

Motives and organization for Chinese sourcing: an exploratory study of Finnish companies

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Abstract

An important way for tackling international business competition is to perform better in global sourcing. Despite the contemporary interest in China, we know little about Western companies' Chinese sourcing and, in particular, about supplier relations with Chinese partners. The aim of this paper is to analyse Finnish purchasing from China in order to investigate the motives for sourcing, the specific requirements of the area, and in particular, to see what kind of supplier relations are maintained.

To illustrate different purchasing strategies the study reports experiences of seven Finnish companies. Two globally operating, companies buy industrial components to be used in their own production and have organized purchasing through local purchasing centres (with expatriates and local employees). One company is a Finnish agent serving Finnish companies with industrial products, thus maintaining various and multiple relations with Chinese suppliers. One company sources industrial components via this Finnish agent. Another industrial company has direct contact to one Chinese supplier and sources one component. One company has direct relations with suppliers; products are used in own production or added as such to the assortment of high quality consumer goods. And finally, one company imports finished goods and simple components to consumer markets and employs Chinese trading houses. The products purchased by the case companies thus vary from high quality consumer products to industrial components. The empirical case studies were conducted in 2004 and early 2005.

The results show that the more the company is involved in and dependent on the Chinese sourcing, the more emphasis is given to long-term supplier relations that are characterised by mutual commitment, trust and personalised interaction. However, no partnership relations were built. It is critical to ensure high quality of the products and to expose potential delivery problems in time. Chinese partners seem to use spot trade for their own benefit, but they appreciate long-term relations and with committed partners they aim at a win-win situation. Personal relations (*guanxi*) play a key role in building and developing supplier relations. Low costs are a major rationale for Chinese sourcing, and all of the companies were cautious in their activities and thus have built the supplier relationships gradually. However, they were unanimous in stressing the need for a long term viewpoint to Chinese sourcing.

Keywords: international sourcing, China, supplier relations, inter-personal relations

Introduction

China and its reforming markets have attracted a growing interest among Western companies. Numerous firms move production to the country of low labour costs and growing market. In the first quarter of 2004 China's real GDP increased on-year 9.8 %, and booming investment growth is already raising worries (Bofit China Review 1-2/2004). While both managers and researchers are evidently interested in direct investments and production in China, less attention seems to be paid on purchasing from the country. However, China forms an important country for purchases and sourcing. For instance, Wall Mart is reported to make there annual purchases worth of 10-15 billion USD. Moreover, several multinational corporations have set up purchasing centres in China, especially in Shanghai, Guangzhou and Shenzhen. Therefore, this paper makes an attempt to understand the features and needs of procurement from China.

The rationale for investigating how Western (represented here by mainly Finnish) companies perceive the Chinese context for sourcing and how they formulate their purchasing strategies lies in the growing importance of purchasing function for companies. During the past decade, purchasing has become a more strategic area for companies, and especially supplier relations have attracted attention (Gadde & Håkansson 2001, Gadde & Snehota 2001). Moreover, studies point to the challenges that global supply base pose to effective development of supplier relationships (Handfield & Nichols Jr., 2004). However, we know little about the content and development of the relations that Western companies have established with their Chinese suppliers. This paper looks at the specific requirements that the Chinese context places on these relations, and it expects to provide tools for managing global sourcing more efficiently.

The aim of this paper is to analyse Finnish purchasing from China in order to see what kind of supplier relations are maintained and what are the specific requirements of Chinese sourcing. In order to learn about individual relations and to gain deep enough information we need to rely on case studies. For the purposes of this study seven companies were interviewed in 2004 and early 2005. The cases represent purchases of different types of products (industrial and consumer goods) and different ways of organising purchasing (agent, trading house and own purchasing with direct relations to suppliers). All companies have started their operations in China in or after year 2000, so entry and operations in the new market conditions are reported. The results are compared with other recent studies of Chinese procurement, so that there is better basis for arguing that the implications presented apply to Western purchasing more generally.

