

FACING THE CHINESE BUSINESS NETWORK IN SOUTHEAST ASIAN MARKETS – OVERCOMING THE DUALITY BETWEEN NORDIC AND CHINESE BUSINESS NETWORKS

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Abstract

In this paper two different ways of organizing business activities are discussed and compared: the Nordic business network model and the ethnic Chinese business network model. Important differences between these different models are outlined and the models are compared. The study focuses on how these differences take shape in certain types of relationships and behaviours when firms from two different contexts meet.

The industrial network approach has been developed and empirically tested, to a large extent, in the Nordic countries, whereas it can be viewed as a Nordic business network model, being well suited for studying relationship and network behaviour of Finnish and Swedish firms. Its vocabulary, thought patterns and logic can directly be used to explain such firms' relationship behaviour. Hence, it is a good tool for understanding the Nordic network context. On the surface, the overseas Chinese business network model resemble 'classic' external business networks like those found in the West, but business networks in the overseas Chinese context differ sociologically, organizationally and economically from inter-firm networks in the West.

The paper builds on two separate studies; one conducted in the 1980s, and one conducted in the 2005s with Finnish and Swedish firms in the overseas Chinese context in Southeast Asia. Findings suggest that Finnish / Swedish and overseas Chinese deviate from their native behaviour when conducting business with each other, resulting in a mix of network relationships from both contexts.

Keywords: Nordic business network, overseas Chinese network, relationship management

Introduction

Recently there has been a vivid discussion in media about Asia. We do not refer to the horrible tsunami that struck the region on Boxing Day 2004 and the following rebuilding of the societies that were affected by the disaster. Rather, we refer to the debate about the ever increasing amount of Finnish and Swedish firms moving to Asia, specifically China. The most pessimistic forecasts claim that Finland and Sweden will lose several hundred thousand jobs to China. That firms are in the hunt for low wage countries for their production facilities is nothing new. What is, however, a new phenomenon is that not only labour intensive firms are moving to China, but also high-tech firms; whole research departments are transferred to China. What used to be the domain of large multinational companies (MNC's), emerging markets are now rising the interest of small and medium sized firms. For some of these small and medium sized firms, their internationalization process takes them directly to the Asian region.

As Finnish and Swedish firms locate in Asia they quickly realize that the Chinese Asian business environment is quite different in many aspects from their home environment, not least from a business network perspective. This is in line with Whitley's (1991, 1992) work, where he concluded that differences in institutions between different societies are often so large that distinct patterns on economic activities are created. In fact, network principles guiding economic activities build on quite different logics and principles in the East and Southeast Asian (SEA) region compared to the Nordic region.

For instance, business networks in this region differ sociologically, organizationally and economically from inter-firm networks in the west. Society as a whole has a network like structure, and network relationships underpin all dimensions of both social and economic activities (Jansson, 2005). One striking feature in East and Southeast Asia's emerging markets is in fact the local firms' propensity to form business networks based on elaborate and complex social networks. Because many firms in the Southeast Asian context are family owned, the company becomes part of the individual's network, and the organization is subordinate to the individual. The individual has a large role and his position is very informal (Jansson, 2005; Ramström, 2005). In the North European context, on the other hand, the individual has a small role and formal position, and the perception is that the organization rather than the individual maintains network relationships.

Furthermore, shaped by different social cultures and different economic and political home environments, firms in Southeast Asia have developed unique business styles, which are often an eclectic mix of traditional, Confucian-inspired Asian ethics, entrepreneurship and Western professional management (Ramström, 2005).

Building on the idea that various regions in the world have developed unique business systems, and hence have uniquely functioning business networks, it becomes interesting to study how differences between network contexts take shape when firms from different contexts meet. Because networks differ and because different logics and principles apply to relationship processes between the Nordic and the ethnic Chinese network contexts, firms from these two contexts are likely to experience large challenges and difficulties when managing business relationships with each other.

The paper is structured in the following way. The first part of the paper deals with problem, objectives and method. The second part of the paper presents the Nordic business network and Chinese business network models. The aim is to present important characteristics of each network model, and to compare and highlight some major differences between them. The third part presents the major findings of the study. This part builds on the description offered in part two. The aim with the third part is to investigate how various network and relationship characteristics take shape when firms from the Nordic and ethnic Chinese network context meet in Southeast Asia. Issues such as relationship development, social network and organization are studied. The fourth and final part of the paper offers concluding remarks.

Problem and objectives

In light of the fact that many Finnish / Swedish firms are present or soon will be present in the Asian context, it is surprising that so little research is carried out with a focus on the Chinese network context, and particularly the overseas Chinese context. There are many small and medium sized Finnish and Swedish firms that have no prior experience of business in Asia but are either considering or already has decided to locate in Asia. Finnish and Swedish firms are going to need in-depth knowledge about network principles and logics in the greater Chinese context. They will also need new business models that work in this context, as it is not always possible to transfer western network strategies and concept to this context (Meyer, 2000) Second, like the other two powerhouses in Asia, Japan and Korea, it is highly likely that as the Chinese (including the overseas Chinese) market develops, more and more multinational firms will be produced. These firms will eventually venture into Europe. Not only will many Finnish and Swedish firms partner up with these firms, many of them will also end up competing head on with Chinese or overseas Chinese firms. Finnish and Swedish firms will loose out unless they understand the network (business) behaviour of their competitors.

There is a lack of studies according to the industrial network (INT) approach that focus on various aspects of network behaviour between firms from different contexts, particularly between Europe and Asia. A review of papers presented at IMP conferences during 2002 – 2004 (all in all about 460 papers) reveal that very few papers address cross-cultural issues. Out of the 460 papers, roughly 20 deal with cross-cultural issues. Out of these 20, even fewer focus directly on relationship issues between firms from different contexts. This constitutes less than 5% of total papers submitted. Furthermore, a large part of this 5% is conducted by a handful of researchers.

