state, the representatives of the buyer and seller try, at least to some degree, to develop a personal relationship and mutual trust through socialization. Even though Halinen (1994) claims that the inter-firm roles are defined during the beginning state, Batonda and Perry (2003a) see this occurring only during the middle state. During this substate, the activities, responsibilities, and relationships are also outlined. The business partners need to agree on what to prioritize. The discussion itself formalizes as communication occurs regularly. Although the trial orders are completed during this substate, the companies are only slightly committed to each other and the business idea. (ibid.)

During the maintenance state, more resources are allocated in order to develop and uphold the relationship. After the trial orders and deliveries, adjustments may need to be made. The socialization continues as the personalities are being tested. The trading activities at this point are continuous. (ibid.)

Ford and Rosson (1982) have noted three middle states: (1) the growing state, (2) the static state, and (3) the troubled state. Relationships in the growing state are commonly relatively new or established ones (ibid.). As the name of this implies, the relationship develops positively during this state (ibid.), meaning there are more business exchanges (Halinen, 1994). For the sales to grow, the actors need to communicate continually. Also, the level of coordination is high. As the buyer and seller learn more about each other and each other's customs, they have to adapt to these in order for the relationship to succeed. As the representatives of the business partners are more actively communicating, their personal relationships strengthen. The result of the increased collaboration is that norms develop, trust deepens, and commitment strengthens, both attitudinally and behaviorally. The uncertainty of the continuity of the relationship also decreases to a low level. (ibid.)

During the static state (Ford and Rosson, 1982), or constant phase (Halinen, 1994), the relationship continues to be stable. The amount of orders and deliveries is somewhat constant during the years (Ford and Rosson, 1982; Halinen, 1994). Even though the actors generally are unwilling to allocate more resources to the relationship (Ford and Rosson, 1982) because they are not attracted to each other, the representatives of the companies have established personal relationships (Halinen, 1994). The organizations are well aware of their inter-firm role within the relationship and the shared norms. The level of trust and commitment, as well as the uncertainty of the continuity of the relationship, is low. (ibid.)

Uncertainty is present during the troubled state (Ford and Rosson, 1982; Halinen, 1994). Even though, for example, the business environment is in turmoil, the sales may

increase (Ford and Rosson, 1982). Often, however, they suddenly decline. The interaction between the parties also initially decreases but may increase later. The personal relationships also weaken as the representatives are not completely sure about their role in the relationship. The attraction between the partners may also become lower due to diminished interaction. This may lead to decreased levels of trust and attitudinal commitment. (Halinen, 1994)

Halinen (1994) includes a fourth substate: the declining state. Everything, i.e., the amount of purchases and deliveries and, hence, the level of interaction, attraction, trust, and commitment, decreases. The uncertainty of the future of the relationship is high. (ibid.)

Niederkofler (1991) has defined the middle states of a relationship very differently. He has identified four different states: strategic fit and misfit and operational fit and misfit. Strategic fit exists when the organizations find each other compatible for a relationship, i.e., the competence and resources of the other fit one's need. When parties are strategically fit, they share common objectives for the relationship and motivation to participate in developing a relationship. Top management evaluates strategic fitness. Strategic misfit is the opposite of strategic fit, i.e., actors do not share common interests or goals. In order for the buyer and seller to become strategically fit, they need to negotiate and position themselves differently. (ibid.)

Operational fit is a situation in which the ways and means used within a relationship are beneficial and suitable for both of the business partners. Operational fit is established by the middle managers who participate in the relationship. Both companies may need to adjust their own practices to fit the other, i.e., in order to move from the state of operational misfit to operational fit. If the firms are not willing to make these adaptations, a relationship either cannot be sustained or a disappointing or frustrating version will develop. In these cases, the organizations often become dependent on each other and, hence, strategically misfit. (ibid.)

The End States

There are two possibilities for the end state of a relationship. It may either terminate or continue in a dormant state. According to Niederkofler (1991), if the parties are strategically misfit and are not ready to adjust themselves, they may exit the relationship. The reason behind a sudden exit may be a critical event, for example, the merger of either of the actors with another company (Halinen, 1994). During the termination, the costs and benefits of continuing a relationship need to be evaluated. The termination may be completed through a mutual arrangement or through either a soft landing approach or a hard mercenary approach. (Batonda and Perry, 2003a)

The other possible state is that of dormant, or inertia. A change in business or project completion or failure in meeting an individual requirement may cause a relationship to

become dormant. The relationship, however, may be re-activated later on if a business activity is resumed or new business opportunities arise. (ibid.)

The Impact of National Culture in the Models

Batonda and Perry (2003a) note in detail the impact national culture may have on the development of industrial buyer-seller relationships when comparing the business culture of Australians and overseas Chinese. Differences may be noted especially in the searching state when overseas Chinese often use their own contact pools for finding new business partners. Often the overseas Chinese also use introducers when initially contacting a prospective company. Creating a personal relationship may also be seen as more important for overseas Chinese than Australians. The manner in which an overseas Chinese terminates a relationship is always through the soft approach in order not to lose “face”. (ibid.)

Batonda and Perry (2003b) further study the impact culture may have in the development of industrial buyer-seller relationships. The study discusses which of the five national culture value dimensions suggested by Hofstede (1980; 1991) affects the relational development states. A result of the study was that culturally sensitive Australians adjusted their behavior according to the business culture of the overseas Chinese while this did not occur vice versa. (Batonda and Perry, 2003b) As such, the results did not directly discuss the impact national culture has on the relational development.

Ford and Rosson (1982) and Rosson (1986) noted that cultural distance might impact relational development. However, they did not consider cultural distance when analyzing their data, since according to them, Britain and Canada can be viewed as similar cultures (Ford and Rosson, 1982; Rosson, 1986).

3.6. The Most Suitable Industrial Buyer-Seller Relational Process Theory for the Chinese Context

Batonda and Perry (2003a) have classified industrial buyer-seller relational process models into three categories: (1) joining theory, (2) stages theory, and (3) states theory. (1) Joining theory is based on the initial work of Thorelli (1986), but it has not really been used to illustrate the relational development process nor has it been empirically tested (Batonda and Perry, 2003a).

(2) Stages theory can be further divided into two classes: (2a) life-cycle models and (2b) growth-stage models. (2a) Life-cycle models are based on the idea that relationships develop through stages, in which the relationships may improve or deteriorate. Often these models consider the evolution of a focal firm instead of the cultivation of the relationship of a dyad. (ibid.)

(2b) Growth-stage models are the most common type of relational process models. These view the relationship developing through more or less five stages: (1) the pre-relationship stage, (2) the attraction stage, (3) the formation stage, (4) the expansion stage, and (5) the ending stage (Baker and Hart, 2008). Palmer and Bejou (1994) have proven the validity of these models, but some authors (e.g., Rao and Perry, 2002) have criticized the models due to the lack of empirical relevance. Some models (e.g., Ford, 1980) take this into account and claim that the stage model is not as straightforward as thought, but instead the stages may occur in a different path than proposed.

(3) States theory takes the capricious nature of industrial buyer-seller relational process into consideration by suggesting that relationships go through various states (Batonda and Perry, 2003a; Palmer, 2007): the beginning state or states, the middle state or states, and the end state or states (Rosson, 1986). The development of relations is highly complex as they go through the different states (Palmer, 2007).

The majority of the industrial buyer-seller relational process models are conceptual or based on case studies. Only a few of the models consider the impact national culture may have on the relational development. Ford (1980) considers the impact of cultural distance while Conway and Swift (2000) illustrate the effect psychic distance has. Overall the findings support that of Peterson and Johri (2008), who claim that the industrial buyer-seller relational process models are based on the West.

In order to study the development of industrial buyer-seller relationships, interview questions under the themes “The Development of the Case Relationships” and “General Thoughts on the Case Relationships, Their Quality, and Future Prospectives”, were used (see Appendix 4). These questions were developed based on the literature described in this Chapter, which concerned industrial buyer-seller relational process models and agents (e.g., Anderson and Anderson, 2002; Johri and Leach, 2002; Shipley and Prinja, 1988), internationalization theory (e.g., Johanson and Vahlne, 1977), transactions versus relationships, as well as the observed indirect manner in which relationships tend to begin in China (e.g., Backman and Butler, 2007; Boos, Boos, and Sieren, 2003; Gesteland, and Seyk, 2002; Kotler, Kartajaya, and Huan, 2007) and based on the fact that national culture may affect relationships. It has also been noted that the company image may affect one’s willingness to engage in a relationship (e.g., Gray and Balmer, 1998).

In this study, models based on joining theory are not utilized as they have not been empirically tested (Batonda and Perry, 2003a). In addition, no models based on joining theory were found during the literature review. The life-cycle models of stage theory are not used in this study as they focus more on inter-organizational issues than relational matters. Growth-stage models, even though they are the most common way in which the development of industrial buyer-seller relationships are illustrated, are also rejected as state theory models are the best fit for the Chinese context (ibid.) and they tend to be

more iterative in nature (ibid.; Rao and Perry, 2002). However, this is also claimed to be a feature in several growth-stage models (e.g., Ariño and de la Torre, 1998; Dwyer, Schurr, and Oh, 1987; Ford, 1980). Both growth-stage theory and state theory include models which claim to consider national culture (e.g., Batonda and Perry, 2003a; 2003b; Conway and Swift, 2000; Ford, 1980; Ford and Rosson, 1982). However, the operationalization of national culture in these models is somewhat limited and mainly based on the concepts of cultural distance and psychic distance. The use of these terms has been criticized by Shenkar (2001), for example. In this study, these concepts are not used as such, but instead the impact guanxi has on the case relationships is determined based on the special context the relationships are in. Hence, since in the state theory models, the impact of national culture has been noted, but it has not been empirically affiliated to cultural or psychic distance, these models are seen as suitable for this study.

An aggregate model of state theory which combines all the six models which were identified during the literature review is used in order to illustrate the development of case relationships in Chapter 6.2. This model is shown in Figure 3.3. The tasks and features related to each substate are presented in Table 3-9.

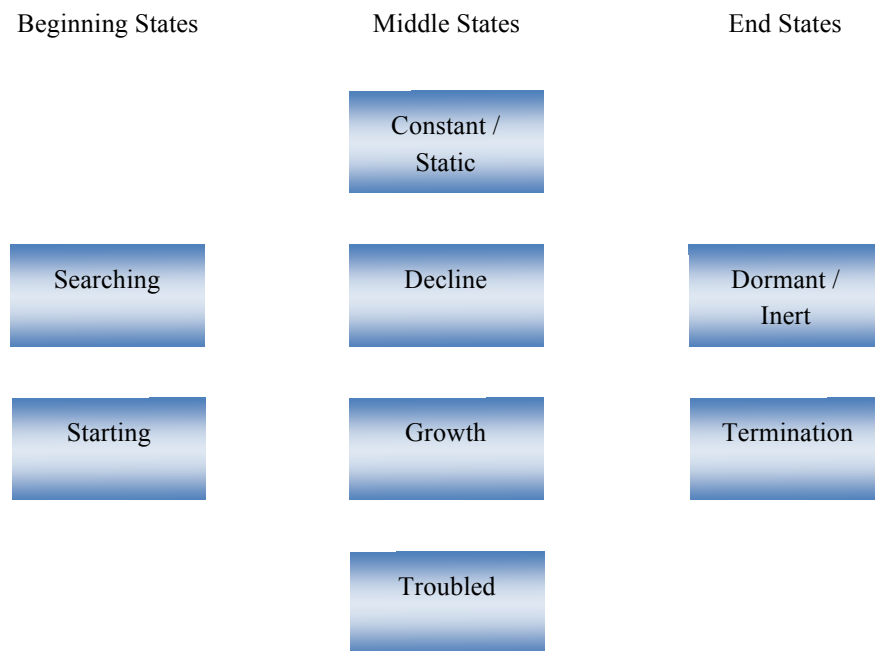


Figure 3-3. *The State Theory Model Used for Illustrating the Development Paths of the Case Relationships.*

Table 3-9. *The Different Tasks and Features Related to Each Relational State (based on Batonda and Perry, 2003a; 2003b; Ford and Rosson, 1982; Halinen, 1994; Niederkofler, 1991; Rosson, 1986).*

State	Substate	Tasks and Features
Beginning	Searching	<ul style="list-style-type: none"> • Identification of need and purpose for a transaction or a relationship • Finding potential relational actors and selecting one or more to contact based on cost analysis
	Starting	<ul style="list-style-type: none"> • Initial contact between relational actors, i.e., both parties become at least aware of each other at this point • Attempting to attract potential relational partner through communication • Building foundation for general trust • Rapport development and testing suitability of personalities and strategies
Middle	Constant / Static	<ul style="list-style-type: none"> • Allocation of resources at constant level • Continuous orders and deliveries • Socialization and personalization of relationship • Clear relational roles • Shared norms • Low levels of trust and commitment • Low uncertainty of the continuity of the relationship
	Decline	<ul style="list-style-type: none"> • Purchase and delivery levels decrease • Levels of interaction, attraction, trust, and commitment decline • High uncertainty of relational future
	Growth	<ul style="list-style-type: none"> • Development of personal relationships • Socialization and strengthening of mutual trust • Formalized discussion through frequent/constant communication • More orders and deliveries • High level of coordination for which norms develop, trust deepens, and commitment strengthens • Learning about relational actor • Low uncertainty of development of the relationship
	Troubled	<ul style="list-style-type: none"> • High uncertainty of the future of the relationship • Level of sales may increase, remain constant, or decrease • Level of interaction varies • Depth of personal relationships varies • Attractiveness may decrease, remain constant, or grow • Level of trust and attitudinal commitment varies
End	Dormant / Inert	<ul style="list-style-type: none"> • The relationship is put on hold and may be rejuvenated later on • Due to a change in business or project completion or failure to meet an individual requirement
	Termination	<ul style="list-style-type: none"> • Companies strategically misfit • One or both parties exit a relationship voluntarily or involuntary as a mutual arrangement or based on a soft landing approach or a hard mercenary approach • A cost-benefit analysis of relationship conducted

The relationship does not have to go through all the states presented in Figure 3-3 and Table 3-9, but instead it may go directly from a beginning state to an end state without passing through any middle states. The order in which the relationship goes through the states is relationship-specific and the same state may be visited at different points in time. In addition, all the tasks and features for the relationship, as presented in Table 3-9, do not have to take place. They are merely possible ones. The tasks generally are not in chronological order but instead may take place at different points in time or simultaneously during the relational process.

4. CONTEXTUAL SETTING: CHINA AND GUANXI

4.1. The Historical Context of Guanxi

Initially before the socialist era, guanxi was a complex set of social relationships associated with Confucian philosophy. With the exception of the Qin legalist period (221-206 BCE), Confucianism influenced Chinese society and the hierarchies of kinship and kingship and, hence, the moral order. For example, the extended patriarchal family system is a core of Confucian tradition and the social role within the family defines the individual. (Lo and Otis, 2003) The Chinese family concept is not only restricted to the biological meaning, but “family members” may be otherwise connected to the whole family or individuals within the family (Luo and Chen, 1997). Instead of individuals, family or house or jiā (家) as a concept has been used as the way in which to classify units within the society (Michailova and Worm, 2003). However, as a concept, guanxi is not present in the Confucian classics, but instead the term lún (伦) depicts social relations. Lun illustrates the different kinds of relations individuals may have. (Luo, 2007)

To judge the status of an individual, one needs to perform the rituals related to the particular role one should play. These rituals are also important in all social relationships, including those related to business (Lo and Otis, 2003; Park and Luo, 2001). Rituals are understood as the material manifestation of feelings (Lo and Otis, 2003) and are collectivistic, i.e., personal desires are neglected (Park and Luo, 2001). However, otherwise the Chinese tend to conceal their feelings (Michailova and Worm, 2003). The relational ties before socialism were both instrumental and expressive (Lo and Otis, 2003).

After the Qing Dynasty (1644-1911 AD) ended, China had a short period as a republic. However, this ideology related to Western imperialism and the failure of the Qing Dynasty to reform the bureaucracy, military, and educational systems, causing the rejection of Confucianism. (Lo and Otis, 2003) After the People’s Republic of China was established in 1949, the country was in political turmoil and, thus, little consideration was put on economic development (Fang, Zhao, and Worm, 2008). As the Chinese socialist rule was influenced by Marxist theory, legislation was seen as an offensive instrument of the West against the workers. Hence, the legal system was dismantled and the People’s Court replaced the legal court. (Wong and Chan, 1999)

In particular, the Cultural Revolution from 1966 to 1976 drastically worsened the Chinese economic situation and demolished the moral foundation of Chinese society

(Fang, Zhao, and Worm, 2008) as all the laws up to this point, i.e., both those established before and after the Socialist Party came to power, were abolished (Schramm and Taube, 2003). During this time, China was in isolation (Fang, Zhao, and Worm, 2008). Under Mao, all the Chinese companies were purely state-owned (Cheung et al., 2005). Actually, private ownership and business were considered a devilish Western trait (Fang, Zhao, and Worm, 2008).

Under the socialist system, *guanxi* as a practice was forced to change since practicing Confucianism was banned (Hsu, 2005; Lo and Otis, 2003). *Guanxi* became associated more with corruption instead of being seen as the Confucian strategy of association (Hutchings and Weir, 2006). The Chinese, however, continued to recognize the philosophy and to practice it as their *modus operandi* (Hsu, 2005). *Guanxi* during the socialist era was used to balance the absence of well-defined right (Gipouloux, 1999; Hsu, 2005; Lo and Otis, 2003). For example, the family council took care of matrimonial questions and inheritance while village or clan elders acted as judges in disputes regarding property rights (Gipouloux, 1999) even though the role and power of the patriarchal clan was undermined (Hsu, 2005; Lo and Otis, 2003; Yeung and Tung, 1996).

During the socialist era, the formal re-distribution institutions were irrational, and ordinary citizens did not have access to scarce resources even though the socialist system, as such, is based on equality for all (Hsu, 2005; Lo and Otis, 2003). One reason for this was that industrial companies and their needs were favored over citizens and their needs. Business managers, however, needed to balance the distribution of resources through their *guanxi*, i.e., the factories did not always gain access to resources that they needed while they had a redundant amount of other resources. (Michailova and Worm, 2003) In order to gain access to these resources, the citizens used their friends and offered favors to pay for the resources (Hsu, 2005; Lo and Otis, 2003) as money did not have value (Ledeneva, 2003). Friendship, however, was considered more broadly, i.e., anyone could be considered one's friend, regardless of social status or background. This meant that "useful people" were categorized as "friends". (Hsu, 2005; Lo and Otis, 2003)

The turning point for the Chinese economy was when Mao died in 1976 and Deng Xiaoping came in power two years later. This signified a drastic change in the ideology of China, which caused institutional and cultural changes. China began trying to attract foreign investment and, therefore, regulations on joint ventures were introduced in 1979. A year later, Special Economic Zones were established in Southern China. (Fang, Zhao, and Worm, 2008) The current rational-legal system and, therefore, also reforms in the urban areas, were initiated only in 1984. One important reform considered the use of *guanxi*. Simultaneously, as the rational-legal system was being established, formal rational bureaucracies at the firm level were also founded. Before the rational-legal system was initialized between 1979 and 1984, the Chinese relied more on the *guanxi*

system. (Guthrie, 1998) Guanxi, as such, can be seen as a buffer of change (Hammond and Glenn, 2004; Lo and Otis, 2003) or as a necessity in order for China to change into a society based on market transition (Michailova and Worm, 2003). It should be noted that the existence of guanxi and a legal system is not mutually exclusive, but instead both systems may exist simultaneously (Schramm and Taube, 2003).

Even though laws have been established, the Chinese legal system, however, has remained somewhat weak, for example, commercial law has been non-existent (Ambler, 1994). The legal system in China is such that everything is prohibited until the government has officially accepted it (Hutchings and Weir, 2006). This may be related to the Confucian tradition of being governed through ethics (*lǐzhì*, 礼制) instead of laws (*fǎzhì*, 法制; Yeung and Tung, 1996). In addition, the administrative processes are unclear and the governmental decision process is spread throughout different levels, i.e., to central, provincial, and local government bodies, party officials, and the army (Gómez Arias, 1998). This means that the same law may be interpreted in different ways at different governmental levels and across different provinces (Luo and Chen, 1997; Walters and Samiee, 2003). Thus, the confidence of the Chinese citizens in the legal system is still somewhat weak (Schramm and Taube, 2003).

Due to the ambiguity in the legal system and Chinese ignorance regarding regulations (*ibid.*), enforcing business deals has been difficult (Luo and Chen, 1997) as one can twist the law according to one's status within the society (Hutchings and Weir, 2006; Ledeneva, 2003; Luo and Chen, 1997; Park and Luo, 2001; Pearce and Robinson, 2000; Walters and Samiee, 2003; Yeung and Tung, 1996). Hence, the reputation of individuals and the trust between business partners has had a more significant role. The business and personal connections one has are of truly important value. (Gómez Arias, 1998; Luo and Chen, 1997)

The Chinese system can be seen as capitalism without contracts or "Confucian capitalism" (Hsu, 2005). Guanxi has existed for over 2,000 years and has been institutionalized as part of the Chinese society, because of which the transition from a society based on social relations to one based on the rational-legal system will be a slow and incremental process (Guthrie, 1998; Standifird and Marshall, 2000). This can also be witnessed in the case of overseas Chinese, who still strongly rely on their personal connections to conduct business (Michailova and Worm, 2003).

After China began changing into a more market-driven economy, the distribution of resources also began to be based on the market instead of being centrally planned as it was under purely socialist rule (Su, Mitchell, and Sirgy, 2007). This means that managers need to find different forms of resources, which has encouraged the continuance of practicing guanxi (Keister, 2002).

Not everything occurring after the economic reforms of 1978 has been positive, e.g., the business environment in China has become more corrupted (Fan, 2002; Luo, 2008) as gifts and favors flowed freely during the early post-socialist era (Hsu, 2005). Before the economic reforms, *guanxi* was used as a tool to access scarce resources, but now there are big corruption cases and the corruption is quite organized. The level of corruption is actually so high that it even threatens the existence of Communist rule. (Fan, 2002) However, the corruptive form of *guanxi* has been both morally and legally condemned (Hsu, 2005). In spite of this, corruptive favors are still traded and even large projects may be given based on immoral and illegal activities (Faure and Fang, 2008).

In Chinese economic history, three different economic forms have existed: (1) a command economy; (2) a monetarized transactions economy, which is affected by the constraints placed by the central government; and (3) an auto-consumption rural economy. All of these three forms still exist in China. Now, however, the economic form is more of a hybrid of these three. (Gipouloux, 1999) The different economic forms are one reason for the corruption in China (Ledeneva, 2003).

Currently, the majority of Chinese companies are specialists acting in niche markets within particular sectors and industries (Chen and Easterby-Smith, 2008). According to Chen and Easterby-Smith (2008), the Chinese firms have not yet been able to produce highly sophisticated products with a strong brand name. The lack of branding may be due to the issue that social relationships, the core of Chinese business, as such cannot be branded (Gómez Arias, 1998). Many Chinese companies function in the trading and sub-contracting world (Chen and Easterby-Smith, 2008).

The Chinese government still has quite an influential role in the local business world as median state ownership in publicly listed companies is more than 30 percent. In addition, the majority of the shares are subject to trading restrictions. The government also appoints a large proportion of the board members. Hence, the government has the ability to protect the interests of minor shareholders and, in fact, it could almost be claimed that they have a veto right within the organizations. The situation has, however, somewhat improved in that the Chinese listed companies have been more independent since the beginning of the 21st century due to the implementation of a system similar to the German two-tier board structure. These advisory boards, however, might not have much authority. (Cheung et al., 2005)

The Chinese government also plays a role in the business conducted by foreign multinationals. The companies need to pay more attention to developing relationships with governmental officials, due to which many multinationals have separate employees or even departments to conduct this. (Faure and Fang, 2008)

The Chinese government has noticed that to be more competitive in the international market, one needs to have a strong (Western-based) conventional legal system. The

Chinese legal system has, as a result, improved since the beginning of the 21st century (Hutchings and Weir, 2006). China's admission to the World Trade Organization (WTO) in December 2001 has especially helped to enhance the situation (ibid.; Walters and Samiee, 2003) as has the constitutional change of March 2004, in which private property rights were given protection (Hutchings and Weir, 2006). However, these regulatory or legal changes will not have an impact on professional practice, i.e., guanxi will continue to have an important role within the Chinese business culture if the regulatory or legal changes are not accompanied by a fundamental behavioral change (Wright, Szeto, and Cheng, 2002).

As Chinese industries become more competitive and the technology turbulence intensifies in China, guanxi and its effects may reduce. China plans to establish a more open and institutionalized market system, which may also lessen the significance of guanxi (Gu, Hung, and Tse, 2008; Guthrie, 1998). In addition, companies may need to rely less on guanxi because the local business environment has globalized and new infrastructural and legal requirements exist (Hutchings and Murray, 2002a; 2002b).

The extent to which Chinese companies utilize their guanxi networks differs (Park and Luo, 2001). Currently in China, at least the powerful economic actors increasingly consider the laws, rules, and regulations of the rational-legal system. Thus, they consider the importance of guanxi diminishing and see the practice as unnecessary and dangerous. However, the Chinese still find that conducting business with acquaintances and people one trusts beneficial. (Guthrie, 1998) That is, it helps to know someone (Tung, Worm, and Fang, 2007). The Chinese, though, need to consider other issues when doing business, including the price, quality, and efficiency of the offering. This is especially important as companies have become more privatized and cannot rely on the Chinese government to bail them out during difficult times. The smaller actors, on the other hand, still rely on their guanxi at a quite significant level since the government officials do not inspect these actors as often as the larger ones. (Guthrie, 1998)

Larger Western companies functioning in China have also begun to consider guanxi less important when conducting business with the Chinese. However, these Western-based multinationals usually automatically have guanxi due to their size. Smaller Western companies still find guanxi important when functioning in China. In addition, those representatives who have been in China for more than three years and, hence, generally know Mandarin Chinese or Cantonese, find that guanxi does not have an important role in the Chinese business environment anymore. These individuals, however, have usually already established some kind of network in China and are appreciated more due to their language skills, i.e., the knowledge of the local language. However, those who have been there for a shorter period still find guanxi to have a significant role in Chinese business. (Hutchings and Murray, 2002a; 2002b)

The Chinese, however, consider it difficult to develop relations with expatriates as they often stay for only two years. Therefore, Western companies may lose large projects because the Chinese are not acquainted with the representatives of Western firms. (Michailova and Worm, 2003) Foreign companies should try to maintain continuity and longevity by employing previous expatriates in the Chinese management boards (Vanhonacker, 2004). In the end, Westerners can never have *guanxi* equal to that of the Chinese no matter how hard they work to develop it (Hutchings and Murray, 2002a; 2002b; Su and Littlefield, 2001) due to the fact that Westerners will always remain strangers (*ibid.*). Hence, the role of *guanxi* as seen by Westerners is not one-sided.

Not only is *guanxi* changing due to globalization (Fang, 2010), but also the manner in which *guanxi* is currently used has changed. Now *guanxi* may be utilized to find job opportunities, locate loan sources, reduce restaurant and hotel rates, and access export and/or import opportunities. It also helps when negotiating favorable tax incentives, accessing market information and influential individuals, gaining exemptions from problematic laws and regulations, and obtaining passports and exit permissions (Ledeneva, 2003). Standifird and Marshall (2000) suggest that *guanxi* will continue to be used when purchasing/selling expensive industrial machinery, but that less asset-specific functions will not be founded on *guanxi*. Hence, *guanxi* is still used in situations in which one cannot acquire what one needs through open competition or other market channels (Faure and Fang, 2008; Luo 2008). *Guanxi* can now exist between members who previously did not share a common *guanxi* base (Lo and Otis, 2003; Su and Littlefield, 2001). *Guanxi* can be considered more modularized (Lo and Otis, 2003).

The changes occurring in the perception of *guanxi* are due to many factors, as suggested by Tung, Worm, and Fang (2007). First of all, there are regional differences due to the fact that the coastal areas have westernized more than the inner areas, which has led to the people living in areas along the coast following western practices more than the individuals living further west in China do. In other words, along the coast, the significance of *guanxi* has diminished. The difference in the level of economic development has also affected the change in perception as foreigners have entered the country more from the coastal areas than from the inner lands and, therefore, the inhabitants of the coast have had more contact with western practices. History has also affected the perception of *guanxi* as different generations go through different kinds of experiences. The younger generations on the coast have had the chance to experience more foreign products and ideas than the older generations did when China was a closed society. (*ibid.*)

4.2. Guanxi as a Special Feature of the Chinese Business Culture

Guanxi as a concept cannot be fully translated into English (Ambler, 1994; Chen and Layton, 2003; Michailova and Worm, 2003) as it is a complex umbrella concept (Chen and Layton, 2003). Hence, the Chinese term is used in English (So and Walker, 2006). This has led Westerners functioning in China to misunderstand the concept and, as a result, has led to problems on the business front (Hutchings and Murray, 2002a; 2002b). The Concise English-Chinese Chinese-English Dictionary translates guanxi as (I) (1) relation; relationship, (2) ties; connections, (3) bearing, (4) [indicating cause or condition], (II) to concern; to affect; to involve (Manser, 2004). However, according to Chang and Lii (2005), guanxi is not as simple a concept as the English “relationship”. Instead, it can be considered a way to demonstrate one’s position within the social network structure and the role related to that position and a way to provide security and trust (Hammond and Glenn, 2004).

The manner in which guanxi has been operationalized in the current academic literature differs. First of all, the basis on which guanxi has been cultivated affects the nature of guanxi and, hence, also its characteristics. Guanxi can also be classified on the basis of the intention of the interaction in which guanxi is present. Secondly, the level of analysis affects how guanxi is treated. Some authors have viewed it as a dyadic concept while others as a network concept. Thirdly, guanxi has been viewed as only a substitute for the weak legal system of China or as a form of friendship. (Chen and Chen, 2004) Academic literature, however, agrees on two issues: (1) all guanxi ties are highly personal and particularistic (*ibid.*; Wang, 2007) and (2) the cultivation of guanxi begins after a guanxi base has been recognized (Chen and Chen, 2004). These guanxi bases are unique in the Chinese context (*ibid.*). Chung (2005) claims that the usage of the concept guanxi is too simplistic in academic literature.

Guanxi is comprised of two characters. Guān (关) has several meanings:(I) (1) to shut; to close, (2) to turn off, (3) to lock up, (4) to close down, (5) to concern; to involve; (II) (1) to pass; to check, (2) barrier; critical juncture, (3) customs house (Manser, 2004). As can be noted, guan has both a positive and negative meaning, i.e., inside a group, one can be “one of us”, but outside the group the existence of the individual might not be recognized (Ambler, 1994; Luo, 2007). This duality (positivity and negativity) appears also, when guanxi is being discussed (Ambler, 1994; Ambler, Styles, and Xiucun, 1999; Gold, Guthrie, and Wank, 2002; Lee, Pae, and Wong, 2001). Some view guanxi as a backward or old-fashioned way to conduct business (Ambler, 1994; Ambler, Styles, and Xiucun, 1999). Some even go as far as claiming that guanxi is only corruptive actions (Ambler, 1994; Ambler, Styles, and Xiucun, 1999; Dunfee and Warren, 2001; Hsu, 2005; Lovett, Simmons, and Kali, 1999) or that this is the Western point of view on guanxi (Chan, Cheng, and Szeto, 2002; Lovett, Simmons, and Kali, 1999). However, this is not the case, as generally the Chinese view guanxi as an acceptable practice

(Chan, Cheng, and Szeto, 2002; Hsu, 2005). They distinguish between “establishing good business relations” (搞好商业关系 (gǎohǎo shāngyè guānxí)) and utilizing social relations in order to take care of economic and political procedures (靠关系学办手续 (kào guānxíxué bàn shǒuxù); Guthrie, 1998). These economic and political procedures include favor seeking, or qīnyǒu guānxí (亲友关系), and rent seeking, or quánlì guānxí (权利关系), respectively (Su and Littlefield, 2001) or extended family ties and particular instrumental ties (Jacobs, Belschak, and Krug, 2004). This is to say that the Chinese balance the negative connotations of guanxi, e.g., corruption, with positive ones, such as warm emotions and social connectedness (Hsu, 2005).

It could be suggested that those who claim that guanxi is corruptive action do not have a similar level of connections (Warren, Dunfee, and Li, 2004) or do not understand the cultural norm related to reciprocity in Chinese society, i.e., the two separate ethical codes of conduct: the code of brotherhood or yì (义) and the code of reciprocity or bào (报; Su, Mitchell, and Sirgy, 2007). Based on Confucian teachings, one should help others with no strings attached, voluntarily, and without special demands (ibid.).

The difference between guanxi and corruption is that guanxi aims to strengthen a relation while corruption is only illegal behavior (Lovett, Simmons, and Kali, 1999; Luo and Chen, 1997; Vanhonacker, 2004; Verhezen, 2008), i.e., one transaction (ibid.). Westerners, however, often have a problem distinguishing between these two actions (ibid.; Pearce and Robinson, 2000; Su and Littlefield, 2001) and, hence, may overemphasize the gift-giving and wining-and-dining components of guanxi (Luo and Chen, 1997; Pearce and Robinson, 2000, Tsang, 1998). Another reason that guanxi may be considered corruption is that guanxi is stronger when one of the parties has negative information about the other (Michailova and Worm, 2003).

Guanxi, however, may become a trap from which one can have difficulty escaping if one owes favors to the “wrong” people (Ambler, 1994). Guanxi is also seen as a trap, for example, when a salesperson completes a task for the buying personnel. In this situation, guanxi may be seen as corruptive behavior and/or the buying personnel will need to reciprocate the favor. (Lee and Dawes, 2005) When the network is very strong, the members may request more demanding favors (Michailova and Worm, 2003; Tsang, 1998). This may also create a trap. Due to the costs related to the reciprocal actions, guanxi may also be seen as expensive (Park and Luo, 2001), especially as the value of investments to the relationship increases over time (Standifird, 2006). In addition, guanxi can cause conflicts with one’s morals (Provis, 2008) and lead to an ethical trap (Su and Littlefield, 2001). In order to avoid being trapped, it is important to manage guanxi like any other resource the company has (Vanhonacker, 2004).

Reciprocity is present in other ways, too. Individuals within a guanxi network or guānxíwǎng (关系网) are required to give face, or miànzi (面子), to each other

(Buckley, Clegg, and Xiucun, 2006). This also helps to strengthen a business relationship (*ibid.*) even though the credit for the act is attributed to the individual instead of the organization (Chen and Chen, 2009). Through reciprocity, the obligation of returning favors at an unspecified time is accepted (Luo, 2007; Pearce and Robinson, 2000). The network, being based on trust and reciprocity, is flexible and able to quickly respond to changes (Buttery and Wong, 1999; Michailova and Worm, 2003), which is especially important in a legally turbulent environment (*ibid.*).

Face, or *mianzi*, though existing in other cultures as well, differs in the case of China (Hutchings and Murray, 2002a; 2002b) as it is granted more importance there (Davies et al., 2003). Face is an intangible form of social status and can even be considered a currency (Park and Luo, 2001), i.e., it can be quantified (Luo, 2007). It is affected by one's position in the network and one's material possessions (Park and Luo, 2001). So, when the size and quality of the connections in one's network increase, one's reputation and face also improve (Luo, 2007; Standifird, 2006). One should try to give face as much as possible and avoid making anyone else lose face since causing the loss of face also brings loss of face to oneself (Hutchings and Murray, 2002a; 2002b). Traditionally, losing face has been compared to physically losing a body part, e.g., an eye, a nose, or a mouth (Park and Luo, 2001; Luo, 2007). Losing face during a transaction means an unsuccessful transaction or relationship, i.e., a terminated one (Hutchings and Murray, 2002a; 2002b; Standifird and Marshall, 2000). In order not to lose face, buyers need to purchase offerings from the sellers within their *guanxi* network (Luo and Chen, 1997).

Another form of face also exists, that of *liǎn* (臉). This form of face is related to one's moral or ethical conduct while *mianzi* relates to one's performance and, thus, the amount of resources one has (Hwang, 1997-1998). In other words, *lian* differentiates individuals at the philosophical level while *mianzi*¹¹ differentiates individuals from others within a society by referring to one's credibility, honesty, income, network, occupation, power, and/or reputation (Park and Luo, 2001).

Guan, as such, is transferable: If A has *guan* with B and B with C, then A may get introduced to C through B and vice versa. Otherwise, the contact could be impossible. (Ambler, 1994) The transfer does not occur rapidly, but actor B evaluates whether or not it is beneficial to bring parties A and C together (Standifird and Marshall, 2000). Transferability is fortunate for newcomers, as otherwise they would face severe difficulties when conducting business (Pearce and Robinson, 2000). *Guanxi* partners may be seen as a resource (Park and Luo, 2001). *Guanxi* referrals help to identify prospective business partners. Often new *guanxi* relationships are established through these introductions. (Chan, 2008) Westerners may use these mediators when beginning to do business in China (Pearce and Robinson, 2000; Su and Littlefield, 2001),

¹¹ In this dissertation, when referring to face, *mianzi* is meant.

especially, if the goal is to establish helper *guanxi* (ibid.; see Table 4-2). If *guanxi* is not initiated through mediators, often a blood relationship or particular ties and personal feelings between the two individuals exist, i.e., the two individuals may belong to the same family or share their birthplaces, schools, or former employees (Chang and Lii, 2005; Chen and Chen, 2009). However, the new relationships will only be cultivated if both of the parties are amenable (Chang and Lii, 2005).

The transferability may be seen as the beauty of *guanxi* (Fan, 2002), i.e., by knowing one person, one actually knows a whole network (ibid.; Hutchings and Weir, 2006). The reciprocity and transferability are at such a degree that an individual does not even need to meet or be in contact with another individual to whom one fulfills a favor if this favor requester is a contact of someone within one's own network (Michailova and Worm, 2003; Nojonen, 2007).

Due to the hierarchical nature of *xí* (系), favors may be banked and repaid when the time is right if indeed it ever is. Hence, *guanxi* acts as a sort of insurance: one might not want to use it, but one has it just in case a situation arises in which it is needed. (Ambler, 1994; Michailova and Worm, 2003) Due to this hierarchy, the status of persons is highly respected (Ambler, 1994). The respect shown to status affects the manner in which *guanxi* is used and how it operates (ibid.): The one with the higher rank may choose whether or not to develop a relationship with an individual with a lower rank (ibid.; Chow and Ng, 2004). Often those individuals with an especially high rank are very cautious when selecting *guanxi* partners as they may be suspicious about the favors requested from them in the future (ibid.), especially as, in general, *guanxi* tends to favor the weaker partner (Dunning and Kim, 2007; Fock and Woo, 1998; Luo, 2007; Michailova and Worm, 2003). However, superiors tend to socialize with their subordinates in order to transfer silent knowledge and show their loyalty towards the subordinates (Pearce and Robinson, 2000). Ranks are also important regarding interorganizational *guanxi*. If the companies are too different in rank, it more commonly leads to a failure. (Nojonen, 2007)

The significance of one's position is part of the Confucian heritage (Ambler, 1994). Although different forms of Confucianism have arisen, the principles of this ideology have remained (Wong, 2007). Confucianism is based on four building blocks related to (1) harmony, (2) hierarchy, (3) the building of moral potential, and (4) kinship (Buttery and Wong, 1999). The eight principles related to moral behavior are the following: (1) harmony or *hé* (和), (2) justice or *yì* (义), (3) kindness or *rén* (仁), (4) love or *ài* (爱), (5) loyalty or *zhōng* (忠), (6) peace or *píng* (平), (7) respect or *xiào* (孝), and (8) trust or *xìn* (信) (Luo, 2007). Hence, Confucianists believe that everything exists in a certain structure and individuals should know their position within this hierarchy and act accordingly (Ambler, 1994; Dunning and Kim, 2007; Wong, 2007; Yeung and Tung, 1996). Knowing one's place and acting accordingly enhances harmony (Lee and Dawes,

2005; Wong, 2007; Yeung and Tung, 1996). Therefore, the Chinese often follow the moral conducts of *lǐ* (礼) instead of legalism or *fǎ* (法). Laws are thought to be used by or applied to only those who are very low on the moral stratum. (Luo, 2007)

To ensure harmony within a relationship, the parties try to lower the chance of losing face. This means that when the buyer is not able to pay for its purchases, the seller gives credit. (Luo and Chen, 1997; Pearce and Robinson, 2000) Due to the cultural trait of seeking harmony, Chinese organizations are often hierarchical and vertical organizations in which the top management generally has the decisive power (Hutchings and Weir, 2006). This has led to a cultural system regarding relationships (Buttery and Wong, 1999), as seen in Figure 4-1.

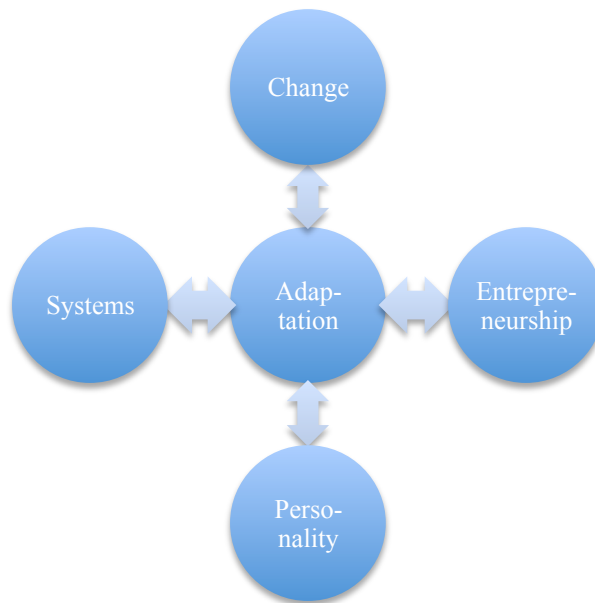


Figure 4-1. *The Context of Chinese Relationships (adopted from Buttery and Wong, 1999, p. 150).*

The SPACE diagram portrayed in Figure 4-1 illustrates the context in which relationships exist in China. The Chinese tend to build systems (S) based on relationships, meaning they rely more on their *guanxi* than on transactions of goods and services. The personality (P) of the Chinese often consists of features of self-control, obedience, and the valuing of order and harmony in relationships. (Buttery and Wong, 1999) The respect of harmony implies that the whole Chinese culture is based on cooperation instead of competition (Gómez Arias, 1998). The Chinese are willing to adapt (A) based on the situation. This flexibility, however, is often limited to the boundaries of their *guanxi* networks and the trust that exists within these networks. The Chinese are used to living in an environment which may change (C) rapidly and, thus, result in tension and conflicts in the economic system. This ever-changing environment has taught the Chinese to guard their own personal interests and not to rely on the political systems. Hence, some Chinese are entrepreneurs (E). (Buttery and Wong, 1999) Entrepreneurship is also highly valued due to the cultural emphasis on the

patriarchal family, i.e., a family may be self-sufficient and the family members will not need to work with strangers (Hsu, 2005). This entrepreneurial spirit may also be seen as the reason for the growth of the Chinese economy since the death of Mao (Fang, Zhao, and Worm, 2008; Hsu, 2005).