The paper is structured in the following way. First, a brief literature review shows the growing strategic importance of supplier relations, and the need for understanding relations with Chinese suppliers. The next, empirical section presents the seven case companies and their purchasing from China. First, we describe how sourcing is organized (e.g. how direct/indirect relations with suppliers are), then the motives for Chinese sourcing are presented and, finally we focuses on handling individual supplier relations. Also some related investigations on supplier relations and Chinese purchasing strategies are presented. The concluding discussion summarises the results of this study.

Literature review and theoretical background

Purchasing and trends in supply strategies

As a result of outsourcing of activities and networking, various relations with suppliers have become more important for business, and simultaneously, the role of supply has changed from administrative towards a more strategic function in companies (Gadde & Snehota 2001). While product characteristics affect sourcing (strategies are different for non-critical, leverage, bottleneck and strategic products, Kraljic, 1983), supply management is increasingly stressing process focus, customer focus, and market focus (Carter *et. al.*, 2000). In the 1990s, supply chain management, creation of partnership relations and reduction of the supplier base were major trends in business firms. SCM, which streamlines the whole supply chain from product planning to final delivery, has targeted attention to management of individual supplier relationships, but in addition, there are

developments in looking at portfolios and more extensive networks of supplier relationships. (Gadde & Håkansson 2001, Ford 2002) Today, purchasing strategies emphasise not only price (which is often related with arms' length relations and competition), but also cost efficiency, quality of products, and co-operation in relationships. Therefore, a proper unit of analysis for contemporary purchasing management and supply strategies are supplier relationships.

Acknowledging the crucial role of supplier relationships and their management, one way of defining the central dimensions of supply strategy is the following (Ford et. al. 1998, 122): the scope of supplies (in particular, make-or-buy decision), the structure of the supply base (number and type of company's suppliers) and the posture of supplier relations (how to handle supplier relationships).

International purchasing and China

There has been a long-term interest in international purchasing (Davis, Eppen & Mattsson, 1974, Ellram 1991), and more recently on global purchasing (Handfield and Nichols, Jr. 2004). Moreover, studies are increasingly taking global purchasing as a dynamic process, focusing on, e.g. motives for initiation, internal configuration and use of intermediaries (Quintens et. al, 2005). Also the present paper aims at understanding the learning processes and e.g. initiatives for starting and then developing supplier relations in China. Given the recent opening of China towards global competition, time seems to be ripe for this type of analysis. There are, however, surprisingly few studies of the special requirements of this sourcing area. Only recently, research projects have appeared focusing on, e.g., MNC procurement issues (Eberhardt et.al. 2004, Kotabe & Zhao, 2002) and Western companies sourcing strategies in China (e.g. Fang, Olsson & Sporrang, 2004; Duanmu & Fai, 2004, Nassimbeni & Sartor, 2004).

Clearly, cultural factors influence companies' sourcing strategy (Freytag, 2004) and we need more information on both cross-cultural and intercultural aspects of purchasing. Recently, Handfield and Nichols, Jr. (2004) have argued that a key factor in establishing positive buyer-supplier relations, and in the development of a high-performing global supply base is the human element. Social contacts may enhance formation of trust and informal adaptations between the buyer and seller, thus reducing cultural distance between the companies (Ford 1980). There is variation across cultures as comes to personalisation of business, i.e. the question of how important it is to be personally acquainted with other people if one is to interact with them efficiently (people vs. rule orientation, Usunier, 2000).

Chinese culture is an example of personalisation. Anyone dealing with the Chinese hardly fails to observe the importance that is attached to maintaining and developing personal connections, *guanxi* (Björkman & Kock 1995, Usunier 2000, Chen 2004). In this context, the underdeveloped legal framework and formal institutional support have been substituted by personal connections (Xin & Pearce, 1996), and skilful negotiation tactics are combined with the personal networks.