This is rather surprising since the INT approach (Håkansson, 1982, Turnbull & Valla, 1986, Håkansson & Snehota, 1995) **clearly** states that the firm is embedded into the environment, yet it seems to assume that networks in different contexts function according to same principles. Little attention is given to the fact that national environments may differ quite remarkably, and that networks in different contexts may be governed by rather different logics and principles. Differences between Western and emerging markets are of such magnitude that they entail different strategic situations for the MNC, (Jansson, 2005), and distinctiveness of business systems in emerging markets limits the transferability of Western business strategies and organizational concepts (Meyer, 2000). This in turn means that organizational concepts and practices cannot be easily transferred across environments. Furthermore, because the INT approach is basically a Western invention with models, concepts and empirical evidence mostly coming from Europe (Gemünden, 1997), it is not directly applicable in other network contexts. As international business is shifting attention to Asia and other non-western countries the INT approach needs to be tested outside the western context (Fletcher, 2003).

In short, previous research fails to address some important issues; 1) how industrial networks in different contexts can be compared, 2) in what ways industrial networks are different, 3) how differences in network systems take shape when firms from different network contexts meet.

Building on the above mentioned questions, three objectives are formulated. **The first** objective is to study what occurs to the above mentioned network models when firms from these contexts meet. This objective is interesting since Finnish and Swedish firms have evolved in a different network context compared to the overseas Chinese firms, and are therefore also guided by different network principles and practices. The purpose with this objective is therefore to study how differences between network systems take shape when firms from two very different network contexts meet: What does a network between firms from two different contexts look like? And how does this blended network develop over time? What is the end-result from cooperation between firms from two different network contexts? In essence, how do differences between network contexts take shape when firms from two different contexts meet?

A second objective is to compare the Nordic business network model and the ethnic Chinese business network model. **The third objective** addresses the relationship between ethnic and mainland Chinese firms. By studying the overseas Chinese in Southeast Asia much can also be learned about mainland

Chinese firms, because the overseas Chinese institutional profile originates in mainland China, and the overseas Chinese have maintained their institutional roots.

Since different logics and principles apply to business activities in other contexts, it becomes interesting to study to what extent the concepts and principles of the Nordic business network model can be used outside its 'home' context. For instance, how does the NBN fit in the ethnic Chinese context, where local firms conduct economic activities based on the logic and principles of the overseas Chinese business network model (CBN)?

Method of the study

The research is based on a comparative and multiple case-study method, where cases have been researched as wholes (Merriam, 1998; Yin, 1989). The cases are the local subsidiaries of MNC's in Southeast Asia, mainly in Singapore, Malaysia and Thailand. The theoretical framework presented in the paper has been developed through a combined process of abstraction and generalization or abduction (Alveson & Sköldbberg, 1994; Jansson, 1994).

This paper builds on two studies made by the authors. The first major study was conducted in 1984, 1985, and 1989 at 28 subsidiaries of 17 Swedish MNC's (Jansson, 1987, 1994). The business environment was researched through interviews, participant observations, and documents. The questionnaire contained open-ended and non-standardized questions about the marketing, purchasing and organization of the MNC's, inter alia involving several questions about networks and cross-cultural issues.

The second study was conducted in 2003 with Finnish and Swedish managers at 26 Finnish and Swedish firms and subsidiaries (Ramström, 2005). The second study used interviews as source of primary data. All in all, 28 semi-structured interviews were conducted for the second study between the 17th of October and 20th of November 2003. 13 interviews were carried out in Singapore, 7 in Malaysia and 8 in Thailand. The interviews evolved around these managers' relationship management processes with overseas (ethnic) Chinese firms. In addition to the Finnish and Swedish managers, the study draws on interviews with one local employee and one local scholar.

The Nordic and Chinese business network models

The INT approach has been developed and empirically tested, to a large extent, in the Nordic countries, whereas it is well suited for studying relationship and network behaviour of Finnish and Swedish firms. Its vocabulary, thought patterns and logic can directly be used to explain Finnish / Swedish firms' relationship behaviour. Hence, it is a good tool for understanding the Nordic network context, and how business relationships are developed in this context.¹ The INT approach is strongly sociological in its orientation, its theoretical foundation being inter-organizational theory and network theory (see, e.g., Håkansson, 1982; Johanson & Mattsson 1987; Easton, 1992; Jansson, 1994; Håkansson & Snehota, 1995; Ford, 1997). Originally the industrial network theory was applied to buyer-seller relationships between European firms, but was later extended to firms from Asia, North America and Australia (Håkansson & Snehota, 2000). However, the approach is mainly valid for mature Western markets, especially the 15 mature European Union markets (Jansson, 1994, 2005).

The basic ingredients of the INT approach identified by Johanson & Mattsson (1987) are still valid. Relationships develop through exchange processes and adaptive processes take place between parties, e.g. through product modifications, delivery systems, financial systems and other routines. The central idea is that of establishing relationships or bonds, which create dependencies between the parties involved. The more intensive exchange processes become, the stronger the reasons for adapting to each other and not replacing the other. Mutual orientation is created, which results in a preparedness to interact in a dyad. Mutual knowledge of and respect for each other's interests is also developed. This mutuality is shaped by social exchange, business exchange and information exchange. Accordingly, transactions other than

purely traditional economic exchange play an important role in industrial markets. Different forms of investment in relationships shape the future behaviour of the parties involved. Most research based on this inter-organizational network approach mainly focuses on dyadic relationships but also on sets of links within networks, mainly indirect relationships and connectedness of focal firms. Relationships are often long-term, trustful and based on a view of man as more prone to cooperation than conflict. For example, the well-known division of relationships into activity links, resource ties and actor bonds by Håkansson & Snehota (1995) builds on this view.