Wong and Tam (2000), on the other hand, view the SPACE diagram as an approach to the dynamics of *guanxi*. They have divided the different dimensions to belong to individuals, the society, or the state (*ibid.*). As in the Buttery and Wong (1999) diagram, S stands for system at the state level, i.e., China has a poor legal system of property rights, which does not protect individual economic assets (Wong and Tam, 2000). P does not stand for personality as in the Buttery and Wong (1999) model but for personal economic capital (Wong and Tam, 2000). In China, it is difficult to attain more material possessions (*ibid.*). A in this context relates to assets (*ibid.*) instead of adaptation (Buttery and Wong, 1999). Assets are symbolic capital saved in the form of *guanxi* (Wong and Tam, 2000). Instead of signifying change (Buttery and Wong, 1999), C stands for connections, i.e., the Chinese trust their personal connections to ensure the distribution of resources efficiently, on time, and in a manner which is beneficial to both the buyer and the seller (Wong and Tam, 2000). Personal economic capital, asset, and connection are social level dimensions which underlie defensiveness (*ibid.*). E does not imply entrepreneurship (Buttery and Wong, 1999) but empathy at the personal level (Wong and Tam, 2000). Empathy is the result of insiders's bonding and the reciprocity present within *guanxi*, which allows a more flexible and adaptive network and rapid reaction within and between different *guanxi* networks (*ibid.*).

The Chinese business culture is affected not only by Confucianism but also by Taoism and especially, the principles of yin and yang. The longevity, coordination, and people-orientation of yin need to be balanced by the eagerness, aggressiveness, and outcome-orientation of yang, especially, when aiming to build trust. If a balance does not exist, either party may end the relationship due to the destruction of trust. (Buckley, Clegg, and Tan, 2006) Related to the principle of yin and yang, are the concepts of heart and mind management (Buttery and Wong, 1999), as seen in Figure 4-2.

The Mind Management part of Figure 4-2 is based on acting more on one's reasoning rather than on one's feelings. When individuals are associated with each other and bond, they are more committed to each other. (Buttery and Wong, 1999) Mind management is based on gaining a win-win situation of profits and resolving conflicts. The relationships are more transaction-based and less emphasis is put on social ties. In a sense, the commitment is calculated. (Wong et al., 2007)

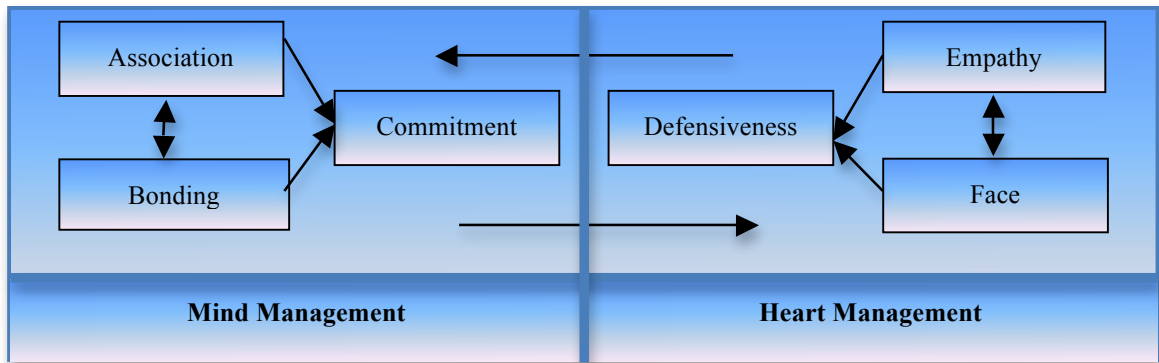


Figure 4-2. *The Difference between Mind and Heart Management (adopted from Buttery and Wong, 1999, p. 152; Wong and Tam, 2000, p. 62).*

Heart Management, on the other hand, is based more on one's feelings. In China, it is natural to first feel somewhat defensive towards an outsider. In order to become more acquainted, one needs to understand the other's standing, i.e., one needs to feel empathy towards the outsider. This is often related to giving face to the other, i.e., one acknowledges the status and moral reputation of the other. Performing favors and/or giving gifts, often depicted as *rénqíng* (人情) in Mandarin Chinese, helps to break down one's defensiveness. (Buttery and Wong, 1999)

Chua, Morris, and Ingram (2009) suggest that the constructs of *guanxi* should mirror those of familial collectivism. Buttery and Wong (1999) have defined four key constructs of *guanxi*, as presented in Figure 4-3.

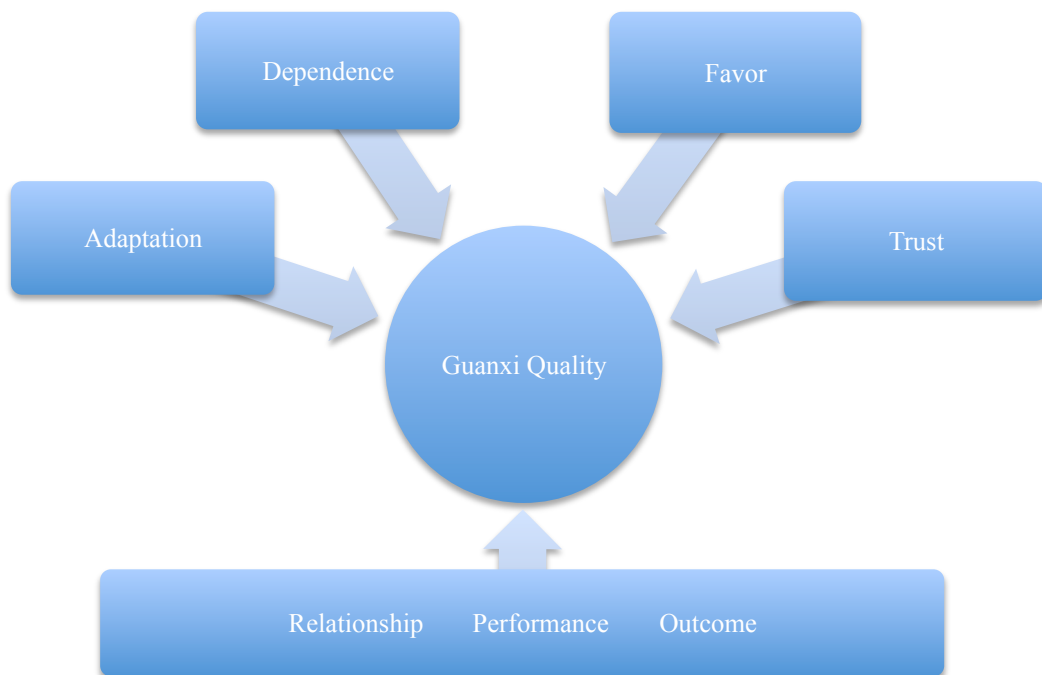


Figure 4-3. *The Key Constructs of Guanxi (adopted from Buttery and Wong, 1999, p. 151).*

According to Buttery and Wong (1999), as depicted in Figure 4-3, the key constructs of guanxi are adaptation, dependence, favor, and trust. The adaptation occurs in both directions, i.e., the buyer needs to adapt to the seller and vice versa (Geddie, DeFranco, and Geddie, 2005). Individuals are dependent on each other in several ways; they require both instrumental resources and socio-emotional support from the other. In order for overall trust to develop between the two individuals, affect- and cognition-based dependence need to exist. Transactions between the two can occur only when a relationship is present, i.e., economic dependence follows affect-based trust. As more transactions take place, the competence and reliability of the other can be judged more efficiently. In the end, the better connected one is to the guanxi partner's professional network, the higher the trust level and judgment of one's reliability and competence. (Chua, Morris, and Ingram, 2009)

Several Chinese terms are also related to guanxi. These have been gathered into Table 4-1. It is important for foreigners to acknowledge these terms during business activities. Understanding the meaning of these terms allows foreigners to establish stronger connections with the Chinese counter parties. (Buckley, Clegg, and Tan, 2006) In Table 4-1, it is shown that within guanxi, yi is used in order to compensate for the downfalls of the Chinese legal system. Ambler (1994) claims that guanxi and the commercial legal system are counterparts of each other: the stronger the guanxi, the weaker the need for the commercial legal system and vice versa. Hence, as the commercial legal system has been weak, the trust in and need for contracts have been judged unnecessary since the transactions have been based on guanxi, i.e., trust between two individuals within a relationship (Ambler, 1994) as guanxi is based on the concept of face (see Table 4-1; Chow and Ng, 2004). Guanxi has acted not only as a substitute for the commercial legal system but also as an alternative manner to generate personal wealth and to ensure one's security under the Communist system (Buttery and Wong, 1999).

Trust or xinyòng (信用) is important in guanxi: one needs to trust the other in order for a relationship to properly exist (Hutchings and Murray, 2002a; 2002b), i.e., the existence of trust is a condition for guanxi (Luo and Chen, 1997). Westerners typically find it difficult to trust the Chinese. However, when one does finally trust a Chinese, the Chinese is very loyal. (Hutchings and Murray, 2002a; 2002b) This also occurs vice versa, i.e., the Chinese may find it difficult to trust foreigners since they will always remain strangers, or outsiders. Therefore, Westerners should take the first step, when developing a relationship and show their commitment to it. (Su and Littlefield, 2001)

Table 4-1. Concepts Related to Guanxi (adopted from Ambler, 1994; Ambler, Styles, and Xiucun, 1999; Buckley, Clegg, and Tan, 2006; Chen and Chen, 2004; Chow and Ng, 2004; Chua, Morris, and Ingram, 2009; Dunning and Kim, 2007; Fan, 2002; Guthrie, 1998; Hammond and Glenn, 2004; Hwang, 1997-1998; Kriz, 2009; Lee and Dawes, 2005; Leung et al., 2005; Lu, 2007; Luo, 2007; Luo and Chen, 1997; Manser, 2004; Park and Luo, 2001; Pearce and Robinson, 2000; Seligman, 1999; Su and Littlefield, 2001; Tsang, 1998; Verhezen, 2008; Wang, 2007; Wong, 2007; Wong and Leung, 2001; Zhu and Zhang, 2007).

Concept		Translation	Meaning
Pīnyīn (拼音)	Simplified Chinese		
(Huì)bào	(回)报	(1) report back, (2) repay; requite; reciprocate, (3) retaliate; pay sb. in his own coin	Reciprocity
Bāngmáng	帮忙	Help; give (or lend) a hand; do a favor	Favor-giving
Chéng	诚	(I) sincere; honest, (II) really; indeed	One of the two constructs of 信 (xìn) signifying sincerity
Fǎ	法	(1) law, (2) method; way	Law, applied to only those low on the moral stratum, who have forsaken the ethics of right relationships
Gǎnqíng	感情	(1) feelings; emotion; sentiment; (2) affection; love	One of the two constructs of 情 (qíng) signifying affection, i.e., the degree of emotional understanding and connection, the sharing of both positive and negative feelings, the sense of loyalty and solidarity, and the willingness to take care of each other in all situations, i.e., a measure of the emotional commitment of the guanxi parties to each other
Guānxíhù	关系户	Guanxi family	Interorganizational guanxi; specially connected individuals, firms, or government departments, used when discussing business concerns that maintain extensive guanxi with one another and give each other preferential treatment regardless of market rationality
Guānxíwǎng	关系网	Guanxi network	A complex web of obligations beyond the conceptual, providing real and material benefits; are subnets (groups) collected with a sum of cells (units) constructed by threads (individuals) with knots (guanxi)
Guānxíxué	关系学	Study of guanxi, guanxiology	The practice and technique of using and manipulating guanxi for specific ends
Hòumén guānxí	后门关系	Corruptive form of guanxi	Back-door deals; guanxi related to bureaucratic corruption, i.e., nepotism, patronage, and faction
Jiànlì guānxí	建立关系	To establish guanxi	To develop a relationship based on reciprocal respect, friendship, effort, and continued contribution; should be used instead of lāguānxí (拉关系)
Jiāoqíng	交情	Friendship; friendly relations; acquaintanceship	One of the two constructs of 情 (qíng) signifying obligation, i.e., the sense of obligation and indebtedness resulting from social and economic transactions in order to satisfy the pragmatic needs of work and life

Table 4-1. Concepts Related to Guanxi (continued).

Concept		Translation	Meaning
Pīnyīn (拼音)	Simplified Chinese		
Jiǔ ròu guānxì	酒肉关系	Wine and meat relationships	Guanxi based on socializing, especially in the form of banquets
Kěxìn	可信	Trustworthiness	The degree of the trustworthiness of an actor; identifiable from one's social reputation, educational background, previous examples of trustworthiness or opportunism, and solidarity
Lā guānxì	拉关系	To pull guanxi	To initiate and establish a connection, to get on the good side of someone who is powerful and store social capital with the powerful one; sometimes interpreted as using dishonest means (bribery, doing favors, or using power to influence in a dishonest way)
Lǐ	礼	(1) ceremony; rite, (2) courtesy; etiquette; manners, (3) gift; present	1. A Confucian concept illustrating correct interpersonal relationships which provide security and stability 2. the religious and social standards of proper personal conduct and the right ordering of relationships between people in social institutions that is necessary to maintain a moral order in society
lǐ shùn guānxì	理顺关系	Straighten out guanxi	To put guanxi back into its proper order, usually after a difficult or awkward time period
Liǎn	脸	Face	Face related to one's moral or ethical conduct
Lǐwù	礼物	Gift; present	Gift; wù (物) without lǐ (礼) is merely an object, a bribe; lǐ (礼) provides the reciprocal nature and makes the object a gift
Lún	伦	(1) human relationships, esp. as conceived by feudal ethics, (2) logic; order, (3) peer; match	A Confucian concept expressing (a) human relationships, especially the Five Cardinal Relationships (wǔ lún (五伦)) between: (1) ruler-subject, (2) father-son, (3) husband-wife, (4) elder brother-younger brother, (5) friend-friend; (b) social order; and (c) moral principles concerning interactive behaviors of relational actors.
Miànzi	面子	(1) outer part; outside, (2) reputation; face; self-respect	May be seen as dignity, prestige, or reputation. Saving it may be used as a shortcut with which to develop guanxi within one's current network and to widen one's network.
Qíng	情	(1) feelings; affections; sentiment, (2) favor; kindness; (3) situation; condition	One of the two construct of guanxi quality signifying feeling, i.e., how well a given guanxi satisfies the mutual affective and instrumental needs of the parties
Qīnqíng	亲情	Family-related affection	The most intimate form of gǎnqíng (感情); affection for loved ones, which exists only between direct family members
Rén	仁	(I) benevolent, (II) (1) benevolence, (2) kernel	Affection, benevolence

Table 4-1. Concepts Related to Guanxi (continued).

Concept		Translation	Meaning
Pinyin (拼音)	Simplified Chinese		
Rénqíng	人情	(1) human feelings; sympathy; sensibilities, (2) favor; (3) human relationship	Human debt to acquaintances, i.e., reciprocal favor, special treatment of an individual. All group members are required to perform favors to help those in need and all favors need to be repaid.
Tèquán	特权	Privilege; prerogative	Privilege of officials, which is hated by the common citizens as it signifies monopolized interests drawing upon public property
Xìn(rèn)	信(任)	(I) (1) letter, (2) message; information, (3) trust; confidence, (II) to believe; to trust	One of the two constructs of guanxi quality signifying the trust or trustworthiness of the other guanxi party, which is not present in Western relations. Can also be defined as the heart-and-mind confidence and belief that the other person will perform, in a positive manner, what is expected of the person, regardless of whether that expectation is stated or implied
Xìnyòng	信用	(1) trustworthiness; credit, (2) credit	A measurement of a person's business ethical integrity; close to the Western "trust"
Yì	义	(I) (1) justice; righteousness, (2) human relationship, (3) meaning; significance, (II) adopted; adoptive	A concept signifying trust, sincerity, commitment to mutual assistance, and justice. It partly allows guanxi to compensate for the downfalls of the Chinese legal system.

Another form of trust also exists: *xìnren* (信任). It is the expectancy that another will perform the tasks promised or expected. Usually in order for *xinren* to exist within a relationship, the relational actors need to have bonded and should not be outsiders, or strangers. The reciprocity related to *guanxi* helps the development of *xinren* within a relationship. *Xinren* is a significant factor in both social and business relationships. However, it is rarely present in business relationships. Hence, companies tend to rely more on money than on words. (Kriz, 2009).

According to Chow and Ng (2004), *guanxi* can be classified as either close *guanxi* or distant *guanxi*. Close *guanxi* exists between two individuals who feel particularly close to each other while individuals with distant *guanxi* do not feel close to each other as such. Being close to someone often implies sharing more private information in a more open manner and asking for help in crisis. (ibid.) The decision to accept someone as an insider instead of an outsider depends on who has initiated the set-up of the *guanxi* network. The initiator is also more willing to offer relational acknowledgment to individuals with a lower rank. (Chang and Lii, 2005) Being colleagues or relatives does not automatically mean that the individuals share close *guanxi*, but actually, the opposite is true, i.e., colleagues and relatives often share distant *guanxi*. However, in crisis, family members are often those consulted. Instead, being of the same age often implies sharing close *guanxi*. (Chow and Ng, 2004)

As a term, *guanxi* applies more at the individual level (Ambler, 1994; Davies et al., 1995; Dunning and Kim, 2007; Luo and Chen, 1997; Michailova and Worm, 2003; Seligman, 1999; So and Walker, 2006; Tsang, 1998; Warren, Dunfee, and Li, 2004; Yeung and Tung, 1996). However, some claim that it may also be used when discussing relations between organizations (Ambler, 1994; Michailova and Worm, 2003; Tsang, 1998) and even nations (Ambler, 1994). Others (Fan, 2002; Seligman, 2006) are not certain about the transferability of *guanxi* from an individual to an organization, especially as the Chinese often view the company representative as the firm itself (Lee and Dawes, 2005), because of which it would be important for the salesperson to try to transfer the trust in oneself to trust in the organization (ibid.; Standifird, 2006). Thus, companies should give representatives a sufficient amount of resources to build their *guanxi* networks and ensure that the representatives remain in their organizations for as long as possible (ibid.).

Even though *guanxi* might not exist at different levels, there are different forms of *guanxi* at the individual level (Fan, 2002). Fan (2002) has identified three different typologies of *guanxi*, as noted in Table 4-2.

Table 4-2. *The Different Guanxi Types and Their Features (adopted from Fan 2002, p. 552; Su and Littlefield, 2001).*

Type	Family guanxi (jiārén guānxí, 家人关系)	Helper guanxi (shǒurén guānxí, 手人关系)	Business guanxi (shēngrén guānxí, 生人关系)
Definition	Special relationship, the expressive tie	Process of exchanging favors	Process of finding business solutions through personal connections
Nature	Emotional and instrumental	Instrumental / utilitarian	Purely utilitarian
Cultural / Social Root	Chinese cultural values (i.e., Confucianism)	Cultural values and contemporary socio-economic factors	Current political and economic structure, e.g., weak legal system
Base	Mostly blood base, some social base	Social base	Mainly through intermediary
Core Values	Affection (qīnqíng (亲情)), obligations, empathy	Rénqíng (人情), face, trust / credibility	Rénqíng (人情), face, power / influence
Motivation / Purpose	Mutually dependent, emotion-driven	“To get things done”, utility-driven	To acquire scarce resources or get special treatment
Function	Ends and means	Means	Means
Exchange	Love / affection, support	Favor	“Money and power deal”
Condition	Normative obligation. Reciprocity not necessary, can be altruistic	Reciprocity expected but weaker party benefits more, incremental calculation	Strictly reciprocal, “gain and loss” bargaining
Relation	自家人 (zìjiārén; member of one’s own family)	熟人 (shúrén; familiar person), insider or outsider	生人 (shēngrén; outsider), a mixture of private and business relations
Quality / Closeness	Strong and stable	Medium, normally unstable	Varies (depends on the existence of other bases)
Downside	Nepotism	Burden of rénqíng (人情; human debts)	Corruption, social loss
Time	Long term or permanent	Varies or one-off	Temporary

According to Fan (2002) and as expressed in Table 4-2, family guanxi is based on Confucianism while helper and business guanxi are based on the current Chinese socio-economic systems. Hence, the future of family guanxi is more secure than that of helper and business guanxi as the latter two are more related to exchanging favors, particularly for business guanxi in the business world. Therefore, business guanxi is based on personal interests and driving those interests, e.g., acquiring scarce resources or getting special treatment otherwise. As a result, business guanxi is generally begun through intermediaries. The base for helper guanxi is more social, e.g., belonging to the same soccer club, and for family guanxi one’s blood relations. Business partners are always seen as outsiders and family members as insiders. “Helpers” fall somewhere in between, i.e., they can either be insiders or outsiders. (ibid.) With interactions with strangers, i.e., in business guanxi, the Chinese are motivated only by self-interest and, thus, they feel little motivation to help strangers (Hsu, 2005). However they try to avoid conflicts and, hence, act in quite an exclusionary fashion with strangers (Hutchings and Weir, 2006; Michailova and Worm, 2003) even though business guanxi is quite utilitarian in nature

(Su and Littlefield, 2001). While nepotism is considered the drawback of family guanxi, corruption can be the drawback of business guanxi. Both “helpers” and business partners may be overwhelmed by the favors requested from them. Generally, however, family and helper guanxi are both healthy forms of guanxi, i.e., they are moral or even desirable and harmless to outsiders. (Fan, 2002) However, business guanxi is essential for gaining new information, ideas, and market opportunities (Hammond and Glenn, 2004).

Su and Littlefield (2001) define two separate streams of helper guanxi: relative, or qīnqī guānxī (亲戚关系) and friend or péngyou guānxī (朋友关系). Relative guanxi is used with individuals belonging to the kin or clan of the focal person and friend guanxi when they belong to the kith or friend category. Relative guanxi is more centered on obligation while friend guanxi is more about reciprocity as people have the choice of choosing one’s friends but not one’s relatives. (ibid.)

Fan (2002) further divides business guanxi into business-to-business (B2B) guanxi and business-to-government (B2G) guanxi. Chen and Chen (2004) call this latter type political guanxi. Even though these guanxi types are called B2B and B2G guanxi, they still exist at the individual level (Fan, 2002).

According to Hwang (1997-1998), there exist two types of relationships: vertical and horizontal. Vertical relationships, following Confucian tradition, are always those between in-group members. Horizontal relations, on the other hand, may be divided into two types: horizontal in-group and horizontal out-group relationships. Horizontal in-group relations consist of expressive ties while horizontal out-group relationships are those of instrumental ties. Vertical relations follow the Five Cardinal Relationships (wǔ lún (五伦)), i.e., the Confucian thought of superior-subordinate relations (see Table 4-1). Hence, the subordinate needs to follow the superior’s guidance or commands at least publicly but may defy the superior in private. Horizontal in-group relations are the most important type of relations in the West but not in the East. Giving face is an important feature in horizontal in-group relations. The relational actors are at a more equal status level and can be considered “friends”. Horizontal out-group relations, on the other hand, are relationships between two individuals who are not friends or family members but instead acquaintances. There may be conflicts between these two actors. (ibid.)

The difference in the relational closeness of the guanxi types is similar to tie strength of network research (Chen, Chen, and Xin, 2004). Buckley, Clegg, and Tan (2006) have found that foreign companies should develop guanxi with their local employees through trust, with local partners through a shared mindset, and with the central and local governments in order to secure governmental support and, hence, to ensure a favorable operating environment. It is important that the foreign enterprise is long-term-oriented when developing these relationships (ibid.). In the end, the Chinese, however, place the most emphasis on interpersonal loyalty (Dunning and Kim, 2007).

The manner in which the different levels of guanxi are treated varies. If guanxi exists between two organizations, then it is kept secret, i.e., it occurs “behind closed doors” or “through the backdoor.” This secrecy may be due to the illegitimate nature of the exchange. However, if guanxi exists between two individuals, favors are completed publicly as this enhances the social capital of the favor doer. (Chen and Chen, 2009)

In addition to the different forms of guanxi at an individual level, different levels of guanxi can also be defined at the organizational level. Su, Mitchell, and Sirgy (2007) have classified forms of guanxi into three levels. (1) The core level consists of those company representatives who cater to the demands of the major external guanxi relations. Major external guanxi stakeholders include boards of directors, shareholders, customers, and the community. Core guanxi relationships, therefore, are between the key decision-makers within and outside of the focal company. (2) Major guanxi stakeholders affect the key decision-makers by providing resources or by otherwise affecting the organizational activities. (3) Peripheral guanxi stakeholders are those whose actions may affect the long-term survival of a company. This effect may, however, not be immediate. This classification helps one to understand which guanxi parties have the resources one needs the most. To ensure this, Westerners should draw guanxi maps (Su, Mitchell, and Sirgy, 2007). These maps should be updated at least annually as the job mobility rate in China is very high (Tsang, 1998). However, even though (Western) companies might conduct these practices, guanxi is difficult to manage (Nojonen, 2007).

Even though guanxi is an important part of the relationship between two actors in China, it is not sufficient in itself (Ambler, 1994; Tsang, 1998; Yeung and Tung, 1996). The product needs to satisfy the customer’s needs and the price should be (nearly) right (Ambler, 1994; Luo, 2007), i.e., the seller needs to consider the traditional Western marketing mix (Fock and Woo, 1998). However, guanxi recognizes that often the lifetime value of a well treated customer and the customer’s positive opinion are significantly more beneficial than any single transaction (Ambler, 1994; Luo, 2007). Customers who are not satisfied with the offering are likely to switch their suppliers (Wong and Oswald, 2000).

Companies should try to cultivate the personal guanxi of the organization’s representatives into a competitive advantage, i.e., this guanxi should be developed into a non-imitable, nontransferable, rare, and valuable resource (Gu, Hung, and Tse, 2008; Tsang, 1998). However, the companies tend to be less strict when doing cost-benefit analyses when guanxi exists with the potential business partner (Chen and Chen, 2009).

Foreigners should allocate a significant amount of resources to creating and developing guanxi (Buckley, Clegg, and Tan, 2006). Guanxi may be seen as a competitive advantage (*ibid.*), and as a result, the Chinese may not want to elaborate on the subject (Ambler, 1994). However, it should be noted that China is a huge country with various

sub-business cultures (Buckley, Clegg, and Tan, 2006; Walters and Samiee, 2003). The cultural diversity has even widened in the recent past due to the demographic, economic, institutional, and social changes occurring in Chinese society (Chen and Chen, 2009). Hence, when deciding how many resources to allocate in the guanxi development process, one needs to consider the importance guanxi plays in a particular region, i.e., one should apply the “when in Rome” principle (Chan, Cheng, and Szuto, 2002).

In the areas where the Confucian relational values have been losing their importance, the significance of guanxi has also declined (Chen and Chen, 2009). These areas are mainly those in which the presence and, thus, the influence of Western companies is at a higher level, i.e., Western firms have brought some non-Chinese business practices with them (Dunfee and Warren, 2001; Park and Luo, 2001; Sin et al., 2005). In these more marketized areas of China, the institutions for exchanges are more formalized and efficiently maintained (Gu, Hung, and Tse, 2008) while in the non-open areas, competition is at a lower level and the companies within these areas tend to operate more with the government to overcome the potential disadvantages of competition (Park and Luo, 2001). Even though the business environment is somewhat more westernized, some Chinese are still somewhat ethnocentric and consider the business culture outside China to be equal to that in China. Hence, often Western guanxi partners are viewed as windows to the West, i.e., the Chinese expect Westerners to help them in the West as they would help other guanxi partners in China. (Seligman, 1999)

One guanxi-related issue, to which resources are allocated, is gift giving. Westerners, however, may view this cultural trait as bribery even though for the locals it is seen as a totally acceptable and necessary practice in order to cultivate mutual trust and longevity within a relationship (Chan, Cheng, and Szeto, 2002; Xin and Pearce, 1996). By sharing gifts, one expresses one’s feelings, especially that of affection to the other. Thus, the gifts are valued by the degree of affection that they show (Lo and Otis, 2003). It should be noted that gift giving and bribing are different issues and the vocabulary used in both instances differs. Gifts are usually given during Chinese festivities while bribes can be provided at any point. Gifts are given in public while bribing is an under the table or backdoor procedure. To ensure that the gift giving is not viewed as corruptive behavior, Western companies, especially, try to alternate the positions of the representatives within the organization and share responsibilities between more than one representative, especially in the sourcing/purchasing department; between different organizational levels; and by educating the representatives (Millington, Eberhardt, and Wilkinson, 2005).

Another resource which is greatly needed when conducting business in China is managerial time. Business relationships in China are never impersonal. In order to develop and maintain guanxi, one needs to be more involved in the personal and social

lives of the (prospective) guanxi partners. (Chen and Chen, 2004; Walters and Samiee, 2003)

One has to determine the benefits and costs related to maintaining guanxi. Benefits include quality assurance, product diversification, referral networks and more business opportunities, and minimized risk of trustworthiness due to loss of face. As a result of having guanxi, prices may be regulated, the activities be more cost effective, and (insider) information be received earlier (Chan, 2008). This information often concerns market trends and business opportunities, as well as government policies (Davies et al., 1995). One should, however, note that these benefits are tactical and temporary but not strategic. Also, in many cases, if there are gains to an individual from using guanxi, there is a loss to society. Actually, this type of guanxi should generally be deemed as immoral and illegal and, hence, not be practiced. (Fan, 2002)

As mentioned above, guanxi is not always beneficial. It may create favor traps (Ambler, 1994) and require a significant amount of resources to maintain it (Buckley, Clegg, and Tan, 2006). In addition, guanxi results in high or even over-dependency between the relational actors (Chan, 2008; Gu, Hung, and Tse, 2008; Standifird and Marshall, 2000), which, if the network fails, may result in a domino effect (Gu, Hung, and Tse, 2008). Guanxi may also overburden corporate obligations and cause collective biases (ibid.). Often when firms base their business operations on guanxi, they are less innovative, take less risk, and are not as proactive as they could be (Chen and Layton, 2003; Standifird and Marshall, 2000) and, hence, may lose business opportunities (ibid.). Guanxi can be harmful to the whole society as a buyer may purchase more environmentally hazardous offerings due to the connection between the buyer and the seller (Warren, Dunfee, and Li, 2004).

If, however, a company representative finds it beneficial to become involved in a guanxi relationship, the relations should be developed with a key player of influence within one's industry. One should identify both the business and personal interests of these key players or their representatives. One should find a way to enable oneself to directly communicate with the key player. This can be done, for example, through agents or middlemen. It is important to gain business referrals in order to have enough face. The initiation of guanxi relationships is aided if one shares highly valued information, generally on business opportunities, or if one acts as a mediator between two companies searching prospective business partners. (Chan, 2008)

A guanxi network will be most successful when all the members participating in the network are equally committed to it and are willing to develop and cultivate it according to the consensus view. The relationships within the network should be similar to those with old friends or favorable partners in order for the members to trust each other enough to allow open communication. Often these business relationships are a result of previous relationships in which information was shared openly at a frequent pace and

the actors shared a mutual understanding of the goal and nature of the relationship. (Chang and Lii, 2005)

Usually, *guanxi* is most beneficial for foreign companies when they are entering new relationships. The relationship develops faster if one is introduced to the other party. *Guanxi* also helps during negotiations and when setting up one's operations. After the initial stage of the relationship, the importance of *guanxi* tends to lower. (Fan, 2002)

4.3. The Development of Guanxi

There is little literature on the development of *guanxi*. However, it should be noted that each transaction with a Chinese should be considered as an interaction deepening the relationship between the buyer and the seller (Hsu, 2005). Five models regarding the development of *guanxi* are illustrated below.

Leung, Wong, and Tam (1995) were the first to try to implement a Western relationship building process theory (the Buyer and Seller Interaction Model of the IMP Group (cf. Håkansson, 1982)) with distinct Chinese cultural factors. They used both quantitative methods (i.e., a questionnaire) and qualitative methods (i.e., focus group) (Leung, Wong, and Tam, 1995). Their sample was based in Hong Kong (ibid.), which may have affected the results, as *guanxi* is perceived differently in Hong Kong than in mainland China due, for example, to the British presence (Smart and Smart, 2006). They consider the development of *guanxi* to be a four-stage process with eight subprocesses (Leung, Wong, and Tam, 1995). They view the four stages through psychological concepts (ibid.), as presented in Figure 4-4.

While in the associate stage of *guanxi* (see Figure 4-4), both actors are testing the other's intention. First of all, the prospective *guanxi* partner needs to be available. (Leung, Wong, and Tam, 1995) Searching for an available partner is time-consuming (ibid.; Yi and Ellis, 2000). Not only does a partner need to be found, the right source or gatekeeper also needs to be identified (Wong and Chan, 1999). Negotiations during this stage usually require bargaining (ibid.) and are conducted in private to ensure that neither loses face (Lin, 2001). Secondly, one needs to build up a connection with the potential partner (Leung, Wong, and Tam, 1995). Through this connection or association, the willingness of the parties is tested (ibid.), i.e., an experiment takes place (Wong and Chan, 1999).

If the parties are not willing to participate in the relationship, it is not fruitful to continue the process (Leung, Wong, and Tam, 1995; Wong and Chan, 1999). The parties need to communicate their expectations for *guanxi* and acknowledge the strengths and weaknesses of the other and, thus, judge whether or not a relationship with the prospective partner would be fruitful. This is a critical stage within *guanxi* development. (ibid.)

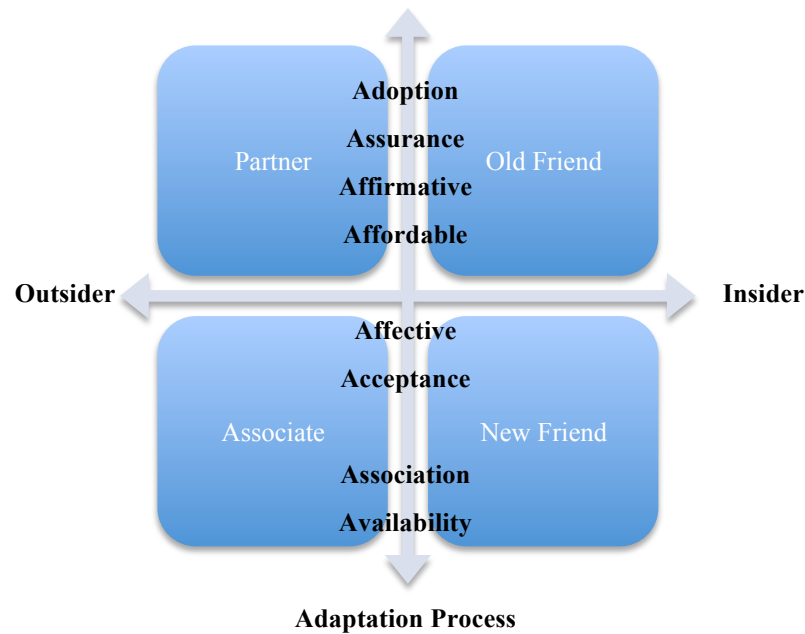


Figure 4-4. *The Guanxi Development Model of Leung, Wong, and Tam (1995, p. 22; the eight subprocesses added).*

If both partners are willing, the relationship between the two should develop into an affective one (Leung, Wong, and Tam, 1995). The partners should be able to help the other to overcome their weaknesses (Wong and Chan, 1999). This stage may end here or the affordability of the relationship may also be determined. One should not try to develop guanxi when one does not have the resources to do it in the long-term. If any negative feedback arises, the relationship could also be ended. (Leung, Wong, and Tam, 1995; Wong and Chan, 1999)

The new friend stage of guanxi development is a similar process (Leung, Wong, and Tam, 1995). The difference is that a new friend is considered an insider from the beginning (ibid.; Wong and Chan, 1999), and, therefore, information sharing is more open and one can accept a discounted price for one's offering, i.e., one is more willing to compromise and perhaps to even give up their self-interests to gain mutual benefits (ibid.). An associate may also develop into a new friend during the cultivation process. If the situation is not such, but guanxi, however, is still cultivated, the guanxi partner remains as an outsider and becomes a partner. The information sharing at this point, however, is limited. (Leung, Wong, and Tam, 1995)

While developing guanxi from the associate stage to the partner stage, the actors remain outsiders and, hence, the trust level between the two might not be sufficient to allow the other party to exit the trial state. If guanxi is cultivated more, both of the parties are assured that the relation should continue and, therefore, try to converge with each other, i.e., the actors work closely together, but there still remains some distance. (Wong and Chan, 1999)

If the relationship is developed further from the new friend stage to the old friend stage, the parties should initially discuss the direction in which the relationship can be enhanced (Leung, Wong, and Tam, 1995). The level of trust between the two actors is high (Wong and Chan, 1999). The parties need to be committed to the relationship and show assurance of this to the other (Leung, Wong, and Tam, 1995; Wong and Chan, 1999). Assurance in a relationship may even be more important than trust as this shows that the other is not (too) opportunistic (Standifird and Marshall, 2000). Finally, through adaptation, the existence of very good guanxi is confirmed. At this point, the actors continue to discuss the direction of the development of the relationship. (Leung, Wong, and Tam, 1995)

Buttery and Wong (1999) also view the development of guanxi as occurring through a two-by-two-matrix. They base their model on interviews (ibid.), but they do not elaborate more on the method, which is always questionable. Hence, one cannot know whether the model has been developed based on the Hongkongese view of guanxi, which differs from that of the mainland Chinese (Smart and Smart, 2006). They differentiate between an outsider and an insider (ibid.), as can be seen in Figure 4-5. Insiders are those with whom one is willing to resolve conflicts and, on a more general level, work together (Chang and Lii, 2005).

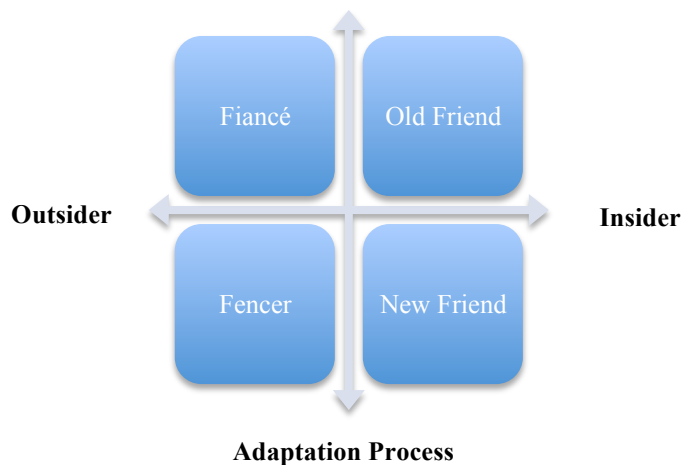


Figure 4-5. *The Development of Guanxi as Suggested by Buttery and Wong (1999, p. 151; arrows left out of original model).*

In Figure 4-5, the term fencer refers to a sword fencer, i.e., an individual who aims to expose the other's strengths and vulnerable areas (Buttery and Wong, 1999). This time period is used to judge whether or not the other can be considered a suitable business partner (ibid.; Wong and Leung, 2001). The analogy with the fiancé refers to individuals who are more acquainted with each other, i.e., they are already willing to get married. The friendship between the parties (at least, when not discussing arranged marriages) is already quite strong and sufficient trust exists to sign a contract with each other. The trust level is higher and the parties aim to help each other. However, as the partners are

not married and are not officially part of the family, they are viewed as outsiders. (Buttery and Wong, 1999)

The Chinese like to conduct business with their friends. A friend is an individual the other can trust and, hence, discuss business with. However, when the friendship is new, the parties still need to prove themselves to each other. When one has proven one's loyalty and trustworthiness, one may become an old friend. With an old friend, one can confide and the need for legal contracts does not truly exist anymore as one's word is sufficient. An old friend is just a phone call away. (Buttery and Wong, 1999)

Wong and Chan (1999) have combined the two previously presented guanxi development models. In order to develop their model, they used a qualitative approach. Their sample consisted of Hongkongese buyers and sellers. (ibid.) As mentioned earlier in the discussion of the first guanxi development model, the mainland Chinese and the Hongkongese (may) view guanxi differently (Smart and Smart, 2006). This model, as depicted in Figure 4-6, especially considers the relationship between a buyer and seller (Wong and Chan, 1999).