Another explaining factor for Chinese behaviour in general and also in business is the search for harmony and the concept of 'face'. The need to conduct human interaction comfortably is universal, i.e. to maintain one's own composure and avoid causing embarrassment either to oneself or to others. But face-related values in the Orient are not only important influencers on behaviour, but rather "they are its prime source" (Redding & Ng, 1982, p. 205). Face means the individual's assessment of how others close to him/her see the person. Issues relating to face include both giving and receiving face. Understanding these kinds of cultural features lies in the heart of analysing international and intercultural supplier relations.

To summarize, the theoretical concerns of this paper focus on supplier relationships. The empirical study investigates what kinds of supplier relations Finnish companies maintain, and also how managers perceive social bonds in the Chinese context. The study resorts to three dimensions of supply strategy: firstly, the scope of supplies (thus discussing the rationale and initiatives for Chinese purchasing and different product characteristics), secondly, the structure of the Chinese supply, and thirdly, how companies handle supplier relationships with Chinese partners.

Empirical case studies

Methodology

In order to grasp the nature of supplier relations and inter-personal communication in some depth we need to rely on case studies. This study aims at investigating what kinds of supplier relations are maintained and how inter-personal relations are used in their development. Furthermore, explanations for the findings are searched from e.g. the Chinese business culture. These types of how and why questions are typically tackled by case studies (Yin 1984). Moreover, within the Chinese context explorative studies and qualitative in-depth methods seem to be desirable to provide us with rich and accurate understanding (Duanmu & Fai, 2004). Thus, the present study can be characterized as a *descriptive and exploratory* multiple case study. However, instead of describing any single case in depth cross-case results are presented and the quotations from the cases are used as illustrations of general features of Chinese sourcing.

To illustrate the different needs of purchasing and variety in purchasing strategies we report experiences of seven different case companies (for the sake of anonymity, companies A, B, C, D, E, F and G). C and D are global companies with Finnish headquarters. A, B and G are Finnish companies, while company F is the Finnish unit of a European group and E belongs to an American group. The products sourced from China are industrial components (A, C, D, E, F, G) and consumer products marketed to organisational buyers (F) and consumers (A, B). C and D have local units (with expatriates and local employees) for conducting Chinese sourcing. G is a domestic agent, which is used by case company A and other Finnish companies. E, F and G deal directly with suppliers and B relies on Chinese trading houses. Thus, the rationale for selecting the cases was to find companies that were to a different extent dependent on the Chinese purchasing, sourced different products and had different supplier relations. However, it is outside the scope of this paper to discuss, why the companies followed different purchasing strategies. Rather, focus is on management of the relations.

The empirical study was carried out in the time period May 2004 – February 2005. Managers/directors responsible for purchasing of the companies (in total 10 people) were interviewed. In two interviews (cases A and B) the production manager participated as well. A telephone interview was conducted with the local representative in China of company D, and in addition to a face-to-face interview, a telephone interview was conducted with company G. To all interviewees some supplementary questions were posed afterwards by email. Interviews lasted for 1-2 hours each. Discussions were based on open-ended questions concerning the basic organizational choices that companies had made in their Chinese supplies, focusing especially on the character and management of supplier relations. The respondents were asked to tell about their own and the company's experiences in China, about the specific features of Chinese business culture, and in particular, about the role of social relations there. These themes were selected on the basis of existing literature, and in particular, the analytic model on personal relations.

The next section will briefly introduce the seven target companies and describe their supply strategies in China. First the organization (supplier relationships) are described, then initiatives and common problems in Chinese sourcing are discussed. Finally, we characterize the supplier relations by focusing on the interaction behaviour, and e.g. role of social networking in business.

Cases with different ways of organizing Chinese supplies

Company A is a producer of household equipment. It focuses on purchasing simple components for its own production, together with some side products that can be offered as supplements and gifts to customers. This company uses domestic agent (G) for its Chinese procurement. D is the least dependent on the Chinese suppliers and has other optional domestic suppliers for the products (thus multiple sourcing strategy is followed).