The main characteristics of the NBN are specified further in Table 1, where they are directly contrasted to the major characteristics of the overseas Chinese business network model (CBN). The comparison is grouped according to specific themes. The characteristic of the NBN is stated first followed by the comparable characteristic of the CBN according to the specific theme. The traits of the CBN builds mainly on Jansson (1987, 1994) and Ramström (2005) as well as on others' research on the overseas Chinese family business system since the 1970's (Redding, 1985, 1990, 1991, 1995a, 1995b; Redding & Richardson, 1986, Chu, 1991; Hofstede, 1994; Yang, 1994; Björkman, 1994; Chen, 1995; Lasserre & Schutte, 1995; Huotari & Rosenberg, 1995; Naisbit, 1996; Hamilton, 1996; Moilanen, 1997; Bjerke, 1998; Tong & Bun, 1999; Haley, 1997; Haley et al., 1999; Yip, 2000; Backman, 2001; Tsui-Auch & Lee, 2003;).

Theme	The Nordic Business Network Model	The Chinese Business Network Model
Self	Firms in networks	Networks
Self	Individualistic	Collective
Authority	Lateral	Hierarchical
Time	Mid/Long term	Long term
Time	Changing (Discontinuity)	Lasting (Continuity)
Formality	Impersonal (formal)	Personal (Informal)
Rationality	Achieved mutuality	Guanxi (Ascribed)
Rationality	Profitability	Renqing
Rationality	Open	Closed
Morale	Efficiency	Harmony/Yin-Yang
Morale	Conflict base	Harmony/Face base
Trust	Organizational/professional trust	Individual/social trust
Causality	Logical	Holistic
Causality	Brain	Genqing/Heart

Table 1. The Nordic and Chinese business network models contrasted

The first theme is 'self', which concerns how a person mentally relates to his social environment, for example if he looks upon himself to belonging to groups or not. This dimension is close to Hofstede's individualism/collectivism dichotomy. Overseas Chinese do not join networks in the way westerners join organizations. Categories of networks are largely pre-defined as sets of binding relationships. Every individual has a social network built around him, consisting of family, relatives, colleagues and friends. As a result of this interconnectedness between the networks of family members, the overseas Chinese business environment is explained as a series of interlocking networks, families and relatives. These inter-firm clusters have been referred to as "business networks". Consequently, networks have become the institutional medium of economic activity in the overseas Chinese community (Hamilton, 1996; Whitley, 1992b; Redding, 1990), and therefore it is not a question of becoming part of a certain type of network, but a question of becoming a trusted member in a networked society (Ramström, 2005).

The main focus of the NBN model is centred on the units in the network, i.e. the firms. The focus of the Chinese business network (CBN) model, on the other hand, is on the network itself. This is a reflection of the collective Chinese society in contrast to the more individualistic Western society Hofstede, 1994). The CBN is understood to consist of loosely connected overseas Chinese firms, which are embedded in a larger context of extensive personal networks. Business groups are based on organizational alliances,

and firms exist within networks with suppliers, customers, etc. But relationships with distributors, customers, suppliers and competitors do not restrain the firm in seeking new markets and changing direction. Networks of commitments do not to a high extent connect across industrial sectors. As firms focus on core competences and activities there is increasing specialization between firms. Vertical integration is becoming less important, which also means that firms outsource many of the activities in the firm. Inter-sector coordination in the overseas Chinese context is largely achieved by families establishing subsidiaries or joint ventures and partnerships with personally known and trusted entrepreneurs in business groups.⁴ *“What does it take to make a conglomerate in Asia? Take a bank, add some trading interests, some manufacturing interests, a stock broking firm, lots of real estate holdings, and perhaps a hotel, mix it all around to form a loose structure, but one in which lots of internal transactions take place and put the lot under the control of the family”* (Backman, 2001). Family firms are often interdependent with sub-contractors and trading agents. However, because most sub-contractors are perceived as outsiders, commitments are usually not long-term and therefore commitments are less extensive and long lasting (Whitley, 1991).

The next theme is ‘authority’, which resembles Hofstede’s dimension ‘power distance’. Overseas Chinese business networks are hierarchically structured, inter alia following the hierarchy of the family firm. Relationships in a person’s network are therefore dyadic and hierarchical as well as normatively defined. Overseas Chinese business networks are relatively strong, last over the long term, representing a continuity of collective common interests (families, communities and sets of friends and relatives). Relationships between Nordic firms are more lateral. They are relatively weak and generally represent short or mid-term economic interests, and have more unstable and changing business networks.

The following two aspects relate to the theme ‘time’, which explains how people perceive time. Time can be explained as monochromatic or linear, for example whether it is possible to divide and measure time in a precise way. A linear Western time perception is contrasted to an Oriental circular time perception, for example found in many South and East Asian religions.

The next theme is called ‘formality’ and regards how formal relationships are. In the Finnish / Swedish network context firms are autonomous legal and financial entities facing largely anonymous and impersonal market pressures and both the networks and transactions are formal and to a degree impersonal (Whitley, 1992a, Lindell & Arvonen, 1996, Koopman 1999). Finnish and Swedish business networks are organizational. Contractual and transactional relationships between the actors are often formed based on goals of the actors, which may be individual, idiosyncratic, and opportunistic (Lasserre & Schutte, 1995). Business networks in the overseas Chinese context are personalistic, and relationships emerge from the person and are interpersonal or social.

The theme ‘rationality’ concerns the goals or reasons behind relationships. While the Finnish and Swedish inter-organizational networks are built on mutual interests, the inter-personal Chinese networks are built on the persons having some kind of common background or ‘guanxi’. Relationships in the overseas Chinese context build on reciprocal favours or ‘renqing’ between the individuals rather than on a common interest based on ‘win-win’ situation regarding profitability. Thus, relationships are personal, shared and defined, and governed by sets of established social rules as well as prescribed behaviour. Networks are formed around means of action, rather than goals of actors and mutually recognized conventions structure the action itself. Guanxi and renqing often combine to make the business networks closed or secret rather than open and therefore hard to enter. This low transparency is behind the corrupt practices – the 4th dimension – typical of the ‘crony capitalism’ of Southeast Asia.