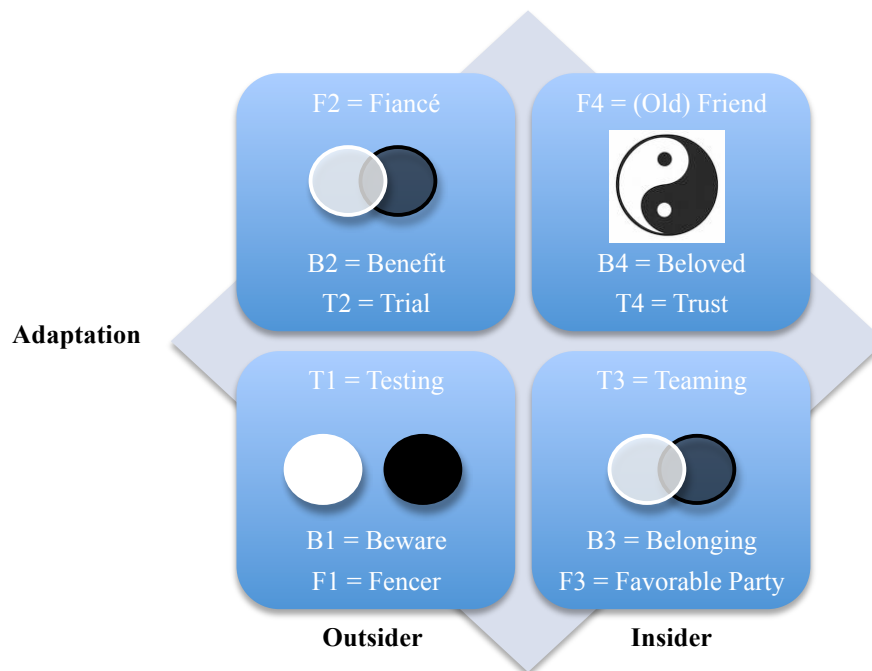


Figure 4-6. *Guanxi Development of a Buyer and a Seller (adopted from Wong and Chan, 1999, p. 117; the buyer is illustrated by the white circle and the seller by the black one).*

Guanxi development between a buyer and a seller, as shown in Figure 4-6, can be seen through three items: friendship type (F), interaction type (B), and behavior type (T). The friendship types are from the Buttery and Wong (1999) model and the development of guanxi follows the models of Leung, Wong, and Tam (1995) and Buttery and Wong (1999). The interaction may be beware, benefiting, belonging, or beloved while the behavior may be testing, trial, teaming, or trusting (Wong and Chan, 1999).

The buyer and seller are independent of each other at the fencer stage. In the fiancé and favorable party stages, the buyer and seller are somewhat dependent on each other, but still are also independent. In the friend stage, the buyer and seller are as in a yin and yang state, i.e., they both have their own identities even though they are a harmonious team. (ibid.)

Chen and Chen (2004) have suggested a second model for developing guanxi based on reasoning, i.e., a conceptual-analytical approach (Kasanen, Lukka, and Siitonen, 1991; Neilimo and Näsi, 1980; Olkkonen, 1994). They have identified three stages through which guanxi develops (Chen and Chen, 2004), as seen in Table 4-3. It is important to notice that building and using guanxi are different issues (Hutchings and Murray, 2002a; 2002b).

Before one can initiate guanxi, one should define one's aim regarding the relationship. One should act according to one's strategy regarding networking instead of merely functioning case by case. The objective should be more long-term in nature. In order to initiate guanxi, a prospective party and suitable relational base needs to be scouted. (Vanhonacker, 2004)

Table 4-3. *The Development of Guanxi as Suggested by Chen and Chen (2004, p. 310).*

Guanxi Stages	Guanxi Objectives	Interactive Activities	Operating Principles
Initiating	Setting up bases	Familiarizing	Mutual self-disclosure
Building	Enhancing quality	Expressive and instrumental transactions	Dynamic reciprocity
Using	Getting benefits Re-evaluating guanxi quality	Exchanging favors	Long-term equity

Usually before guanxi is initiated, the parties are not acquainted with each other (Chen and Chen, 2004), i.e., it is possible for the guanxi process to begin between members who do not know each other (Fan, 2002). For guanxi to be initiated, a common base needs to be found (Chen and Chen, 2004; Luo, 2007; Standifird, 2006), as mentioned in Table 4-3. This guanxi base may consist of common social identities or a common third party, or it may be future-oriented (see Table 4-1; Chen and Chen, 2004). Fan (2002) has categorized guanxi bases differently, as is seen in List 4-1.

List 4-1. Categorizing Guanxi Bases (adopted from Fan, 2002, p. 547; Luo, 2007; and Wong, 2007).

1. Relationship by birth or blood
 - a. Family
 - b. Kinships (usually paternal relatives), in-laws
2. Relationships by nature
 - a. Locality (from the same town (xiǎotóngxiāng (小同乡)) or province (dàtóngxiāng (大同乡)))
 - b. Classmate or alumni
 - c. Teacher-student
 - d. Co-worker: colleague or superior-subordinate
 - e. Neighbor
 - f. In the same profession
3. Acquired relationships
 - a. Acquaintance
 - b. Knowing the same person (intermediary)
 - c. Friend
 - d. Sworn brotherhood

From List 4-1, it can be seen that the first guanxi base type is given, i.e., one cannot affect who belongs to one's family. However, the second two types can be affected and are based more on social identity. Even if a common social identity ground is not found, the guanxi process may begin. In this situation, however, it will take longer to cultivate guanxi and it may be more difficult. (Fan, 2002) However, if the two actors have "chemistry" and behave as old friends, i.e., are familiar at first sight (yī jiàn rú gù, 一见如故), the guanxi between the two will develop fast (Tsang, 1998). In order for this to occur, the actors do not need to share common values (Fock and Woo, 1998). During the guanxi building process, two parties generally find some guanxi base, i.e., they at least become acquaintances if not even friends (Fan, 2002).

Before the guanxi bases can be set up, one of the parties needs to signal the interest of establishing guanxi with the other (Vanhonacker, 2004). The two actors need to be familiar with each other (Chen and Chen, 2004; Lee, Pae, and Wong, 2001). Getting acquainted with the prospective party is often done in public, e.g., at a banquet or other broader social event (Vanhonacker, 2004). If a common social identity base is not found, guanxi usually cannot be built. In general, this stage is important for the future of guanxi. If a guanxi base is found and both parties are willing to participate in the relationship, it is important also to be prepared to share (confidential) information as is common with old friends. However, one needs to acknowledge the risk related to sharing (private) information with people whom one does not truly know are trustworthy. (Chen and Chen, 2004) One should also note that due to the lack of loyalty and the openness of network architecture, Chinese parties may try to establish guanxi with two different parties in such a way that a conflict arises. Thus, one needs to be careful when choosing one's prospective guanxi partner. (Vanhonacker, 2004)

Reciprocity is important at this stage of guanxi development (*ibid.*) because the relationship truly begins when one completes a favor to the other and, therefore, the other is indebted (Standifird, 2006; Standifird and Marshall, 2000). The manner in which to request a favor should be subtle and packaged, i.e., the true objective of the favor should only be hinted at (Vanhonacker, 2004). Westerners should not try to begin their relationship with the Chinese through rent-seeking activities but instead should try to inch themselves closer to the insider circles (Su and Littlefield, 2001).

During the negotiations, the focus is more on the long-term goals instead of specific current aims. In China, it takes longer for information to be gathered about the other party compared to the West and, hence, judging the other's trustworthiness also takes longer. Westerners should not be impatient during the negotiations, but instead they should show their willingness to allocate resources, including that of one's own time, to the relation and to cultivate it. (Pearce and Robinson, 2000)

In order to develop active or strong guanxi, it is not sufficient to share only a guanxi base, but instead it needs to be triggered in other ways, i.e., the actors need to interact with each other, build trust and credibility and work over time to maintain the relationship (Dunfee and Warren, 2001; Fan, 2002). Hence, maintaining guanxi requires time, money, and effort (Pearce and Robinson, 2000; Tsang, 1998). The activities needed in order to cultivate guanxi take place in the building and using stages of guanxi (Chen and Chen, 2004). Westerners may try to develop guanxi with their Chinese counterparts by allocating a Key Account Manager to the Chinese client, finding regional sales offices close to the customer, and/or utilizing agents situated close to the buyer (Luo and Chen, 1997).

When two individuals are better acquainted with each other, they may conduct several transactions, which may be either expressive or instrumental in nature. However, transactions cannot always be classified as only one type but may be hybrids, i.e., a social event may simultaneously also be business-related. The transactional type depends on its means. Participating in transactions allows the relational actors to move from being an outsider to being an insider. (Chen and Chen, 2004) It should, however, be noted that even though a relationship between two actors exists due to transactions, guanxi might not be cultivated (Fan, 2002). A relationship, however, is required in order for guanxi to exist (Gómez Arias, 1998).

For the transactions to occur successfully, the relational actors need to follow guanxi related rules (Chen and Chen, 2004; Hammond and Glenn, 2004; Pearce and Robinson, 2000; Vanhonacker, 2004), i.e., widely shared practices, which are rooted in the Chinese culture (Hammond and Glenn, 2004). One of the most pervasive rules is that of reciprocity, meaning that the guanxi actors try to establish a positive long-term cycle of favor exchanges (Chen and Chen, 2004; Wang, 2007; Wong et al., 2007). The favors exist in several different forms, ranging from dealing with major life events, such as

accidents, birth, death, and unemployment; to loaning money; mediating conflicts; and receiving favorable job assignments (Chen and Chen, 2004). Thus, the favors may be either tangible, e.g., gifts, jobs, or houses; or intangible, e.g., advice, information, or counseling (Fan, 2002). It should be noted that the Chinese do not exchange only tangible goods (Su and Littlefield, 2001; Warren, Dunfee, and Li, 2004) but also intangibles (*ibid.*), e.g., power for goods (Su and Littlefield, 2001).

Overall, there exist two forms of favor giving in China. *Xuě zhōng sòng tàn* (雪中送炭) is an idiom literally meaning “to send coal during snow”. Figuratively, however, it means to provide help when one most needs it, i.e., offering timely help. The Chinese appreciate this form of favors more as it truly shows one’s feelings towards the other, i.e., whether or not one is willing to help. *Jǐn shàng tiān huā* (锦上添花) or “to add flowers to the brocade” means to make something more perfect than it already is. This type of favor is easy to provide at a low cost and might not be beneficial to the receiver. (Su and Littlefield, 2001) Favors may be requested even though one would not necessarily need to. It is important, however, to request both types of favors in order to allow the relationship to develop instead of asking for favors only when one is in trouble. (Vanhonacker, 2004)

The favors requested in business *guanxi* do not always need to be organization-related but instead may also be personal, e.g., enhancing one’s reputation and social status (Gómez Arias, 1998; Seligman, 1999). The favors one dares to request are influenced by the willingness to develop a long-term relationship, i.e., one does not ask for a too valuable favor (Hsu, 2005). However, the favors being reciprocated need to be of great value to the receiver (Chen and Chen, 2004; Chow and Ng, 2004). The value of the favor should be higher than the previous favor so that one of the actors is always in debt to the other (Chen and Chen, 2004; Chow and Ng, 2004; Gómez Arias, 1998; Lin, 2001; Yeung and Tung, 1996). That is, completing the favor should require more time and effort (Chow and Ng, 2004) and the *guanxi* equity should never equal zero (Fan, 2002) but instead roughly zero (Seligman, 1999). Sometimes, the parties might even consider that they are both simultaneously in debt to the other (Lin, 2001). If the reciprocity is handled in a different manner, i.e., if the favor is of less or similar value, the parties may conclude that the *guanxi* has been finalized, i.e., it has ended (Chen and Chen, 2004; Hsu, 2005; Yeung and Tung, 1996), which is considered highly offensive (Hsu, 2005). Otherwise, *guanxi* always exists even though it may be in latent states (Fan, 2002; Fock and Woo, 1998). It is the expectative nature of the relationship that allows *guanxi* to exist also in the latent states (Vanhonacker, 2004).

It may be claimed that *guanxi* differs from transaction in two ways: (1) *Guanxi* may initially be a transaction between two individuals which widens up to consider the network(s) of one or both of the transactional parties. (2) *Guanxi* may occur at any point

in time, i.e., when one of the parties requests a favor. The value of the favor is unknown beforehand. Hence, the guanxi process is highly uncertain. (Fan, 2002)

For Westerners to develop guanxi with the Chinese, first of all, they should try to communicate more closely in order to truly understand the Chinese partner's expectations (Lee, Pae, and Wong, 2001). Face to face interaction is important, not only with the prospective partner's representatives, including the top management, but also with government officials (Standifird and Marshall, 2000). Westerners also need to show their own commitment to the relationship and try to restrain their opportunistic behavior (Lee, Pae, and Wong, 2001; Standifird and Marshall, 2000) by, for example, building assembly operations, establishing a subsidiary, and/or sourcing Chinese supplies (ibid.). Westerners should try to establish a common ground with the Chinese in many ways, including sharing interests, values, experiences, and mutual understanding (Lee, Pae, and Wong, 2001).

During the guanxi building stage, guanxi quality is improved. Guanxi quality illustrates the state of a relationship at a certain point in time. This judgment is subjective and can be conducted by all the actors within the relationship or network. Guanxi quality can be seen as the psychological distance between oneself, i.e., the focal actor and the guanxi partner. Guanxi quality consists of two constructs: trust (信 (xìn)) and feeling (情 (qíng)), as seen in Figure 4-7. (Chen and Chen, 2004)

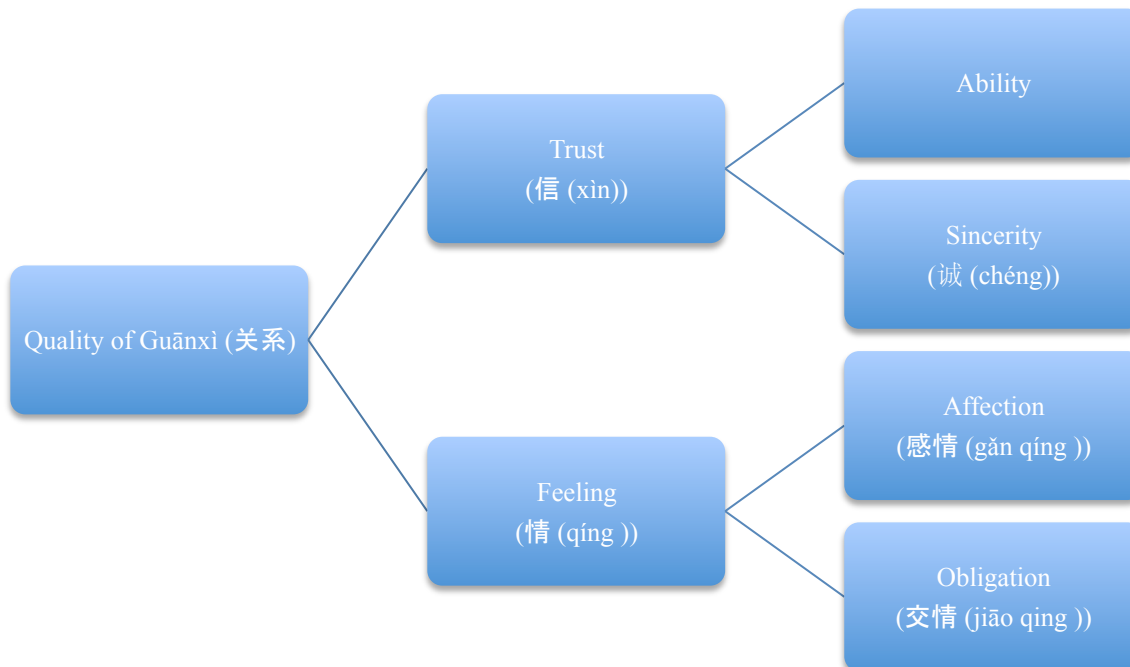


Figure 4-7. *The Quality of Guanxi (adopted from Chen and Chen, 2004, p. 313).*

As seen in Figure 4-7, guanxi quality depends on trust; the higher the trust between two parties, the better the quality of their guanxi. An individual is classified as trustworthy, if he or she is capable, credible, honest, reliable, and sincere. Even though trust is a

construct of both ability and sincerity, it is primarily about sincerity since ability is more situation-specific and sincerity individual-specific. When comparing these Chinese concepts with Western ones, the ability-based trust may be seen as similar to trust in ability and sincerity-based trust to trust in benevolence. (Chen and Chen, 2004)

Feeling, on the other hand, consists of affection and obligation (see Table 4-1 for more specific definitions). When one is able to gain both affection and obligation, the parties are closer to each other. (Chen and Chen, 2004) Affect, actually, is the most important factor of guanxi and in China; individuals use the concepts guanxi and affect interchangeably (Lee and Dawes, 2005).

Guanxi improves not only the relationship quality but also the overall business performance (Lee, Pae, and Wong, 2001). Guanxi allows for the variable costs of a transaction to be at a minimum level (Schramm and Taube, 2003).

The final stage of guanxi development is that of using guanxi (Chen and Chen, 2004), as seen in Table 4-3. The utilization of guanxi depends on the institutional, organizational, and strategic environments in which a firm operates. The intensity of guanxi depends on the institutional and organizational features of both actors. (Park and Luo, 2001)

At this stage, favors continue to be requested and given (Chen and Chen, 2004; Yeung and Tung, 1996). In order to maintain guanxi, one needs to keep the relationship going by, for example, sending greetings, visiting each other, and gift-giving (Lee and Dawes, 2005). The repetitiveness allows trust to build up between the two actors (Luo, 2007). When one faces a problem, one evaluates which guanxi partner(s) to contact and request help from (Chen and Chen, 2004).

The guanxi partners should see guanxi as a long-term commitment from which mutual benefits arise. The benefits should be based not only on material but also on other intangible items, such as power and information. At this point, it is extremely important to deliver what one promises and not to cheat. (Yeung and Tung, 1996)

One also uses guanxi when trying to gain access to new buyers or suppliers, to maintain relationships with current buyers and suppliers, to facilitate daily operations, or to avoid governmental investigations (Dunfee and Warren, 2001). When guanxi is being used, it needs to be re-evaluated and adjusted every now and then (Chen and Chen, 2004). One should note that it is not enough to develop guanxi only with the guanxi partner, but also with business associations from which one can, for example, gain information or scarce resources, which can benefit both guanxi parties (Luo, 2007).

Based on reasoning, Kaunonen, Polska, and Fan (2010), on the other hand, have developed a three-by-three matrix reflecting the different types of guanxi and the processes by which one can move from one quadrant to another. They classify the

different types of guanxi based on the network type: primary, secondary, or tertiary; the membership type: insider, associate, or outsider; and the tie type: emotional, mixed, or instrumental (ibid.), as can be seen in Figure 4-8. The framework is an initial attempt to combine the development of guanxi and that of the industrial buyer-seller relationships, i.e., the growth-stage models.

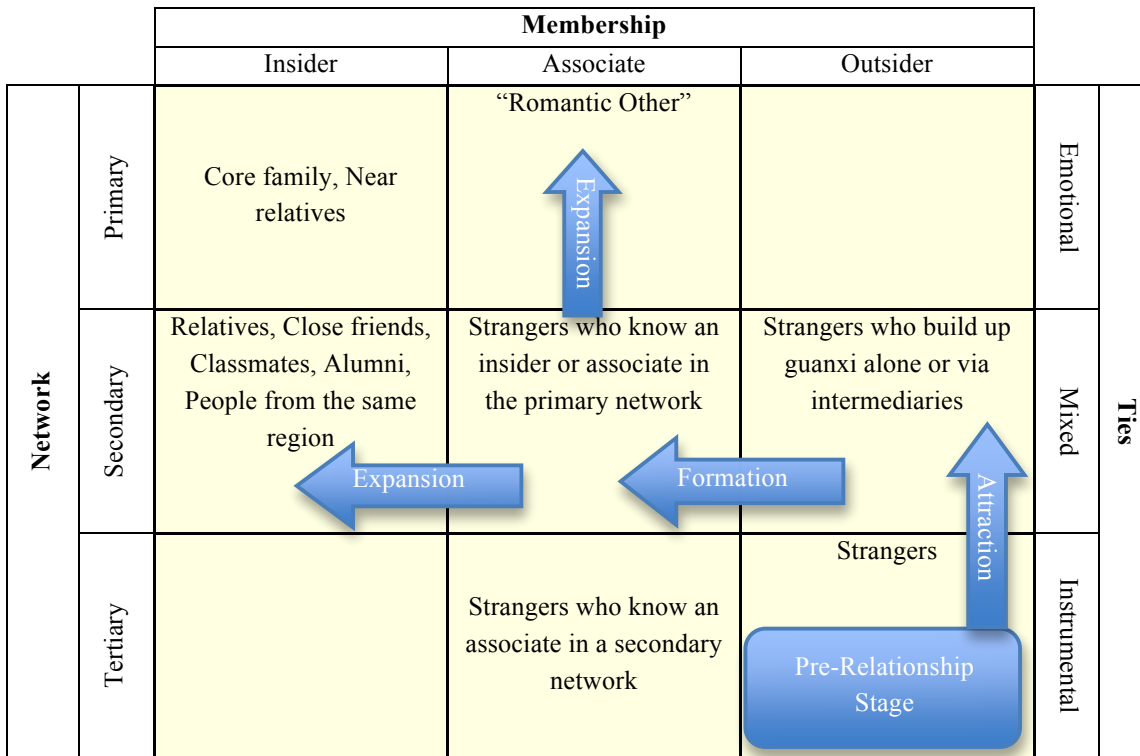


Figure 4-8. *The Development of Guanxi as Proposed by Kaunonen, Polsa, and Fan (2010).*

The first dimension expresses the type of relationship network. The primary network consists of the family or the “romantic other” (Joy, 2001), i.e., relationships determined by birth or blood (Fan, 2002). One’s friends, colleagues, and relatives are part of the secondary network (Kaunonen, Polsa, and Fan, 2010). In terms of the guanxi base, these would be called relationships by nature or an acquired relationship (Fan, 2002). The members in one’s tertiary network are total strangers to that individual (Kaunonen, Polsa, and Fan, 2010). These are relationships that have been acquired (Fan, 2002).

The second dimension, the membership type, classifies a company or an individual as an insider, an associate, or an outsider (Bond and Hwang, 1986; Wong, 1998a). Insiders may be favored unconsciously or consciously through, for example, small gifts, dinners, and favors. Insiders also are more willing to share information with each other or to sacrifice some benefits in order to conduct business with the relational actor. (Wong and Chan, 1999) The level of openness and, therefore, information sharing increases the closer the individual or company is to the other (Wong, 1998b). In order for a foreign

businessperson to move from the position of an outsider closer to that of an insider, Leung, Heung, and Wong (2008) suggest that one shows personal integrity and harmony, positions oneself as a wiser¹², and tries to use renqing (e.g., favors) in order to generate ganqing (i.e., affection) and thereby attains the position of a friend.

The third dimension, the types of ties, focuses on the extent of the affective or emotional engagement in the relationship (Hwang, 1987), or ganqing (Wang, 2007). The emotional depth of relationships differs. Relationships may be based on very emotional bonds, with completely instrumental bonds on the other end of the continuum. More deeply expressive relationships are less calculative and the exchanges occurring between the relational actors do not necessarily need to be mutually favorable. The relational parties are willing to sacrifice for the relationship through, for example, costly transactions and to provide free service without expecting a payback. However, when the relationship is based on extremely instrumental ties, one constantly conducts cost-benefit analyses. The relational actors expect the exchanges to be equal in the long-term. (Kaunonen, Polsa, and Fan, 2010) The most intimate relationships are those between family members. These are also known as qingqing. (Wang, 2007)

Commonly, Westerners begin their guanxi development path as strangers, i.e., outsiders, with instrumental ties to their Chinese counterparts in the tertiary network of the Chinese, as noted in Figure 4-8. Then Westerners begin to build their guanxi network. This may be completed alone or through agents or mediators. The Westerner or Western companies need to show their attractiveness to the Chinese partner. If successful, the ties become mixed, the Westerners move into the secondary network of the Chinese. The Chinese, however, still consider the Westerner an outsider. If a relationship forms with the Chinese, the Westerner may become an associate. There are two opportunities if the relationship expands from this: (1) the Westerner may either become an insider, i.e., have a similar status to relatives, close friends, or classmates or (2) the Westerner may be taken into the primary network and become similar to one's fiancé (or the fiancé in fact, if one is considering personal relations). (Kaunonen, Polsa, and Fan, 2010)

¹² Leung and Wong (2001) have categorized foreign businesspeople into three groups: (1) preservers, (2) bravers, and (3) wisers. (1) Preservers see guanxi as flattery and use only limited time to look for business opportunities through their connections. They purposely remain distant from their Chinese counterparts. The perceiver will, thus, remain an outsider to the Chinese. (2) Bravers put effort in developing a guanxi network and eagerly look for business opportunities from it. They tend to be overpromisers, because of which their personal integrity may be doubted. In the long-term, bravers tend to remain outsiders. (3) Wisers initiate business dynamics, facilitate business transactions, and establish protective mechanisms around themselves. They are seen to have personal integrity and stable characters. The Chinese may allow wisers to become part of their closer networks. (ibid.)

4.4. The Most Suitable Guanxi Development Model for State Theory Models

Guanxi is a significant part of Chinese society. Confucianism affects it through moral behavior, social modes, and social basis. Guanxi, itself, influences social-political life and business-economic activities and, hence, the Chinese society and economy. (Luo, 2007)

Guanxi consists of six traits. First of all, guanxi is utilitarian, i.e., personal interests purposefully drive it. Secondly, it is reciprocal: one's reputation depends on how well one completes reciprocal obligations. Thirdly, guanxi is transferable: referrals are often used in order to gain access to a third party. Fourthly, guanxi exists between individuals. Penultimately, guanxi has a long-term nature, i.e., one should maintain one's guanxi with another actor in the long-term. Finally, guanxi is intangible: one does not need hard copies of contracts as one may trust the other due to the fear of losing face. (Dunning and Kim, 2007)

The development of guanxi has been portrayed through five different models. First of all, guanxi needs to be initiated by finding a common ground, i.e., guanxi base. When a mutual understanding has been found, guanxi may be further developed through reciprocal actions, i.e., illustrating one's trust in the other and showing willingness to participate within the relationship. Guanxi needs to be maintained by continuing to give gifts and by helping the other in both personal and business matters.

In order to study the development of guanxi in the case relationships, questions under the themes of "General Thoughts on the Case Relationships, Their Quality, and Future Prospectives" and "Guanxi and Its Role in the Case Relationships and in Business in General" were used, as shown in Appendix 4.

Five guanxi development models were discussed in Chapter 4.3. All of the five models more or less follow (growth-) stage theory with a straightforward development sequence, but in the Chinese context a state theory model is more suitable (Batonda and Perry, 2003a). The model proposed by Kaunonen, Polsa, and Fan (2010) will be used as the basis for the discussion for the guanxi process as it considers membership, network, and ties. The models proposed by Leung, Wong, and Tam (1995), Buttery and Wong (1999), and Wong and Chan (1999) are based on the Hongkongese view of guanxi, which differs somewhat from the mainland Chinese view of guanxi due to the Hongkongese business culture being more affected by the Western one, especially that of Britain (Smart and Smart, 2006). The models suggested by Chen and Chen (2004) and Kaunonen, Polsa, and Fan (2010) are conceptual ones. The model by Chen and Chen (2004) is quite simplistic and does not consider all the aspects that take place in the development of the relationship. The model of Kaunonen, Polsa, and Fan (2010) is more complex and aims at explaining more issues taking place in the relationship.

However, it should be noted that the growth-stage theory part of this model is not used, but instead it is replaced by the state theory model developed in Chapter 3.6. Hence, the underlying matrix of Kaunonen, Polsa, and Fan (2010) will be used, as shown in Figure 4-9. The manner in which state theory will fit in the matrix, however, is not yet known.

		Membership				
		Insider	Associate	Outsider		
Network	Primary	Core family, Near relatives	“Romantic Other”		Emotional	Ties
	Secondary	Relatives, Close friends, Classmates, Alumni, People from the same region	Strangers who know an insider or associate in the primary network	Strangers who build up guanxi alone or via intermediaries	Mixed	
	Tertiary		Strangers who know an associate in a secondary network	Strangers	Instrumental	

Figure 4-9. *The Matrix of Kaunonen, Polsa, and Fan (2010) Model Used to Discuss the Development of Guanxi in the Case Relationships.*

5. THE FOUR CASE RELATIONSHIPS

5.1. Case Relationship Dragon

Case Relationship Dragon is between a Sino-British joint venture (JV) as the buyer and a Finnish seller. Currently, the British parent company in the JV is a minor shareholder. According to the North American Industry Classification System (NAICS; U.S. Census Bureau, 2010), both companies belong to Division D: Manufacturing (OSHA, 2010). The manner in which the relationship has developed over the years will be illustrated by decade, with general thoughts on the relationship and guanxi provided at the end.

The 1970s

The seller is one of the oldest and most traditional players within the global industry. Its history began in the 1970s, when the company was established in Finland. During the first decade of the company, the first sales were made to China, as illustrated in Figure 5-1. Before the boom of the Internet, when a foreign company entered China, it was difficult to gain knowledge about the company and its global image.

The 1980s

The timeline for the buyer, on the other hand, began a decade later, when a JV was founded between a British and a Chinese parent company. The JV has been successful from the beginning, a fact which was even recognized by the Chinese government, which gave the JV a prize. The JV, from the beginning, has been one of the largest local companies. As a JV, it is a pioneer in its industry.

The seller has always considered the JV a key account customer, with the Vice President, Sales & Service, Seller Dragon, calling it “a must relationship,” which has needed to be created, cultivated, and maintained since bigger players tend to appreciate and buy the best technology, i.e., that with the largest volume and best capability. The seller claims to be good at the higher end of the market, i.e., that which requires the best technology. Hence, the relationship between the parties can be seen as common practice.

Buyer		Seller
<ul style="list-style-type: none"> Sino-British joint venture (JV) established Chinese government notes performance of JV 	1970s	<ul style="list-style-type: none"> Company established First sales to China
<ul style="list-style-type: none"> Company listed First plant within Chinese industry with ISO9002 certificate Acquires Chinese company, which begins to manage 	1980s	<ul style="list-style-type: none"> Company acquired by another Finnish company Export activity noted (around 93% of net sales) New products launched Acquisitions made to improve core competence Production begins in U.S.A. World's biggest producer of certain machinery
<ul style="list-style-type: none"> Plant in Shanghai, 1/3 of machinery from Seller Visit to Seller's Finnish premises 	Early-1990s	<ul style="list-style-type: none"> Further acquisitions in U.S.A. Arranges leading conference for the industry for the first time Growth strategy launched Parent company divested Chinese sales through Hongkongese subsidiary
<ul style="list-style-type: none"> Several meetings between companies Demos 	1996	<ul style="list-style-type: none"> Acquisition in Europe
<ul style="list-style-type: none"> Acquisitions of Chinese companies, hence, enters new line of business ISO14001 certificate granted Quiet period in relationship Other divisions in contact with each other 	1997	<ul style="list-style-type: none"> Production improvement project
	1998	<ul style="list-style-type: none"> Parent company listed Some orders from Asia cancelled due to financial crisis, intensified competition Other countries (incl. China) 3% of net sales Introduction to China
	1999	<ul style="list-style-type: none"> New plant in Finland Markets weaker due to economic uncertainty of Asia and South America Middle East and Far East 16% of net sales
	2000	<ul style="list-style-type: none"> Production begins in South America Demand buoyant in Far East Middle East and Far East 25% of net sales
	2001	<ul style="list-style-type: none"> Parent company demerges into two companies Production begins in China Middle East and Asia 12% of net sales

Figure 5-1. *The Development of Case Relationship Dragon (the items in red for the seller depict happenings related to China and those in blue of both parties to the relationship between the two).*

Buyer		Seller
<ul style="list-style-type: none"> Acquisition of Chinese company, which has managed since 1995 Second plant in Shanghai, 6/7 of machinery from Seller 	2002	<ul style="list-style-type: none"> Company divested Middle East and Asia account 25% of net sales
<ul style="list-style-type: none"> More acquisitions in China 	2003	<ul style="list-style-type: none"> European company acquired Middle East and Far East 20% of net sales
<ul style="list-style-type: none"> British parent wants to spread certain technology worldwide Machinery purchase 	2004	<ul style="list-style-type: none"> Production expanded in South America First Chinese industrial conference New joint (with acquisition of 2003) sales and maintenance companies established in Shanghai First deal for Chinese subsidiary Far East and Middle East 21% of net sales
<ul style="list-style-type: none"> Two new branches established in China Closer interaction between buyer and seller New contract signed between parties 	2005	<ul style="list-style-type: none"> Sales organizations of acquisition of 2003 and seller merge New director appointed for division and for Chinese operations (move to China) Building of new, joint production plant begins in China Assembly of acquisition of 2003 begins in China Asia and Oceania 5% of net sales
<ul style="list-style-type: none"> Buyer's third plant in China, all machinery from seller 	2006	<ul style="list-style-type: none"> More efficient production and operations New products launched Asia 13% of net sales
<ul style="list-style-type: none"> Machinery purchase Experiences difficulties requiring flexibility from supplier to ensure continuation of relationship 	2007	<ul style="list-style-type: none"> Name, image, and structural change New product launched New CEO Plant opened in China China 1/3 of the world market Chinese legislation benefits company Fierce local competition, especially as several Chinese manufacturers internationalize Chinese place high value on company's experience and strong brand Asia 16% of net sales

Figure 5-1. The Development of Case Relationship Dragon (continued).

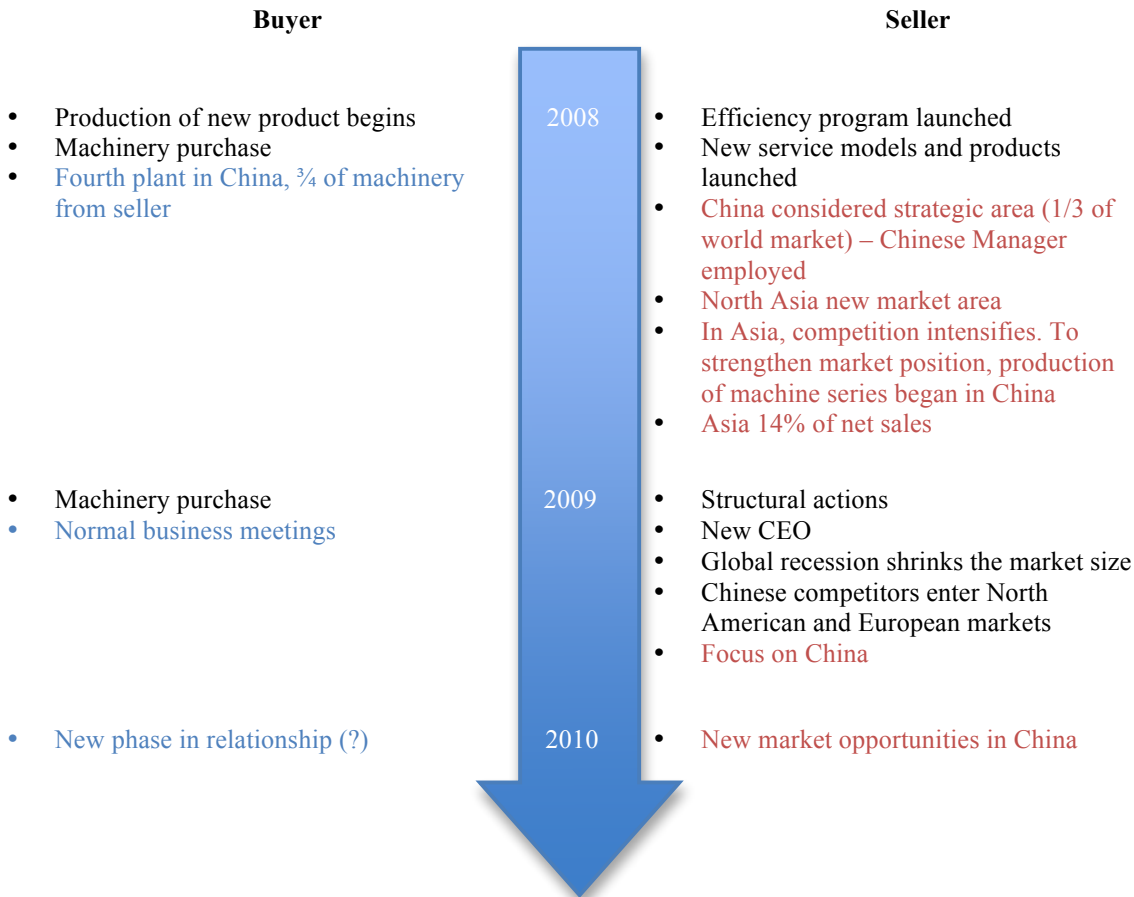


Figure 5-1. *The Development of Case Relationship Dragon (continued).*

The international prestige of the British parent company of the JV has affected the willingness of the seller to allocate resources in the relationship, especially since having a British parent company requires management be acquainted with the Western business culture and English as an organizational language. Thus, the language barrier between the buyer and seller has been lower and, hence, a relationship between the parties has been easier to develop. According to the Vice President, Sales & Service, Seller Dragon: “The relationship that requires a translator (or assistant whom translates) will never truly deepen. Now, the buyer is just a phone call away.” Generally in China, the language skills of the local company representatives are somewhat limited, i.e., they speak Mandarin Chinese or Cantonese, depending on the particular area, but not English, because of which knowledge of the local language is important in China.

The other parent company’s being a prestigious multinational enterprise based in Britain has meant that the JV has a better understanding of the industry and the direction in which the industry is developing. Overall in the Chinese industry, there are fewer than ten of these kinds of players. The buyer, however, conducts business more fairly than other players tend to do. The majority of the other players are family businesses in which the CEO’s opinion directs the manner in which the company functions. “The state-owned companies are a totally different story with all their complications.” (Vice President, Sales & Service, Seller Dragon)

The strategy of the seller is to have as many as possible of the bigger players as customers due to volume considerations, i.e., “generally the bigger players have the opportunity to purchase more than smaller players, and, therefore, the turnover can be larger.” (Vice President, Sales & Service, Seller Dragon) Sometimes the bigger players are also willing to pay more compared to the smaller players.

In the 1980s, another Finnish company acquired the seller. The company continued to focus on exporting. Over 90 percent of the seller’s net sales came from abroad, which the Finnish government noted by giving a prize related to exporting. Focus was also placed on research and development (R&D) and new products were launched during the decade. In order to improve the seller’s core competence, acquisitions were made. As the customers for the company were mainly based abroad, production was begun in the U.S.A. This meant that the seller became the biggest producer of this machinery globally.

The 1990s

In the early 1990s, the JV was listed. It was also the first plant within the Chinese industry with an ISO 9002 certificate¹³. The JV acquired shares of a Chinese company, of which it was made the manager.

Simultaneously, in the early 1990s, the seller made further acquisitions in North America. It also arranged the leading conference in the industry for the first time. This was a huge success and, hence, has been arranged biannually since. The seller decided on a growth strategy. The parent company was diverged in order for the seller to be able to focus on the core divisions. At this time, the subsidiary situated in Hong Kong handled the sales to mainland China. The market there grew exponentially during the entire 1990s. The seller also used an agent during the 1990s.

In 1996, the buyer built a plant in Shanghai, for which the seller supplied one third of the certain machinery. Simultaneously, the seller continued its growth strategy by conducting an acquisition in Europe. In 1997, the seller focused on improving its production.

A year later, in 1998, representatives from the buyer visited the seller’s premises in Finland. During that time, however, the financial crisis in Asia was affecting the general industry. Some of the orders the seller had received from Asia were cancelled. Therefore, the competition in the area intensified. The company was truly introduced to China during this year and, thus, the proportion of net sales for the parent company was

¹³ The ISO 9002 standard was merged into ISO 9001 in 2000 (ISO, 1999). ISO 9002 was basically similar to ISO 9001. The only true difference was that ISO 9002 did not include the quality standards for product development. (Wingo, 1994)

still relatively low as China was included in with other countries, which accounted for three percent. The parent company was listed in 1998. On a more personal level, the Vice President, Sales & Service, Seller Dragon, who was working at another company at that time, first met the current General Manager, Buyer Dragon.

The relationship between the buyer and seller continued to develop in 1999. The two shared several meetings and the seller held demos for the buyer. The seller built a new plant in Finland. The market situation continued to be weak due to the economic uncertainty in Asia and South America. At this point, the seller's parent company recategorized its market areas so that China was included in that of the Middle East and Far East. This market area accounted for 16 percent of net sales.

The 2000s

In 2000, the JV continued to grow by acquiring Chinese companies. Through this action it broadened its lines of business. It was granted the ISO 14001 certificate¹⁴. The seller continued its growth strategy by beginning production in South America. The demand in Asia became to increase after the financial crisis. This can be noted also as the percentage of net sales from the Middle East and Far East of the seller's parent company accounted for one fourth of total net sales.

The relationship between the buyer and seller experienced a quiet period from 2000 to 2001. The other divisions of both companies, however, were in contact with each other. "Even though there was a quiet period within the relationships, this does not mean that the companies would not have met, for example, at trade fairs." (Vice President, Sales & Service, Seller Dragon) The seller treated the buyer as a VIP customer and hosted events to which the buyer's representatives were invited.

The year 2001 was quite substantial for the seller as the parent company demerged into two companies in order to concentrate more on the different divisions and it began production in China. The plant was established in China for cost and logistical reasons, i.e., the majority of the customers did not have import permits. However, the risk of a product being copied always exists when entering new, less developed markets. This is true especially in China due to the more permissive culture. Thus, the sourcing was scattered and the most important parts were imported from Finland. The parent company renamed the market area to which China belonged as Middle East and Asia. It accounted for 12 percent of net sales.

The JV continued growing in 2002 by acquiring the Chinese company it had managed since 1995. It also built a second plant in Shanghai, of which six sevenths of certain

¹⁴ ISO 14001 concerns requirements for environmental management systems (ISO, 2010).

machinery was bought from the seller. The parent company of the seller was divested in order to be able to focus more on its core division. The percentage of the Middle East and Asia sales as a market share doubled to one fourth of the parent company's net sales.

In 2003, the JV continued growing by acquiring more companies in China. The seller also grew in Europe through acquisitions, which made the company the world's largest comprehensive supplier of machinery with the largest range within its field. The parent company of the seller again renamed the market area to which China belonged Middle East and Far East. This market area accounted for one fifth of total net sales. The seller hired the current Vice President, Sales & Service. At this point, the "first phase" of the relationship began, as Vice President, Sales & Service, Seller Dragon, expressed it.