Retail Company B imports finished goods and simple components to be marketed for consumers and uses (2-3) Chinese trading houses. It has some contacts (e.g. brief visits to the country). This company can easily change the assortment of products bought from China.

Both companies C (in process industry) and D (in engineering) operate worldwide and have organized their Chinese sourcing via own local units. These purchasing centres have both expatriates and local employees. Volumes of purchases are relatively big, but still, from the Chinese suppliers' perspective these companies are not necessarily among the biggest customers. Sourcing strategies have been developed especially during the past few years. Mainly, components for own industrial production are purchased. The number of suppliers in China is ca. 50 and 40, respectively.

Industrial Company E purchases one key component for its own production. Relationship with the one Chinese supplier has lasted for five years and is characterized by high quality of the product, but some problems in delivery times. E is dependent on this one supplier: for the component in question there is only one potential and more expensive supplier in Europe. The Chinese supplier is ranked as 25th among key suppliers of the company.

Company F buys both products that can be used in its own production and finished products that are added as such to the high quality assortment. This company is relying most on its Chinese suppliers and has direct relations with Chinese suppliers. The purchasing manager takes care of these relations and visits the country ca. four times a year and has established relations with some 20 suppliers. Over a three-year period, some of the personal relations have developed into good ones. The company is very strict in its quality requirements.

Agent G serves Finnish industrial companies and sources components from several Chinese suppliers. Activities are largely based on an extensive personal contact network that has been developed during the past decade. Regular suppliers today amount to 40 (400 have been contacted over the years).

The companies have been presented here in an order that shows how direct their contacts to China are: domestic agent (A) – Chinese trading houses (B) – local sourcing team (C and D) – direct supply relations (E) – direct relations intertwined with personal networks (F, G). As we only interviewed people at the Finnish end (and one Finnish representative in China), this order also shows how familiar the respondents were of the Chinese system, as personal involvement increases towards the end of the list. This order also shows how dependent the companies are on Chinese sourcing: by dependence is meant here both volume and share in total purchases that China represents. Moreover, the first companies on the list are mainly making provisional purchases, while companies further down are more dependent on the Chinese goods in their production and business. Note also that the local units (cases C and D) are mainly established for marketing purposes, and the local sourcing team has been established in connection with that. So only the small agent company has a unit especially for handling direct supply relations from China.

The companies vary as comes to their involvement with the supply market and consequently (cultural) distance to their Chinese suppliers. Also the respondents vary as comes to their personal knowledge of Chinese culture and language: one has lived in the country for more than two years, but uses English for practically all communication; one person visits China regularly and knows the language well enough for small talk; one does not know the language nor the culture very well, but visits regularly all suppliers in order to nurture relations; and one has good contact networks with Chinese despite low skills in language, however, this person is well familiar with Chinese culture and ways of doing business. The other six respondents were not familiar with the language or the culture, and had made only occasional if any visits there.

Initiative and rationale for Chinese sourcing

For two of the companies initiative for Chinese purchasing came from a Chinese or Finnish company, thus their activities started with small efforts and incidentally. The rest of the companies have experienced more difficulties in establishing new supplier relations. In order to find trustworthy

suppliers, with whom to build long-term relations, the companies used different ways: some relationships started via contacts at trade fairs, some through personal contacts and in some cases, the companies selected only suppliers that already had experience with other Western companies. It seems to take a lot of effort to find suitable suppliers and, in particular, to get enough reliable information on their true capabilities. In practice, it is necessary to visit the potential suppliers in order to see how things are run there. Many of the potential suppliers are rejected as a result of these audits. Which ever mode was used for supplier choice, it was evident that close contact and supervision was needed to maintain the relationship.