The theme ‘morality’ deals with for example what is right or wrong, good or bad, and virtues. Regarding cultural differences between Westerns and Chinese, this dimension is further specified as the difference between a shame culture and a guilt culture. While cooperation through relationships in the Nordic business network model largely evolves around profitability and efficiency issues, business cooperation in Southeast Asia evolves around harmony. It is created through the Yin and Yang (‘both-and’) principle of having a balance between major alternatives rather than choosing the best alternative according to an ‘either-or’/optimization principle. Another major characteristic of relationships within the Chinese business

network closely related to harmony is face behaviour, which contrasts to the more conflict oriented base of the Nordic business network model.

Trust and causality focuses on the thinking processes, for example, if it is abstract or non-abstract, if logical connections are made between categories, and, if linear, sequential explanations are made. In the Nordic countries, it is mostly autonomous individuals of firms that are interconnected, and these relationships rest on rational and logical calculation and (voluntary) individual action. Trust between firms in the Finnish/Swedish context is organizational and professionally based, and employees enter as buyers/sellers where the person is an official, and has a professional role. Chinese businessmen, on the other hand, tend to have a more holistic thinking. Individuals in overseas Chinese organizations functions as a person and the role is usually personal and private, and trust is individually based. Employees also enter as a person in business transactions. Related to this aspect is the strong emotional theme or 'genqing' of the Chinese. A common metaphor for this strong emotional content of the relationships is the heart, while the brain more symbolises the less emotional Nordic business relationships.

As a summary of these different themes, it can be noted that unlike westerners, the overseas Chinese do not distinguish between business related, family related and socially related networks (Haley, 1997). Most often business relationships are built on a strong personal relationship making it difficult to distinguish between networks of social relationships and network of business relationships. For example, social relationships can be tapped when entering into a business relationship and those relationships can for instance be clan- or dialect based. Business relationships are built on social relationships, and personal relationships are often a prerequisite for developing other types of business activities. In other words, social relationships are an input to a business relationship, not an outcome of the relationship as in the Finnish/Swedish context. Furthermore, relationship in the overseas Chinese context does not only develop as a result of acts and counteracts. It develops as result of the individual being able to act in a respectful manner, and show respect for local traditions and rules. In other words, the firm's strategic orientation is legitimacy in this context, meaning that it adheres to number of rules, regulations, values and norms in order to maintain environmental support (Jansson, 2005).

Major findings about the mixed network in the ethnic Chinese context

Based on the comparison of the NBN and CBN found in the second part of the paper, the differences between these two network models is of such magnitude that extensive adaptation, (by one or the other party) would be required. Conventional wisdom, such as "think global, act local", suggests that Finnish and Swedish firms should adapt to the CBN model when conducting business in Southeast Asia. Building on results from the two studies by Jansson and Ramström, the conclusion is that as Finnish and Swedish firms develop relationships in the overseas Chinese context the resulting network is neither purely Nordic nor purely overseas Chinese. Both the Nordic and overseas Chinese firms deviate from their native behaviour. Consequently, a re-institutionalisation process takes place as firms from these two network contexts meet. Hence, a new type of network takes shape as Finnish / Swedish and overseas Chinese firms are interacting; **a mixed network**.

The following part explores how each network model (NBN and CBN) influences the mixed network, i.e. dedicated to describing the overall mixed network. Based on empirical findings, the purpose is to identify how the Nordic business model has been influenced and modified by the Chinese business model while Nordic firms are managing relationship in the ethnic Chinese context. The focus is on exploring how the mixed model takes shapes using six network elements; 1) relationship development, 2) social network, 3) 'genqing', 'guanxi', and 'renqing', 4) the fourth dimension, 5) buying and selling, and 6) organization.

The most striking conclusion when comparing the results from of the first study in the 1980s (Jansson, 1987, 1994) and the second study in the 2000's (Ramström, 2005) is that relationships based on a mix of the Nordic and Chinese networks in Southeast Asia have not changed much during this period. On a general level, ethnic Chinese network behaviour is moving towards the Nordic network behaviour. Consequently, changes to the Nordic model and ethnic Chinese models are not discussed separately since so few changes have occurred in the mixed model.

Relationship development

Network relationships in the overseas Chinese context are a mix of local traditional and western business practices. An influence from the Chinese business network on the mixed network is possible to identify since personal or social network are an important part of the inter-organizational network. In the Nordic context social relationship is an outcome of a business relationship. However, business relationships between Nordic and ethnic Chinese firms most often start with a good personal relationship; only thereafter the business relationship starts. This implies that the mixed network is largely influenced by the CBN model, which stresses the importance of social linkages. Accordingly, business decisions are based on a personal relationship to a higher degree than in the Nordic context. The overseas Chinese tend to see through persons what they want to see in the company. Products and performance are basically secondary, and even when the product is superior, it might not result in a deal if the personal relationship is not well managed.

Since business in the overseas Chinese context evolves both around efficiency and harmony, contact nets are characterized by a high degree of informality, underlining the exceptional importance of personal selling as the primary medium of transacting. It also reflects the critical importance of individual and social trust as compared to organizational and professional trust in the Nordic context. Cultural influence is a major factor behind the critical role of the social linkage in ethnic Chinese network. Guanxi behaviour goes deeper than professional friendship, and therefore the ethnic Chinese display traditional ways of behaving in the business world, even in the mixed model. In addition there is a cultural bias in the predilection for bargaining and for viewing price as the main competitive variable.