The British parent company of the JV decided that it wanted to spread certain technology worldwide, i.e., also in China. Another division of the JV purchased machinery during 2004. The seller began production in South America. In China, it arranged the first annual industrial conference. With the acquired company in 2003, the seller established new joint sales and maintenance companies in China. The local subsidiary received its first deal as the sales method changed to direct sales. The significance of the relationship between the geographical areas in the market area changed as the market area was renamed Far East and Middle East. The market area accounted for 21 percent of net sales of the parent company.

In 2005, the JV founded two new branches in China. One of the branches was established with the British parent company and the other with a British company affiliated with the British parent company. The seller, on the other hand, merged its sales organization with that of the company acquired in 2003. These two also began building a new joint production plant in China. The 2003 European acquisition began its assembly in the Chinese plant in 2005. A new director was appointed for the division. The current Vice President, Sales & Service, Seller Dragon, moved to China. The market areas were reclassified so that Asia and Oceania were seen as one market. Asia and Oceania accounted for five percent of the net sales of the parent company.

According to the Vice President, Sales & Service, Seller Dragon: "The relationship between the two parties was closer." A new contract between the two was signed.

The buyer built its third plant in China in 2006. All the certain kind of machinery came from the seller. It was "a big deal" according to Vice President, Sales & Service, Seller Dragon, the importance of which fact can also be seen in that Asia, as a separate market area, accounted for the total net sales of the seller's parent company. However, before this contract was signed, the relationship was almost terminated as the seller's offering was too expensive for the buyer. During the spring of 2006, the whole sales team of the seller worked hard trying to find a solution and, hence, an offering, which the buyer

would accept. However, it was very difficult to reach a mutual understanding. The buyer had a certain budget for the project, for which certain adjustments had to be made. The General Manager, Buyer Dragon, and the Vice President, Sales & Service, Seller Dragon, discussed the matter and were determined not to end the relationship. In the end, a win-win offering was found and the buyer ordered the project from the seller. Since that spring, the General Manager, Buyer Dragon, and the Vice President, Sales & Service, Seller Dragon, have had a closer, more personal relationship, i.e., “From that point onwards, we have been more like friends.” (Vice President, Sales & Service, Seller Dragon)

Net sales of the seller in Asia were 13 percent of total net sales. The production and operations of the seller were made more efficient and new products were launched.

In 2007, the JV purchased machinery. The seller changed its name, image, and structure. After all the diverging that had occurred over the years, the seller was able to focus on its core competence. In addition, the seller launched a new product and a new CEO was appointed. In China, the seller opened a plant while in Europe, it closed a unit, as well as acquired another one. China, at this point, accounted for about one third of the world market, and accordingly, made presence in the area important. The Chinese government made changes within its legislation regarding environmental issues, which benefited the seller within the market. The Chinese government and its officials did not play such a big role in the case relationship otherwise. The Vice President, Sales & Service, Seller Dragon, claims that the government officials do not even need to be considered when conducting business within a developed relationship; “I don’t waste my thoughts on them.” The contracts, of course, need to be kept and the actions need to be transparent, i.e., no corruptive actions can take place. The manner in which the agent of the seller has acted may have been dirty, but that is the agent’s business and the seller does not want to intervene in past events. However, as the buyer in this case is a JV between a foreign and local company, it can be believed that the representatives of that company cannot conduct business in the gray area but instead need to be transparent in their actions.

With industrial institutions and associations, on the other hand, it is important to keep contact because up-to-date information about the industry and its future can be received through them. This particular industry in China is still highly unstandardized. However, the government is continually establishing new standards and this is the way in which the industry is required to modify its practices. Therefore, governmental officials can be seen as the best sales people for the seller and its higher end products. “Professional pride is still missing in China.” (Vice President, Sales & Service, Seller Dragon)

The competition in China, however, is very fierce, especially as several of the local manufacturers are internationalizing. The competitive advantage that the seller has in China is the experience and strong international brand, which the locals highly

appreciate. The significance of Asia as a market area also grew for the seller as it accounted for 16 percent of total net sales of the parent company.

The relationship between the buyer and seller, however, was in some turmoil as the buyer was experiencing difficulties regarding the building of the new plant. This required a very high level of flexibility from the seller in order to ensure that the relationship would also continue in the future. “The whole year 2007 went tuning the project.” (Vice President, Sales & Service, Seller Dragon) The relationship, however, was seen to be of such value that the seller wanted it to continue and, hence, was willing to make sacrifices.

The JV began producing a new product and bought new machinery in 2008. It also built a new plant in China to which third fourths of the machinery was supplied by the seller. All the other machinery of the certain kind that the buyer has purchased for its four plants has been bought from the same North American company, i.e., the seller’s competitor.

The seller launched a global efficiency program, new service models, and products in 2008. As China is considered a strategic market area for the seller because it covers one third of the global market, a local Director was hired. The local Director mainly handles the governance issues of the Chinese subsidiary, including legal aspects. Formerly, a Finnish expatriate handled these issues and a language barrier existed. The number of expatriates is kept low and of the over 100 employees that currently work for the company only two to three are Finns. The expatriates are seen as an information channel linking the Finnish headquarters, the R&D center, and the customers abroad. Thus, it may be important to keep expatriates present in the subsidiaries and representative offices overseas. The seller, however, believes that its Chinese subsidiary could have been completely localized already if it had not experienced some problems in China.

The buyer, however, feels that the channel between Finland and China as handled through the expatriates of the seller does not always function and that the buyer’s wants and needs are not always truly heard in Finland; “I’m not sure whether [Seller Dragon] in Finland truly hears [Buyer Dragon’s] wants.” (Assistant Factory Manager, Buyer Dragon) However, as the local representatives are now more in contact with each other due to the lack of a language barrier, the message within the Chinese subsidiary of the seller might not always be passed to the expatriates.

It is not sufficient for the expatriate to act as a messenger between the two nations. The expatriate also needs to be well acquainted with the technical issues regarding the products in order to represent what the locals need and may need in the future.

According to the buyer, the employment of a local Director has streamlined the operations. Previously, even though the seller had implemented a key account management system in which one key account was handled through one manager from

the sales department, it was not that clear in China: “Sometimes I would complain to the service guys and they would answer me that it is not in my scope, please contact another representative. [...] Normally it’s easy to contact [Seller Dragon], but I need to contact the right person.” (Assistant Factory Manager, Buyer Dragon) Now the buyer knows whom one can directly contact without being transferred from one company representative to another.

In the buyer’s view, the seller has tried to localize more than other foreign companies. The seller has done its homework and knows the Chinese market and the customer’s needs within it. “[Seller Dragon] differs from other foreign companies; up to now, they have changed a lot. They have done a lot for localizing. They know the Chinese market and customer needs. In China, they have done a lot; they are a winner.” (Assistant Factory Manager, Buyer Dragon) However, the representatives at the Chinese subsidiary of the seller have not been fully empowered, but instead they still need to check some issues with the headquarters, which means that more time is required to reply to the buyer. “Sometimes, I’m angry because sometimes local employees tell me that they do not have authority to do something [e.g., repair]. They have to ask from Finland. This is not so convenient.” (Assistant Factory Manager, Buyer Dragon) For example, the seller has very strict financial rules and, therefore, all purchases have to be paid for before a certain product or service is provided. In emergency cases, i.e., when the machine is not running, it would be better to receive the repair as soon as possible instead of going first through the bank. According to the buyer, local sellers generally provide the part without receiving the payment first.

However, due to the global recession in 2008, the Asian market slowed down. Competition in China is generally based on price and there are several local competitors for which the market position of the seller is not as good in China compared to elsewhere in the world. However, new legislation concerning environmental issues should benefit the seller. The seller identified a new market area: North Asia. Asia accounted for 14 percent of net sales of the parent company of the seller.

The relationship between the buyer and seller continued as “normal business” (Vice President, Sales & Service, Seller Dragon), i.e., the two share meetings monthly or bimonthly. During the Olympic Games, the top managers of the two companies spent a week together discussing both business and social issues. “It was an unforgettable experience.” (Vice President, Sales & Service, Seller Dragon) The seller wanted to host this event to show gratitude and to strengthen the relationship. In general, relationships in China need to be continually cultivated. Generally, language skills (Mandarin Chinese or Cantonese) are important as one can then be in contact with the representatives of the relational partner through phone calls and e-mails. The Vice President, Sales & Service, Seller Dragon, suggests that when expatriates are sent to China, they should be allowed at least the first six months to learn the language and get acquainted with the culture and the business culture. In some companies, this is done

and, thus, the relationships between the local representatives of the relational partners of these foreign companies and the expatriates are closer. In other words, resources allocated to learning about the field are not misspent ones.

Also, at trade fairs the representatives of the buyer and the seller visit each other's booths to discuss both business and possibly more personal issues. At events that the seller arranges in China, including the annual industrial conference, the buyer is treated as a VIP. "[This industrial conference] is a good opportunity for the customers of the seller to learn what is happening in the industry without going abroad." (Marketing Communication Manager, China, Seller Dragon)

Even though the buyer is treated as a VIP at events, this may not be true at the operational level. For example, the buyer feels that the seller does not always trust it and, thus, always requires payments before actions can occur; "First pay money, only then product delivered." (Assistant Factory Manager, Buyer Dragon)

In 2009, the JV purchased machinery. Due to the global recession, the seller needed to make structural actions, e.g., the parent company diverged and needed to lay-off employees and restructured its loans. The Chinese plant, however, ran at almost full capacity even though globally the orders went down by 60 percent. A new CEO was appointed for the parent company. The global recession has decreased the size of the market and the competition has become fiercer as Chinese competitors have entered the North American and European markets. Price competition especially has increased. The Chinese players, however, still remain the strongest in their home market.

The seller decided to focus on China. The objective of the company is to develop their Chinese operations as currently one fifth of net sales of the parent company come from China. The seller is the market leader in its own industry. In China, the company is the market leader in high-end products.

The Chinese market continues to grow strongly. For example, 40 percent of global demand comes from China. The seller uses the Chinese plant not only for productive reasons but also as a center for product development and sales to Asia. The Chinese require localized products at a higher rate. The seller's Chinese plant tries to cater to these needs. The seller has expanded its localized product range and increased local sourcing in order to have shorter delivery times.

The 2010s

The relationship between the buyer and seller continued through normal business meetings, i.e., the representatives met at least biannually. The buyer might focus on lower-end products in the future, which might lower the amount of machinery that the buyer purchases from the seller. Currently, the seller's Chinese competitors provide about 80 percent of the lower end of the product range while at the higher end of the

product range, the percentage is approximately 20 percent. The margins in the products, i.e., the machinery, are not high, but profits are made from industrial services instead. During 2010, the buyer has plans to increase its production by two machines. The seller is always its number one choice for the high-end machinery. “We will continue to cooperate with [Seller Dragon]. It is the first choice for [Buyer Dragon].” (Assistant Factory Manager, Buyer Dragon)

The seller regards the buyer as an almost perfect partner: “The best kind of partner” (Vice President, Sales & Service, Seller Dragon) as the buyer invests annually. Even though the seller has provided a wide range of products to the buyer, the JV has not yet purchased the whole product portfolio of the seller. However, the buyer, of course, does not want to buy all its products from the same seller but needs to rely on other sellers as well. As the buyer is a frontrunner, the seller uses it as a response board of the future of the industry. Hence, when representatives of the seller come from Finland to China, they always want to visit the particular buyer and see how local plants function: “[Buyer Dragon] is [...] the one CEOs will visit, if in Shanghai.” (Marketing Communication Manager, China, Seller Dragon) The seller also wants to show the buyer’s plants to (prospective) customers. However, the buyer does not allow this in order to keep their operations secret. The number of visits that the seller has requested may have been so high that the buyer has been a little annoyed with the seller’s representatives’ frequent visits. The buyer, however, has been very hospitable and allowed the representatives of the seller to visit on all occasions.

The seller believes that it has new market opportunities in China through new products and due to market growth. China is currently investing in some of the seller’s customer industries, which also indicates a positive future for the seller due to the need for the higher end of the product range. The seller feels that it still needs to learn all the specific aspects of the Chinese business culture to win further projects. The seller continues to use an agent for selling products other than investment ones. The seller also employs service engineers, who provide the work related to industrial services.

General Thoughts on the Relationship, Its Quality, and the Future Prospectives

One of the success factors for the relationship to continue to exist is that the seller has a high quality product: the productivity and rate of finished products is drastically higher than that of local competitors’ machinery. Also, the interface is well designed so that the operator can master it very quickly. The product and its quality is the most essential issue as this is what the customer needs: “Quality of the product—essential of the essential—that’s what the customer needs.” (Personal Assistant for Vice President, Seller Dragon) The products and services have been consistent from the beginning. The seller has acted according to the contracts. The success of the first order is also important as this demonstrates more than the promises made during negotiations. The brand of the

seller is known worldwide within its field. This image has rubbed off on the buyer as its customers know that they have world-class machinery.

The seller has handled the changes in its representatives well; it is only natural for employees to change positions internally. Also, the knowledge of the local market that the seller has narrows the gap between the two. The delivery time of the seller is significantly lower compared to that of other (foreign) companies; for Seller Dragon it is approximately one to two weeks while for the competitors it is three to four months. The seller is also ready to send some parts via airfreight, if needed. The seller has also shown the importance the Chinese market plays for it by moving the Asian headquarters to Shanghai and by localizing not only the plant but also the management. “[Seller Dragon] has shown the importance of the Chinese market. It moved the Asia headquarters to Shanghai. The Asia President is Chinese. Before it was hard to understand each other if the cultural backgrounds were different. [The President, Asia] can understand better what the customer said, understand customer wants better, can push the local employees better. [The President, Asia] has done a lot.” (Assistant Factory Manager, Buyer Dragon)

The buyer, however, is of a divergent opinion concerning the consistency of the seller’s product. “The machinery produced in China is not of the same quality of that which comes from Finland.” (Assistant Factory Manager, Buyer Dragon) However, the quality is still significantly higher than that which the local competitors may produce. In addition, the Chinese employees should be trained more in order to ensure that the quality of the products and the industrial services are as good in China. The workers do not have the right to, for example, change certain parameters in the machinery as they do not know what will happen if they do so. In addition, the seller should support its customers more.

In the seller’s view, the buyer considers the seller a leading technology provider, a capable organization, and a reliable partner. The seller has a sufficient amount of resources to run a demanding project and it is financially stable (in the AA+ class¹⁵). The organization has width and depth so that it can internally improve itself and solve the problems it has. In the long term, the seller will remain present in the market: “In the long run, [Seller Dragon] is established.” (Vice President, Sales & Service, Seller Dragon)

The seller is certain that the relationship will continue in the future. “[The buyer] relies on us and is willing to inform us about its needs.” (Vice President, Sales & Service,

¹⁵ Credit ratings are forward-looking views about credit risk. They show the ability and willingness of an issuer to fully meet its financial obligation on time. Standard & Poor has introduced a credit rating system with letters from D as the worst and AAA as the best. (S&P, 2010)

Seller Dragon) The buyer waits for the seller's innovations that could benefit them. Currently, the buyer is launching a new line in China with which it is expanding its own production scope. The seller is able to help with this. To ensure that the relationship will be even more fruitful in the future, the seller should try to further lower its costs by sourcing more locally in order to decrease the prices of, for example, spare parts.

Even if / when the expatriates of the seller return to Finland, the relationship should not be affected. Personal relationships help to target needs which arise from the markets. However, if the General Manager, Buyer Dragon, would change companies, the relationship could be influenced and the seller could possibly get fewer orders from the JV. Assistant Factory Manager, Buyer Dragon, however, believes that the relationship would not be affected if the General Manager left the company.

Guanxi and Its Role in the Relationship and in Business in General

During the late 1990s, guanxi played a large role in Chinese business, even in the coastal area and modernizing cities. Now, especially in the more modernized areas, "guanxi can be almost considered as a myth" (Vice President, Sales & Service, Seller Dragon), i.e., guanxi does not have such an important role anymore. The business culture has opened up and one does not necessarily have to play according to the unwritten guanxi rules. For example, when the buyer compares quotations, which are usually requested from two to three companies, three things are considered: (1) price, (2) quality, and (3) industrial services.

According to Assistant Factory Manager, Buyer Dragon, guanxi is an ambiguous concept. For guanxi to exist, there have to be at least two parties whose communication is balanced instead of being only one-sided. Guanxi can be seen as a spider web in which the spider may move. In some areas, guanxi still has a major role, but as the Chinese receive more information from abroad, the business culture westernizes. In Shanghai, guanxi does not really have that important of a role. Instead of conducting business based on the guanxi rules, profit is the focus and the choices made are based on what is best for the company.

According to Personal Assistant to the Vice President, Seller Dragon, guanxi exists at two levels: (1) between two companies and (2) between two individuals. In successful relationships, both levels of guanxi are needed.

(1) At the organizational level, when searching for a seller, especially in the case of big orders, the buyer needs to look for a reliable seller with leading technology and a good product. When the buyer evaluates the seller, it considers previous cooperation. If this has been positive, i.e., the cooperation has brought expected benefits, most probably the relationship will continue. For example, if Buyer Dragon's customers want to win orders for high-end products, they might first visit the production line. When they see

that the machinery has been purchased from Seller Dragon, they credit Buyer Dragon more. The reputation of Seller Dragon helps Buyer Dragon to win customers and orders.

(2) The representatives from different divisions and departments of the buyer and seller are getting better acquainted with each other through social activities. Therefore, the representatives of the buyer have a better understanding of the type of people working for the seller. As the relationships are more personal, the representatives of the buyer more easily contact the representatives of the seller if new machinery is needed or if some problems arise.

Business is not only business, but it also has a social aspect to it. It is important to host and attend dinners and to be able to drink quite an amount of Máotái (茅台; Chinese liquor). In order to maintain a relationship in China, Vice President, Sales & Service, Seller Dragon, suggests that one be in contact with the relational actor every three to six months. The contact can be made via a phone call. If the actors are in the same city, they may meet and enjoy lunch or dinner together. The Chinese tend to socialize through dining instead of going for drinks. The Chinese usually work a lot because of which they do not have much spare time. Therefore, dinners or even lunches at the canteens of the factories of the firms¹⁶ are a good choice for cultivating the relationship, especially as the local representatives tend to stay on site for lunch. The affairs are separated from personal events and, for example, the family is not invited to join. Maybe in a couple of years, golf-related events could also become more popular, especially as the Chinese tend to copy the North American business culture.

5.2. Case Relationship Red Bird

Case Relationship Red Bird is between a Hongkongese buyer and a former Asian-Finnish joint venture (JV) seller. According to NAICS (U.S. Census Bureau, 2010), both companies belong to Division D: Manufacturing (OSHA, 2010). The manner in which the relationship has developed over the years is illustrated by decade, with general thoughts on the relationship and *guanxi* provided at the end.

The Late 1800s and Early 1900s

The seller's history has lasted over a century as in the late 1800s the first plants began production, as seen in Figure 5-2. During the 19th century, the seller also began producing new products. In the early 20th century, the seller introduced a new process method and new products.

¹⁶ Chinese companies are required to provide meals to their employees, which means all factories and firms have a canteen on the premises or nearby.

Buyer		Seller
	Late 1800s	<ul style="list-style-type: none"> • First plants begin production • Production of new products begins
	Early 1900s	<ul style="list-style-type: none"> • Conversion begins • Production of new products begins
<ul style="list-style-type: none"> • Company established • Market boom • Incorporation of company • Acquisition of HK company 	1960s 1970s 1980s	
<ul style="list-style-type: none"> • Expansion of product line through acquisition • Representative office on the mainland • Chinese subsidiary incorporated 	Early 1990s	
<ul style="list-style-type: none"> • Company listed • Second office on the mainland 	1995	<ul style="list-style-type: none"> • Company established after two Finnish companies merge • Chinese plant building begins by future Asian joint JV partner
	1996	<ul style="list-style-type: none"> • Official operational establishment of company
<ul style="list-style-type: none"> • Third office on the mainland 	1997	<ul style="list-style-type: none"> • Company gets together with Asian JV partner
<ul style="list-style-type: none"> • Structure modified • Fourth office on the mainland • Trading company for mainland • Mainland 7% of turnover 	1998	<ul style="list-style-type: none"> • First investments in China
<ul style="list-style-type: none"> • Incorporation of mainland trading company • Expansion of mainland capabilities • Mainland 9% of turnover • Cooperation with mainland seller 	1999	<ul style="list-style-type: none"> • JV established with Asian firm • New plant and representative office in China • Small scale cooperation between companies
<ul style="list-style-type: none"> • Market leader in Hong Kong • Industry slowing down, product prices decline • Mainland market very competitive • Expansion of mainland capabilities • Mainland 14% of total sales 	2000	<ul style="list-style-type: none"> • Acquisition of JV and plant • Raw material agreement with former JV partner • Office in Beijing • Plan for long-term cooperation between parties
<ul style="list-style-type: none"> • Review of strategy and rationalization of operations • Tariffs to mainland decrease to about 1/3 (WTO) • New warehouse and relocalization of some operations on the mainland • Expansion of mainland market 	2001	<ul style="list-style-type: none"> • Invests in Chinese market • Chinese government dislikes FDI in industry • Chinese market grows • Chinese plant operated at almost full capacity • New offices in China

Figure 5-2. The Development of Case Relationship Red Bird (the items in red depict happenings related to China and those in blue to the relationship between the two).

Buyer		Seller
<ul style="list-style-type: none"> Product prices begin to increase Acquisition of a stake interest in Asian manufacturer Series of operation enhancements Establishment of marketing base on the mainland Mainland 32% of turnover Sales Agreement signed 	2002	<ul style="list-style-type: none"> Corporation restructured Product prices initially rise, then fall New machinery needed in China Permit granted to expand plant Chinese plant increases profitability Market growth in China New offices in China First annual dinner
<ul style="list-style-type: none"> Operations uninterrupted (SARS) More stringent credit policy Product prices decrease slightly CEPA boosts overall market sentiment Expansion of sales network Logistics services introduced Mainland 41% of turnover 	2003	<ul style="list-style-type: none"> New CEO China faces problems e.g., SARS SARS does not affect company: plant operates at virtually maximum capacity New offices in China
<ul style="list-style-type: none"> Product prices surge Stringent cost control Mainland implements macroeconomic control measures Industry grows by 13% on the mainland Mainland 47% of turnover Stringent cost control measures Expansion in Asia New Chairman and CEO New offices overseas and on the mainland New production lines being built on the mainland Mainland 48% of turnover 	2004	<ul style="list-style-type: none"> Global operational changes Price fluctuations in China China most important growth area Withdrawal from a planned JV
<ul style="list-style-type: none"> Division company's largest Serving quality noted as important Sales network widened in Asia Consumption grows on the mainland Mainland 49% of turnover 	2005	<ul style="list-style-type: none"> Demand for products remains good in Asia China requires manufacturers to produce raw material locally Chinese plant expanded Wider product portfolio in China Environmental friendliness noted in China Strategic Day tradition initiated
<ul style="list-style-type: none"> Lowering operational costs Maintaining prudent credit policy Division company's largest Product prices and consumption increase on the mainland Building of plant on the mainland begins Four new offices on the mainland Acquisition of Sino-foreign JV Mainland 53% of turnover 	2006	<ul style="list-style-type: none"> Restructuring of global organization continues Energy and raw material costs increase Demand and prices increase in Asia
	2007	<ul style="list-style-type: none"> China changes tax policy Demand and prices increase in Asia New R&D Center in China Asia 21% of divisional sales

Figure 5-2. The Development of Case Relationship Red Bird (continued).

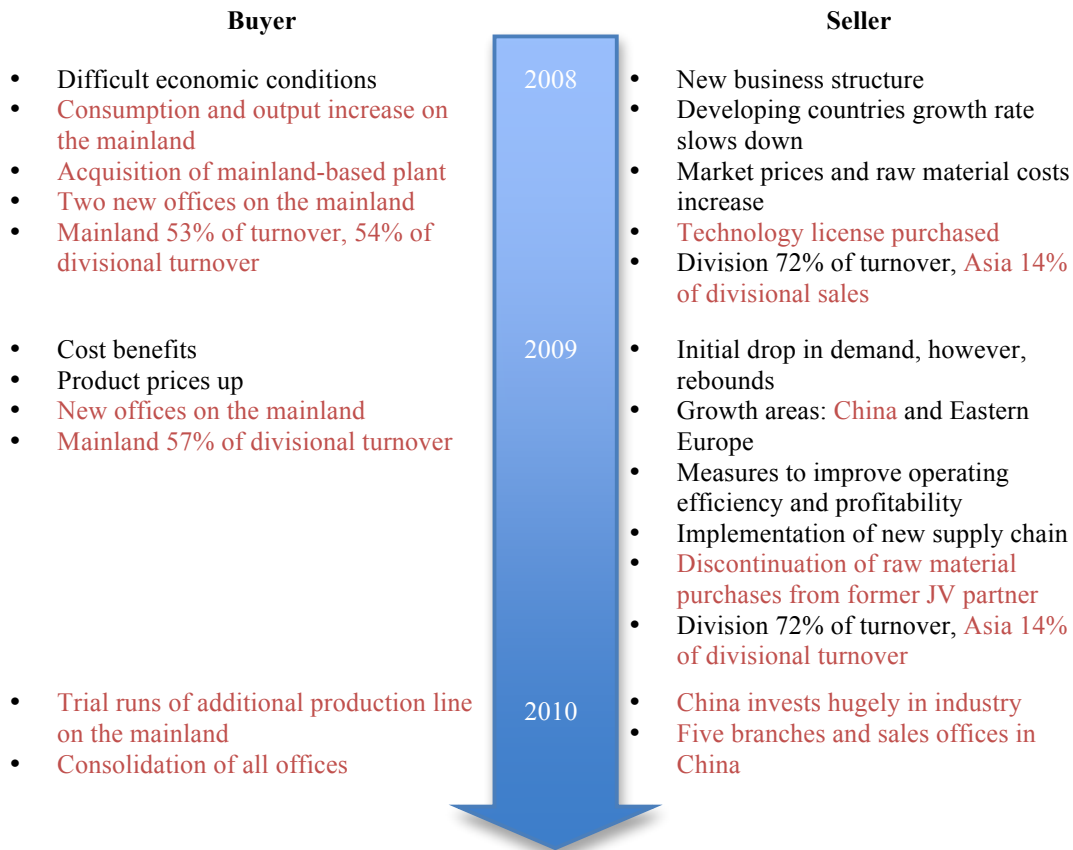


Figure 5-2. *The Development of Case Relationship Red Bird (continued).*

The 1960s, 1970s, 1980s, and 1990s

The buyer's story begins half a decade later as the company was founded in the 1960s. The 1970s and 1980s showed a boom in the market. In the 1980s, the buyer was incorporated. It also grew through an acquisition. In the early 1990s, the buyer further acquired companies in order to broaden its product portfolio. The buyer began to look to the mainland and opened a representative office, which was incorporated soon after.

In 1995, the buyer was listed. It also opened a second office in mainland China. The seller, on the other hand, was established after two Finnish companies merged. However, the official operational founding occurred a year later.

The buyer's focus on the mainland strengthened with the opening of a third office in 1997. The seller, as well, focused more on the Chinese market and, hence, got together with an Asian JV partner. The JV partner had already begun building a Chinese plant in mainland China in 1995.

In 1998, the buyer modified its structure and continued developing its operations on the mainland by opening a fourth office and a trading company there. At this point, mainland China counted for seven percent of its total turnover. The seller, on the other hand, made its first investments in China in 1998.

The trading company of the buyer operating on the mainland was incorporated in 1999. This meant that the capabilities that the company had on the mainland expanded. The buyer just began business and cooperation with a Chinese manufacturer. Both the monetary sales and the volume of sales from the mainland increased by around 60 percent, which meant that the mainland accounted for about nine percent of the total turnover. The seller established a JV with an Asian firm and, therefore, a new plant and representative office were opened in mainland China. At this point, the seller was the minor shareholder in the JV.

There was some cooperation between the buyer and seller at this point. The management of the seller had already contacted the buyer before establishing the JV with the Asian company. No mediators were needed as the buyer is a Hongkongese company and the business culture there is more westernized. Before the seller made the initial contact, the buyer did not know much about the prospective business partner. After learning that the seller had a plant in process in mainland China, the attractiveness of the seller increased.

The cooperation was at both the corporate level between the Chairman, CEO, and COO of the buyer and the Asia Sales Director and two Sales Directors of the seller and at the office level. Both of the parties had a conservative business culture and lacked talent regarding the mainland market. Hence, they could share their knowledge about the market and learn from each other. Therefore, the relationship was not only about business, but also about finding a way to function in the mainland market. “Everybody was new in [mainland] China, even [Seller Red Bird] was new in [mainland] China. All were on a learning curve in [mainland] China, in the 1990s. [At this point] laws were not very clear. The way of business was not in the international banking way. We were trying to establish something for we had a common understanding of doing business in [mainland] China: about the payments, quality.” (Group CEO, Buyer Red Bird)

“Traditionally, the products for the Hongkongese market have come from Europe” (Business Development Director, China & Asia Pacific Region, Seller Red Bird), as the products manufactured in Europe are of better quality compared to, for example, Asian products. “European [factories] are consistent compared to Asian ones.” (Area Sales Director, Greater China, Seller Red Bird) This possibly has helped the establishment and development of the relationship between the buyer and the seller.

The 2000s

In 2000, the buyer was the market leader in the Hongkongese industry. The industry, however, was slowing down and the product prices were declining. The mainland market, thus, was very competitive, especially as there was abundant supply. The CEO, Buyer Red Bird, became more involved in the mainland market. The buyer expanded its mainland capabilities through a wider sales network and customer base, range of

product brands, and more personalized service contracts. The monetary sales in the mainland increased by 58 percent, which meant that the mainland contributed 14 percent of total sales.

Simultaneously, the seller's JV partner was experiencing problems with its investment in Asia and due to the Asian investment crisis. As a result, the seller acquired the JV and plant. However, that the seller faced problems with investments in China was not surprising to a consultant specializing in China because Finnish companies tended to have problems with their projects in China. The plant is such that it has its own shipping terminal, which helps with logistical issues (i.e., incoming raw materials and outgoing products), as well as its own power plant. The capacity of the plant is efficient. The buyer was happy about the seller's acquiring the JV completely. Thus, the former JV was a completely European company, which made it more trustworthy. (Area Sales Director, Greater China, Seller Red Bird) Initially, however, there were some problems with the integrity and transparency of the seller's local employees. However, as the relationship was already quite open at this point, the buyer told the seller of the problems and the seller resolved them as soon as possible. "We did not agree with what some of the local representatives did; they did not function healthy, so we told the head office. Fortunately as a customer, [Seller Red Bird] responded very seriously. If it would not have made changes, the relationship would not be at this point." (Group CEO, Buyer Red Bird)

The seller, however, signed a raw material agreement with the former JV partner for a period of over six years. The seller needed raw material to be imported from other nations in Asia, Europe, and North America since the local raw material output was too small and the quality was low. The competitors of the seller tended to be small plants with old machinery which is at least one rank smaller than that of the international level, and the end product was of bad quality. Some consultants even claimed that all the local plants within this industry should be closed and new, compensatory ones should be built. The seller also increased its presence in the Chinese market by opening a new representative office. The market at this point was growing at a very fast pace compared to, for example, Europe, with the growth rates at about ten percent and three percent, respectively. However, only five percent of the market was saturated through imports. Hence, even though the seller had faced problems in the area and the legislation, including that regarding the environment, was complicated, it still considered Southwestern Asia, including China, a very prospective market.

The buyer and seller continued their cooperation. They decided to plan for it to continue for the long-term. By working together, the companies could compete against an Asian company, which was the market leader on the mainland at that point. However, the buyer already at this point had decided to use a multisupplier strategy and, thus, the Seller Red Bird was not the only seller: "We do not only buy [Seller Red Bird] products. [It] has a limited capacity." (Group CEO, Buyer Red Bird) The buyer wanted

to grow its business in mainland China with the seller because the Finnish company was a reliable product source. European companies were more consistent compared to the Asian ones. At this point, a Key Account Manager, who worked in this position until 2008, was appointed at the seller's organization. Hence, one person is frequently in contact with the buyer, which helps to develop the relationship both at a personal level and at the organization level. (Area Sales Director, Greater China, Seller Red Bird)

The buyer reviewed its strategy in 2001 as well as rationalized its operations. The acceptance of China as a World Trade Organization (WTO) member meant the tariffs for the products of the buyer would decrease over the following three years to approximately one third of the then existing rate. The WTO access should also decrease the domestic sales and distribution. The buyer opened a new warehouse on the mainland and relocalized some of its operations. The mainland market expanded, which meant that the growth rate of the company was double-digit and the mainland market accounted for one fourth of total sales.

The seller also invested in the Chinese market by, for example, sponsoring the universiads arranged in Beijing in order to guarantee good quality employees in the future and to increase its market share. The Chinese government, even though it was appointed a member of WTO, disliked foreign investment in this particular industry. Monopolies, the bureaucracy, the lack of infrastructure, i.e., logistical issues, and the weak education base of the locals affected business in China. The government began investing hugely in the market and will continue to do so at least until 2015. Hence, it is important to maintain good relations with the government officials in order to guarantee that one's company may invest and grow as planned. It is also important to cultivate relations with the customs officials and visit them regularly.

The Chinese market grew and as a result, the seller's Chinese plant operated at almost full capacity. Even though the market grew, China did not have the needed raw material. In addition, the foreign raw material was of better quality. The seller decided to increase the environmental requirements placed upon the raw material delivered by the former JV partner. The seller also developed its sales network in China by opening new offices.

In 2002, the buyer's product prices began to rise to the industry level as a result of the diminishing effect of the Asian economic crisis, i.e., business activities began to pick up. The buyer vertically integrated backwards by acquiring a stake interest in an Asian manufacturer. In order to guarantee economically successful operation, the buyer cut administration and finance costs. As the mainland was an important market, the buyer increased its presence there by opening a marketing base. The sales volume on the mainland was up by 53 percent and contributed 32 percent of total turnover.

The seller began restructuring its organization. The product prices initially rose to come down once again. In China, new machinery was needed within the industry, as the old was not up to quality requirements. However, logistical problems existed due to the lack of infrastructure. The Chinese, in general, have a different business mentality, as they prefer smaller plants instead of bigger more efficient ones. However, compared to that of other Western nations, the Finnish mentality is closer to that of the Chinese. When entering the Chinese market, it is important to consider the regional and local circumstances. For example, access to raw material needs to be considered carefully. The seller was granted a permit in order to expand its plant. The existing mainland Chinese plant increased its profitability and in general, the market grew in China. Therefore, the seller opened new offices in mainland China.

The buyer and seller signed an Annual Sales Agreement concerning a rebate in volume in 2002. Also, the tradition that the seller host an annual dinner for the buyer was established, whereby the top management teams of both companies spend time together discussing both business and more social issues. These events help to guarantee that the relationship will continue to operate in the long-term and show that both of the parties are committed to it.

SARS hit Asia in 2003. However, it did not really affect the buyer's operations as they basically continued uninterrupted. However, the buyer needed to introduce a more stringent credit policy. The product prices somewhat decreased even though the Closer Economic Partnership Arrangement (CEPA), which China introduced boosted the overall market sentiment. The buyer further expanded its sales network on the mainland and introduced logistics services (i.e., forward integration). Both the monetary value and the volume of sales increased by over a third on the mainland. The mainland accounted for 41 percent of the total turnover.

The seller appointed a new CEO. Even though SARS did not affect the buyer much, it had an effect on China as a whole. China also suffered from unemployment. In addition, the financial sector was hit. The seller was not affected by SARS to a significant degree and the Chinese plant operated at virtually maximum capacity. At this point, 70 percent of the production of the Chinese plant was sold in China (both mainland and Hong Kong). The remaining 30 percent went to Australia, Japan, and South Korea. Further offices were opened in China.

The seller needs to import some of the higher-end products from the European plants. It is important to have a global distribution network for the production of the Chinese plant in case there are disturbances in the local market. Thus, currently, only the truly global players may have the international rank of machinery in China as they have the global distribution networks. Only one other international player has machinery with the same capacity as the seller. The reason behind this may be that the bank system is underdeveloped in mainland China.

In 2004, the global demand for product and raw materials began to escalate and product prices surged. The buyer continued with its stringent cost control of selling and administrative costs. On the mainland, the government implemented macroeconomic control measures for which the buyer introduced an even more stringent credit policy. The industry grew by over 13 percent on the mainland while the buyer grew its turnover by 29 percent and its volume by 21 percent so that the mainland contributed 48 percent of the turnover.

The seller made operational changes at a global level. Based on changes occurring in the competitive situation and raw material prices, the prices fluctuated in China. The market simultaneously grew. The seller viewed China as the most important area for this division. The market potential is huge as the consumption of the products of the seller is only one eighth of that in Europe and one tenth of that in the U.S.A. The seller withdrew from a planned JV with a raw material plant due to a poor choice in partner. China has had to close older and smaller plants within the industry due to environmental issues. The seller targets the higher end of the market, because of which its machinery needs to be up-to-date and the raw material of good quality.

The manner of conducting business and the organizational culture of the seller in China are influenced by the European style. The seller, for example, grants maternity allowance to its employees even though the government does not require this. However, the seller also appreciates the local culture, i.e., it is not ethnocentric, and even hired a fēngshuǐ (风水)¹⁷ consultant when developing its plant.

The seller wants to wholly own its Chinese subsidiary instead of functioning in a JV as problems with the minor shareholder may arise, for example, with investments, i.e., what proportion should the minor shareholder invest in the project? Also, the ethics of the two companies may differ, which may cause problems. (Business Development Director, China & Asia Pacific Region, Seller Red Bird)

In China, it is important to cultivate relationships with the government officials. Hence, the seller has appointed a couple of locals with this responsibility. In addition, the top management of the group and the local subsidiary need to actively participate in the relationship development and maintenance. It is not sufficient to cultivate the relationship with the officials through an agent, but instead local presence is needed. The Chinese laws are opaque, due to which the officials also have problems interpreting them. Hence, it is important to maintain good relationships with the government officials to allow communication to occur regarding the laws and how they could be interpreted so that it is beneficial for both. The biggest mistake one can make in China

¹⁷ Feng shui is a complex mathematical system incorporating astronomy, geography, the environment, magnetic fields, and physics in order to harmonize a man-made environment and the calculation of time and space (Sang, 2004).

is to underestimate the power the (local) government officials have. The government officials tend to regard foreign companies positively. However, due to the bureaucracy, certain processes may suddenly stop without any known reason. In these situations, the quality of the relationship the company has with the officials determines what will happen and how fast this something will occur. The seller invites the Chinese officials to visit its premises in Europe. During these site visits, the officials may learn more about the Nordic business culture.

It is difficult to find competent workers in China. Thus, the seller actively participates in arranging training for workers. The turnover of employees tends to be high in China. However, the benefits that the seller gives its workers has brought back some of the employees who had already left the company. The seller not only trains its employees but also trains its suppliers regarding quality assurance.

The buyer continued its stringent cost control measures regarding selling and administrative costs in 2005. In addition, it expanded in Asia. The former CEO was made the Chairman and a new CEO was appointed from among the board of directors. Thus, even though the company is a listed one, it remained somewhat of a family company. Due to the expansion, new offices were opened both overseas and on the mainland. New production lines were being built on the mainland, which decreased the product price by about five percent. The market increased by nine percent, making it the second largest market in the world. The monetary sales continued to grow on the mainland—this time by eight percent. The mainland accounted for 48 percent of the total turnover.

The demand for the products in the seller's industry remained good in Asia. The price levels remained basically unchanged. Even though China required the manufacturers within this industry to produce raw material in China, the seller found this impossible and decided not to proceed with the governmental requirements. The seller expanded its Chinese plant with a new machinery line, making it the largest producer in China in its field. Hence, the seller was able to provide a wider product portfolio in China.

In addition to the annual dinner, the seller invited the buyer to participate in an annual Strategic Day, which is a one to two day event during which the top management teams of the companies share discussions and more social activities. Over the years, for example, a golf tournament has been held. (Area Sales Director, Greater China, Seller Red Bird)

In 2006, this division was the buyer's biggest one. It contributed over 95 percent of the turnover. The buyer decided to focus on providing quality and broadened its sales network in Asia. On the mainland, the consumption of the buyer's products increased by over 11 percent while the output grew by 16 percent. However, the consumption and output on the mainland were not equal and accordingly, some products still needed to be

exported. The amount of exports also increased by over half. For the buyer, the mainland accounted for almost half of the turnover, which meant that it was the largest market area for the first time. What was important for the buyer was that it was able to increase the amount sold to local players by almost one fifth.

The seller continued to restructure its global organization, which also included lay-offs, since, for example, the energy and raw material costs increased. Both the demand and price level rose in China. The level of exports from the Chinese plant grew to two fifths. Overall, the amount of exported products from China has grown immensely and will continue to do so at an exponential rate.

The buyer continued lowering its operational costs and maintained its prudent credit policy through 2007. This division remained the one accounting for the largest proportion of the total turnover with 94 percent. The product prices continued to grow on the mainland by approximately five to ten percent. Consumption also rose on the mainland by over ten percent while output increased by 13 percent. At this point, the local demand was less than the local output. Hence, the amount imported also grew by almost ten percent. The amount coming into mainland China also escalated by around 28 percent. However, the amount of exports was still only approximately nine percent of the total consumption. In order to take advantage of this proliferating consumption rate, the buyer began building a plant on the mainland. It also broadened its sales network on the mainland by four new offices. In addition, the buyer purchased a Sino-foreign JV manufacturer with sales offices on the mainland. The JV was also planning to build a plant in mainland China, which would begin operations in 2009. The mainland accounted for 53 percent of the total turnover, with a growth rate of 30 percent. Almost 15 percent more products were sold to local customers.

China changed its tax policy in 2007, which meant that one could focus on internal markets. The demand and price rates increased in Asia. In order to cater to the Asian, including the Chinese, market better, the seller established an R&D center in China, which focuses on the Asian market and its special needs. At this point, Asia contributed 21 percent to divisional sales.