As comes to the sourced products, *majority were non-critical and leverage products*. In fact, the interviewees stressed that they would not source for a critical component or a strategic item of their core business process from China. Only exception was company F, which was dependent on Chinese supplies for some products - it also very carefully took care of monitoring and controlling the local activities. Those companies sourcing larger volumes were strict in buying only components and not entering into system sourcing – very much because of fear of local copying and leakage of information.

A major reason for Chinese sourcing for the companies was low costs. Despite the cautious way of approaching the area, all of the companies were interested in increasing their supply volumes in China in the future, and they expected the importance of China to increase. This sample of companies already shows that there are several ways of organizing the sourcing, and different strategies (depending on, e.g., the product) may be followed. Interestingly enough, responses were very similar concerning the proper way of handling relationships, as comes evident in the following.

Joint concerns: quality, control and size

All companies stressed long-term viewpoint to the Chinese market. This should form the base for supply strategies. Furthermore, all companies pointed to the problems in quality of the Chinese products and subsequent need for strict control of local activities. It is especially critical to ensure high quality if the company focuses on higher end consumer products, or if the products are used as inputs in own production. Quality control needs to be well established to ensure stable high quality.

Despite the aim for low costs, it was stressed that one needs to know what to expect: *"In my view, before the entry one should check what one can get, you need to be honest in it. Technology is expensive [in China] too. So, what you can get at a low price is manufactured in a dated way."* Accordingly in order to benefit from the low costs, products need to be simple and specifications clear. A related aspect is transfer of knowledge: everything needs to be communicated in simple terms and one should use several ways in ensuring that everything is understood. In addition, it is important to expose potential delivery problems in time, which was often problematic. There was general concern about communicating all relevant (e.g. technical information) to the supply side. Very detailed information need to be transferred with regular check-ups of recipients' understanding of the crucial issues.

Another issue that came out in the interviews (and also in some other company views) was the notion that there are numerous buyers, many of them large ones, in the Chinese markets. Also the Chinese markets are huge – therefore all Finnish companies are small players in this context. This was an interesting notion, given the fact that some of the respondents in these lines represented global companies with turnover figures between 500-5000 million euros.

Interaction and relationship management

The companies vary as comes to their (or the respondents) involvement with the market and consequently (cultural) distance to their Chinese suppliers/partners. The results show that the more the company is involved in and dependent on the Chinese sourcing, the more emphasis is placed on long-term supplier relations. These relations are then characterised by mutual commitment, trust and personalised interaction.

It was evident in several interviews that Chinese partners seem to be ready to use spot traders into their own benefit. They do not give high value to spot trading – this also explains statements that are sometimes expressed by foreign businessmen, such as: 'Chinese businessmen are ready to cheat Westerners', or 'Chinese people are businessmen and gamblers'. These experiences came up also in our study, as exemplified in the following quotation concerning trust in business relations *“In my view, all business relations in China are based on distrust... If in some other places it is trust, here it is distrust. Meaning that you have to check everything yourself very carefully. ...This trust issue does not necessarily mean that they want to cheat you, but that they, somehow, are inclined to do it the easiest way, and for instance, they do not understand everything at the offer-making phase. Later on, if they admitted they did not understand, they would loose their face”*. Those respondents with extensive experience stated that Chinese partners appreciate long-term relations and with committed partners aim at a win-win situation. According to local thinking, if a newcomer is not familiar with the system of commitment, relations and long-term involvement, i.e. does not know the rules of the game, the person – as was expressed – *“deserves to be cheated”*.

However, all respondents stressed that once buyer-seller relations had been established, interaction was smooth. The Chinese business people were characterised as being humble, willing to take in advice, and willing to search for compromises.

Moreover, those people personally involved in Chinese business noted that over time Westerners may cultivate personal relations and get to know their Chinese partners better. But in the end, they can never have very deep or extensive contact network – since they lack the relationship sediments and kinship relations. This is exemplified in the following views of the respondents: *“I doubt very much how far a foreigner can get in gaining a really, really deep relationship to the Chinese supplier, because their own relations originate from their grand fathers....Their relations are so much older, and may be so much more complicated ... Those relations are so intertwined with each other, that it is always questionable, how well a foreigner can establish a relationship that even reminds that. But of course one can get further than spot trade”*.