Duality is noted regarding the trust concept in the mixed model. Nordic firms have a rigid concept of trust and honesty, indicating for instance that people are typically trusted until they have proven they cannot be trusted. In the overseas Chinese context it is typically the other way around; people are distrusted until they have proven they can be trusted. In the mixed model overseas Chinese firms are adapting their behaviour regarding trust and honesty. They make extra effort to earn trust that they have been given. Furthermore, the overseas Chinese respect the Nordic firms' integrity, and appreciate that Nordic managers openly inform if something cannot be implemented. Denying or saying no would normally be avoided in a traditional overseas Chinese context because of risk of loosing or causing loss of face. Although the Nordic managers are sometimes too blunt, the Nordic firms' integrity instils a sense of trust and security in an atmosphere typically characterized by distrust.

Business relationships between ethnic Chinese firms are typically paperless, in the sense that written contracts are just for looks. However, in the mixed model contracts may be part of business deals, mainly as an influence from the NBN. In Thailand, e.g., ethnic Chinese firms are aware that their partners' parent companies require written contracts, and therefore written contracts are also used.

The social network

While social interaction in the NBN model has more of a supporting than a deterministic role for the business relationships, social interaction is more clearly and specifically expressed in the mixed relationship. It is for instance common that a local businessperson openly expresses that he or she will refuse doing business with someone they do not have a social relationship with. The firm naturally represent something that has been built over a long time, and there is respect for the brand, but the relationship is always between persons, not organizations. This is mainly influenced by the CBN model, where it is commonly believed that it is the person who creates the organization, not vice versa. Local business people therefore refer to a person (a business card) never to a company name.

This reliance on personal relationships makes it difficult to get direct access to new customers in the engineering industry. Many visits are required even before coming to the points of making an offer, in order to build a social relationship. Even more visits are required to get an order. The social relations can take anywhere from a month to over a year to build. The length of the establishment period is mainly influenced by the value of the potential sale and the intricacy of the buying process, or how many decision levels have to be penetrated. It is also influenced by how strong association the buyer has with other

competitors. Ethnic Chinese typically draft broad contacts in many directions, which provide them with knowledge, which in turn allows them to plan better and to negotiate with many different customers. Another significant difference compared to the Nordic model is that is that people in the Finnish and Swedish organisations visit their partners and customers more often than they would in their home context. In a few of the companies there are even some internal jokes that their sales personnel have an own office in their customers or partners organisation.

In the NBN model, performance or efficiency is mostly measured with financial criteria; the Finnish/Swedish firms having financial rather than growth goals. At the end of the day what matters for Finnish / Swedish firms is the performance, and the business relationship can be broken if the performance is not satisfactory or if the parties feel that the relationship does not work to expectations. However, when Finnish / Swedish firms operate in Southeast Asia it works more according to the CBN model, i.e. if two partners have started a relationship they live through it together. There is an expectation that one continue as a friend and a partner even if either party feels that the business relationship is not producing the desired outcomes.

Breaking a relationship can have severe consequences for the Finnish / Swedish firm, because it will not only get a bad reputation with one firm; it gets a bad reputation in a much wider network of firms and relationships. Hence, it is sometimes required that a firm remains in the relationship also during times when it economically would make more sense to leave the market. If a business relationship is broken due to poor market conditions, then the firms breaking it might not allowed to rebuild the business relationship since it has damaged its reputation.

'Genqing', 'guanxi', and 'renqing'

The strong influence on the mixed networks in SEA from the CBN model is further seen in how relationships are established and maintained through the personal social network. Whether a salesman will get an order is largely determined by a combination of 'genqing', 'guanxi', and 'renqing'. 'Buying your heart' is an expression for 'genqing', which illuminates an important aspect of the social network. Social events therefore have a big role in business life. Dinners are often more important than lunches as meeting places. The function of social events is to learn about each other and develop trust, while meeting in a relaxed setting to cultivate the relationship. The setting is typically informal during these occasions, and many issues can be more openly discussed.

In addition to eating together, playing golf is important for developing social relationships and achieving 'guanxi', and virtually all local managers play golf. Playing golf creates 'Guanxi', i.e. creating a common background. The general rule is that golf is a purely social event, but partners can also arrange for instance meetings during golf rounds. Since continuity is important in social interaction, playing golf regularly give the partners the opportunity to spend time with each other on a regular basis and hence develop strong social bonds. Having strong bonds does not, however, automatically grant access to the local partner's personal networks. Gaining access to local personal networks does not seem to be a priority for the respondents in the second study. One respondent even claimed that access to social networks is not a requirement for strong relationships. Another claimed that good relationships with local employees are more important than access to local social networks. One negative expression of 'guanxi' is that Finnish and Swedish businesspersons often are considered out-group members. However, being foreign also means that Finnish and Swedish firms receive differential treatment.

A significant difference compared to social events in the Nordic business model is that during social events in the CBN there is no clear distinction between formal and informal relationships. There is a combination of formality and informality, typically floating together. Business letters can be formulated quite formally, but discussed in a rather informal fashion over lunch. Informality is typically introduced at an early phase in the relationship, but informal relationships are created in a more formal fashion. The mixed model is also different from the Chinese business model in the sense that the overseas Chinese are more formal and address more business issues than they would in a relationship with other overseas Chinese firms. This is clearly a strong influence from the Finnish / Swedish model, since Finnish / Swedish firms are accustomed to addressing business issues much earlier in the relationship.

Because of the importance of 'face', Finnish and Swedish firms are often adopting a non-confrontational approach in SEA, and are more focused on chemistry between persons in the overseas Chinese context in order to achieving social harmony. 'Face' is important both internally within the Nordic MNC's studied, and externally, in relations with other companies. Personal relations tend to be more restrained and harmonious than candid and conflict-oriented, particularly in selling to local Chinese firms. The firm's social behaviour is much more emphasized in the overseas Chinese context. This is clearly different from the Finnish and Swedish firms' behaviour in their home context, and this type of behaviour is, hence, strongly influenced by the CBN.