The year 2008 saw the beginning of a global recession, due to which the buyer introduced a new credit insurance policy. Initially, the global recession did not hit mainland China as badly as other parts of the world. For example, both the consumption of the buyer's products and its output rose by almost nine percent. The consumption at this point was higher than the output. However, the demand for the products dropped at the end of the year. The buyer acquired a plant based on the mainland and widened its sales network there by two new offices. Mainland China accounted for 53 percent of the whole company's turnover and 54 percent of the turnover for the division. Monetary sales were down by approximately seven percent for the whole company, but the

divisional turnover from the mainland was up by around one percent. The division contributed about 91 percent of the turnover.

The seller reorganized based on a new business structure. The financial crisis caused the growth rate of developing countries to slow down. However, the market price of the product increased as raw material costs were at a higher level. The seller purchased a technology license which would allow it to use the technology in a possible raw material plant in China. The division accounted for 72 of the total turnover and Asia 14 percent of the divisional sales.

A new Key Account Manager for the buyer at the seller's organization was appointed. This manager has had a long history of working together with the representatives of the buyer almost from the beginning of the relationship. The contact person at the buyer's organization is the COO. Both of the contact people are Hongkongese even though the seller's representative is located in Shanghai. Hence, they share the same mother tongue and business culture and have been acquainted with each other for over a decade. Even though the contact people do not participate in every interaction within the relationship, as several offices continually are in contact with each other, the contact people hold the strings in their hands and know what is occurring within the relationship. (Area Sales Director, Greater China, Seller Red Bird)

The buyer continued gaining cost benefits in 2009. Product prices were up by five to ten percent, depending on the product. The buyer planned to open one or two new offices in mainland China as the sales volume increased by seven percent and the operating profit margin by over eight percent. The importance of the mainland as a market area to the division rose as it contributed 57 percent of the divisional turnover.

The demand for the products of the seller initially decreased sharply during the first quarter of 2009. However, already during the second quarter the demand rebounded. The market was moving itself to developing countries with especially China and Eastern Europe having growing markets. To cater to the needs of customers better and to ensure profitability in the future, the seller implemented measures to improve operating efficiency and to develop a new supply chain. The seller decided not to continue the raw material delivery contract with the former Asian JV partner, which had lasted for over eight years (the initial agreement was for six and a half years). The division accounted for 72 percent of the group's turnover and Asia 14 percent of the divisional turnover.

The seller should keep in mind that the business culture varies across regions and provinces. Conducting business in Shanghai is very different from doing so in other parts of the nation. It is important to acknowledge the business manners of the other when interacting. The government must always be consulted when large investments are being planned. The companies need to receive a permit from the central government, which takes a long time and many man-hours.

Over the years the relationship has developed quite straightforwardly without serious interruptions. The companies have institutionalized ways of dealing with each other and both know each other well. The companies trust each other. The foreignism of both companies on the mainland has helped the parties to develop their relationship.

The 2010s

The buyer made trial runs for an additional production line on the mainland in 2010. It also consolidated all its offices and is planning to open new ones on the mainland. The seller, on the other hand, had five branches and sales offices in China. The representatives from the buyer and seller are in contact monthly at an operational level, as represented in Figure 5-3.

Although the buyer and seller have an annual purchase and sales agreement, in the middle of each month, the sales department of the seller's Hongkongese office e-mails a specific price quote to the buyer for that month, as depicted in Figure 5-3. The purchase department at the buyer's Hongkongese office collects orders from customers and sends a purchase order to the seller's Hongkongese office. The seller's sales department in Hong Kong collects the buyer's order and confirms the order. The buyer's purchase department checks the details of the order confirmation, after which the order is approved and signed by the management. This signed order confirmation is sent to the seller's sales department in Hong Kong. Simultaneously, the buyer's purchase department chases shipment for the order. The seller helps the buyer with this task by e-mailing shipping advice. The seller's sales department in Hong Kong books a vessel for the order to be shipped on and prepares shipping documentation, i.e., an invoice, packing list, vanning list, and bill of lading and then e-mails these documents to the buyer's purchase department in Hong Kong. The purchase department checks the shipping documents and passes the packing list, vanning list, and bill of lading to the buyer's shipping department in Hong Kong. The shipping department arranges the pick-up of the cargoes when the ships arrive. The purchase department also passes the invoice to the finance department, which prepares and settles the payment. The finance department of the seller in Singapore, as the seller's plant is a Singaporean investment, receives the payment.

The companies can be said to be in contact with each other quantitatively often, i.e., daily. In addition to the operational side of the relationship, representatives of the companies meet each other over lunch and at other more entertaining instances. As the contact occurs at several different levels between different individuals, the relationship is safer in that if personal conflicts should occur, it should not affect the relationship drastically or even at all.

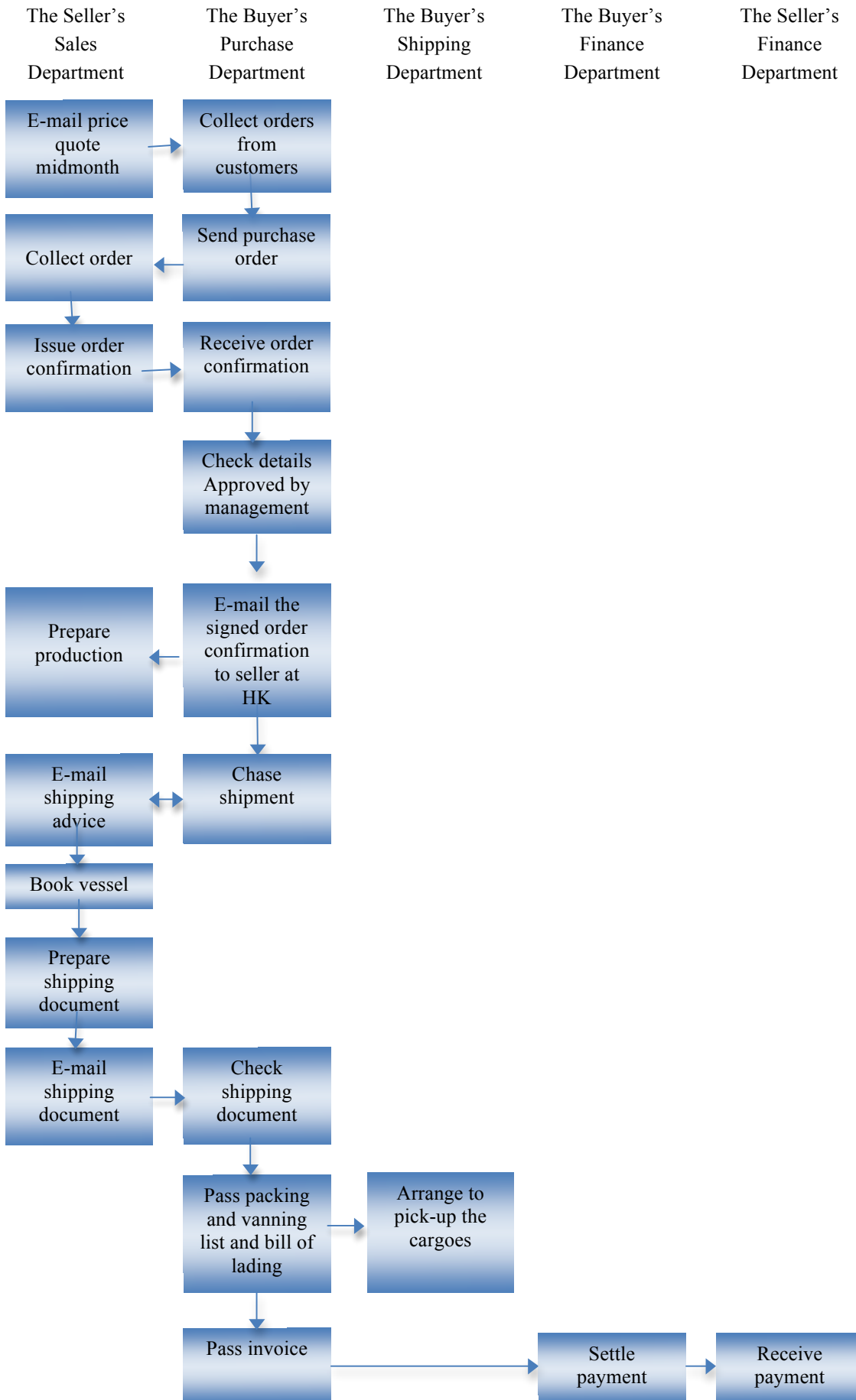


Figure 5-3. The Monthly Operations Between the Buyer and Seller.

General Thoughts on the Relationship, Its Quality, and Future Prospectives

The success of the relationship is that the whole management is close to each other. Not only do the top management share a tight relationship, but also lower levels of the organization, for example, at the purchase manager and sales manager level do the same. The targets are set together during biannual operational meetings, where different organizational levels come together. As the companies share goals as strategic partners, the relationship is also more open and both positive and negative issues may be discussed. For example, during the relationship, a couple of times special agreements have had to be made, i.e., both companies are ready to be somewhat flexible. Without this strong relationship, the business would not be as stable as it now is. The main focus in the relationship is not the prices of offerings, but the desire for the relationship to exist in the long-term. Both of the parties are committed to the relationship and share a common ground for the next two, three, and five years. It is a win-win situation for both. This situation would not exist if both could not trust each other and, hence, the relationship and especially the communication would not be as open as it is now.

Compared to other relationships the buyer has, the top management is not as involved within the relationship. In addition, a larger number of functional members of the organization participate in the relationship. This may also be due to the size and strategy differences of Seller Red Bird compared to the local sellers.

The companies even know the profit margins and costs of each other at some level. The seller, however, does not know the specific cost structure of its clients, including that of Buyer Red Bird. The seller, however, does know that the viability of Buyer Red Bird is weaker than that of its main competitor from Hong Kong even though Buyer Red Bird receives a somewhat better discount than the competitor. The product portfolio causes the difference in viability. Hence, the seller would like to better understand what the plans of Buyer Red Bird are for the future and how it will try to improve its viability. How does the buyer, for example, consider the new market segments and how will the buyer compete against other companies? "What will the supplier base of [Buyer Red Bird] be in the future?" (Business Development Director, China & Asia Pacific Region, Seller Red Bird)

The existing relationship, however, is not the most important issue. Most importantly, one needs to have quality offerings with a reasonable price. Hence, the seller has been able to increase its deliverable amount ninefold during the relationship. In addition to price and profit, an important issue is the service that the seller provides.

Because the buyer is the market leader in Hong Kong and has a growing market on the mainland, several sellers would like a long-term relationship with it. However, as the parties began their relationship when both were still entering the mainland market, the relationship has had the possibility to develop. Also, the fact that the organizational

culture and the company strategies of the two have fit each other has helped to cultivate the relationship. The relationship not only is personified in individuals but exists at an organizational level. However, the involvement of the top management teams in the relationship shows that both of the actors truly respect the other.

Business being conducted between the buyer and the seller does not completely rely on the personal relationships or individual *guanxi*. The seller's top management team has changed several times over the years and the relationship has still continued: "Top management changes in [Seller Red Bird] are not drastic. At [Buyer Red Bird], top management has not changed. The transition period has been good. Before a person comes here, we meet beforehand, for example, play golf together in Finland." (Group CEO, Buyer Red Bird) Both parties rely on and need each other due to the size of the orders. It would be difficult or almost impossible to terminate the relationship at this point.

The future prospects look positive for the industry and it is forecasted that China will be the largest market in the world in five years. For this to occur, the government is investing hugely in the industry. These investments, however, are not market-driven, which may cause problems in the future. According to a study made by a consultancy company, the Chinese market should be outstandingly the largest exporter of the products of the seller in 2015. It has been forecast that the Chinese consumption of the products would exceed that of Europe and North America combined during the 2010s.

The competitive situation on the mainland is changing as several large production lines are being built. Therefore, the position that the seller currently has will worsen in the future. China serves all of Asia and to some extent also Europe and North America. The seller tries to stay in the market and maintain its market share through offering higher end products and maintaining its strategic customers. However, the seller might not be able to cater to the changing needs of its strategic customers in the future as well as its competitors can. On the other hand, the Chinese players do not perform as well abroad due to their business culture, i.e., function methods and activity level.

Both the companies function mainly in the higher end of the market. As the income level in mainland China increases, the demand for the end products of the buyer should increase. The buyer will possibly be expanding more into inner mainland China in the future. However, at least the seller was not absolutely sure about the market segments the buyer will target while expanding.

The relationship between the parties is predicted to grow in the future. Now the product portfolio that the buyer purchases from the seller is limited and, hence, this can be widened in the future. The companies want to grow together in the future.

As the seller supplies to both Buyer Red Bird and smaller local buyers, a small conflict has arisen over the years. The seller has already developed a customer network on the

mainland and now as the buyer tries to enter these local markets, the smaller local players feel somewhat offended as the seller supplies to both. The big players, in this case Buyer Red Bird, have the possibility of selling the same products at a lower price. This can cause bigger problems in the future for the seller.

The buyer has had problems with establishing its business in mainland China as the buyer is so large in size. Initially, when the buyer entered the geographical market, the locals were somewhat afraid of the company. The competitors feared that the price competition would become too fierce. It has taken a long time to harmonize its relationships with the local customers. The seller helped in this process. The buyer believes that the seller has not lost any customers due to the buyer's expansion in the mainland market, but instead, the seller's customers have lost market share.

Another potential problematic issue in the future is related to viability. The bigger customers of the seller receive larger discounts and the price competition is currently very tight. Due to this level of competition, viability may lower.

Guanxi and Its Role in the Relationship and in Business in General

Guanxi is still important in traditional industries such as that in which the buyer and seller operate. Another significant issue is the approach of the company. It is important to develop trust between the business parties and not to make sudden changes. Guanxi not only exists between individuals but also exists at an organizational level. Most guanxi is visible for the sales and purchase departments as well as the top management.

The importance of guanxi is higher in emerging markets. Relationships are, of course, important in all industries, but they do not totally explain why one buyer purchases from a certain seller. Guanxi, as a practice, is not limited only to Mainland China, but it exists around the world, i.e., individuals are more willing to conduct business with other individuals with which one is acquainted. (Segment Leader and Administration Manager, Southern China, Seller Red Bird)

Even though the seller is somewhat limiting the amount of expatriates in Mainland China, it is still important to keep some present in the local organization as this is a sign of future growth in the long-term. The seller has decided that some of the positions need to be kept in the hands of expatriates in order to act as a bridge between the Finnish headquarters and the Chinese market. However, the expatriates should learn the local language to ensure that their task is successful. This is especially important as the industry is a traditional one in which many of the managers of the local companies only speak Mandarin Chinese. This is also the way in which the expatriates truly learn what the customer needs are, instead of just learning them from secondary sources. The expatriates should stay abroad longer: two years is not enough. Instead, the position should last for at least three to five years as at that point, one better understands the local business culture and is able to speak the local language.

5.3. Case Relationship Turtle

Case Relationship Turtle is between a Chinese distributor as the buyer and a Finnish seller functioning in a niche market. According to NAICS (U.S. Census Bureau, 2010), both companies belong to Division D: Manufacturing (OSHA, 2010). The manner in which the relationship has developed over the years will be illustrated by decade, with general thoughts on the relationship and guanxi provided at the end.

The 1990s

Both companies are quite young, as portrayed in Figure 5-4. The history of the seller began in the 1990s, when it was established. A couple years after the founding, a product range was launched and first deliveries were made in Finland. A Sales Meeting was also arranged quite early. The seller decided to expand internationally to Europe. The seller also opened a new office and plant in Finland during the first decade of existence.

In 1999, the seller widened its product portfolio by launching a new product range. It opened a representative office in China. A year later, the seller opened another representative office in Asia and subsidiaries in Europe. An ownership change occurred and the company was listed. The seller also launched a new product. The production process at this point was based on a high degree of subcontracting, networking, and order-driven in-house assembly. The products were distributed globally.

The 2000s

During the early 2000s, distribution was not very organized in China. “People were just doing their business” (Executive Vice President, Sales & Marketing, China, Seller Turtle) without a clear strategy. “Management in [Seller Turtle] was chaotic. There was zero management in distribution, sales, almost everything.” (Director, Buyer Turtle)

The representative of the buyer became aware of the seller during an industry fair in 2001, when he took the seller’s leaflet. The representative began to gather more information about the seller and became interested in the seller. He had a friend working at the seller’s organization and, hence, requested to join the seller. “I had a friend working at [Seller Turtle], I noticed his name in the contact details and contacted [the company] through that way.” (Director, Buyer Turtle) Prior of this, Japanese products dominated the Chinese market.

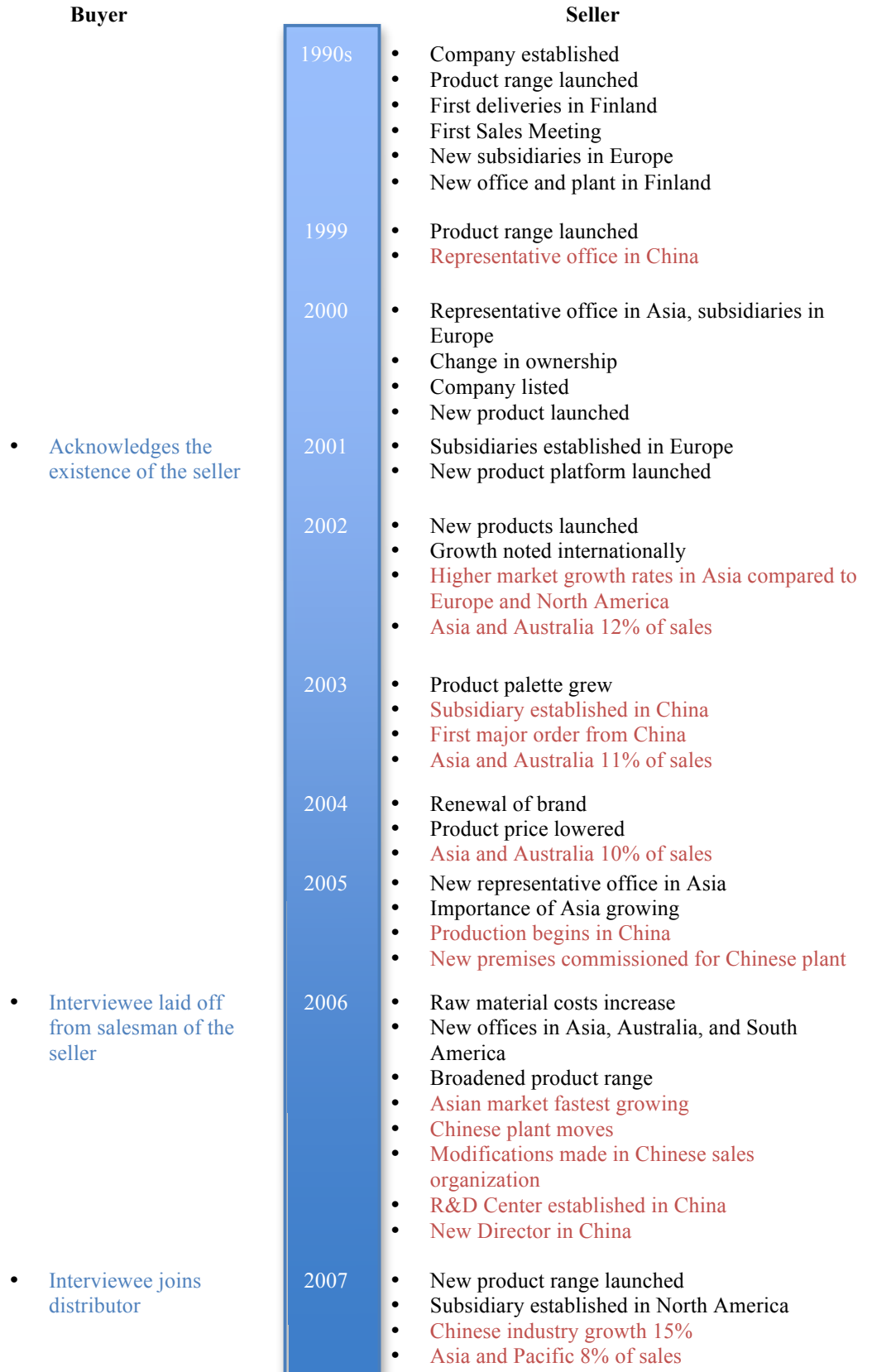


Figure 5-4. The Development of Case Relationship Turtle (the items in red for the seller depict happenings related to China and those in blue of the buyer to the relationship between the two).

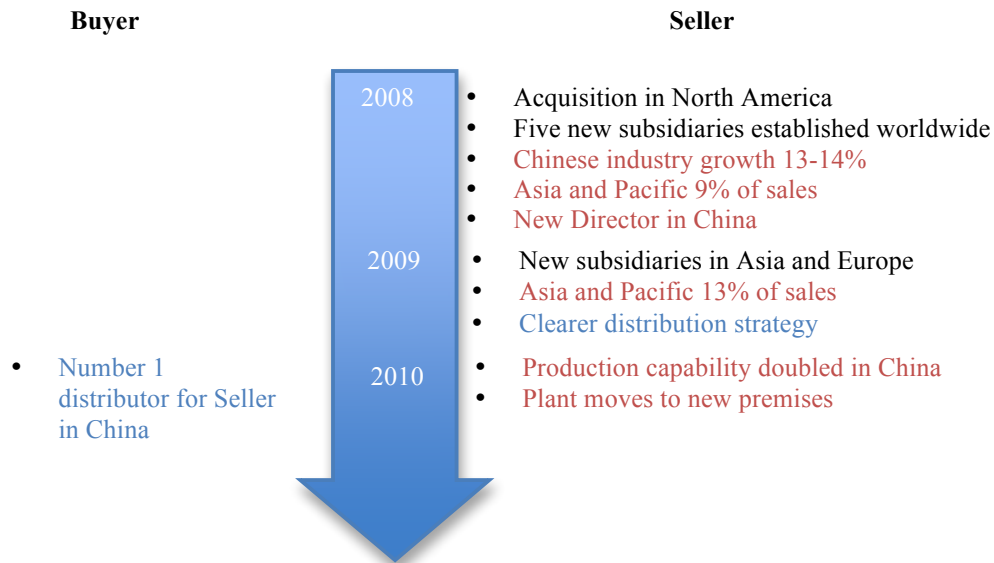


Figure 5-4. *The Development of Case Relationship Turtle (continued).*

In 2001, the seller established subsidiaries in Europe and launched a new product platform. A year later, new products were launched. The typical lifecycle for the products in this field is from three to seven years. However, the product prices decreased in the early 2000s. The seller truly grew internationally, which was also noted at a global level. In the seller's opinion, local presence was important in order to cater to the customers' needs better. The market growth was higher in Asia compared to that in Europe and North America. For the seller, Asia remained the third largest market area even though the sales to Asia continued to grow. The company continued its multiple-channel strategy for sales and distribution. Asia and Australia accounted for 12 percent of total sales.

The product palette of the seller grew in 2003. It established a subsidiary consisting of sales functions and a production and competence center in China as local customers require local investments and, hence, the seller is committed to the local market. Already during the same year, the seller received its first major order in China. Due to moderate growth, the decline of the U.S. dollar, and the SARS epidemic, the combined sales from Asia and North America was about one fourth of the total sales. The proportion of this from Asia was a little less than half.

In 2004, the seller continued as a niche player in the market with approximately a two percent market share. The seller decided to renew its brand. The seller began planning a production plant in China, which would be the first outside Finland. The production would be conducted alone by the seller and in cooperation with another Finnish company. The plant would not only be a producing site but also offer technology services, such as maintenance. The plant would serve the Far East market. At this point, the market area of Asia and Australia contributed around ten percent of sales.

The importance of Asia grew, as the growth rate in China, the Far East, and India was approximately ten to 12 percent. A new representative office was opened in Asia in 2005 to help to cater to this need. Production began in China, which according to the seller occurred too late compared to its competitors and their market entry. The sales decreased in Asia-Oceania by over six percent. The seller decided to focus on strengthening its sales, marketing, and customer support. The plant could help to better serve Asian and Australian customers, expand the supplier network, and reduce material costs. To expand the supplier network, the seller was in contact with distributors for the first time. As the exchange rate of the U.S. dollar was declining and the Chinese yuan renminbi is pegged against the U.S. dollar, the Chinese plant helped to overcome the product price decreases due to the cheapening of the U.S. dollar. Even though a new plant was opened, new premises were commissioned for the Chinese plant.

Even though the seller had local presence, the strategy of the company was not clear. The seller, for example, did not know how to differentiate itself from its competitors. "The distributors tried to steal competitors' customers." (Vice President, Sales & Marketing, China, Seller Turtle) This could be seen as a somewhat typical problem for Finnish companies as they tend to be systematic engineering companies instead of companies which focus on sales like U.S.-based companies often do. The seller, for example, began with design and manufacture of the product, after which they entered the market. Therefore, the company might not have understood the local market and its needs.

The buyer feels that Finns may undermine the Chinese even though Finnish companies tend to be very professional and trustworthy. Finnish companies are more prudent and more conservative than other international companies. The seller should have been more active and aggressive when entering the market: "In a booming market, [Seller Turtle] should have been more active, louder, prouder." (Director, Buyer Turtle) However, they did not have enough information about the market and how to function in China. He feels that the top management at the Finnish headquarters did not take the Chinese distributors and their opinions seriously. "The Finnish headquarters are biased. They think that the Chinese distributors only complain and do not do much." (Director, Buyer Turtle) Hence, he feels a grudge towards the representative office and the factory.

The costs of raw material increased in 2006. The seller opened new offices in Asia, Australia, and South America. The product range was broadened. The Asian market was the fastest growing. The predicted market growth rate was seven to eight percent for the whole industry. The growth rate should especially have gone up in North America and China. For example, it was forecast that the market growth rate for Asia-Pacific would be 20 percent. Even though the Asian market was the most promising, it was also the most challenging, due to, for example, cultural differences. For the seller, the Chinese market had been somewhat disappointing and, thus, a member from the management board was sent to China to improve the business there by, for example, making

adjustments to the Chinese sales organization. As a result, the former salesperson of the seller (the current Director of the distributor) was dismissed as he could not produce results anymore. However, this was a turning point for the seller in the Chinese market, as according to the buyer, the seller became more serious about the market and now the seller saw the potential of the market, instead of only “wanting a few dollars.” (Director, Buyer Turtle) The Chinese plant moved and a product development unit was established to cater to the unique needs in the Asian, including the Chinese, market.

In China, the Finnish companies function in a tight network. Therefore, the importance of relationships is not only true for Chinese companies through *guanxi*, but also, for example, for Finnish companies through the “old boys” network.

The representative joined the distributor in 2007, when he was forced out of the seller’s organization due to a structural change, i.e., the number of distributors in the geographical market area of the former salesperson of the seller (the current Director of the distributor) was increased. The market acted strangely to the growing number of distributors as the market was not widening. Many of the new distributors were not only providing the seller’s products but also the products of the seller’s competitors. Even though the former salesperson had been successful up to this point, his market area diminished to one third of his previous area. His business revenue also dropped to one third compared to the previous figure. The buyer’s representative was sad to leave the seller as he believed in the product.

According to the buyer, at this point, the managerial situation at the seller was chaotic, especially regarding distribution and sales. The agent being used was not interested in developing the seller’s brand, but instead in becoming prosperous. Since the brand name was not known in China, instead of just waiting for the customers to call the seller and its distributors, the seller needed to invest more resources to find new customers.

The seller did not have a sole distributor agreement, but instead it conducted business through a multichannel approach. The distributors were partnering with the business offer. The director of the distributor had some shares of the seller, which he gained through his multiple contacts with the seller. However, even though the distributor believed in the seller’s products, he also acted as a distributor for products of the seller’s competitors.

Initially, when the seller’s products first began to be distributed, the delivery period for the products was relatively long: six to eight weeks. The foreign exchange market was volatile because he had to pay in euros. The technology services were rarely available as the seller only had a small service center. After the seller opened the plant in China, the delivery time and price level declined. The service level also improved. The market exploded when the government required the local companies to use the products the seller was providing.

In 2007, the seller launched a new product range. A subsidiary was established in North America. In China, the industry grew by about 15 percent. The seller founded an R&D center in China as the local needs regarding the products differed from those of the European customers. It was not enough to have a product portfolio in the Chinese market, instead the product range needed to cater to the needs of the local market. The R&D center in China tried to respond to this need by creating a localized product portfolio for the Chinese and Asian market. As the market was becoming more competitive in China and the amount of quality competitors increased, without one's own R&D center in China, one could not compete efficiently. The plant also allowed for sourcing for parts being produced in China more easily. Some of these parts were further sent to the Finnish production site. The Asia and Pacific area contributed eight percent of the total sales.

It was difficult to find employees for the R&D center. Information on the products and technology needed to be distributed throughout the employees so that no one employee had sufficient information to copy the products. Hence, everyone had a special expertise which he or she concentrated on and everyone knew as little as possible of the others' expertise areas since secrets do not exist in China. (Managing Director, Seller Turtle)

The story with the buyer is very different than that of the seller's other distributors because the seller's previous salesperson runs the buyer. Therefore, the buyer has a good level of knowledge of the products of both the seller and its competitors. The buyer was asked to outrun the organization of the seller by establishing a distribution network. However, as this raised concerns and discussions, the contract for this task with the seller was cancelled and the buyer continued solely as a distributor. Hence, the initial situation was a mess. Overall, annually the seller assesses its distributors through a third-party consultant.

The seller continued its international expansion in 2008 by acquiring a company in North America and establishing five new subsidiaries around the world. The Chinese industry grew by around 14 percent while the general global growth rate was approximately nine percent. The seller's deliveries in China increase by one half. The sales from Asia and Pacific accounted for nine percent of total sales.

A new Director, a Finnish expatriate, was appointed for the Chinese subsidiary. According to the distributor, the previous director was trying to benchmark a competitor's strategy and practices too much. Since the competitor was very different from the seller with regard to width of product range, size of company, time of entry to the Chinese market, and brand recognition, the strategy did not work in the seller's case. The distributor felt that the previous director had become resentful due to this.

Due to the time considerations and cultural differences, one needs to have local presence in China. It is not sufficient to have only a sales representative office, but one also needs to have one's technology there.

Due to environmental issues, new markets are increasing the market share of the seller. However, in China, as the mentality regarding investments is to purchase the cheapest product instead of possibly the best price-quality combination, the seller has experienced some problems, i.e., the local players tend to purchase items from the Chinese manufacturers instead of buying from foreign companies. Local customers do not usually plan their purchases as, for example, European companies do, but instead everything occurs on a more ad hoc basis. In addition, the knowledge the locals have about the products may be lacking. The customers may, for example, order "something similar that the competitor has." (Executive Vice President, Sales & Marketing, China, Seller Turtle) The Chinese do not tend to be as patient as Europeans are. However, Finns are likely to be more patient when dealing with the locals as chaos can occur at any time. The Chinese also demand more from their suppliers than Finns do.

However, at this point some local companies have already changed to a more lifecycle-, redemption-, and usability-based philosophy. Thus, the more expensive products within the field, such as those of the seller's, are also gaining a larger market share as the foreign companies tend to have a global service network, which the local players lack. However, the foreign companies tend to produce over-engineered products instead of keeping the items simple enough to cater to the local needs. Currently, however, the price differences in the market are quite small.

In 2009, the seller further expanded by opening subsidiaries in Asia and Europe. Half of what the Chinese plant produced was exported mainly to other Asian countries and to Europe. The sourcing conducted in China helped to improve the profitability of not only the local plant but also those in other countries. The majority of the parts used in the production were sourced locally. Only those parts which were not available in China were sourced from Europe. Globally, the seller sold over 60 percent of its product under its own brand. However, in China, as there was not truly a culture of brand label, the percentage was higher. The market area of Asia and Pacific contributed to about 13 percent of sales.

The distribution strategy of the company has been cleared in China. Now the distributors are divided by segments and by industry. Another division is made by geographical market areas and by customer bases. There, however, may be several distributors within one geographical area. Only one of them should be a large distributor and there should not be conflicts between the distributors in the system. The channel partners need to use their own resources and competencies to attract customers. The financial situation of the distributors needs to be sufficient in order to handle the seller's business now and in the future. The directors of the distributors need to have

personalities which fit the seller's organizational culture and philosophy. (Executive Vice President, Sales & Marketing, China, Seller Turtle)

As the seller uses a multichannel approach, i.e., it sells directly to customers and uses distributors to vend its product, the end-customers may be somewhat puzzled about whom to contact. If the product is bought directly from Europe, the end-customer directly contacts the seller. The brand, however, is very weak and not many end-customers will contact the seller directly. The seller has a market-push strategy in the sense that it visits customers to push the brand and its products. (Executive Vice President, Sales & Marketing, China, Seller Turtle)

If the end-customer has purchased the product in China, the end-customers might not have trusted the price of one distributor, but instead have asked around, which actually is the seller's challenge. The seller has had problems with this over the years. The seller, however, is trying to deal directly with the larger customers in China and, hence, dismiss some of its distributors. In order to cater to the lower quality customers, the seller relies on its distributors. The buyer and the other distributors should conduct normal business regarding the lower quality customers, especially including attracting new local customers. (Executive Vice President, Sales & Marketing, China, Seller Turtle)

Managing Director, Seller Turtle, feels that distributors should be used in the future as relationships play such a large part in the Chinese business culture. The seller, however, wants to develop relationships with only certain distributors.

According to the buyer, the distribution system, however, is still somewhat of a mess. He feels that the system should have sole distributors for certain areas, which could help to boost the market situation. In his opinion, anyone can act as a distributor at the moment. He feels that the seller does not yet have the resources to only directly sell to the end-customers, but instead distributors are still needed.

The buyer states that the distributors are very hurt right now as they are not treated fairly and do not receive enough support. He feels that some distributors have a special position compared to the others. For example, a distributor, which entered in the business in the beginning of 2009 and is located close to the seller's plant, has the second largest sales revenue from all the distributors. "Long-term distributors have not been able to achieve this, so how is it possible for the newcomer to do so?" (Director, Buyer Turtle)

The international competitors of the seller functioning in China are widening their product range due to the global financial crisis. By doing so, they might be entering the field of one of its customers and, therefore, may lose its customers to the seller. Thus, the seller finds being a niche player its strength.

At the annual meeting of the buyers arranged by the seller, the distributor was recognized as the best seller in China for 2009. The seller arranges this kind of customer day annually close to the Chinese New Year. At the event, the seller presents its strategy and products. The seller rewards three of its best distributors and customers.

The 2010s

During the beginning of 2010, the seller's plant was moved to new premises. During this year, it is expected to double the production capability in China.

The buyer is aiming to increase its profit margin instead of expanding its market share. The seller has had problems with its distribution network as not many of its distributors are truly dedicated to the company, and, thus, the distributors do not focus on resource development. The strategy of the channel partners is very important and should match the seller's strategy.

According to the seller, the buyer has a good reputation in some of its market segments. However, the seller is not sure whether the buyer is truly committed to grow in the future and whether the buyer has the motivation to continue to develop its market. The buyer should invest more in its employees and try to be more competitive by finding new customers instead of catering only to the existing ones. However, the market situation for the seller is difficult as its competitors entered the market a lot earlier, i.e., how can the seller and its distributors win over these customers? According to the seller, the buyer needs to invest more in the market.

The local employees at the production level receive their work-related information in both Mandarin Chinese and English. However, the quality check is only in English as this information is shared globally. The Chinese sales team is in contact with the local customers as they share the language and practices. However, the local employees are being taught the seller's Finnish-based, however localized, organizational culture and practices.

The future of the relationship is questionable because if the buyer does not attract new customers, the buyer will not remain as a strategic partner in the future, i.e., even though the buyer is profitable, the strategy of the company is not at the level the seller wants it to be. The seller has not received clear signals from the buyer and feels that it should find a back-up company. The seller is eager to grow in the future and is considering finding another distributor for the segment and geographical area which would be able to attract customers, especially as the market is growing. The seller is trying to motivate and support the buyer in this task. The seller provides the buyer with (1) strategic market information, which requires face to face meetings; (2) global references: the seller finds similar customers in China in order to copy and benchmark success stories in different segments; (3) information about price and pricing strategies, since different approaches are used in various geographical areas in order to win in situations of tough

competition; and (4) technical training. Technically, the buyer has a very high level of knowledge and accordingly not much training regarding technology and applications needs to be provided to this distributor. The buyer does not ask for sales support. (Executive Vice President, Sales & Marketing, China, Seller Turtle)

Managing Director, Seller Turtle, however, feels that the relationship between the buyer and seller will continue in the future as both are putting effort in the relationship and as the buyer is one of the top five customers. With effort, he refers to training and working together for the same goal. Representatives of the seller, for example, visit the distributor's customers during the sales process or after it, if needed. The distributor has also worked for the seller as can be seen through the high sales. He feels that the relationship between the buyer and seller looks bright and prosperous.

General Thoughts on the Relationship, Its Quality, and Future Prospectives

The reasons why the relationship has existed until this point is that the parties are open to each other and are able to communicate. The parties "may even share strong arguments." (Executive Vice President, Sales & Marketing, China, Seller Turtle) The buyer's image has improved during the last couple of years. Before that, the office was very dirty and not many employees were hired to sell the products. After a discussion between the parties, the buyer's business has been quite enjoyable. The Executive Vice President, Sales & Marketing, China, Seller Turtle, has something of a mentoring relationship with Director, Buyer Turtle. The seller's representative, however, feels that it is somewhat difficult to deal with the director due to his personality. The director has quite a strong attitude, which is common for individuals from northern China. The problem of the distributor may actually be the attitude of the director.

The seller has faced problems with other distributors as well. Quite often the distributors place orders, which they do not pick up. Executive Vice President, Sales & Marketing, China, Seller Turtle, tries to participate more in the bidding process to reduce this. When at the office, he calls distributors and visits those customers with the largest potential. He visits the most important distributor from each region at least annually to discuss what is occurring in the market and what kind of practices should be used in order to attract further customers and orders.

The seller has an organizational culture somewhere between the Chinese and the Finnish. The entertainment is similar in both countries, i.e., business dinners with a considerable amount of alcohol consumed are the common practice. However, the ways in which the seller conducts business are not good. Instead, the seller should establish a more systematic way. Now the salespeople are just running to the customers and as the economy is growing fast, the salespeople may be lucky and attract an order. This will, however, not be the case in the future, and the seller will need to pay attention to its sales processes. (Executive Vice President, Sales & Marketing, China, Seller Turtle)

Even though, the seller has worked on improving its strategy in the Chinese market, the buyer feels that the local subsidiary still faces many internal problems. The top management of the headquarters should focus on this and further localize their strategy. According to the buyer, there are too many brands present in the Chinese market and as a result, the seller has problems attracting new customers because the seller was very late entering the market. There are several Chinese companies in the market, in addition to the international competitors. However, the local companies are not able to produce at the same quality level as the international players. The Chinese companies, however, are financially strong companies, which means that they may purchase the technologies of other companies, i.e., the international ones, and blend these into their products. Also, he feels that the niche market strategy might not function in China. The seller's product prices are too high for the fierce competition. The technology services and delivery time and quality of the products are good.

In the buyer's opinion, the seller does not offer enough benefits for the distributors, especially when compared to the other international players. There should be a credit system and a longer credit time for the bigger distributors. He feels that (even one third of the) experienced distributors are leaving the seller and focusing more on the other products that they are providing. The seller should invest more in the connections individuals have because *guanxi* is important. The buyer claims that the distributors know and understand the market better and have more know-how of the seller's products and market situation compared to the seller itself. Hence, the seller should provide substantially more tangible support to the distributors and create a fairer distribution system. The buyer feels that the seller cannot grow in China if it does not completely support the distributors, or otherwise the seller will remain stagnant. The seller entered the market too late and missed the boom time.

The seller should treat the distributors more fairly by giving all of them the same opportunities and possibilities. Some of the projects cost more as they have more engineering in them and, thus, will need more tendering in the future. The local distributors may apply for a special rate in these cases, but for some reason, they are not always approved. Only the distributors with closer connections with the management team in China will be granted these rates, which according to the buyer is unfair.

The buyer feels that the new distribution system should be one in which there are sole distributors for certain geographical areas. The sole distributors could then create their own second-tier distribution systems. Now, any end-customer may contact any distributor and request a quotation. If the seller trusts its distributors and wants to cooperate with them, they should show earnestness to them by developing a more transparent and more organized and, hence, fairer distribution system. For example, instead of using discounts for distributors, returning commission differences could be used to show the importance of a certain distributor. Now, the distribution system is a blur.

According to Managing Director, Seller Turtle, it is important to maintain Finnish expatriates in China. For example, all the Managing Directors have been Finns. It shows commitment to the local market and may help during negotiations and hard times, i.e., the Finns can be blamed so that the locals do not need to lose face. However, it is even more important to have a plant and R&D center in China as that shows even more commitment. Some clients, however, believe that the quality of products produced in China is not as good as that of exports from Europe, which means that some products still need to be imported.

It is important to maintain a relationship with governmental officials. The seller's foreign competitors are working together with the local and central government as they have a wider range of products. However, as the seller is a niche player, it does not need to work so closely with the government. However, working with the local government ensures that the business continues to run. Executive Vice President, Sales & Marketing, China, Seller Turtle, is a local in the city where the plant of the seller is located and, hence, knows the city and its government very well. He knows the mayor and has friends within the local government. Therefore, he can talk of difficult issues with these individuals and gain advice from the tax bureau.