Organization

Foreign firms are not expected to act correctly in all situations. This means that foreign businessmen are treated differently and are forgiven more things than local firms would be forgiven. Local businessmen are also more tolerant towards foreigners' mistakes, since they realize and accept that foreign firms cannot know all the customs and norms of local business.

Many of the respondents in the second study feel it is positive to be a foreign firm. It adds value and prestige for the local firms to have a foreign business partner. Most of the respondents believe that there is a certain degree of prestige for the locals to be associated with western firms. Having a foreign partner is a positive image for the local firm. It is their perception that there is some added value and prestige for the local firms to have a foreign business partner, although this seems to vary a bit from country to country. On the other hand, one of the larger challenges for the respondents has been to find suitable working forms and methods, which typically mean that the local organisation (subsidiary) has to function differently than its parent company. Although the organization looks similar to the parent organization from the outside, many internal processes have been adapted thus making it more sensitive to its surroundings and more people oriented.

Buying and selling

The buying behaviour of local Chinese customers is guided by intuition and business is based on feeling. While Finnish/Swedish business people make decisions in a more rational way, the overseas Chinese decide more emotionally. There is a mix of 'genqing' and heart when the ethnic Chinese act as the buyer with brain and logical thinking when acting as the seller. This kind of decision behaviour and way of thinking is not logical in the sense that businessmen from the Nordic business network model would understand. In fact, the overseas Chinese decision-making is characterized by spontaneity and seemingly little engagement in pre-planning. Overseas Chinese customer firms are likely to seize unrelated opportunities as they present themselves. It does not mean that they do not engage in any planning, but their plans are not obvious or always visible to the Finnish/Swedish firms. The influence of the hierarchical characteristic of the CBN model on the mixed model is evident during procurements. A contract is mostly signed by several managers, which are responsible for the different departments involved in the purchase. Business is therefore tiresome and very bureaucratic. Although negotiations can be tiresome, lengthy negotiations are also considered a good way to get to know the other party, for instance learning whether he can be trusted or not. A rule of business is to never let the other party 'lose face'.

Price has a big impact on decision-making. There is a high degree of revenue orientation and price seems to matter most. One explanation is that the overseas Chinese are used to a sort of spot-mentality –“going for the best possible deal”, and minimizing risk. Another aspect of this price sensitiveness is haggling. Those who participate in the procurement of a product are evaluated in terms of how much they contribute to reducing the price of the product. Consequently, most business deals are negotiated. This is particularly true for companies that sell equipment and projects. Even spare parts are sold through offers. Bargaining is very much a contribution to the mixed relationships by the CBN model.

However, the overseas Chinese look very differently at how value is derived. Value is a combination of social and economic outcomes. A focus on price as a driver for perceived value also means that quality considerations are secondary. Since much of business is money driven, a contribution to a partner's cash flow is likely to result in a positive attitude towards the relationship. Even if customers are gradually

becoming more quality conscious, it can still be difficult for Finnish/Swedish companies to sell on the basis of quality, although this varies between different customer groups. However, Chinese salesmen employed by Finnish/Swedish companies can still find the quality oriented behaviour of Finnish and Swedish firms strange and difficult to handle. On the other hand, overseas Chinese purchasers seem to act differently when bargaining with Finns and Swedes than with other Chinese.

Chinese are deal-oriented, cash-prone and often have a rather low degree of technical knowledge. They have difficulties in defining their needs beforehand. Still the relationships seem to develop toward becoming more similar to the NBN model. Even if still uneven, the level of capability of the purchasers in the engineering industry has improved over the years. Furthermore, despite advances in IT technology, decisions are still made face-to-face. Matters can be worked out over telephone or Internet, but the final deals are always made face-to-face. Purchasing is often a slow process. For example, an overseas Chinese firm may require an offer within a couple of days, but may take several weeks or even months to reply with an order or inquiry. A lot of time is then spent with customers in specifying their needs, and offers are revised frequently.

The 'Fourth dimension'

Another culturally determined aspect of networks in SEA is the closed network, where important parts of the network can be secret and hidden. This is defined as the 4th network dimension. It refers to the ability of performing some business deals that do not strictly follow the rule of the law. While the terminology is changing, the system is not; what was earlier referred to as 'under the table' is currently referred to as 'under the carpet'. Although this "4th dimension" is not found in Finland or Sweden, it is a typically a common element in many business transactions in Asia. (, being a (culturally determined) unofficial underground part of the economy.) In SEA it mostly goes under the name of 'crony capitalism'. In fact, the overseas Chinese view gift giving as a central ingredient in building Guanxi. Gifts need not to be physical goods, they can also be for instance information, access to some resource, market knowledge and so on. The major challenge for Finnish / Swedish firms is that in their home environment, gift giving is viewed as illegal, and there are strict rules on what constitutes a legal business gift. The line between what is considered a legal or illegal gift is blurred in the overseas Chinese context. Often gift giving is a part of most transactions. There is a certain history in the region of giving a little extra for something to someone that is important. The local businessmen typically do not see anything wrong in giving someone a little tip for a good service provided or doing the work good.

Another typical characteristic of purchasing behaviour for firms in SEA is the demand for kickbacks. This system seems to be more common in certain countries in SEA, e.g. Indonesia and the Philippines and less in others, e.g. Malaysia and Thailand. Singapore seems to be an exception, since there is no evidence of the 'kick-back system' or very little of it. Usually the system works in one way in private industry and in another way in government. The kick-back system also depends on how competitors act. If they give kickbacks, a company that does not finds itself at a competitive disadvantage. There are also differences depending on the type of product and the decision processes involved in purchasing. Governments almost always buy on the basis of tenders, where the major point of influence involves the writing of the tender specification. In private industry, building a continuous relation is particularly critical. This allows the kickback system to thrive. In some industries, the long life-span of equipment, for instance, cannot be used as an argument to critical decision makers such as plant managers, who only reckon with having their job for a fairly brief period, tending to get it shortly before retirement. This provides a great opportunity to the person to collect a pension in this way.

The Nordic firms are in the mixed model considered transparent and open, and business is done in a respectable and straightforward way. This kind of transparency is sometimes quite surprising to the local businessmen, because they are used to a much more closed system, but very quickly start appreciating and liking it.

Concluding remarks and suggestions for further research

The major conclusion from the comparison of the results of the study in the 1980s and the one in the 2000's is that relationships based on a mix of the Nordic and Chinese networks in Southeast Asia has changed quite little during this period. Those changes that have occurred during the time of the two studies seem to have taken place mostly in the Chinese network model, making the Chinese network approach more resemble the Nordic network model. The main reason seems to be a general Westernization of the East Asian societies, mainly taking place as a consequence of the financial crises in 1997 and the integration of the PRC into the global economy. Therefore, the relationship processes have become more westernized in the overseas Chinese context.

This can be contributed to several factors. One is that more Chinese managers, especially younger generation managers, have a university degree from a western university or business school, foremost in the US, UK or Australia. Another is that more local firms are increasingly exposed to foreign business and are adapting some of their practices and, hence, becoming more experienced in doing business with foreign firms. However, the situation is mixed. Even if more local companies are increasingly modern, many firms are still quite traditional, and despite moving towards Western business practices, many local firms find it difficult to adapt to western business practices and behaviour (whether this should be required or not). Among the three countries studied, the largest share of more modern firms seems to be found in Singapore:

"One would believe that there is something miraculous because most of our business partners are overseas Chinese, and that you would somehow approach them in a Chinese way. Even Singapore was like that, but that is old time. But how to nowadays meet people to get networks or not? I do not see that there is anything special. It is really human to human speaking, normal behaving."

- Respondent U, Singapore 17.10.2003

The Finnish and Swedish firms are adapting to network structures in the ethnic Chinese context, although they are purposefully maintaining a level of 'Finnishness / Swedishness'. Findings also show that Finnish and Swedish firms are not expected to comply with all rules and regulations, norms and values of the ethnic Chinese context. They are at times even appreciated for and expected to show foreign behaviour. This is in line with Kostova's (2002) findings, suggesting that foreign firms are to some extent buffered from local institutional pressures. Although some traditional norms still need to be followed (for instance non-confrontational social behaviour) local businessmen are more accustomed to western business practices, including acceptance of different business behaviour. For example, the overseas Chinese are moving towards a more modern way of communication and conducting business. There is also a growing number of local Chinese who are travelling to America and Europe to do business, and they are more comfortable with the Western way of managing business relationships.

Mutuality is often stressed in relationships between Finnish / Swedish and ethnic Chinese firms. The atmosphere of the relationship is one of flexibility, possibilities and compromising. Maintaining a good reputation is critically important in the ethnic Chinese context because the society as a whole has a network structure. Losing the support of even one local firm in such a networked society might have severe consequences for the continuing existence of the firm in the market. Ethnic Chinese firms are unlikely to take another firm to court. Instead violations can lead to the banishment from society as a whole. Becoming blacklisted is far worse than being sued since the entire network will refrain from doing business with the guilty party. Such considerations usually outweigh the need for disregarding institutional norms and values.

There is often a notion in literature that since Finnish / Swedish and ethnic Chinese firms are from quite different network contexts, Finnish and Swedish firms would have major challenges managing a relationship in the ethnic Chinese context. Findings, especially from the study in 2005, indicate that the perceived difficulties and problems related to doing business in Southeast Asia are actually smaller and fewer than what is commonly believed. There are a few possible explanations. First of all, there are still a lot of templates and clichés about business in Asia. Everyone from government officials to academics and

practitioners have various pre-understandings of business relationships in Asia. Much of this pre-understanding circles around the idea that business in Asia is very difficult (especially among those that have no personal experience of the Asian market). And understandably so, because the authors' interpretation is that a lot of literature on Asian business is rather problem focused. Business issues are approached with the pre-conception of differences and difficulties, and hence a lot of literature is focused on 'solving problems'; some of which may not actually exist in the first place. The authors' conclusion is that business in Asia is not more difficult than in other emerging markets.

Further reasons why Finnish and Swedish firms do not come across overwhelmingly large problems when managing business relationships in the ethnic Chinese context is that there might be distinctive features in the Finnish / Swedish context that fit well in the ethnic Chinese context, for instance a rigid sense of honesty, modesty, and trustworthiness, as well as high education and strong legal structures. Still, another possible explanation is that Finnish and Swedish firms come from small markets, and have been forced at an early stage to internationalize, and therefore they are experienced in managing relationship in foreign contexts. Furthermore, since the Nordic countries are small, ethnic Chinese businessmen typically know little about them. This in turn means that Finnish and Swedish firms start with a neutral image. Also, despite being small countries, some Nordic firms have become global leaders in their fields, and such achievements are admired in the ethnic Chinese context.

Finally, some of the perceived difficulties might exist because Southeast Asia has ended up in the shadow of China and India. Almost all focus on Asia during the past few years has been on the great business opportunities and outsourcing possibilities in these countries. In addition there is the great attention (for instance media coverage) in Sweden and Finland on Russia and Eastern Europe, especially to the new EU members.

All in all, the findings in this paper clearly indicate that business relationships in the ethnic Chinese context between Finnish / Swedish and ethnic Chinese firms are not as difficult as is popularly believed. The situation was most likely different ten or more years ago. However, one distinct characteristic of emerging markets is that they are undergoing change. This market change is also a part of a general reformation of the whole society. There is a shift taking place, where relationships of business networks are changing from being mainly personal to impersonal. There is also a shift from price to quality orientation. The consequence of such shift is of course that business practices in emerging markets are becoming more similar to practices in western markets. Because of this westernization Finnish and Swedish firms are able to identify familiar structures in these markets, and relationship dimensions are becoming more similar as well. Many Finnish / Swedish firms have realized that although the context is different, the same relationship principles apply in Asia; it is just the mechanisms that are different. It is perhaps time to see past previous templates or clichés.