Guanxi and Its Role in the Relationship and in Business in General

According to Executive Vice President, Sales & Marketing, China, Seller Turtle, guanxi exists at the individual level but not initially at the organizational level. Examples of guanxi are relationships between family members. One needs to show oneself before conducting business, i.e., the product can be forgotten in the beginning. After a contract has been signed, the relationship is between organizations, but before that, it exists at the personal level. In business, every channel member, e.g., the seller, distributor, and end-customer, needs to win, i.e., the relationship should be win-win-win. The relationships are usually cultivated and maintained through business dinners, in which a lot of alcohol is consumed. Also, grey money is used to develop relations, as is often the case in developing countries. The seller, however, cannot practice this. However, distributors, i.e., the locals, may have these kinds of practices. In the beginning, corruptive actions were more frequent, now, small gifts instead of money, are exchanged.

Ten years ago, guanxi was so important that if a salesperson left a company, the customers went with the salesperson. Now, it is not like that, but instead product competitiveness is important. Today, it is not as easy to switch suppliers. (Executive Vice President, Sales & Marketing, China, Seller Turtle)

Director, Buyer Turtle, sees guanxi to exist at three levels. (1) As relationships between relatives and friends in which the link is kinship. Trust is given for the relationships in which reciprocal actions occur. Therefore, both relational actors benefit from the

relationship. (2) As relationship between money, i.e., between business partners and friends, which can be corruptive as the link between the two is money. (3) As relationships due to recognition of professionalism. For example, he was a buyer not a salesman for a state-owned enterprise before joining the seller's organization. At this point, he could decide which product to purchase. He was recognized as a professional in his field. Due to professionalism, one can learn from an individual, i.e., one is recognized based on the work one has completed.

The Chinese still tend to conduct business based on their relationships. Accordingly, in the case of important customers, the seller tries to have several company representatives of both business parties interacting so that if some individual left either company, the relationship would continue. Some smaller customers may leave with the company representative. (Executive Vice President, Sales & Marketing, China, Seller Turtle) When the Managing Director changes, the new and previous managers work simultaneously for some time (Managing Director, Seller Turtle).

5.4. Case Relationship White Tiger

The Case Relationship White Tiger is between a Chinese subsidiary of an originally U.S.-based buyer and a Finnish seller. According to NAICS (U.S. Census Bureau, 2010), both companies belong to Division D: Manufacturing (OSHA, 2010). The manner in which the relationship has developed over the years is illustrated by decade, with general thoughts on the relationship and *guanxi* provided at the end.

The Late 1800s, the Early 1900s, and the Mid 1900s

The buyer has a long background as it was established in the late 1800s, when two U.S.-based companies merged into a new one, as depicted in Figure 5-5. The early 1900s were a time of rapid growth for the buyer. The buyer also changed its name during this period. The growth continued into the mid 1900s, when a new plant was built in the U.S.A. The buyer integrated backwards and invested in R&D, which paid off by way of several breakthroughs. Consequently, the commitment to R&D was more substantial. The buyer changed its name again and grew through acquisitions and by building regional plants in the U.S.A to ensure more efficient distribution. The late 1960s brought a structural change to the buyer's organization. In the 1970s, the buyer continued focusing on R&D and acquiring companies in the U.S.A. The buyer was sold to an Anglo-Dutch company. The firms, however, remained as a two-headed multinational enterprise.

The seller has a shorter history as it was established in the 1970s. It immediately expanded internationally and had 17 representative agreements in different countries.

Buyer		Seller
<ul style="list-style-type: none"> U.S.-based companies merge into new company 	Late 1800s	
<ul style="list-style-type: none"> Rapid growth Name change 	Early 1900s	
<ul style="list-style-type: none"> New plant in U.S.A. Backward integration R&D breakthroughs Greater commitment in R&D Name change More acquisitions Regional plants in U.S.A. 	Mid 1900s	
<ul style="list-style-type: none"> Structural change 	Late 1960s	
<ul style="list-style-type: none"> Focus on R&D More acquisitions in U.S.A. Company sold to AngloDutch company 	1970s	<ul style="list-style-type: none"> Company established 17 representative agreements in different countries
<ul style="list-style-type: none"> Economic growth 	1980s	<ul style="list-style-type: none"> Target group broadened Functioning in China through agent High export activity and entrepreneurship noted Company listed
<ul style="list-style-type: none"> Parent company divested, company sold to British company Global expansion, incl. early entry to China 	1990s	<ul style="list-style-type: none"> New product launched Unsuccessful joint venture with Chinese company New business division ISO9001 certificate
<ul style="list-style-type: none"> Financially profitable company, but no more growth 	2000	
<ul style="list-style-type: none"> 9/11 caused global restructuring 	2001	
<ul style="list-style-type: none"> Requests information about seller in China Previous experience of seller in North America and Asia 	2002	<ul style="list-style-type: none"> European company acquired Australasia 8% and Asia 15% of net sales
<ul style="list-style-type: none"> Raw materials price increase Company closes plant in North America and builds plant in China Chinese market aggressive 	2003	<ul style="list-style-type: none"> New office in South America Australasia 11 % and Asia 27% of net sales Provides a quotation, which it modifies as requested by buyer

Figure 5-5. The Development of Case Relationship White Tiger (the items in red depict happenings related to China and those in blue to the relationship between the two).

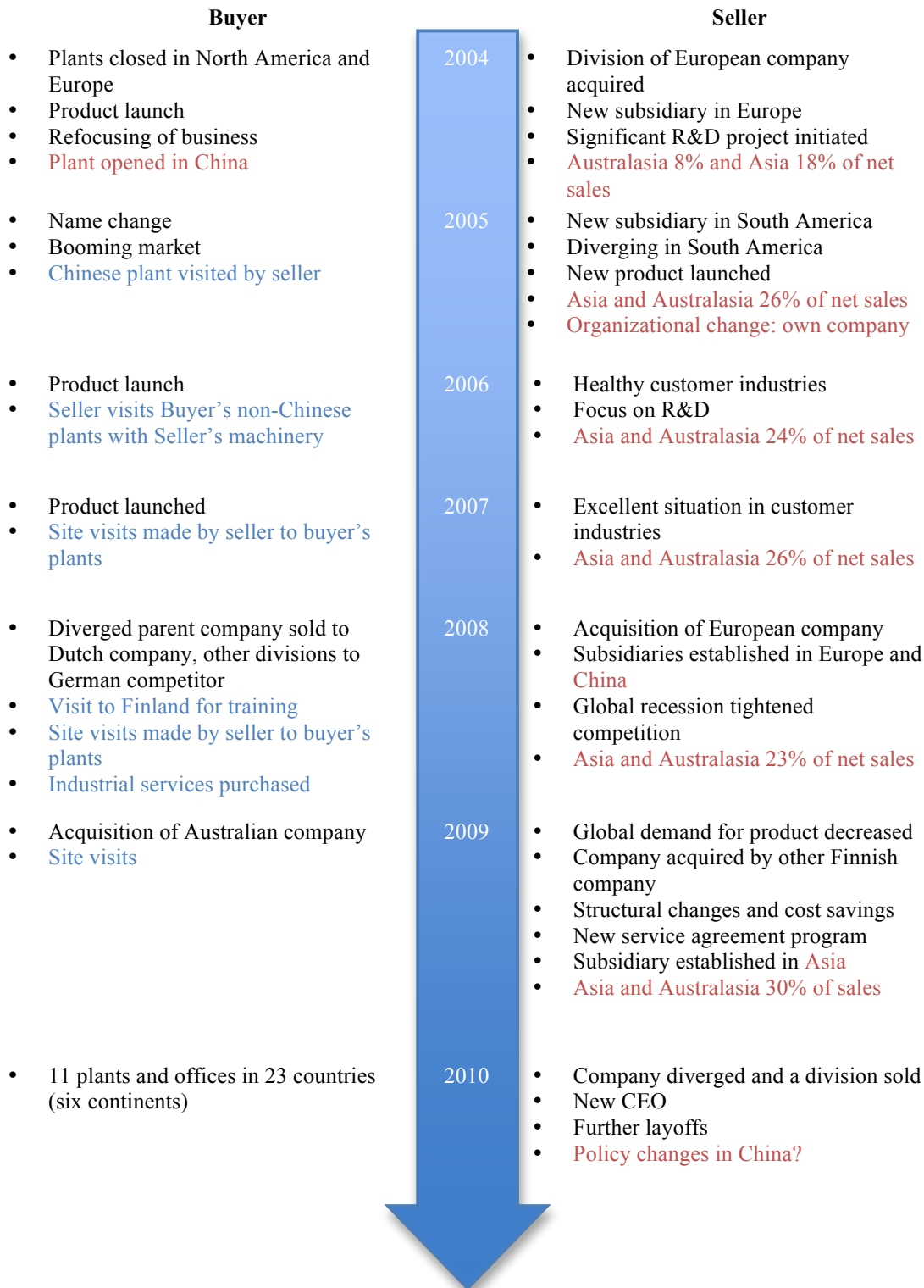


Figure 5-5. *The Development of Case Relationship White Tiger (continued).*

The 1980s

For the buyer, the 1980s were a period of economic growth. The company became a Fortune 500 company at this point. The seller, on the other hand, broadened its target group and product portfolio and, hence, widened its market. In China, the seller

functioned through an agent. The Finnish government noted the seller's export activity as over 80 percent of net sales came from abroad. At this point, the seller was present in 21 countries: in six through subsidiaries and in the remaining 15 through agents. A prize also recognized the entrepreneurial spirit of the seller. The seller was listed.

The 1990s

In the 1990s, the parent company of the buyer was diverged and this division was sold to a British company. The buyer began expanding globally and, for example, entered the Chinese market. The seller continued launching new products. It tried entering the Chinese market through a joint venture, but it failed due to a poor partner choice.¹⁸ The seller, however, continued its international expansion. Exports continued to account for about 80 percent of net sales. The seller had 12 offices overseas. The seller launched a new business division and was certified by the ISO 9001 standard.

The 2000s

In the beginning of the 21st century, the buyer was financially a profitable company, but the economic growth of three decades did not continue. The terrorist attack of 2001 in New York made the buyer implement cost reduction measures, which meant that the global organization was restructured.

In 2002, the buyer requested information about the seller and its activity in China. The buyer and seller had previous experience of each other from North America and Asia as the seller had delivered machinery to two of the buyer's plants. The seller acquired a European company. Asia accounted for 15 percent of net sales for the seller at this point.

The prices of the buyer's raw materials increased in the mid 2000s. This meant that a new climate of input costs arose and the company needed to increase the prices of its products. In 2003, the buyer decided to close plants in North America and begin building one in China as the local market was aggressive.

The seller opened a new office in South America. Asia contributed 27 percent of total net sales to the seller. The seller provided a quotation to the buyer, which was modified as requested by the buyer. There were not many rounds of modifications as the parties were well acquainted with each other and the buyer with the seller's offerings. The buyer decided to purchase certain machinery from the seller. However, the agreement was signed between the parent companies, i.e., the companies based in the U.S.A. and Finland.

¹⁸ Foreign companies could have wholly own companies in China from 1994. Before that they could only form joint ventures with local players or be minor shareholders.

The buyer's Chinese plant opened up in 2004. The buyer, however, needed to further close plants in North America and Europe. The buyer launched a new product and refocused its business. The seller, on the other hand, grew by acquiring a division of a European company in order to provide a wider range of brands and acquired a new subsidiary in Europe. The seller continued its commitment to R&D and began a significant project. Asia accounted for 18 percent of the seller's net sales.

In order to clean its image, the buyer changed its name in 2005. The market was booming. The predicted annual growth rate was ten to 20 percent, with that for China more than seven percent. The seller established a new subsidiary in South America. It also sold unneeded property there. A new product was launched. Asia and Australasia, a new, combined market area, accounted for 26 percent of total net sales of the seller. The Chinese organization was made its own unit, i.e., a new local agent was employed. The seller visited the buyer's Chinese plant in order to ensure that everything was fine with the delivered machinery.

The buyer launched a new product in 2006. The seller's customer industries were healthy with growing consumption of end products mostly in China and in Asia, in general. The seller continued focusing on R&D and began a major project. The seller also launched new products, which modified existing ones. Asia and Australasia accounted for 24 percent of the seller's net sales. The seller made site visits to those of the buyer's plants located outside China, which had the seller's machinery.

The buyer also launched a new product in 2007. An excellent situation existed in the seller's customer industries, especially in China and other Asian countries. Asia and Australasia contributed 26 percent of the seller's net sales. The seller visited the buyer's plants.

The year 2008 held several significant events for the buyer. First of all, the parent company was sold to a Dutch company, which diverged it and sold other divisions of a German competitor of this division. The Dutch company acquired this division due to the Chinese presence. The division accounted for about 25 to 30 percent of the global market.

The seller acquired a European company in order to improve its know-how in a certain field and established subsidiaries in Europe and China. The global recession tightened global competition. The effect of the global recession on China and other parts of Asia was less. This was also true for the buyer's industry. In order to survive the recession, the seller increased its cooperation with its suppliers.

During 2008, representatives from the buyer's organization visited the seller in Finland in order to receive training. The seller reciprocally visited the buyer's plants. The buyer purchased industrial services from the seller.

The buyer acquired an Australian company in 2009 in order to increase its supply capability in Asia-Pacific. The global demand for the seller's products decreased as the amount of new orders went down. The seller was acquired by another Finnish company, on account of which structural changes and cost savings, including lay-offs and plant closures, were decided on. The seller implemented a new service agreement program and established a new subsidiary in China in order to reinforce its presence in the growing market. The subsidiary manufactured and sold the seller's solutions, i.e., both products and technology services. The local presence allowed for improving the service to the local customers by better responding to the customers' needs, by monitoring market development, and creating new applications. Opening a plant in China instead of functioning through an agent, as was formerly done, showed that the seller was committed to the local market for the long-term. In addition, the plant allowed local sourcing for the global market and, hence, increased profitability. "The Chinese customers are happy with the new [local] factory as the delivery time is shorter [...] and the price is lowering. The price is very expensive: ten to 20 times the local one." (Production Manager, Deputy General Manager, Seller White Tiger)

Only half of the plant is currently being used as the production is very project-driven and, therefore, the volume varies greatly. Thus, temporary workers are hired during peaks. Opening the plant in China will diminish the amount sourced from contract manufacturers in Europe.

The majority of the other local employees were already working for the agent for which the implicit know-how could be more efficiently transferred. The agent worked well in the Chinese market and helped with maintaining relationships with the Chinese customers during the establishment of the new representative office and plant.

About ten suppliers provide different modules for the seller's assembly. Each of these suppliers produces such a small part of the end-product that based on the parts, the supplier cannot perceive the final product. Thus, the seller hopes that it can limit the amount of counterfeits in the Chinese market.

Asia and Australasia contributed 30 of total sales for the seller. The seller visited the buyer's sites.

The 2010s

The buyer had 11 plants and offices in 23 countries on six continents in 2010. The seller was diverged and a division was sold. A new CEO was appointed for the seller and further lay-offs occurred. In the future, China may make policy changes which would be beneficial for the seller and increase the demand for its products. In addition, a lot of the machinery in China is old, and as a result, requires technology services. However, attracting customers in need of technology services is difficult as the Chinese players tend to, organize the maintenance by themselves. The locals do not feel the need to

purchase the technology services but instead feel that they should be part of the initial offering. For example, in the case of the buyer, initially, it did not want the service engineers to be local, but to come from Europe. According to the seller, the buyer has noticed that the Chinese service engineers can provide equally good service and be on location quicker. The local service engineers are able to discuss the possible problem areas in the local language and also allow for saving costs as the price of a local service engineer is less than that of one coming from Europe. The availability of these service engineers, however, is still a problem according to the buyer.

General Thoughts on the Relationship, Its Quality, and Future Prospectives

The buyer has only one of the machines produced by the seller at its plant. Therefore, the downtime of the whole plant is basically determined by how well the seller's machinery works. Getting the service engineers is somewhat of a problem as the ones in Finland need to be requested about two to three weeks beforehand. The two local service engineers seem to be quite busy and their know-how is not as expected, i.e., it is at a lower level than that of the Finnish ones. In addition, the Finnish service engineers do not complete the tasks required in the planned time frame. Thus, the buyer needs to pay for the "extra" service time. Hence, now one of the engineers at the buyer's premises is allowed to focus on learning the operation of the seller's machine. The buyer did not need to request maintenance work to be completed by the seller's employees during 2009.

The software with which the seller's machine is run is only in English, which has caused some problems. Usually of the nine employees in a shift, only two to three know how to run the software. Engineering Manager, Buyer White Tiger, does not want the software to be only in Mandarin Chinese but in both English and the local language. The manual for the software is also only in English. Instead of the seller's logo on the machine, a sticker has been attached on which the name of the machine is printed in Mandarin Chinese.

In addition, the competition regarding the products in the market is fierce, and therefore the price is low. The quality of the products that the Chinese competitors produce has improved. There is an increasing number of newcomers in the market. The price competition is fiercer for smaller private companies as they focus more on reducing costs while larger competitors provide offerings with a reasonable profit, so that a win-win situation exists. Hence, the international players have a difficult time in the market and as the competition is becoming fiercer, the foreigners are having an even harder time.

The seller tries to face the fiercer competition by not only selling solutions but also helping their customers by suggesting ways to improve their processes, i.e., the transaction is more consultative than a sales process normally is. The seller provides

feasibility studies for the customers by which it tries to show lifecycle savings instead of only short-term issues. Also, as the salespeople have been the same individuals for quite some time, the customers know the salespeople and are more willing to conduct business with them, i.e., the relationships are more personal now.

The seller tries to keep the employee turnover as low as possible by providing a nice environment in which to work. The company is a smaller, family-based company, which feels like a family within. The employees are given freedom and the employees are willing to help each other. The employees enjoy working for the company even though their salaries are not the highest but instead more in the middle-range. The organizational culture is based more on conversation with annual development discussions. This kind of openness is not common in China, where annual development discussions between bosses and subordinates are not generally held. The employees are trained, when needed. The training can occur at home or abroad. The employees, hence, are allowed to develop themselves and in fact, a yearly development target is agreed upon together with the boss.

Many of the local players in the customer industries of the seller use the seller's products. One of the core competencies of the seller is its wide product portfolio. Due to the local presence, the customers are served in their local language and they can pay with the local currency.

The seller has a positive image in the market. They are known to be a company with good quality offerings and honest representatives. In certain customer industries, the company's name is already known. Some customers are, therefore, willing to pay more for the products.

Because it is a foreign company, even though local salespeople tend to interact with the Chinese customers, some companies still want to meet foreigners. The local salespeople have a good reputation with the customers and trust already exists between the two. The seller, however, has only two expatriates present. Neither expatriate manages the subsidiary or plant nor are they sales representatives. The two expatriates act in administration functions with internal communication responsibilities.

Some foreign companies have been having quality problems at their Chinese plants. In addition, some have also faced problems with delivery times. Simultaneously, the Chinese competitors are improving their delivery times and lowering their prices. Thus, it is more difficult for the seller to compete in the market. The foreign image helps, but the company needs to improve its quality, take better care of its customers, and lower its price. If it does so, it may increase its competitiveness in the market. The company also recently widened its product range as it noted that its niche market was not a large enough market. As a result, the seller changed its strategy and now focuses on a larger target market.

The seller visits its key customers at least bimonthly. During the site visits, the seller gets a better understanding of what is happening with the customer and in the market. The machinery is also checked and a social event, i.e., dinner, is held.

Earlier, the seller also had an industry club. Annually, top members from the industry were invited to participate in an event and always, when the industry club members met, drinks were offered. A newsletter was sent at the end of the year with a small Christmas present. However, this industry club program was ended, which can be considered a big mistake, although it was expensive to maintain.

Every company holds an annual meeting at which the seller gives a presentation. All in all, the seller visits five to six of its main customers' annual meetings. At industry conferences and fairs within a certain customer industry, information is shared quite openly. Now, however, the information sharing is not as transparent as earlier. The buyer, on the other hand, is in such an industry that it does not want its competitors to know that it uses the seller's products.

The buyer does not feel that it is treated as a VIP customer even though it has the seller's machinery at several of its plants worldwide. The buyer is satisfied with the machinery but feels that there may be a lack of trust on the seller's side. For example, when the Finnish service engineers have visited the plant to teach employees how to use the machine, Engineering Manager, Buyer White Tiger, feels that not all was told but that some issues were kept as secrets. Also, there is a language barrier between the Finns and the Chinese. The local service engineers, on the other hand, can better understand the stress that the buyer is facing due to problems related to the machinery. The buyer wants to work closely with the seller's service engineers when they are at location in order to learn more about the machine. Sometimes the buyer has attempted through trial and error to fix the machine and has succeeded even though the company representatives do not fully understand how the machine works. The machine is very sophisticated and complicated as the seller has combined several different fields together into a working package. At least the local service engineers have a good service attitude as they always reply to the buyer. However, the problem cannot always be solved through discussions and, hence, site visits may be necessary. In these cases, the buyer tries to work co-jointly with the seller's representatives in order to learn more about the machine and how it works.

In the buyer's opinion, in order to improve the seller's service in the very beginning when the product is purchased, instruction is important. After one or two years, another training session should be arranged in which issues that require more know-how could be focused on. Therefore, the buyer's representatives could diagnose some problems by themselves and solve them. Currently, as this kind of program does not exist, Engineering Manager, Buyer White Tiger, purposely asks the seller's service engineers

some questions about running the machine in order to learn about it. The service engineers are willing to answer the questions.

Other improvement ideas for the seller include (1) The seller needs to better understand the customers' requirements and the properties of the current machinery before suggesting new upgrades and machinery. (2) The seller should consider abnormal situations as well. The preliminary study should also consider these extreme situations. (3) The service force needs to be strengthened as the seller provides an increasing amount of technology services. Two service engineers are not sufficient, especially if new machinery is being installed because the service engineers need to stay at a location for two to three weeks. Thus, it is difficult for the service engineers to serve other customers during that time. Training local service engineers takes time as they need to understand several different areas. There are many multinational enterprises in China, so it is difficult to find professional service engineers, i.e., there is fierce competition for talented staff. Language skills may also be a problem: where to find a person with good English skills and a strong engineering background? In state-owned enterprises, there are many skilled engineers lacking English skills.

Currently, the buyer cannot accept downtime as the factory is running at full capacity. Spare parts are important; if the buyer does not have the part it needs, it cannot do anything. The seller's machines are of very high technology. The software with which the machine is run is good. No changes to the software have been needed. The local service engineers understand the software well. The buyer has already learned so well about running the machine that its representatives have been able to make some adjustments to the machine to improve its performance.

In China, when a company purchases an expensive piece of machinery, good service is assumed. The seller's machine is very expensive. According to the buyer, the seller sources several parts from suppliers and doubles or triples the price when the parts are sold as spares. However, most of the spare parts are purchased from the seller. The lifecycle of some of the parts is too short: three to six months instead of the promised 12 months. If the lifecycle is that short, the buyer purchases the parts from local suppliers. In these cases, the seller also demands a price two to three times that of local companies even though, in the buyer's opinion, the lifecycle of the product should be longer if the price difference is that great.

The buyer considers there to be some differences between conducting business with the seller and with the local suppliers. (1) If the local supplier cannot solve the problem the buyer has with its machinery, the buyer does not pay for the work the local supplier has conducted. The seller, on the other hand, takes everything very seriously. Sometimes the buyer pays for the service in advance and sometimes after the service has occurred. This does not affect the manner in which the seller performs. (2) Before selling machinery, the local suppliers overpromise. Usually after a contract has been signed, the local

suppliers cannot fulfill all their promises. If the buyer does not take it seriously, the local suppliers will not either. Local and international suppliers need to be closely followed in order for them to fulfill all the items in the contract. (3) The quotation time for the seller may be long. The Europeans have a different working and living rhythm than the Chinese. If the Europeans are on vacation, they will not reply. The Chinese are used to replying to messages as soon as possible and will provide help even if they are on vacation. If the machine is broken, the buyer needs help, even if the European is on vacation.

According to the buyer, the local sales engineers of the seller have not been fully empowered, but they always need to check with the Sales Manager of Asia Pacific, for example, regarding discounts. The buyer thinks that it should be given a clear price system. As the buyer is a global customer of the seller, it should receive a certain discount on everything, which should be clearly known by both parties and stated within invoices and quotations. If the discount is visible, the buyer can trust the seller better. Now, as the situation is different, the buyer does not feel that it can completely trust the seller as the buyer cannot be fully sure whether it is being taken advantage of.

The future of the seller, however, is questionable as it was just acquired by another Finnish company. In the buyer's opinion, the future of the relationship depends on global decisions and the market situation. During 2010, the buyer will possibly modify its line. If the modification is successful, the buyer may expand that part of the production line where the seller's machinery is located. This modification is very critical for the future of the relationship between the two parties. The buyer will test the professionalism of the seller's representatives and the service level before making any modifications or upgrades. During the last quarter of 2009, the seller's machine ran well. The buyer needs to consider the working conditions of the machinery as they are not currently the optimal ones. The seller, on the other hand, believes that the partners will continue to work together in the future. The seller will continue to support the buyer by providing maintenance and spare parts. Both of the parties depend on each other.

The government does not play a big role in the seller's business as it is still such a small player. According to the buyer, there have been some problems with importing products. The government is becoming stricter with import rules due to the Olympic Games and the World Expo, but the seller has not faced these. The seller participates in an annual meeting of trade associations in which information is shared and companies might try to help each other. However, the participation in this event is decreasing and the information sharing is not as open as before due to the fiercer competition.

Guanxi and Its Role in the Relationship and in Business in General

Guanxi still plays an important role in Chinese business. In order to sell something, one needs to sell oneself first. The potential customer needs to accept the seller, or otherwise the customer will not listen, i.e., trust needs to be built first in order for business to be conducted. If not, the prospective business partner thinks the other company is only giving false promises and cannot be trusted. People need to be treated in an honorable manner. After the potential business partner has judged the other to be a good person with a good reputation, the customer is introduced to the products and more people participate in the relationship. The initial contacts need to remain communicating as friends. One needs to supply something to the customers, i.e., dinners need to be held. Only after socializing is one truly a friend.

The relationship needs to benefit both. The benefit may come from the offering due to, for example, its quality or good price. The relationship needs to cater to both organizational and personal needs. The needs will be different for people in various functions, e.g., the project manager will want the project to finish on time and the financial people the costs kept. Hence, business is more between people than organizations. It is not sufficient to have a good product, but one needs to convince the potential business partner, which can be done through a strong relationship. Trust between the two parties needs to exist. On the other hand, it is not enough to have good relationships with potential customers, but one also needs to have a good product with required features. One needs to know how to sell the product as well.

There are no significant differences between the relationships that the seller has with local companies and that it has with the buyer. Information may be exchanged and when in need of help, both may contact each other.

In China, however, the local customers have problems with maintaining the products of the seller in good condition. Maintenance is very important, but the locals do not always follow the guidelines they are provided. This may create conflicts within the relationship. Also, not providing free spare parts and maintenance services does not always satisfy the local customers. In China, more resources need to be spent in training the customers to understand why the machinery should be kept in good condition. This is different from the situation in Europe.

Normally, the customers need to pay first for their products and service before receiving them. Usually contracts are signed between the seller and its customers. The seller is flexible and may arrange the contract quickly through faxes. In these cases, the seller does not always wait for the payment to be received before providing the offering. However, if the key customer does not pay for the offering during the next six weeks, they will not be treated as flexibly in the future. Having a buffer stock at the Chinese plant has helped to serve the customers. According to the buyer, the availability of spare

parts is still lacking and they are expensive. Some spare parts still need to be sent from Finland. If the spare parts are sent from Finland, the customers need to pay in euros and it may take some time to exchange yuans into euros. Often, local competitors provide even very expensive machinery without receiving payments first due to guanxi.

Compare this relationship with another relationship the seller has with a local company which has already purchased two machines, one in 1997 and another in 2001. The third machine purchase process started in October 2007. The negotiations were fierce and the quotation was modified at least four times. In October 2008, everything was agreed upon. However, due to the financial crisis, the project was frozen. Negotiations were begun again in the beginning of 2009. The order was finally signed in May 2009. The time it took for this order to be completed is longer compared to the case of Buyer White Tiger. However, the financial crisis had affected the order period. The amount of modifications needed to be made and the resources allocated to finalizing the order were larger in amount compared to the negotiations held with Buyer White Tiger.

5.5. A Summary of the Four Case Relationships

The case relationships exist between four buyers and four sellers of which all are present in the Chinese market. All of the companies belong to Division D: Manufacturing (OSHA, 2010) of the North American Industry Classification System (U.S. Census Bureau, 2010).

(1) Case Relationship Dragon is between a Sino-British joint venture (JV) buyer and a Finnish seller. Currently, the British parent company in the JV is a minor shareholder. The buyer built its first plant in China in 1996 to which the seller supplied one third of a certain kind of machinery. Several other divisions of the companies also interact. The relationship has had its up and downs. The future of the relationship looks quite fruitful in at least the higher end of the market.

(2) Case Relationship Red Bird is between a Hongkongese buyer and a Finnish seller. The companies began their relationship in 1999 through small cooperation. At that point, the Finnish company was still a minor shareholder of a JV with an Asian company. However, a year later, the seller acquired the major shareholder's part of the JV. The relationship between the two has been one of learning and sharing information about how to conduct business in mainland China. Along the way small issues have risen, but all of these problems have been overcome. The future of the relationship looks positive.

(3) Case Relationship Turtle is between a Chinese distributor as the buyer and a Finnish seller. The Director of the Chinese distributor is a former salesperson for the seller, who left the seller's organization in 2006 and joined the distributor in 2007. Hence, the Director of the distributor was the one who was first introduced to the seller. The

relationship between the two has been truly bumpy and the future looks somewhat uncertain.

(4) Case Relationship White Tiger is between a Chinese subsidiary of an originally U.S.-based parent as the buyer and a Finnish seller. The relationship between the two is international with the buyer having the seller's products at each of its production facilities. Hence, not only the representatives of the companies located in China but also the representatives from the headquarters and the different plants are in contact. The relationship at the Chinese location is at a somewhat critical stage as its future to some extent will be determined soon.

All of the sellers act in the higher end of the market and try to create demand for their products through the quality, consistency, and technology services available. The environmental issues and their increasing importance in China through, for example, regulations should increase the sellers' customer market potentials and potentially also market share.

Relationships still play an important role in China. Especially in traditional industries and outside the more urbanized and westernized centers, one should first develop a personal relationship with the potential customer before discussing business and possibly interacting within a relationship at the organizational level. However, the importance of relationships is noted also around the world as it is easier to conduct business with individuals whom one knows and respects instead of strangers.

In China, it is important to cultivate relationships not only within the business context but also with governmental officials in order to ensure that business may continue, especially in a way which is beneficial for both the company and the government. The relationships help to gain information about certain issues before others do. Also, industrial associations are good sources for information.

When conducting business in China, one needs to meet with the top customer or seller bimonthly or at least biannually. Dinners are common ways to help to cultivate relations as one discusses both business-related issues and other matters. Alcohol is consumed, for which one needs to have quite good endurance.

6. ANALYSIS

6.1. The Development of the Case Relationships and the Role of Guanxi

The Development of the Case Relationships

The ways in which the Case relationships began differ. The seller initiated two of the four relationships while the Director of Buyer Turtle became acquainted with Seller Turtle before contacting the company and joining the organization and Buyer White Tiger requested information about Seller White Tiger's activity in China as the parties had already conducted business globally.

The reasons for which the sellers contacted the prospective business partners also differ to some extent. Seller Dragon considered Buyer Dragon a must relationship, which to some degree made the market the buyer's (Alajoutsijärvi, 1996; Campbell, 1985) and Seller Red Bird thought Buyer Red Bird was strategically a good choice with which to partner as both could learn about the mainland Chinese market, i.e., through a domesticated market, the companies aimed at working together in order to understand the mainland market (ibid.). This allowed a relationship to begin and move into a more cooperative direction, especially as both parties were willing to work together to learn about the mainland market (Alajoutsijärvi, 1996). In Case Relationship Red Bird, one reason for the companies to interact, as Ford, Håkansson, and Johanson (1986) suggest that there must always be one, is the mutual learning and the benefits that can be gained.

Both Buyer Dragon and Buyer Red Bird, however, were more westernized companies having been influenced by the British business culture. Buyer Dragon, being a joint venture (JV), had a British company as the other parent and Buyer Red Bird was based in Hong Kong, which at that time was still under British rule. This made contacting the companies easier as both were more internationally experienced and the language barrier between the companies was lower, i.e., the representatives of both companies spoke English. Both of the companies were also big players which were known to be honorable, i.e., to have integrity (Leung, Heung, and Wong, 2008), and to respect the higher end of the product range. Both Buyer Dragon and Buyer Red Bird can be considered to be tomorrow's customers, i.e., strategic resources (Campbell and Cunningham, 1983), for Seller Dragon and Seller Red Bird, respectively, with which they needed to develop relations in the Chinese market in order to succeed in the future.

All of the Finnish sellers provide higher end products, for which they need to find buyers who value more sophisticated offerings. This can be considered one reason for

the case buyers to interact with the case sellers, as suggested by Ford, Håkansson, and Johanson (1986).

When the two sellers contacted the two potential buyers, neither of the buyers was acquainted with the sellers, i.e., they were strangers and, hence, belonged to the tertiary network (Kaunonen, Polsa, and Fan, 2010) and could be considered outsiders (Bond and Hwang, 1986; Wong, 1998a) even though both of the sellers were internationally known companies. During this time, Chinese companies had difficulties finding information about foreign companies. However, the internationality of the companies could have helped the companies to choose to interact with each other (Ford, Håkansson, and Johanson, 1986). Currently, information gathering about foreign companies is easier due to the Internet. The information that the sellers had of the buyers was also quite limited.

When the Director of Buyer Turtle took Seller Turtle's leaflet at a trade fair, his knowledge of the company was also limited. He used his *guanxi* network to find out more information about the company. He also utilized this network to get the opportunity to join the seller's organization as his friend was working for the company. When the salesman was asked to leave the seller's organization and he joined the distributor since the representatives of the companies were acquainted with each other, the Seller asked the distributor to outrun its organization by establishing a distribution network. In this way, it was the seller who contacted the buyer in order to conduct business together. In a sense, the seller needed the buyer in order to develop a distribution network. On the other hand, the buyer needed to conduct business with the seller in order to use the competitive advantage that it had, i.e., the expertise in the seller's offerings. Hence, in a way the situation could be considered to be a domesticated market in which the buyer tries to help the seller differentiate its products and the companies cooperate to ensure that the business in China will grow, a win-win situation for both (Campbell, 1985). As both parties are ready to invest in the relationship, it should mean that the relationship between the actors is highly cooperative (Alajoutsijärvi, 1996). As the parties were already acquainted with each other, they could be considered to be associates (Bond and Hwang, 1986; Wong, 1998a) and Buyer Turtle was already somewhat emotionally attached to Seller Turtle and, therefore, the organizations could be considered to have been "friends" (Kaunonen, Polsa, and Fan, 2010).

Buyer White Tiger, on the other hand, was already acquainted with Seller White Tiger, i.e., being part of each others' secondary network and to some degree emotionally attached to each other (Kaunonen, Polsa, and Fan, 2010). Buyer White Tiger was the seller's special customer of today globally, i.e., the companies were used to working with each other on the projects of a certain area, but it was not tomorrow's customer in China (Campbell and Cunningham), as they did not have sufficient information about the activities of the seller in China. The past positive experiences in the relationship

allowed the relationship to be cooperative (Alajoutsijärvi, 1996). Hence, the buyer contacted the seller related to the Chinese operations in order to possibly purchase machinery for the new plant being built in China. Buyer White Tiger's making the first contact ensures that the relationship is cooperative (ibid.). As the parties were already acquainted with each other, the different divisions knew whom to contact. Familiarity can be considered to be a reason for interaction to occur in this case (Ford, Håkansson, and Johanson, 1986). The initial contact, however, was not made by the Chinese subsidiaries, but instead the headquarters of the companies were in contact. This situation may also be considered a domesticated market in the sense that the companies are used to cooperating at a global level (Campbell, 1985).

After the prospective business parties were contacted, they needed to be attracted in order for the parties to invest their scarce resources into cultivating the particular relationship (Håkansson and Snehota, 1998). Often, even though information was rarely available before the Internet was widely spread, being an internationally known and appreciated player helped to attract the local player, i.e., the companies almost automatically were known to have integrity in their dealings (Leung, Heung, and Wong, 2008). International companies tend to produce better quality products in a more consistent manner (i.e., the characteristic of *supply performance capability* (Cunningham and Homse, 1986)), which the potential Chinese-based buyers value and which affects their decision of potential interaction partners (Ford, Håkansson, and Johanson, 1986). However, being an international player is not sufficient, but instead one needs to have local presence, preferably through at least one plant. This shows that the foreign enterprise is serious about the market and is not just there to milk it. Hence, the buyer can be assured that they will easily receive help in the future, i.e., technology services can be purchased locally. Through their investments, foreigners show their position as wisers (Leung, Heung, and Wong, 2008; Leung and Wong, 2001).

After the parties get better acquainted with each other and negotiations are held, first orders can be made. The manner in which the first order is completed is very crucial, as this may determine the cooperativeness within the relationship (Alajoutsijärvi, 1996). According to Buyer Red Bird, the first order tells more about the seller than the negotiation round can. During the first order, the parties learn about the practices of the other, e.g., of mutuality (Ford, Håkansson, and Johanson, 1986) and how well they treat their customers and follow the contract, i.e., the integrity of the company (Leung, Heung, and Wong, 2008). In order to guarantee future interaction (Ford, Håkansson, and Johanson, 1986), the relational partner needs to be taken care of at least at the level that they can expect to occur if competition exists.

After the first orders have been completed, the parties continue to develop their relationships. Due to the performance of the first order, the trust level between the parties has improved and the communication has opened. In order for the relationships to develop in the future, they need to be maintained, i.e., the harmony within the

relationships needs to be preserved (Leung, Heung, and Wong, 2008). To cultivate the relationships, the companies meet at least biannually. The frequency of business meetings for Case Relationship Dragon and Case Relationship White Tiger is determined by whether negotiations are being held. When projects and quotations are being discussed, the company representatives meet more often. In addition, demos may be held. Inviting the buyers' representatives to Finland to show the premises and headquarters is a display of trust and commitment to the relationship. Hence, Seller Dragon, Seller Red Bird, and Seller White Tiger have invited their respective buyers to Finland. During the visits to Finland, training has also been provided. This shows that these sellers are ready to develop the relationship further and ensure that the buyers become today's special or regular customers (Campbell and Cunningham, 1983), so that the revenue that the buyers bring would increase.

In the case of Case Relationship Red Bird, the representatives of the companies at the operational level meet daily, i.e., the frequency of interpersonal contacts is extremely high (Cunningham and Homse, 1986). The top management boards, however, meet at least biannually. According to the recipients, the best way for developing the relationship is to meet over events that are both business and social by nature, i.e., over dinner. Golf is also somewhat gaining popularity in mainland China, but events that are common in Europe do not yet work in China. Inviting buyers to events that show the importance of China globally, e.g., the Olympics of 2008 in Beijing and the first Formula 1 race in Shanghai in 2004, are also a good way to show both the significance that the buyer has for the seller and the respect that the seller has for the culture of China and how the nation has modernized. The manner in which the relational actors treat each other may also affect the future of the relationship and act as a reason to continue interacting (Ford, Håkansson, and Johanson, 1986) as it demonstrates the integrity of the relational actor (Leung, Heung, and Wong, 2008).

The parties within a relationship do not always have to be active with each other, i.e., the frequency of interpersonal contacts does not always need to be high (Cunningham and Homse, 1986). Sometimes quieter periods occur. For example, in Case Relationship Dragon such a period occurred from 2000 to 2002. During this time only other divisions from the companies were actively in contact, but these two particular divisions of the companies were not. This can be considered as a somewhat positive situation as this means that at least nothing bad is happening in the relationship and that the machinery is functioning well, i.e., that the harmony in the relationship was maintained (Leung, Heung, and Wong, 2008). However, as the relationship is not in an active stage, the buyer does not necessarily receive all the necessary support that it could gain if the parties were actively involved. The seller, on the other hand, might not hear all the possible needs of the buyer early enough, i.e., the seller's competitor could win a project over the seller. At this point, the buyer is somewhat tending to a yesterday's customer, i.e., their sales volume is quite small and they receive little or no services. The seller continues to cater to the needs to the buyer, but it may do it unenthusiastically.

(Campbell and Cunningham, 1983) This, however, cannot be considered in the case of Seller Dragon, who still valued Buyer Dragon even though little business was taking place, i.e., although activities within the relationships did not occur, both parties maintained their integrity, belief in the relationship and its continuation, and their positions (Leung, Heung, and Wong, 2008).

General Thoughts on the Case Relationships, Their Quality, and Future Prospectives

The relationships between the organizations have somewhat personified. For example, Seller Dragon feels that the relationship with Buyer Dragon could be terminated if the General Manager of the buyer left the company. Assistant Factory Manager, Buyer Dragon, however, has somewhat a dissenting opinion and feels that the relationship would continue even if the General Manager left the company. The relationship between the top management teams of Buyer Red Bird and Seller Red Bird has also personified. Even though some of the CEOs of the seller have retired, the representatives of the companies continue to maintain a personal relationship, i.e., are friends (Kaunonen, Polsa, and Fan, 2010). In the case of Buyer Turtle, this is somewhat different. The Director of Buyer Turtle is personally attached to Seller Turtle as he used to work for the company and, therefore, his knowledge of the seller's products is also impressive, i.e., the ties are not instrumental but also emotional (ibid.). The relationship between Buyer White Tiger and Seller White Tiger is not so personified in China, which may be due to the negotiations being handled mainly by company representatives outside of China. Thus, the representatives located in China are not yet so acquainted with each other that a truly personal relationship could exist. The Chinese subsidiaries of the companies are associated with each other and the friendliness between the two is somewhat given or even forced (ibid.). The personification within the relationships allows the parties to be more emotionally connected to the other and the relationship as a whole, which improves the cooperativeness within the relationship (Alajoutsijärvi, 1996).