Regarding China, the research results presented in this article should also be valid for doing business in mainland China, especially for Swedish / Finnish firms. First, as shown here, the mix of the Nordic business network model and the Chinese business network model in SEA has changed little during the past 25 years, indicating that these firms have tried out a working way to do business with the Chinese. Secondly, numerous overseas Chinese business firms from SEA as well as from Taiwan and Hong Kong have moved back 'home' by investing in China. Thirdly, the small business sector in China has grown very rapidly during the last five years, inter alia due to these investments.

However, from a research point of view, this is a proposition that needs to be studied, e.g. by stressing institutional theory as a theoretical base even more. First of all, a firm's business activities in any foreign network context require that the firm is able to conform to some rules and regulations of the foreign context. A firm's relationship behaviour is reflected by its home network environment. Firms develop specific behaviour in order to gain environmental support, i.e. gain legitimacy. As the firm enters a new institutional environment, it has little knowledge about actors, resources and activities in various networks in this environment. Its relationship behaviour might therefore not match this new network environment. Hence the performance of the firm in foreign network contexts depends on how well the firm is able to identify various institutional structures, and how well it is able to gain environmental support. When firms

move away from their home network context, they are in the habitual phase of their relationship, meaning that the firm's behaviour and structures are institutionalized to its specific home context.

It would also be interesting to further research the influence on institutional structures on cross-contextual relationships. A major characteristic of institutions is that they govern relationships between organizations as well as between individuals and groups. Relationships between these actors can be defined as networks, and from an institutional perspective this implies that institutions influence network structures. That in turn means that the MNC and its networks actors are influenced by various organizational fields surrounding these networks, for example systems of property rights and other legal rules such as judicial and penalty systems. Other examples of institutional complexes of importance are family, clan, religion, culture, political system, trade unions, the government (through for instance local laws and regulations), business associations, business mores and conventions, and so on. All these institutional structures will have an impact on what goes on inside a network.

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Notes

1. As discussed above the industrial network theory is relevant for Swedish and Finnish companies. A major reason is the highly similar industry structure in Finland and Sweden, comprising a large forestry sector, large metal sector and a considerable high-tech sector, especially telecommunication. The economies of both countries are very export oriented (and dependent) and consist of a large number of multinational and global enterprises. The economies are integrated, for instance about 800 Swedish companies in Finland employ more than 75,000 workers and approximately 700 Finnish owned companies in Sweden provide work for about 50,000 Swedes (Nordic council, 2002). There are also numerous connections on a firm level through various networks. The similarities in these two countries also take shape in large-scale mergers between firms, for instance StoraEnso (forestry), TietoEnator (high-tech), MeritaNordbanken (banking), TeliaSonera (telecom), CloettaFazer (confectionary), and so on.

These two countries seem even more similar when compared to the Southeast Asian countries. The Finnish / Swedish network system is remarkably different from the network system that has evolved in Southeast Asia. Strictly speaking, there is no uniform "Finnish/Swedish institutional profile". But, by comparison with most regions in the world, the Finnish/Swedish countries constitute a homogenous area (Björkman & Forsgren, 2000). This is especially true from an institutional perspective. The institutional environments in the Finnish/Swedish countries show large similarities, for instance family/clan, the state, legal framework, perception of time, assumptions concerning masculinity and femininity, individuality, contrast between work and private, and so on.

2. Redding (1985, pp. 110-111) analyzes the Chinese element in buying/selling situations. "It is likely that a Chinese manager would bring to a business transaction some combination of the following (in no particular order of importance).

- a) Desire for wealth as a source of security.
- b) A family consciousness which presents him with obligations which can best be fulfilled by maintaining company prosperity.
- c) A sense of Chineseness which is always obtrusive but is nevertheless deep and influential. It can also come out as an anti-order group feeling.
- d) A sense of dignity and sensitivity to 'face', often emerging as concern over rank (i.e. what rank is the person sent to deal with him).
- e) A desire to avoid conflict, to maintain social harmony.
- f) A desire to establish a friendship style of relationship in a business transaction.
- g) A pragmatic sense of getting things to work by seeing different situations in different ways, not resting on any universal set of guidelines.
- h) The assumption that trust is important and to be used, and a consequent disdain for the contract type of relationship."

3. As noted in Jansson (1994) the mixed tie is a kind of interpersonal relationship in which an individual is most likely to play the power games surrounding guanxi. "In Chinese culture, persons who are said to have guanxi usually share one or more important characteristics. They may be ascriptive, for example, common birthplace, lineage, or surname, or may involve shared experience, such as attending the same school, working together, or belonging to the same organization (Jacobs, 1979). The guanxi outside an individual's immediate family are conceptualized as mixed ties in Hwang's framework. Generally speaking, both sides to a mixed tie know each other and maintain a certain expressive component in their relationship, but it is not as strong as that in the expressive tie." (ibid., p. 224). According to Pye (1985, p. 293): "It is the quality of a relationship that is premised to a substantial degree on common interests..... The guiding principles of guanxi lie not so much in the psychological realm as in objective factors and conventions of behaviour (italics added). ... Among Chinese it is expected that people who share a common background will instinctively be mutually supportive: people who are from the same place - village, province, or region - or who attended the same school, or, better yet, were classmates, or who served in the same organizations are expected to be available to one another."

4. A good summary of the main Chinese forms of organization is found in Redding (1980, p. 138):

- a) Intuitive, contextual, immediate decision-making, without a formal planning framework.
- b) Informality of organization structure.
- c) Low objectivity of performance measurement.
- d) Personalistic external linkages to suppliers/customers.
- e) Nepotism, patronage and cliques internally.
- f) Centralization of power.
- g) A high degree of strategic adaptability