As relationships do not exist only at the organizational level, it is important to manage the transition period well, when, for example, an expatriate returns to her or his home country and another person replaces this individual. Otherwise, the companies may decide not to continue interacting with each other (Ford, Håkansson, and Johanson, 1986). Generally, the studied companies have completed this task well. The expatriates have been located in the same position simultaneously for approximately half a year during which the returning individual has introduced the newcomer to the buyers. This allows for the new individual to be accepted into at least a company's secondary network as an associate with both instrumental and emotional ties (Kaunonen, Polsa, and Fan, 2010).

The duration of the expatriate in China should be around three to five years. During the first two years, the representative just scratches the surface of the business culture and

language. Understanding the business culture and learning the language in China is highly important as many of the local managers do not have sufficient English skills. A relationship cannot blossom to its fullest potential, i.e., the ties can never become fully emotional, and the individuals may not become insiders within each other's networks nor part of the primary or secondary network (ibid.) if a translator needs to be used. In these cases, the seller is not just a phone call away and, therefore, the ease in participating in a relationship cannot be at the level it could be. In addition, the trust level can never develop over a certain limit as there will always exist at least some suspicion about what the other is saying. Thus, the Vice President, Sales and Service, Seller Dragon, suggests that when sending an expatriate to China, she or he should be allowed to get acquainted with the business culture and language for half a year before beginning the position. Allowing a company representative to learn the local culture and language also shows that the company is internationally minded and, hence, truly customer-oriented (Cunningham and Homse, 1986), which may ensure that the relationship will continue developing or be maintained (Ford, Håkansson, and Johanson, 1986).

The importance of the language skills has been somewhat forgotten in the case of software or interfaces. For example, the software with which the machine of Seller White Tiger owned by Buyer White Tiger is run is only available in English. The instructions are also only available in English, i.e., the sellers have not been sufficiently adapting their offerings (Cunningham and Homse, 1986). If the competitors consider language, the relationship may become troubled as the seller perhaps is not completing its offerings as expected (Ford, Håkansson, and Johanson, 1986). This has caused some problems for the buyer as, generally, the company representatives running the machine do not have sufficient English skills. Only two to three of the individuals in each shift know how to run the machine. Engineering Manager, Buyer White Tiger, however, feels that in the future, it would be good if the program could be run in both English and Mandarin Chinese.

At Seller Turtle's plant, quality control software is available only in English since the information gathered during this subprocess of the production is used at an international level. Otherwise, the software has been translated into Mandarin Chinese. The local employees at the production level receive their work-related training in both Mandarin Chinese and English, because of which they should be able to manage with only English quality control.

The continuation of the relationships is also guaranteed by having several individuals functioning in them, i.e., using a multi-status, multi-functional, and multi-level contact strategy (Cunningham and Homse, 1986). Therefore, if personal conflicts arise or a representative leaves the company, the relationship may continue as before. Possibly, new representatives may be named to the positions if a personal conflict exists in order to ensure the relationship to harmonize (Leung, Heung, and Wong, 2009). Therefore,

the organizational structure needs to be designed in such a way that it functions well and the contact pattern needs to be somewhat coordinated by both the purchasing department of the buyer and the marketing department of the seller (Cunningham and Homse, 1986), a fact which is true for all the case relationships. It is important to clarify each individual's role in the relationship so that both companies know whom to contact regarding certain issues because many representatives are working simultaneously in the relationship and different company representatives have different expectations of the relationship (Ford, Håkansson, and Johanson, 1986; Håkansson and Snehota, 1998) depending, e.g., on one's function. As several company representatives are taking part to the firm-level relationship, this means that the buyers need to be today's special or regular customers or yesterday's customers, meaning that they provide a certain amount of the total sales revenue and trust between the parties exists to some degree (Campbell and Cunningham, 1983).

However, even though relationships play an important role in the Chinese business culture, they are not sufficient. The products that the seller provides need to consistently be of good quality, i.e., the sellers need to demonstrate their *supply capability* (Cunningham and Homse, 1986). The sellers need to fulfill all the items within contracts, i.e., they should not act as bravers (Leung and Wong, 2001). This shows respect towards the buyer and, hence, may create trust and ensure the longevity of the relationship (Ford, Håkansson, and Johanson, 1986). The sellers, being in the higher end of the market, try not to participate in the fierce price competition occurring in China, even though Cunningham and Homse (1986) suggest they should do this. Instead, the sellers provide auxiliary services, which can increase the value of the offering without lowering the price. It is also in the seller's advantage to train the buyers about quality issues. The local buyers tend to manage their machinery poorly, because of which it does not last as long as it does in Finland. The short lifecycle of the products negatively affects the image of the seller and, hence, may lead to losing potential orders, i.e., the relational harmony is affected (Leung, Heung, and Wong, 2008). It should be noted that in the end, the result is somewhat more important than the process (Faure and Fang, 2008), i.e., the offering needs to be of at least expected quality and the delivery on time. One should maintain one's position as a wiser and not act as a braver, i.e., one should not overpromise (Leung and Wong, 2001).

It is important to have production in China. As this shows to the buyer that the seller is truly committed to the market and, hence, the buyer can trust that the seller is participating in the relationship for the long-term, i.e., the sellers need to be sensitive to the buyers' needs and wants and willing to adapt to them (Cunningham and Homse, 1986) to ensure a more fruitful relationship (Ford, Håkansson, and Johanson, 1986). According to Buyer Dragon and Buyer White Tiger, however, the products of the respective sellers which are manufactured in China are not of the same quality standard as those from Finland, i.e., the respective sellers have somewhat overpromised and, therefore, acted as bravers (Leung and Wong, 2001). Hence, the buyers suggest that the

sellers' employees should be trained more in order to guarantee consistent quality across the globe, i.e., the *supply capability* needs to be universal (Cunningham and Homse, 1986).

For the plants that all of the Finnish sellers have in China, the sourcing is divided to local suppliers in such a way that they do not gain too much information about the technology used within the sellers' products. The most sophisticated part, which is related to the core competence of the company, is still usually imported from Europe for Seller Dragon, Seller Turtle, and Seller White Tiger. This, however, is not only because they wish to limit counterfeits and reverse engineering, but also because the parts tend to be so sophisticated that they cannot be found in China, at least at the necessary or desired quality level. In the case of Seller Red Bird, the quality of the local raw material needed in production is not as high as required nor can it be produced in China. As a result, the company needs to import raw material from other parts of Asia, Europe, and South America.

In China, the focus has changed from only producing to also innovating locally (Faure and Fang, 2008). Therefore, now it is even important to have local R&D centers as the needs of the Chinese and more generally Asian customers differ drastically from those in Europe, i.e., the sellers need to be willing and able to adapt to the local customers' needs and wants (Cunningham and Homse, 1986). Therefore, Seller Dragon, Seller Red Bird, and Seller Turtle have R&D functions in China. However, in order to stay secured, i.e., to ensure that as few counterfeits as possible are produced, the companies have divided the R&D tasks into very small, specialist tasks. Therefore, one local employee knows only the required information for a task without knowing too much about the product and the technology used within it.

Even though all of the sellers have plants in China, the organizational culture is a mixture between the Finnish and the local cultures. The salespeople also act in a manner somewhat based on a mixed business culture. For example, due to the trust (*xinren*; Kriz, 2009) related to one's *guanxi* network and the fear of losing face, it is typical in China to provide spare parts to a buyer if a machine has broken down. The sellers, however, have not implemented this practice even though Cunningham and Homse (1986) suggest it should be done. Instead, the sellers require the buyers to pay for their purchases beforehand, i.e., in the relationship, the level of *xinren* is low or *xinren* is non-existing (Kriz, 2009). However, as the sellers are locally established, the buyers may now pay for their orders with local currency instead of having to exchange into euros, which would delay their orders, i.e., the sellers have acted according to their positions as wisers by investing in the relationship by creating benefits for the other even though they may have to sacrifice something themselves (Leung and Wong, 2001). Not being allowed to purchase items with credit illustrates a lack of trust to the Chinese counterparts.

The situation in Case Relationship Red Bird is different as the buyer pays its monthly invoices after receiving the shipments from the seller. The situation in the relationship differs from the other case relationships because the buyer is Hongkongese and the orders occur at a constant rate, i.e., monthly, instead of the buyer purchasing, for example, spare parts and maintenance work at a more random rate. Thus, the relational harmony (Leung, Heung, and Wong, 2008) is different in Case Relationship Red Bird compared to the others. As the companies are heavily in contact, Buyer Red Bird can be classified as today's special customer of Seller Red Bird, meaning that the relationship is established and the parties are committed to continually improve the relationship, e.g., through the daily, weekly, monthly, and (bi)annual meetings (Campbell and Cunningham, 1983). The cooperative actions increase the general level of cooperativeness within the relationship (Alajoutsijärvi, 1996) and, hence, strengthen the relationship. The companies have adapted to each other's needs and Seller Red Bird tries to serve Buyer Red Bird in the best way it can. The trust between the parties is high. (Campbell and Cunningham, 1983)

Both Buyer Dragon and Buyer White Tiger also feel that the local service engineers are not empowered enough or that they lack knowledge so that they cannot perform all the maintenance work that the Finnish service engineers may. The sales force may also have limited rights and need to check issues with Sales Managers. For example, in the case of Buyer Dragon and Seller Dragon, before a local General Manager was employed, the representatives of the buyer could get bounced from one of the seller's representatives to another over the phone as none of the representatives was empowered to perform or promise the action they wished. Currently, the representatives know that the Key Account Manager, i.e., the General Manager, will take care of the issue, meaning the contact is more coordinated on the marketing side of the Seller (Cunningham and Homse, 1986) and the relational harmony has improved (Leung, Heung, and Wong, 2008).

None of the relationships have been smooth, but instead they have faced some bumps, i.e., the relational harmony (ibid.) has been affected during the course of the relationships. (1) In Case Relationship Dragon, the major troubled period occurred in 2006, when the parties almost failed to agree on the price and contents of a purchase/sale. Also, the period after this contract was signed and the order was being received/delivered was troublesome. During this period, even though it was the buyer's market in the sense that the buyer put out tenders and played the market and the seller was forced to try to obtain the lowest cost possible, the companies still wanted to work together and find a win-win solution, which would suggest a domesticated market (Campbell, 1985). The flexibility of Seller Dragon shows its willingness for mutuality in the relationship (Ford, Håkansson, and Johanson, 1986) and its position as a wiser who is willing to sacrifice for the common good (Leung and Wong, 2001).

(2) The major problems that Buyer Red Bird and Seller Red Bird have faced have concerned the dirty practices of some of the seller's representatives in the beginning of the relationship and now as the buyer is fiercely entering the markets of the seller's other customers. Hence, the integrity (Leung, Heung, and Wong, 2008) of Seller Red Bird in other customers' eyes has been affected by the actions of Buyer Red Bird.

(3) Case Relationship Turtle appears quite troubled. The different representatives interviewed have very different opinions about the future of the relationship and how the other should conduct their business. It seems that the relationship is somewhat lacking in trust and the business cultures of the two are quite different, i.e., relational harmony does not exist within the relationship (ibid.). It seems that the buyer views the market being a subcontract one, i.e., one in which the buyer educates the seller while the seller sees the market as a captive one, in which the seller needs to educate the buyer (Campbell, 1985).

(4) Buyer White Tiger and Seller White Tiger have faced much smaller problems. The main issues have occurred due to the lack of service and the manner in which the service engineers perform during site visits. The buyer feels that the seller is not always as open as it could be, i.e., there exists a problem with the breadth of contact (Cunningham and Homse, 1986) and the positioning (Leung, Heung, and Wong, 2008) of Seller White Tiger.

In order to overcome these problems, Buyer Dragon and Seller Dragon have worked together and been flexible as should be done, according to Cunningham and Homse (1986), which has allowed the relationship to become more cooperative (Alajoutsijärvi, 1996) and the relational harmony to be balanced (Leung, Heung, and Wong, 2008). As the relationship between Buyer Red Bird and Seller Red Bird is very open, i.e., both negative and positive issues can be discussed, the parties have been able to tell the other when certain more harmful issues have occurred. The other has then quickly corrected its practices to better satisfy its business partner and to maintain relational harmony (ibid.). Both of these strategies suggest domesticated markets, in which the companies are flexible and want to work with each other (Campbell, 1985).

Currently, the future of the relationships is somewhat open for all except Case Relationship Red Bird. Buyer Red Bird considers the relationship a marriage in which divorce is not an option in the near future. The parties are well acquainted with each other and share common goals, i.e., the degree of mutuality is high and, hence, the mutuality can actually be taken for granted in the relationship (Ford, Håkansson, and Johanson, 1986). The relational atmosphere, thus, allows for social integration (Cunningham and Homse, 1986) and open communication (Ford, Håkansson, and Johanson, 1986), i.e., the relationship is harmonious (Leung, Heung, and Wong, 2008). The relationship is already very refined and the switching costs for the buyer would be so high that it would be almost impossible to terminate the relationship. This further

shows the special role Buyer Red Bird and Seller Red Bird play for each other. The companies, however, need to be careful with their future actions so that the level of mutuality is not harmed and, therefore, the whole relationship and trust within the relationship are not scarred at a too significant degree (Ford, Håkansson, and Johanson, 1986), i.e., that the relational harmony is not interrupted too much (Leung, Heung, and Wong, 2008). The companies need to be careful that the situation does not lead to that of deliberate termination (Geersbro and Ritter, 2009; 2010; Ritter and Geersbro, 2010). However, currently this seems somewhat unlikely, i.e., the relationship is not seen as a burden (Håkansson and Snehota, 1998).

The futures of the other case relationships depend on the actions of the relational parties and how they interact in the future in order to learn the wants and needs of the relational partner (Ford, Håkansson, and Johanson, 1986) as well as on the relational history as both parties have different views of the past (Håkansson and Snehota, 1998). Buyer Dragon might change its strategy and focus more on the lower end of the product range, in which case it will not need Seller Dragon's machinery anymore. This would make the relationship more competitive (Alajoutsijärvi, 1996). However, technology services would still be required for the existing machinery even though new machinery would not be purchased in the near future. In addition, the other divisions of the companies may continue conducting business with each other. In order for the relationship to continue, the parties need to find harmony within it (Leung, Heung, and Wong, 2008).

According to Seller Turtle, Buyer Turtle needs to invest more in attracting new customers and targeting new markets. The current strategy of Buyer Turtle is not one that Seller Turtle appreciates. On the other hand, the buyer is disappointed with how the seller treats its distributors. Case Relationship Turtle has somewhat become more competitive as the buyer feels threatened by the other distributors, especially as it thinks that the seller is trying to heavily strengthen its relationship with another distributor close to the seller's premises (Alajoutsijärvi, 1996), i.e., the relationship is not harmonious at the moment (Leung, Heung, and Wong, 2008). However, as the buyer is one of the best distributors of the seller, the relationship will probably continue at least in the near future. This troublesome relationship not only affects the relational actors, but also due to particularity, may affect the customers of both Buyer Turtle and Seller Turtle and other distributors (Ford, Håkansson, and Johanson, 1986), as it apparently already has. Other distributors are in contact with Buyer Turtle, who has discussed with them its situation and the issues it considers unfair. Buyer Turtle feels that it should be treated similarly to the distributor situated close to the premises of Seller Turtle. Thus, the companies need to evaluate how to ensure that the affect of the environment does not end up being too significant. The relational actors need to redetermine their positioning in the relationship (Leung and Wong, 2001) and what they are willing to do to make the relationship harmonious again without losing their integrity (Leung, Heung, and Wong, 2008).

The future of Case Relationship White Tiger depends on how well the seller performs. The buyer is currently planning an addition to its production line in China. If this goes well, there might be a possibility that the buyer will also increase its production capability in the production line in which the seller's machinery is located. The choice of the machinery at this point will be determined on how well the seller's current machine at the plant performs and how well the seller provides service to the buyer. Most probably, the relationship will continue at least at some level, i.e., globally the seller will provide technology services. The future of the seller, as such, is also questionable as another Finnish company has acquired and diverged it.

In general, the future for the higher end of the markets, in which the buyers and sellers function, looks more positive as the Chinese government is increasingly worried about environmental issues and, hence, new environmental policies are being put in effect. The higher end products tend to be more environmentally friendly. In addition, some of the sellers have products which allow energy savings.

The sellers will continue to use agents or distributors in the future. For example, Seller Dragon sells investment products while the smaller scale offerings continue to be sold through an agent. Seller Turtle has a similar strategy. It aims to develop its distribution strategy in such a way that it would cater to the needs of the larger customers in the future while its distributors would focus on the smaller customers. Hence, the existing relationships between the distributors and the smaller customers would be maintained as connections which still hold such an important role in Chinese business life. These strategies also allow the seller to focus on their core competencies and core customers without treating the others badly.

Guanxi and Its Role in the Case Relationships and in Business in General

The manner in which the interviewees see guanxi differs. According to the individuals from the Greater Shanghai area, guanxi does not play such a big role in the regional business culture as this is more influenced by the Western mentality and practices, i.e., the company's profitability has a major role when determining one's strategy and actions. Faure and Fang (2008) also noted that in the coastal more westernized areas the significance of guanxi has declined and been replaced more by professionalism. However, guanxi may still have a more significant role in other parts of China. Companies and individuals need to balance professionalism with guanxi (ibid.; Wright, Szeto, and Cheng, 2002). Companies need to maintain good relationships, i.e., guanxi, with their business partners in order to guarantee a prospective future, but they should do this in a professional manner without practicing the dark side of guanxi and instead maintaining transparency, i.e., the companies need to maintain their integrity (Leung, Heung, and Wong, 2008). This is already required by the bourses.

Basically, for *guanxi* to exist, there needs to be at least two parties interacting in a relationship, as always in interaction (Ford, Håkansson, and Johanson, 1986). Both of the parties need to participate in the relationship, i.e., it may not be one-sided. Initially, *guanxi* may only exist at the individual level, but the parties may transfer it to the organizational level. For an industrial buyer-seller relationship to be successful, both of the *guanxi* levels are required.

Guanxi is a dynamic issue. One can move within one's *guanxi* network like a spider in its web. The movement within the network is determined on the previous experiences one has had with the other actors. Also, the relationships one already has determine one's future. For example, the case buyers' having purchased the offerings of the case sellers gives the buyers a more reliable and higher end image, which allows them to attract new customers.

Guanxi, as such, may also be seen as a burden in the relationship because one might need to accept members to one's *guanxi* network that one would not like to, i.e., the relationship may become sticky. Developing *guanxi* requires resources and may make conducting business more difficult. The whole concept may also be demanding and difficult for a foreigner to understand. The degree of exclusiveness related to *guanxi* may also generate problems for foreigners. (Håkansson and Snehota, 1998) However, one should not see *guanxi* as being too problematic but should understand it as richness within the culture, which, on the other hand, may not play such a big role in all locations in China.

In order to conduct business in China, one should maintain good relationships with the central and local governments. In China, the legal system is quite messy, as also noted by Gómez Arias (1998). The central government drafts laws, which are implemented differently by the provincial governments since the laws can be interpreted in various ways. The companies should maintain working relationships with the local governments in order to ensure that the laws are interpreted in a way that is beneficial for both the company and for the local government. In addition, companies may receive information from the local governments about the activities of other companies and the future laws. Hence, the companies will have more time to prepare themselves for the possible changes. The central government approves all major planning permissions. With good relationships, the company may shorten the time for the planning permissions to be accepted and to ensure that it will be approved. Often, for no apparent reasons, the permissions come to a halt. With good relationships with governmental officials, it is easier to overcome this. The importance of the relationships with governmental officials increases with the size of the company. The biggest mistake one can make when functioning in China is to underestimate the importance the local government has.

Developing relationships with customs officers also helps when importing items. Often the officers slow down the importing process. Especially the Olympics of 2008 and the

World Expo of 2010 tightened the import rules. If one has good relations with these officers, the problems with importing may be more easily overcome.

Having good relationships with government officials or customs officers, however, does not mean that one needs to conduct immoral or corruptive actions, i.e., “bad guanxi” (Fan, 2007). Instead, individuals are more likely to help friends. The friendship will exist due to common guanxi bases, i.e., due to blood, nature, or acquisition (Fan, 2002). One can improve relationships with the governmental officials by, for example, sponsoring national events and by generally participating in philanthropy. Hosting dinners and inviting the individuals to one’s events also allow the relationships to develop. Likewise, inviting the officials to visit the premises in Finland cultivates the relationship and allows for them to learn more about the Nordic way of doing things.

In addition, information may also be shared between trade associations and companies. These are especially important for smaller companies as one can gain information about the industry and potential future adjustments to occur in the field.

Relationships as a way to conduct business are important not only in China but all around the world. For example, the Group CEO of Buyer Red Bird compared conducting business to dating; it is not sufficient to meet one’s dating partner only once a year, but instead, the couple needs to meet more often. In order to have a successful dating relationship, there has to exist chemistry between the two. The same is true in business relationships; the actors need to meet often to keep their relationship going. In addition, the company representatives who meet together need to get along with each other or otherwise conducting business is not enjoyable. Good social skills are an important quality for a company representative in contact with other companies’ employees. This is not only true in China, but instead it is valid everywhere. Business is still conducted based somewhat on one’s intuition and if one has a bad picture of the business partner, it is easier to choose the competitor’s quotation.

Summary

The factors that have affected the relational development in this cross-cultural environment are depicted in Table 6-1. The factors are classified on the basis of choosing a relational actor and maintaining a relationship. Reasons for which a relationship is terminated will not be discussed as the Case relationships are on-going and, hence, this is out of the scope of the study.

Table 6-1. *The Factors Affecting the Relational Development in a Cross-Cultural Environment (presented in alphabetical order).*

The Relational State	Factors
<p>Election of Relational Partner (Beginning States)</p>	<ul style="list-style-type: none"> • Access to information and the level of information • Company image • Country of origin • Expertise • Familiarity • Level of cultural friction (e.g., language skills, business culture differences) • Needs • Newness of market • Offering and its sophistication • Prospectives of benefits of potential relationship <ul style="list-style-type: none"> ○ In monetary terms ○ Imagery gains ○ Learning • Previous international experience • Relational history with other members of conglomerate
<p>Maintenance of Relationship (Middle States)</p>	<ul style="list-style-type: none"> • Balance of relational harmony and conflict handling • Competition • Display of commitment to the actor and country (e.g., local production, local R&D) • Future outlook of oneself, the other, and the relationship • Individuals: The number of participating company representatives, the personification of the relationship, the presence of expatriates and their service periods, and the chemistry between current and future representatives • Interest in country and its well-being • Investments made in the relationship (e.g., special events) • Offerings (e.g., their specifications (language), delivery, quality, sophistication) • Openness and frequency of communication • Organizational structure and empowerment of employees • Performance, including the treatment of the other (e.g., willingness to be flexible, integrity) • Presence of government officials and the way in which they are treated • Presence of top management • Regulations and rules • Strategy and strategic misfit • Trends in the industry and trends overall • Trust • Willingness to adapt to locality (practices and needs)

6.2. The Process of the Case Relationships Based on State Theory and the Guanxi Development Model

6.2.1. The Development of the Case Relationships Based on State Theory

Case Relationship Dragon

Case Relationship Dragon began with the Searching State, when the seller noted the existence of the buyer, as depicted in Figure 6-1. The buyer's being a joint venture (JV) between a Chinese company and a prestigious British company made the buyer more attractive. Developing a relationship with the buyer became a must for the seller, especially because the JV was the company with the most potential in the Chinese market and in particular, the higher end of the market. As the JV had an international company as the other parent, it was much easier to contact since the language and cultural barriers were lower.

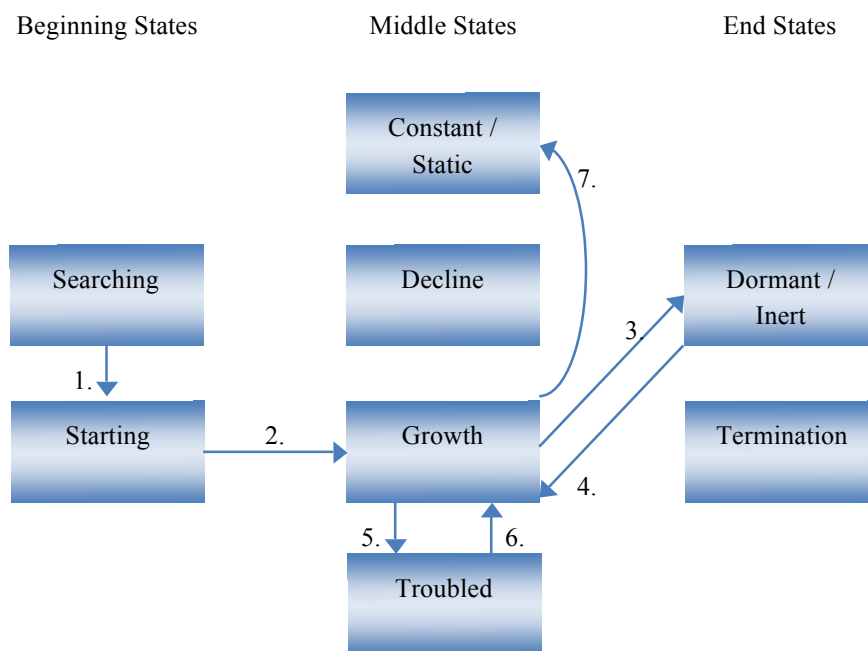


Figure 6-1. *The States in the Development of Case Relationship Dragon.*

During the Starting Stage, as seen in Figure 6-1, the seller contacted the buyer and tried to attract it. The fact that the seller was an internationally known player helped the relationship to begin even though at that point in China the Internet did not exist to the current extent, and information about international actors was difficult to come by. A similar situation existed for the international players trying to find information about the local companies and the market in general. However, as the buyer was a JV, information about international actors was easier to obtain. The first order was made in 1996, when one third of a certain kind of machinery was ordered from the seller.

The relationship continued to grow and the actors become closer. The buyer visited the seller in Finland. The parties held several meetings in which, for example, demos were presented. During 1998 and 1999, the level of trust between the actors increased, especially as the seller's products at the buyer's premises worked well.

During 2000 to 2002, a quiet period occurred within the relationship, i.e., the company representatives did not meet that often, only occasionally at trade fairs. Other divisions of the companies continued to interact. Even though the relationship was in a Dormant or Inert State, the two were not dissatisfied with each other. During that time the buyer was not planning to purchase more machinery and, hence, did not feel the need to be in frequent contact. However, the relationship between the two continued to exist.

The relationship continued to grow after the quiet period. The buyer made its second order in which it purchased six sevenths of needed machinery from the seller. The interaction between the two became closer between 2002 and 2005.

Before the buyer placed its third order with the seller in 2006 to 2007, the relationship experienced a troubled period. The relationship almost terminated at this point. However, the managers of the companies felt that they should try to find a common understanding as they did not want to end the relationship. Hence, the representatives of the companies worked hard to maintain the existing relationship. In the end, a compromise was found regarding the contents of a new order and the buyer purchased all the machinery from the seller. After the order was made, the relationship, however, remained in a somewhat Troubled State as the buyer was experiencing problems with building its plant. Therefore, the seller needed to be extremely flexible. The buyer's being a "must" in the Chinese market meant that the seller allowed this level of flexibility to occur.

After the challenges were overcome, the relationship between the two parties began growing again as the trust level between the two had increased during the troubled period when the parties proved willing to work together and showed their commitment to the relationship. In 2008, the buyer ordered machinery for its fourth plant in China. Three quarters of the machinery came from the seller.

Since 2009, the relationship has been in a Constant State, in which "normal business meetings" are being held. This means that the business partners meet about bimonthly, usually over dinner. The future of the relationship is questionable and depends on the strategy the buyer takes, i.e., will it continue to concentrate on the higher end of the market or branch into the lower end of the market, in which case it would probably not purchase machinery from the seller.

Case Relationship Red Bird

The process of Case Relationship Red Bird has been more constant in nature. First of all, the seller searched for a buyer, as seen in Figure 6-2. The seller had already contacted the buyer before entering a JV with an Asian company in China. The initial contact was quite straightforward, i.e., a cold call as the Hongkongese business culture allowed for this. Before the initial contact was made, the buyer had a limited, or even non-existing, knowledge base of the prospective business partner. The seller was able to attract the buyer because the seller had a plant under construction in mainland China. Both of the companies at this point were diversifying to mainland market. Learning the local business culture together benefited both parties. The seller's being a European company made it more trustworthy in the eyes of the buyer. The Hongkongese were used to operating with European companies and were acquainted with their organizational cultures and practices.

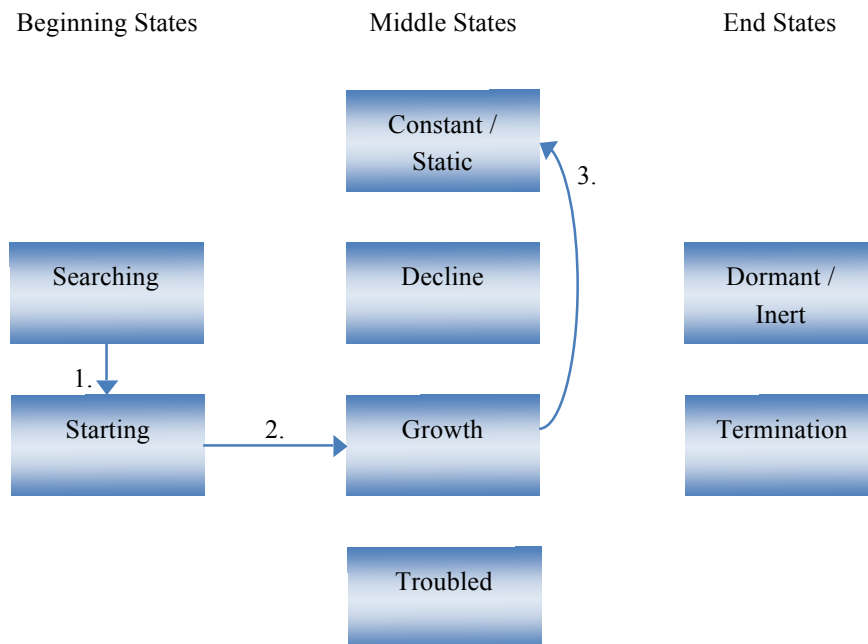


Figure 6-2. *The States in the Development of Case Relationship Red Bird.*

The relationship grew simultaneously as the companies received more market share in the mainland market, as seen in Figure 6-2. The trust level between the parties has grown to a very high one. The communication between the two is very open and even though small bumps have occurred in the relationship, they have been easily overcome. Not only does the relationship exist at the organizational level, but the company representatives have personal relationships, which are strengthened during the social events that the two have annually.

Currently, the relationship can be considered to exist in a Constant or Static State. The relationship is institutionalized with the companies having shared practices. The

relationship is so tight that the switching costs are enormous. As a result, it would be difficult to terminate the relationship due to, for example, operational reasons, i.e., the order volume is so high that the very few of the seller's competitors would be able to provide similar amounts of product. The parties have worked together to reach this state of the relationship. The companies have had shared objectives for the relationship since its beginning. The company representatives at the operational level are in contact daily while the top management teams meet at least biannually. Both of the parties are very committed to the relationship, which is shown, for example, through resource allocation and transparency.

Case Relationship Turtle

The Searching State for Case Relationship Turtle, as illustrated in Figure 6-3, occurs in two parts. Initially, Director, Buyer Turtle, picked up the seller's leaflet at a fair and decided to find more information about the seller and its products. Through his guanxi network, the buyer was employed as a salesman for the seller. In 2006, however, the salesman was asked to leave the seller after structural changes are made. In 2007, the former salesman joined the distributor. At the same time, the seller was looking for an outsider to develop its distribution network and considered the buyer a good option as Director, Buyer Turtle, the former salesman of the seller, had a broad knowledge level of the seller's products.

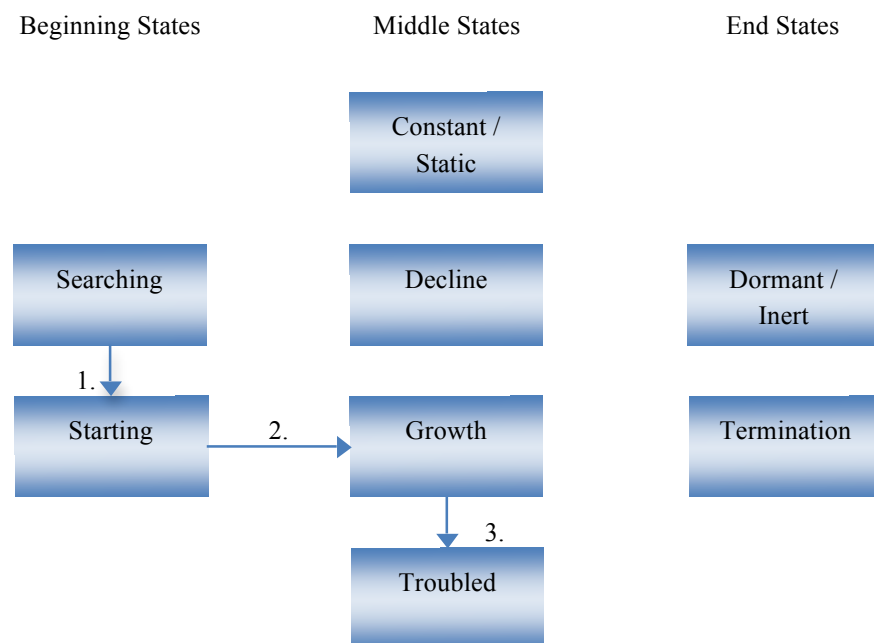


Figure 6-3. *The States in the Development of Case Relationship Turtle.*

Case Relationship Turtle evolved into the Starting State, when the seller asked the distributor to outrun its organization to establish a distribution network. This is noted as the arrow 1 in Figure 6-3.

The relationship began to grow as the buyer began to develop the seller's distribution network. However, this did not last long as the contract between the two was cancelled because the arrangement was considered suspicious as Director, Buyer Turtle, was the former salesman of the seller. The buyer continued as a distributor and became the largest one. The communication between the two opened up during the growth stage.

The relationship, however, lacks mutual understanding and trust, because of which it has evolved into the Troubled State. The two actors view the role of the distributor differently. In the seller's view, the buyer should invest more in attracting new customers and targeting new markets. The buyer, on the other hand, claims that the seller's distribution network is a mess and it must be cleaned before anything else can be done. The buyer believes that the seller favors some of the distributors over others and that overall the multichannel approach that the seller carries out is unfair to the distributors. Even though the relationship is currently in such turmoil, it is probable that the relationship will continue in the future as the buyer is one of the seller's largest distributors.

Case Relationship White Tiger

The actors in Case Relationship White Tiger had previous experience of each other before participating in a relationship in China because the buyer had the seller's machinery at its other plants. The Searching State, hence, was shorter in this case as the companies already knew each other. As a result, the relationship almost immediately evolved to the Starting State in 2002 when the buyer requested information about the seller's Chinese operations. A short round of negotiations was held during 2003 regarding a quotation for the buyer's Chinese plant. These negotiations were not held between the Chinese representatives of the companies, but instead the headquarters of both companies interfered in the relationship as both actors were still relatively new to the Chinese market. For example, the seller was still acting in China through an agent at that point. The process of the relationship to this point is depicted in Figure 6-4.

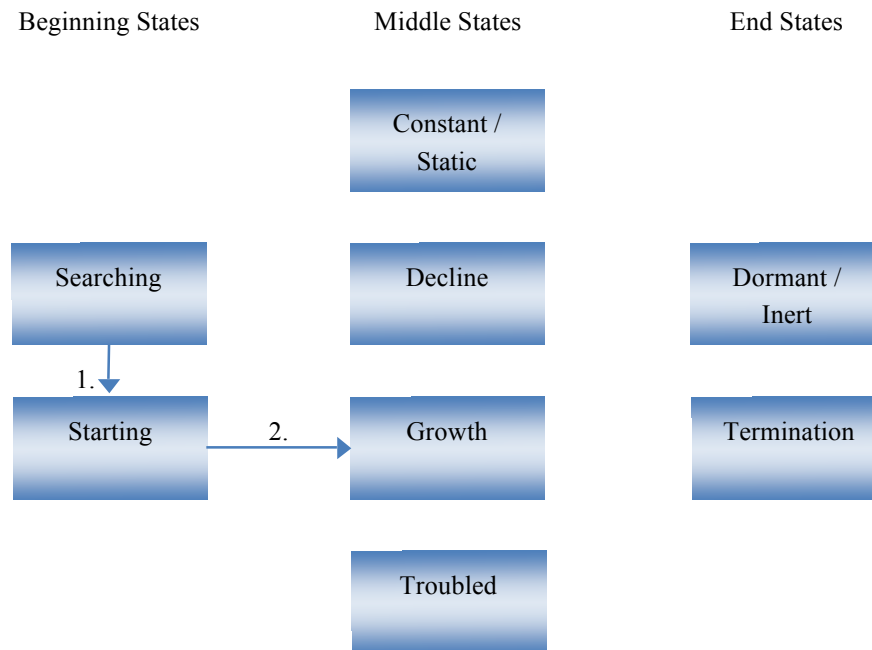


Figure 6-4. *The States in the Development of Case Relationship White Tiger.*

Case Relationship White Tiger has since grown, as shown in Figure 6-4. Site visits have been made at both premises and industrial services purchased and provided. The level of trust between the Chinese representatives still needs to be increased since the relationship as such was given and the locals have had to accept that they need to cultivate and maintain the relationship. The relationship, however, at this point is decent and both parties know that they can contact each other.

6.2.2. The Processes of the Case Relationships Based on the Guanxi Development Model

Case Relationship Dragon

During the Searching State, the actors remained strangers as no contact had been made between the buyer and seller, but instead only the seller had acknowledged the existence of the buyer and needed to develop a relationship between the two business partners, as depicted in Figure 6-5. At this point, the prospective business partners remained outsiders to each other. As the two did not know each other personally, the parties belonged to each other's tertiary network. The ties remained instrumental.

		Membership				
		Insider	Associate	Outsider		
Network	Primary	Core family, Near relatives	“Romantic Other”		Emotional	Ties
	Secondary	Relatives, Close friends, Classmates, Alumni, People from the same region	Strangers who know an insider or associate in the primary network	Strangers who build up guanxi alone or via intermediaries	Mixed	
	Tertiary		Strangers who know an associate in a secondary network	Strangers	Instrumental	

Figure 6-5. *The Development of Guanxi between Buyer Dragon and Seller Dragon.*

During the Starting State, the seller contacted the buyer and, hence, now both actors were aware of the other. In order for the business relationship to begin, the seller needed to attract the buyer. The seller’s being an international company influenced the first order to take place. However, as the buyer was still unaware of how the seller practiced business, i.e., the two were still outsiders, it only ordered one third of the machinery from the seller. As the two parties were getting better acquainted with each other, the ties also became both emotional and instrumental. However, they still remained more instrumental than emotional. Also, the parties become closer and, hence, moved from the tertiary network to the secondary one.

As the first order was successful, the relationship continued to grow. The buyer’s representatives visited the seller in Finland and the actors met each other more often. Hence, the two evolved into associates while the network remained the same. The ties were somewhat more personal than instrumental, but they remained mixed.

During the Inert or Dormant State of the relationship, the parties remained in the same position as they had been until that point. Even though the relationship itself was experiencing a quiet period, the representatives of the companies met at international trade fairs at least annually. This can be seen during the subsequent Growth State, when the buyer purchased the majority (six sevenths) of the machinery from the seller.

The personal relationship between General Manager, Buyer Dragon, an Vice President, Sales & Service, Seller Dragon, strengthened during the Troubled State of the

relationship. The two decided that the relationship between the two organizations had to continue and, therefore, a win-win order needed to be drafted. Vice President, Sales & Service, Seller Dragon, considered the two individuals friends now. They, for example, spent time together during the Beijing Olympics in 2008, during which time both business and more personal issues were discussed.

The Troubled State of the two also brought the two organizations closer to each other as the challenges faced during the period showed that both of the parties were committed to maintaining and cultivating the relationship. Therefore, the actors could be considered insiders as the business partners more openly shared issues. The relationship continues to have both instrumental and personal ties. The situation of the relationship has not drastically changed since the Troubled State.

Case Relationship Red Bird

During the Searching State of the Relationship, the buyer and seller remained strangers to each other because neither actor knew the other personally, as shown in Figure 6-6. After the seller contacted the buyer, i.e., the relationship was in the Starting State, the ties of the relationship changed to both instrumental and emotional.

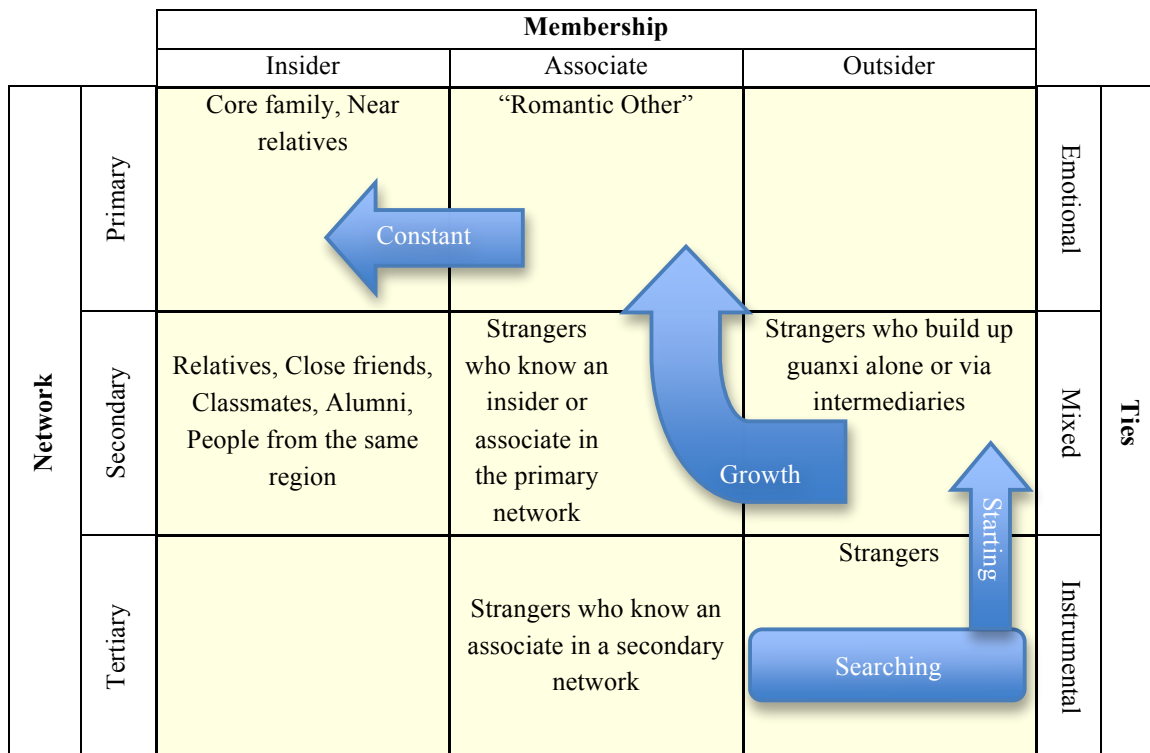


Figure 6-6. *The Development of Guanxi between Buyer Red Bird and Seller Red Bird.*

The Growth State in the relationship lasted for a long duration. During this time, the parties became more acquainted with each other and their different practices. This time was one during which the communication between the parties became very open and the trust level very high. Hence, the parties may be considered associates at this point.

Currently, as Case Relationship Red Bird is in the Constant State, the actors consider each other the “romantic other” or even marriage partners, i.e., part of the core family. Group CEO, Buyer Red Bird, compared the relationship to dating and marriage; in close relationships, it is not sufficient to be in contact only once or twice a year, but instead when dating, the relational actors meet often as should be the case with close business relationships, also. The relationship between Buyer Red Bird and Seller Red Bird has institutionalized with each being part of the other’s primary network.

The personal relationships between the top management teams of the two companies are those of two close friends, i.e., the first quadrant on the second row. The individuals remain in contact even though they have retired and personal information is shared. For example, the company representatives are in contact when new grandchildren are born.

Case Relationship Turtle

Case Relationship Turtle differs from the previously described case relationships as Director, Buyer Turtle, used to work in the sales function of the seller. The actors were strangers to each other before the former salesman of the seller (the current Director of the buyer) took the seller’s leaflet at a fair, gathered more information about the seller and asked to join the company. As part of the seller’s organization, the former salesman of the seller became an insider and became part of the primary network. However, when the individual was asked to leave the company, he became part of the secondary network. Hence, when the seller began to search for someone outside its organization to develop its distribution network, the parties were already associates.

When the seller contacted the buyer to ask whether it would outrun its organization by establishing a distribution network, the relationship of the two companies started. The relationship has been in the middle quadrant for its whole existence, as shown in Figure 6-7.


		Membership				
		Insider	Associate	Outsider		
Network	Primary	Core family, Near relatives	“Romantic Other”		Emotional	Ties
	Secondary	Relatives, Close friends, Classmates, Alumni, People from the same region	Strangers who know an insider or associate in the primary network 	Strangers who build up guanxi alone or via intermediaries	Mixed	
	Tertiary		Strangers who know an associate in a secondary network	Strangers	Instrumental	

Figure 6-7. The Development of Guanxi between Buyer Turtle and Seller Turtle.

The relationship remains in the associate quadrant with mixed ties and in the seller’s secondary network even though the buyer is one of the seller’s distributors. The seller has a multichannel approach with its distribution, due to which it keeps the distributors somewhat distant. In addition, the seller is trying to limit the number of distributors. The communication between the two is not open, but instead many issues remain unclear, which leads the buyer to believe that the seller’s actions towards the different distributors are unfair and favor some distributors over others. The two actors are strategically misfit as both feel that the other should invest more in the relationship.

The personal relationship between Director, Buyer Turtle, and Executive Vice President, Sales & Marketing, China, Seller Turtle, could be considered a mentoring relationship. The two, however, are not friends, but are situated in the same quadrant as the overall relationship. The parties do not necessarily even like each other, but they are forced to get along due to business.

Case Relationship White Tiger

Case Relationship White Tiger is similar to Case Relationship Turtle as the relationship is completely based in the associate quadrant in the secondary network of the relational actor and consists of mixed ties, as seen in Figure 6-8. Case Relationship White Tiger can be considered to be given as the headquarters of the companies decided that the relationship needed to be broadened to China as well. The headquarters signed the deal, which “forced” the relationship to develop between the two subsidiaries.


		Membership				
		Insider	Associate	Outsider		
Network	Primary	Core family, Near relatives	“Romantic Other”		Emotional	Ties
	Secondary	Relatives, Close friends, Classmates, Alumni, People from the same region	Strangers who know an insider or associate in the primary network 	Strangers who build up guanxi alone or via intermediaries	Mixed	
	Tertiary		Strangers who know an associate in a secondary network	Strangers	Instrumental	

Figure 6-8. *The Development of Guanxi between Buyer White Tiger and Seller White Tiger.*

Case Relationship White Tiger is still young and accordingly, it has not yet developed to its full potential. Hence, the relationship has not yet fully personalized. The personal relationships between the representatives of the two actors are also in the same quadrant as that of the organizational relationship.

6.3. The Development of Industrial Buyer-Seller Relationships in a Chinese Context

6.3.1. A General View on the Development of the Case Relationships

All the development paths of the Case relationships begin with the Searching State, in which a prospective business partner is recognized and more information about it is sought through secondary sources. The next state is that of Starting, in which either the buyer or the seller, more often the latter, contacts the other and tries to attract it in order

for a relationship to be initiated. First orders or deliveries are often placed during this beginning state.

Even though all of the relationships go through both of these states, they should be kept separate as the tasks completed during the two states are very different. In addition, the level of interaction varies. In the Searching State, the actors are not yet in contact and one might not even know about the other, as was in the cases of Buyer Dragon and Buyer Red Bird. In the Starting State, on the other hand, the parties are already interacting as an initial contact is being made. Hence, both actors at this point are aware of the existence of the other. The contacted party usually gathers information about the prospective business partner at this state from intra-organizational or inter-organizational sources.

In the cases of Seller Dragon and Seller Red Bird, the cultural and language barriers between the contacted party and the initiator were lower compared to typical Chinese actors. This follows the model proposed by Johanson and Vahlne (1977) regarding internationalization, i.e., when one is expanding abroad, one tends to go to markets which are more familiar and have a lower psychic distance. The same could be considered true when targeting customers in foreign markets, i.e., it is easier to contact companies with which one has a lower psychic distance. In China, these companies also tend to be those that appreciate the higher end of the product range as all of the case companies function in this part of the market.

After the Beginning States, all of the case relationships evolved into the Growth State of the relationship. This is natural progress as the other Middle State options would be somewhat troublesome to develop into. In the Constant or Static State of the relationship, the relationship is already institutionalized and the parties are well acquainted with each other. The level of trust tends to be very high and communication extremely open. The relationship should be well developed and close so that it can weather any negative effects in the relationship, such as those resulting from a decline in the number of orders. If the relationship should evolve directly to the Troubled State, the reason why the relationship exists should possibly be given. Instead, the relationship could directly be terminated if the parties do not have an external reason to stay within it.

During the Growth State, the parties get better acquainted with each other and with the offerings the seller has for the buyer. During this state, the company representatives meet each other. The frequency of the meetings, however, is usually lower than that during the Starting State as the actors do not necessarily negotiate anymore and the first order has already been delivered. Technology services may also be provided during this state. As the actors know more about each other, the level of trust may increase and communication may open up. It is important to fulfill all the items in the initial contract and to be consistent from that point onwards. The local companies tend to be

inconsistent and because of this, foreign companies have a competitive advantage with their practices and quality.

The way in which the relationship develops from the Growth State onwards varies. Case Relationship White Tiger has remained in this State. If the relationship develops, it may, for example, evolve to the Constant or Static State as Case Relationship Red Bird did. As the other sellers provide investment products and technology services, it is more difficult to establish a Constant or Static State due to the nature of the sales process. The buyers do not tend to purchase machinery at a monthly rate but instead at a much slower pace. In between, the buyers may, however, purchase technology services. The Constant or Static State of the relationship can be truly found only if annual agreements concerning spare parts or maintenance work are signed or if these technology services are purchased frequently. In China, however, this is still not a very probable relational state as the local customers have not yet understood the importance of maintaining their machinery in good condition. In addition, many local companies tend to arrange their own maintenance work as in the case of Buyer White Tiger, which has not purchased technology services during the past year because the company is trying to train its employees to complete these tasks.

On the other hand, the relationship could also decline, i.e., the interest that the two have in the relationship decreases and, hence, also the level of orders. None of the case relationships evolved in this way.

The fourth Middle State option is that in which the relationship is in turmoil. Case Relationship Dragon experienced challenges before the third order was finalized. The parties had problems finding a compromise which was beneficial for both, i.e., one in which the price and the contents of the order were satisfactory for the buyer and the seller. The situation was so bad that the relationship was almost ended. However, as both of the parties wanted to overcome this, evolution from the Trouble State occurred. Case Relationship Turtle is currently in the Troubled State as the parties are experiencing a strategic misfit, i.e., the actors want different things from the relationship. The relationship has been experiencing difficulties for some time already as the buyer does not seem to trust the seller and in the seller's opinion, the buyer is not investing enough in the relationship. In order to overcome these problems, the representatives of the companies need to discuss the troubles and find a way to overcome in a manner which satisfies both.

The previous state theory models have considered the Dormant or Inert State as an end state of the relationship. However, this might not be so. For example, Case Relationship Dragon entered a quiet period soon after the initial contact was made because the buyer did not need to purchase any machinery for some years. This, however, did not mean that the parties were ending their relationship, but instead they just did not require each other's services during that time. The company representatives met during this state at

fairs and the seller hosted events to which it invited its VIP customers, including Buyer Dragon. Hence, the Dormant or Inert State of the relationship could be considered both a Middle State and an End State.

None of the relationships are currently being terminated even though severe problems have occurred. If, a relationship ended, the parties would still continue to acknowledge each other and the activities of the other. Is the only reason for which a relationship could be completely terminated the bankruptcy of one or both of the parties?

Based on the case relationships, a modified version of the state theory models is proposed. This is seen in Figure 6-9.

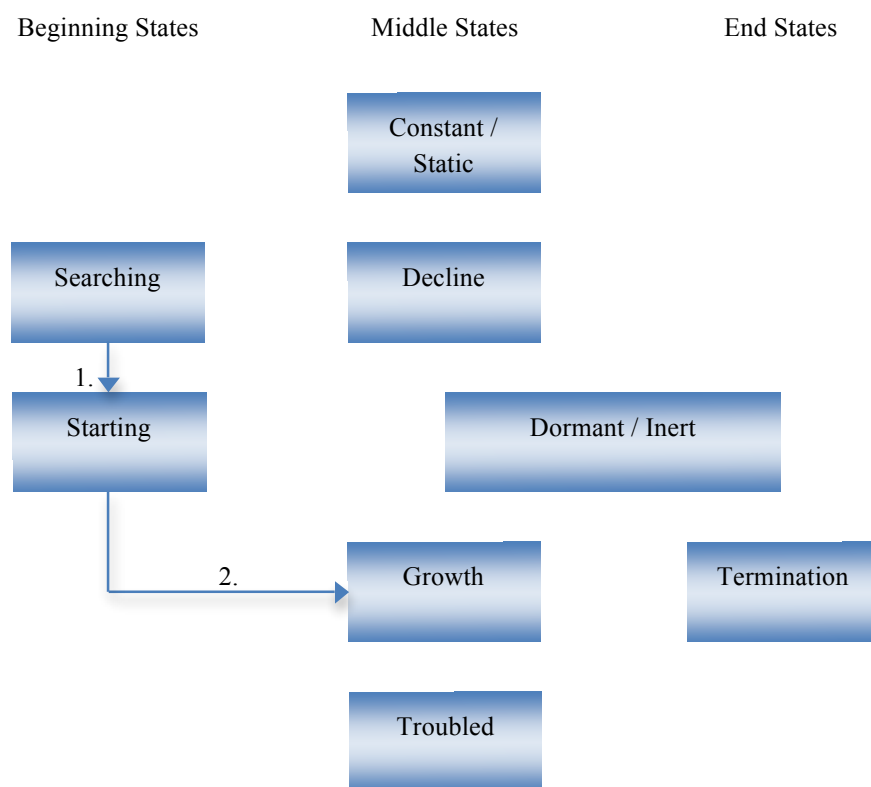


Figure 6-9. *The Proposed State Theory Model for Relationship Development.*

Even though the state theory model based on the case relationships, presented in Figure 6-9, is similar to those developed in the Western context. Differences also exist. The time duration for the beginning states in the Chinese context may be longer compared to those for relationships between only Western or westernized companies as was seen when comparing the durations of the initial states of Case Relationship White Tiger and a relationship between a truly Chinese buyer and Seller White Tiger.

It should be noted that the path for the industrial buyer-seller relationship presented in Figure 6-9 holds only for those relationships that have successfully proceeded forward from the Beginning States. The relationships may at any time also evolve to either End State, without developing through the second Beginning State or Middle States.

6.3.2. A General View on the Development of Guanxi

The ways in which the case relationships developed differ. Case Relationship Dragon and Case Relationship Red Bird are more similar in that the relationships began in the bottom-right quadrant, when the actors were strangers to each other and information about the prospective relational partner needed to be gathered. At this point, only one of the actors had acknowledged the other.

After Seller Dragon and Seller Red Bird had contacted and attracted their respective buyers and a first order was being made, the relationships evolved to the middle-left quadrant. At this point, the tie was a little more personal than before as the representatives of the companies knew each other better due to negotiations and other meetings, i.e., the two had been in contact more often.

When the relationship evolved to the first middle state, i.e., that of Growth, the parties were no longer outsiders, but instead became associates. This means that there were possibly more orders being made and the actors communicated more openly. The trust level had also increased and the ties remained mixed but were more personal than before.

As for Case Relationship Turtle and Case Relationship White Tiger, they began their involvement in the matrix in this quadrant. In both of the case relationships, the buyer and seller knew each other beforehand. Director, Buyer Turtle, was a former salesperson of Seller Turtle while Buyer White Tiger had machinery of Seller White Tiger at its other plants outside China. These two relationships, however, have not evolved since the initial stature.

A relationship may develop in any way from the middle quadrant. In Case Relationship Dragon, the involvement occurred horizontally while in Case Relationship Red Bird, it happened vertically. The state during which the move took place differs for the two. For Case Relationship Dragon, it was during the Troubled State while for Case Relationship Red Bird, it was during the Growth State. Hence, a relationship may develop during any

of the states. A general model based on the case relationships is presented in Figure 6-10, in which the orange arrow illustrates time.

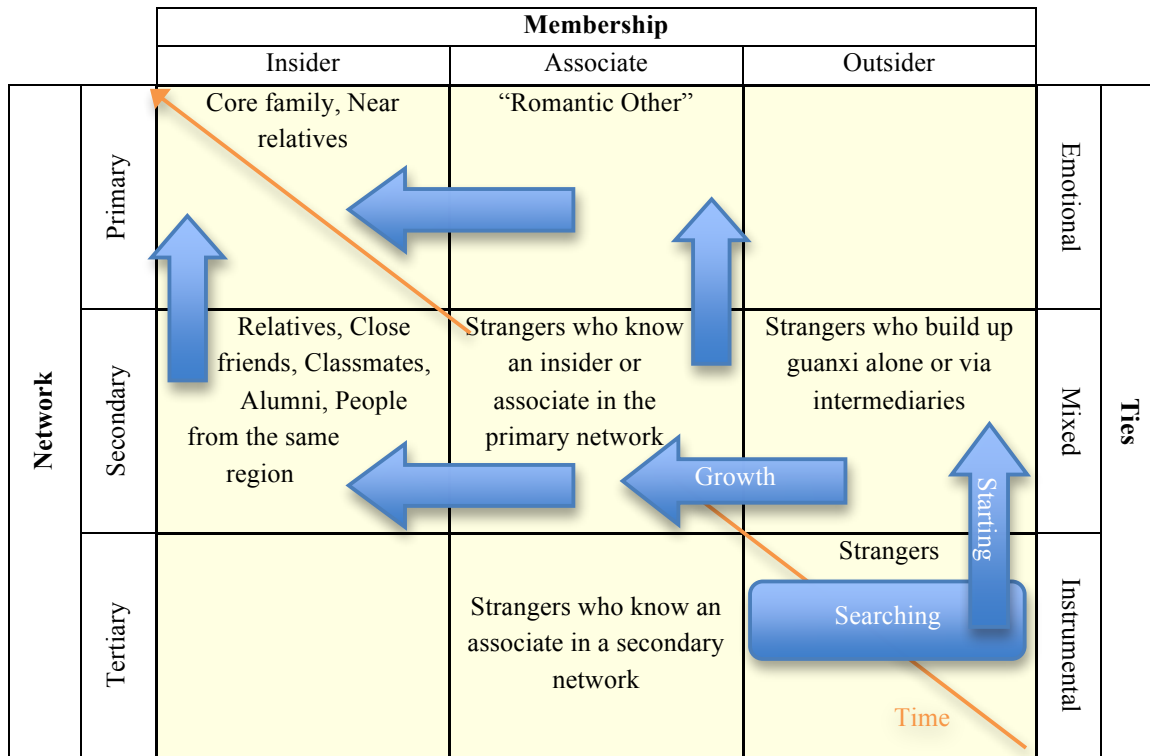


Figure 6-10. A General Model for the Development of Guanxi in a Successful Industrial Buyer-Seller Relationship.¹⁹

The personal relationships occurring between the representatives of the case companies follow that of the general case relationship. This, of course, does not necessarily need to be the case, but instead the relationship between the company representatives may be closer or more distant than those of the organizational relationships. Generally, however, for the organizations to have good relations, the company representatives also need to share a working relationship since they may be in daily contact. As Group CEO, Buyer Red Bird, puts it, the company representatives need to click and have chemistry in order for the organizational relationship to strengthen.

¹⁹ Note! The time and the arrow sizes illustrated in the model are only indicative and do not illustrate the actual time each state or transition takes.

7. CONCLUSIONS

7.1. The Theoretical Contribution of the Study

This Doctoral Dissertation discusses how industrial buyer-seller relationships develop in a Chinese context between a local subsidiary of the buyer and a local subsidiary of a Finnish seller. In order to illustrate the relational process, literature on industrial buyer-seller relational process models and on *guanxi* and its development were considered.

Based on the literature review, three different model types for illustrating the development of industrial buyer-seller relationships were found, as suggested by Batonda and Perry (2003a): (1) joining theory, (2) stage theory, and (3) state theory. From these types, models based on state theory were used in this dissertation to depict the processes of the case relationships as state theory models were considered to be the most suitable for the Chinese context (*ibid.*).

Five different models for developing *guanxi* were noted during the literature review. All of these models follow stage theory. However, the model suggested by Kaunonen, Polsa, and Fan (2010) was considered the most suitable as it considered not only the process but also the membership type, network level, and tie type of the relational actors. Three of the five models were based on the Hongkongese view of *guanxi* while this study focused more on the mainland Chinese view on *guanxi*. It was felt that the state theory models could, hence, be integrated into the base of this *guanxi* development model most sufficiently.

Based on the state theory model and the *guanxi* development model, a comprehensive framework for the development of industrial buyer-seller relationships in a Chinese context was determined. This is shown as Figure 6-10. According to the model, all relationships begin in a similar manner. That is, from the two beginning states, the Searching State and the Starting State, the process evolves to the first middle state of Growth. If the actors are not acquainted with each other beforehand, they first are outsiders to each other and during the Growth State evolve to associates. Initially, the parties are in the other's tertiary network and move to the secondary network during the Starting State. In addition, the ties become more personal and are not only instrumental. If the parties already share a relationship due to previous history, the starting point for the relationship is that of an associate in the secondary network with mixed ties. From this point onwards, the relationship may develop in any manner if it has not evolved to one of the end states. Development is not limited to occurring only during the Growth State. For example, the trust level may improve during the Troubled State as both

parties need to be more flexible with each other and work together in order to overcome the difficulties of this period. As a result, the parties may consider each other in a closer membership or network level.

It should also be noted that the Dormant or Inert State, which was previously considered only an End State, is also a Middle State. The relationship may face a quiet period during which either the buyer or the seller has no need to conduct business with the other. This, however, does not mean that the relationship has ended, but instead the company representatives may meet, for example, at trade fairs and attend each other's events. However, a significant amount of resources is not allocated to the relationship during that period, i.e., the state cannot be seen as one of growth. The actors remain attracted to each other and the relationship has not institutionalized, because of which it cannot be considered to be in the Decline State or the Constant or Static State, respectively. Neither is the relationship facing problems, i.e., it is not a troubled one. It cannot be considered only an End State as the parties remain committed to the relationship and see a future for it.

It seems that the process with which relationship develop are similar in the West and the East. However, the time duration for the states may differ. Usually in the East, it takes longer to attract the prospective business partner while in the West it is more straightforward.

Although relationships need to be cultivated with government officials and customs officers, these individuals do not play a very significant role in the particular industrial buyer-seller relationships. Instead, they may affect the smoothness with which the buyer and seller conduct their business in China. This fact may affect the length of the states, but otherwise, these officials do not need to be presented in the developed framework. The importance of these relationships increases with organizational size.

7.2. The Methodological Contribution of the Study

This Doctoral Dissertation follows the Action-Analytical Approach and inductive case study method. The processes of the four case relationships are illustrated through chronologies.

Both the methodology and method used suggest that the empirical and the theoretical data are considered and compared continually. This influenced the structure of the dissertation; methodological and method considerations were introduced before the theoretical background.

While conducting the interviews, the interviewer should try to limit the influence the theories have on her or himself. For example, in this Doctoral Dissertation, the case relationships are illustrated without the concepts used in academic literature but instead with the words the interviewees used. During the interviews, the interviewees were

allowed to use their own wording when discussing the relational processes without being influenced, for example, by the relational process evolving through states or stages as suggested in the academic literature. In the end, it is the researcher's contrasting and reasoning which develops the results presented in the dissertation.

The use of chronologies for studying the relational process is a suitable manner as both the background and the relationship can be depicted simultaneously from both sides of the relationship. The chronologies also help as a lot of data was gathered during the research process, both theoretical and empirical in nature, and, hence, the researcher may grasp everything and see the connections between the points of view of the buyers and sellers and the comprehensive picture with the current academic models.

Based on the literature review concerning industrial buyer-seller relational process models, the most used method for studying this issue is that of case studies. For example, all of the state theory models are based on case studies. The second most used method is that of conceptual reasoning. Five of the models did not clearly state their methods and four of the models were justified through questionnaires.

Even though case studies have been commonly used as a research method, cross-country analysis has not been conducted, but instead the research on industrial buyer-seller relationships has remained between parties who share a low cultural distance, i.e., based on data from the West.

When conducting research in China, the availability of secondary source data is limited and may be biased. Hence, several sources both within China and outside China were referred to during the data-gathering process. Also, the interviews may be biased as interviewees tend to say what the interviewer might possibly want to hear. Hence, both parties of the relationship, i.e., the buyer and the seller, were interviewed and as many representatives as possible were present in the data-gathering process. Generally, industrial buyer-seller relationships tend to be studied from only one side, which limits the information gained during the research process. Often, however, sellers are not willing to allow their customers to be interviewed. In order for this to occur, the sellers needed to be committed to the research.

Because industrial buyer-seller relational process models are based on organization relationships and *guanxi* is seen to exist more at the personal level, in this study, there were two levels of analysis: the organizational relationship and that between the company representatives. During the interviews, the interviewees were asked to discuss both the relationship between the buyer and seller in general and the relationship on a more personal level in order to understand how these two overlap. During the analysis, the relationships were kept separate. It was noticed, however, that these two affect each other.

7.3. The Managerial Implications of the Study

When a foreign seller is attempting to conduct business in China, it is easier to begin the journey with a company that is already somewhat westernized, i.e., the local company has conducted business with Westerners beforehand and/or is located in Greater Shanghai or Greater Hong Kong. Hence, the cultural distance between the two is lower. More importantly, the buyer will tend to appreciate the seller's offerings since both of the actors generally will be functioning in the higher end of the market. If the seller wants to contact a Chinese buyer directly, it is easier to do this through cold calling if the respective party is more westernized. Guanxi remains important in the other parts of China, where cold calling may not end in a successful contact and instead a mediator would be needed.

These days, information is more readily available in China due to the widespread availability of the Internet. However, the information may not be accurate, and therefore, one still needs to remain cautious. Useful sources of information are the different local trade associations. Also, for example, Finnish companies tend to act in a tight-knitted network through which possible help could be gained from other Finnish companies.

After contacting the prospective business partner, one needs to attract them in order for business to be conducted. Local presence is important. Now, it is not sufficient to have only a local plant in China, but instead R&D activities should be implemented. The local needs vary drastically from those in the West, because of which the R&D functions should concentrate on localizing the offerings. This is especially important because the share of technology services in which the profit of industrial sellers usually lies, is low in China. This is true because the companies tend to have a culture of self-reliance, i.e., conducting their own maintenance work.

The R&D activities, however, should be divided among different employees as secrets do not exist in China. The same applies to sourcing, i.e., the different suppliers should be allowed to supply only small parts of the assembly in order to limit the production of counterfeits.

The Finnish companies tend to function in the higher end of the market. Price competition is strong in China; therefore, sellers need to find other ways to win orders if they do not want to participate in this. Training is a good option, especially as the locals do not tend to acknowledge the importance of keeping the production lines in good condition.

The presence of expatriates is still considered important by the buyers as they see the expatriates as a direct link between the top management in Finland and themselves. The Chinese see that transferring information is more easily done when the parties communicate in the same language. The expatriates should remain in the country for at

least three to five years in order to better understand the culture and learn the language. For example, the expatriate could be allowed to study these issues for the first half-year of the assignment in order for relationships to be better cultivated in the future when the expatriate actually begins to function in the new position. The presence of expatriates is a sign that the company is willing to grow in the future and will remain present in the Chinese market in the future as well. In order for the Chinese not to lose face, the expatriates may take the blame for problems as they may be treated differently than the locals are. Hence, this will not be a conflict in the relationship.

In order to cultivate the relationship, the company representatives should meet at least biannually but preferably bimonthly. Dinners are a fruitful option as the relationship will not only remain at the organizational level but also develop more personally as well. There needs to be “chemistry” between the company representatives in order for the relationship to develop at its fullest. Therefore, language skills are important. If a translator needs to be used to communicate, the relationship will not develop as well as if the two individuals could interact freely. The lack of language skills also limits the manner in which the individuals can communicate since phone calls cannot be made and e-mails will need to be translated, which means a longer answering period.

The language used is not only important in the relationships but also in the software that the machinery uses. In order to better serve the buyers, the sellers should translate the programs into Mandarin Chinese or Cantonese, depending on the geographical area. The workers at the lower organizational levels do not commonly know English and this would benefit the buyers as less training would be needed for the operators to be able to run the machines.

Foreign companies should respect the recent developments that Chinese society has made. For example, during the past years, attending and inviting local buyers to the 2008 Olympics in Beijing and the first Formula 1 race in Shanghai may have increased the respect the Chinese have towards the foreigners. Thus, the relationship may improve.

It is not sufficient to have relationships only with business partners, but instead in order to guarantee smooth operations, relationships need to be cultivated with government officials and customs officials. Often, a business-related process may come to a sudden end and the quality of one’s relationships with government officials may determine the duration of the downtime. Moreover, the importance of these relationships increases with the size of the company. This, however, does not mean that one should conduct immoral actions, but one may, for example, offer dinners and invite the officials to company events.

7.4. Implications and Avenues for Future Research

Although this study has centered on China and guanxi, similar business thinking exists in, for example, Japan, Korea, and India (Ambler, 1994; Gu, Hung, and Tse, 2008). Such practices as gift giving and entertaining, which are important for cultivating and maintaining guanxi, are common in several other nations and business cultures (Dunfee and Warren, 2001) as well as the notion of reciprocity (Park and Luo, 2001). Networking is also important in the West and the concept of the “old boys” network is commonly used in several European and Northern American nations (Gu, Hung, and Tse, 2008). In the end, however, the operation of social relations, or guanxi, is unique in China (Gu, Hung, and Tse, 2008; Luo, 2007; Tsang, 1998), as well as its role in everyday life (Luo, 2007; Standifird and Marshall, 2000; Tsang, 1998). Guanxi can even be seen as a science, in which the practices and processes have been carefully designed (Luo, 2007).

In order to justify the generalizability of the framework developed during this Doctoral Dissertation, it should be studied in different cultural environments and between companies from different national cultures. Hence, the suitability of the model based on the development of guanxi at a more global level could be considered.

This study focused only on China-based buyers and Finnish sellers, so the manner in which purely Chinese companies develop their relationships could also be studied. In addition, the lower-end of the market could be considered since in this case all the companies functioned in the higher end.

Companies from different industries were used for this research. It would be beneficial to continue in the same manner in the future as well. The case sellers offered both products and services. The suitability of the model developed during the study in only the service firms could be determined.

The Doctoral Dissertation is based on an inductive case study. In the future, different methodologies and methods could be used to determine whether similar results could be found.

7.5. The Limitations of the Research

The Doctoral Dissertation is based on data from four case relationships between a China-based buyer and a Finnish seller with presence in the Chinese market. Hence, the relationships are somewhat westernized already due to the initial conditions. To study a purely Chinese relationship, one should use local companies as references. This study focuses on the higher end of the market, as foreign industrial companies tend to serve this end of the market. Hence, the buyers are also more westernized than a common Chinese company. The level of westernization is increased for the case buyers as the

majority of the companies are based in Hong Kong and the Greater Shanghai, which as areas are more western than China in general.

Formerly, the industrial buyer-seller relational process models have been based on the West. This study focuses on only one cultural context instead of several. Hence, the generalizability of the results is questionable on a more international level.

Only the buyers and sellers were interviewed during the process. The possible former and current agents were not contacted. In addition, the governmental officials, customs officials, and trade associations were not interviewed. All of these actors have an influence on the relationships. Now, this influence was only discussed with the representatives of the case buyers and case sellers, because of which, it can be considered to be somewhat one-sided.

The researcher identified the states through which the relationships evolve after the interviews and the literature reviews were conducted. Hence, the interviewees were not presented with possible options and asked to help with this process. The identification of the states can, therefore, be biased. However, involving the interviewees in the state identification would not have suited the study methodology and method.

The research focuses on past events instead of studying the happenings at the present. Hence, the study is based on memories of the interviewees and the past secondary sources. If the researcher could participate in the relationship personally and study the present, it would be better. However, due to resources this could be difficult to arrange.

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Contact e-mail

Dear Mr./Ms. [Contact Person],

I am approaching You in order to ask whether Your company would be willing to participate in my Doctoral Research. My Doctoral Thesis studies industrial buyer-seller relationships outside the fairly well understood markets in Europe and North America. Hence, currently I am looking for Finnish suppliers with either Chinese and/or Chilean customers who would be willing to participate in my study and simultaneously learn from the studied markets. Participation in my study would require two approximately three to four hour indepth, group or personal, interviews with the Finnish suppliers and their Chinese or Chilean customers. The individuals whom I would want to interview are those company representatives who participate in the buyer-seller relationship. In the interviews, the development of the particular relationship (i.e., Finnish supplier - Chinese/Chilean buyer relationship) would be discussed. The relationship in question should be around 3-5 years old and in your case with a Chinese customer.

Based on these interview sessions, the companies would receive a more indepth understanding of the relationship and which factors have positively or negatively affected it. Hence, Your company would potentially learn more about how to develop relationships within a certain geographical area.

All the information gained during the interview process will be kept highly confidential. The results will be presented anonymously without any connection to any of the firms.

There will be no direct additional costs to your company.

Please do not hesitate to call or e-mail me if you have any questions. I will call you to explain the process in more detail.

A more detailed proposal of my Doctoral Study can be found as an attachment.

Sincerely,

Anna Kaunonen

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[Contact Details]

Anna Kaunonen
Project Proposal of Doctoral Research
12.10.09

Doctoral Thesis:

The Development of Industrial Buyer-Seller Relationships outside the Western World

The objective of the Doctoral Research is to examine how industrial buyer-seller relationships develop between Finnish sellers and their Chilean and Chinese buyers. Even though industrial buyer-seller relationship development has been heavily studied, the current industrial buyer-seller relationship development models are based on studies made only in Europe or North America. Hence, there is a research gap, which would address how industrial buyer-seller relationships develop outside the Western World. The research gap is especially significant as the global business world has broadened from the Western world overseas to Asia and Latin America. Therefore, it is important to understand whether industrial buyer-seller relationships develop differently in Asia and Latin America compared to those in the Western World. This information would be essential not only to the academia but also Western managers.

The research method used in this Doctoral Thesis is qualitative case studies. Three industrial relationships between Chilean buyers and Finnish sellers as well as three industrial relationships between Chinese buyers and Finnish sellers will be studied. The approach is grounded theory in the sense that the research will allow the companies to portray how the studied relationships have developed and based on the in-depth group interviews, factors that have affected the development of these relationships will be identified. A comparison between the current industrial buyer-seller relationship development models and the data gathered during this study will be completed. Possible cultural-specific factors that affect these industrial buyer-seller relationships will be identified.

The Doctoral Thesis work began in September 2008. During the academic year of 2008-2009, the researcher completed her Doctoral Studies and enhanced her knowledge regarding industrial buyer-seller relationships and the different development models regarding these relationships. During the academic year of 2009-2010, data will be gathered and the thesis will be written. The Doctoral Thesis will be publicly defended during the academic year of 2010-2011.

The researcher is a Doctoral Student in the Department of Industrial Management, the Faculty of Business and Technology Management at Tampere University of Technology. The Doctoral Study has been financed by the Foundation for Economic Education, the Doctoral Program in Industrial Engineering and Management, and the Finnish Cultural Foundation.

The researcher is well-equipped to conduct her research. She has lived in four countries: Finland, the U.S.A., Mexico, and China, due to which she is quite knowledgeable of the different cultures on different continents. The researcher is known for her diligence and her willingness to complete her tasks. The researcher has presented in several internationally appreciated academic conferences from which she has received good feedback about her research proposal. Academia has shown interest in her Doctoral Thesis.

Contact with Case Relationships

Year		2009			2010				
Month		10	11	12	01	02	03	04	05
Case Relationship	Dragon	First e-mails and phone calls to Seller	<ul style="list-style-type: none"> • Seller expresses willingness to participate • Discussion about possible Buyer • Buyer contacted • Buyer expresses willingness to participate 	<ul style="list-style-type: none"> • New Contact Person at Buyer's organization • Interview times arranged (initially with Buyer) 	<ul style="list-style-type: none"> • Interview with Buyer confirmed • Interviews held, confidential data received from Seller • E-mails received regarding more information from Seller's representative 		Secondary sources found and their analysis begins	Case Descriptions sent to Buyer and Seller	Answers received from Buyer (not interviewee, but his boss, interviewee no longer belonged to the buyer's organization at this point) and Seller
	Red Bird	First e-mails and phone calls to Seller	Seller expresses willingness to participate	<ul style="list-style-type: none"> • Discussion about potential Buyer begins • New Contact Person at Seller's organization • Contact opened with potential Buyer 	<ul style="list-style-type: none"> • Interviews arranged with both Seller and Buyer • Interview rearranged with one representative from Seller • Prior information package received from Buyer • Interviews held 		Secondary sources found and their analysis begins	<ul style="list-style-type: none"> • Case Descriptions sent to Buyer and Seller • Answer received from Buyer 	Answer received from Seller's representatives

Year		2009			2010				
Month		10	11	12	01	02	03	04	05
Case	Turtle	<ul style="list-style-type: none"> • First e-mails and phone calls to Seller • HQ expresses willingness to participate in study 	<ul style="list-style-type: none"> • Contact with Seller's Chinese subsidiary opened after communication difficulties • Seller's Chinese subsidiary confirms willingness to participate 	Several phone calls and e-mails to Seller's Chinese subsidiary	<ul style="list-style-type: none"> • Seller informs of possible Buyer to interview • Buyer contacted • Interviews arranged with both Buyer and Seller • Interview with Buyer rearranged • Interview with Buyer held 	Interviews with Seller held	Secondary sources found and their analysis begins	Case Descriptions sent to Buyer and Seller	
	Relationship	White Tiger	First e-mails and phone calls to Seller regarding possible research in Latin America		First e-mails and phone calls to Seller regarding possible research in China	<ul style="list-style-type: none"> • Seller expresses willingness to participate in research • New Contact Person at Seller's organization • Brief discussion about potential Buyer held with Seller • Buyer expresses willingness to participate in research • Interviews arranged with both Seller and Buyer • Interviews held, confidential information received from Seller 		Secondary sources found and their analysis begins	Case Descriptions sent to Buyer and Seller

Interviews

Date	Location	Company	Position	Nationality	Language	Rec.
Jan 19, 2010	Shanghai	Seller Red Bird	Area Sales Director, Greater China	Hongkongese	English	X
Jan 20, 2010	Shanghai	Seller Red Bird	Business Development Director, China & Asia Pacific Region	Finn	Finnish	X
Jan 21, 2010	Shanghai	Seller Dragon	Vice President, Sales & Service	Finn	Finnish	
Jan 21, 2010	Shanghai	Seller Dragon	Personal Assistant for Vice President	Chinese	English	
Jan 21, 2010	Shanghai	Seller Dragon	Marketing Communication Manager, China	Chinese	English	
Jan 21, 2010	Shanghai	Seller Dragon	General Manager, China & North Asia	Chinese	English	
Jan 21, 2010	Shanghai	Buyer Turtle	Director	Chinese	Mandarin	
Jan 22, 2010	Shanghai	Buyer Dragon	Assistant Factory Manager	Chinese	English	X
Jan 25, 2010	Shanghai	Seller White Tiger	General Manager	Chinese	English	X
			Production Manager, Deputy General Manager	Chinese		
Jan 26, 2010	Shanghai	Buyer White Tiger	Engineering Manager	Chinese	English	X
Jan 27, 2010	Hong Kong	Seller Red Bird	Senior Customer Service Representative	Hongkongese	English	
Jan 27, 2010	Hong Kong	Buyer Red Bird	Group CEO	Singaporean	English	X
			Chief Operating Officer	Hongkongese		
Jan 27, 2010	Hong Kong	Seller Red Bird	Segment Leader and Administration Manager, Southern China	Hongkongese	English	
Feb 01, 2010	Suzhou	Seller Turtle	Managing Director	Finn	Finnish	
Feb 01, 2010	Suzhou	Seller Turtle	Executive Vice President, Sales & Marketing, China	Chinese	English	X

Interview Guide

The Development of the Case Relationships

- How did the relationship begin? Who contacted whom? How was the contact made? Was an agent present initially? What kind of picture did the company have of the relational partner beforehand?
- What events have affected the relationship? Have the effects been positive/neutral/negative?

General Thoughts on the Case Relationships, Their Quality, and Future Prospectives

- Why has the company decided to develop the relationships (why not only transactions)? Has the relationship ever been at stake?
- How are relationships generally managed at the company? Has something different been done in the case of the relational partner? Why is this?
- Have differences in business culture affected the relationship?
- Has the environment (e.g. legal, competitive) had an affect on the relationship? Have government officials affected the relationship?

Guanxi and Its Role in the Case Relationships and in Business in General

- What does guanxi mean to you? How is it present in this relationship? Are there differences compared to other relationships?

Secondary Sources

Secondary Source		Case Relationship							
		Dragon		Red Bird		Turtle		White Tiger	
		Buyer	Seller	Buyer	Seller	Buyer	Seller	Buyer	Seller
Annual and Interim Reports²⁰		<ul style="list-style-type: none"> • NA • British parent's from 1997 to 2009 	From 1997 to 2009	From 2000 to 2009	From 2000 to 2009	NA	From 2000 to 2009	<ul style="list-style-type: none"> • NA • Current parent's from 2008 to 2009 • Previous parent's from 2005 to 2008 	From 1997 to 2009
Internal Documents		NA	<ul style="list-style-type: none"> • E-mails regarding the buyer and the offering process • Consultancy Report 	Ordering Process Guide	NA	NA	NA	NA	The CRM system
Websites	Company²¹	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases 	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases • Customer Magazine 	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases 	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases • Customer Magazine 	<ul style="list-style-type: none"> • Company information 	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases 	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases 	<ul style="list-style-type: none"> • Company information (e.g., history) • Releases
	Industry²²	X	X	X	X	X	X	X	X

²⁰ The possible governance and name changes of the relational actors have been considered while looking for information on the companies.

²¹ If the company websites exist in English, Finnish, and Mandarin Chinese, all three were checked. The websites of parent companies, if these exist, were also checked.

Secondary Source		Case Relationship							
		Dragon		Red Bird		Turtle		White Tiger	
		Buyer	Seller	Buyer	Seller	Buyer	Seller	Buyer	Seller
Websites	General ²³	X	X	X	X	X	X	X	X
Trade Journal Articles ²⁴		X	X	X	X	X	X	X	X
Magazine Articles ²⁵		X	X	X	X	X	X	X	X
Researcher's Interview Diary		X	X	X	X	X	X	X	X

²² The websites of industrial associations were mainly checked in English, Finnish, and Mandarin Chinese. Other unspecified languages were also used, if felt necessary. Through the industrial websites, news about the case companies were read and information about the industry and its situation in China, Finland, and overall were read. Also the trade fair websites were checked.

²³ General information about legislations and the financial situations in China, Finland, and internationally were reviewed. The information was checked in English, Finnish, and Mandarin Chinese, when possible.

²⁴ Trade journal articles were mainly read in English and Finnish. The trade journal articles in English were from 1979 to 03/2010, those in Finnish from 1995 to 03/2010. The journal articles read in other languages (including Mandarin Chinese) are from various sources between 1995 and 03/2010.

²⁵ Magazine articles were read in English, Finnish, Mandarin Chinese, and various other languages, when necessary. The magazine articles date from 1949 to 03/2010.