One interviewee noted that Chinese businessmen want to go out, wine and dine with their partners, and this is also the occasion for negotiating, *“They definitely invite you out, as soon as they see you are worth it”*. Moreover, he said that *“Nokia is the only company in Finland, in my view, which can do something in China on the basis of its name only. For all smaller companies – it is personal relations. The name of the company does not matter, as they are all so small by Chinese standards.”* This statement is in line with the earlier point of many (European) companies being small players in China, as well as another quotation: *“In some problem situations I have been able to negotiate better terms for us. Because I am the person they have met, and I am the face of our company to them. They know me. And then they try to give better service”*. All in all, the respondents agreed that personal relations play a key role in building and developing supplier relations.

The respondents also pointed to the harmony and respect that needs to be maintained in business negotiations. *“Never, ever, under no circumstances may you loose your temper, you must always be able to negotiate and search for a working compromise”*, since *“loosing your temper publicly shows that you are not a civilized person. ... [then] they do not respect you”*. A related aspect having roots in the local culture is that Chinese have difficulties in disclosing any bad news. In addition to harmony, this probably relates to the feature of not loosing one's face. Therefore Western businessmen need intuition and sensitivity to see where potential problems lie and tacit knowledge becomes crucial. Over time, as personal relations are cultivated, it seems to become easier for Chinese partners to discuss problems more openly.

Not surprisingly, inter-personal relations were stressed by especially those people who had long experience in Chinese business. Social interaction was stressed in general, but we can conclude even in a more specific manner that personal contacts play several roles in development of business relations (Halinen & Salmi 2001). When communication succeeded between the partners, personal relations took up the role of a “promoter”, thus fostering the maintenance and development of the business relationship. To some extent the personal relations acted as “door openers” in the initiation phase of a business relationship, allowing thus entry into business. This was not, however, critical and business relations could be started in other ways too. It was noted that face-to-face contacts were an essential part of negotiations and arriving at a deal. Thus personal contacts take up their basic functions of making the inter-organizational relation to happen. It was also reported (see above) that occasionally, when problems were

met in a business relationship, the personal contacts took up the role of a “peacemaker”, most clearly this was seen in communicating delivery problems. If there was mutual (interpersonal) trust, it was easier for the Chinese partner to communicate the problems, without fear of losing his/her face. We heard also reports of first-comers who did not understand the value of personal networking, and even lost their face by showing this – in this situation the personal contacts indicated the role of “gate-keeper” to business relations.

Communication in relationships was seen to be characteristically different from the Finnish (Western) one, and often it was stressed how detailed information and guidance was needed to communicate the needs of the buyers. One respondent noted that although officially it is possible to negotiate only with the managers (in order to act on the same level of status and prestige), he used all possible opportunities to see and discuss unofficially also with those directly connected to manufacturing, to ensure that the requirements were well understood. Another reason for communication problems was lacking skills of English language among locals. Thus all written information (e.g. technical drawings) must be very clearly presented. One respondent knew Chinese language, which was seen to show commitment and positive attitude towards China: “[*knowledge of Chinese language*] is not necessary as such, it is a positive signal showing that we have entered the market in order to stay ... it makes them think that if this person takes the trouble to learn Chinese, which is not the easiest language ... the person must have an interest in this country and in this culture, and also that the company is also involved on a longer perspective”. Thus Chinese language helped in forming a nice atmosphere, although business negotiations were led in English.

Other Western purchasing experiences

The empirical results can be compared with experiences of other Western companies: a recent study investigated sourcing in China by five Swedish companies (Fang, Olsson & Sporrang, 2004). These cases represent mainly companies in consumer goods industries. The study focuses on the factors affecting sourcing price, but in addition gives recommendations for sourcing effectively in China, such as: 1) remember that China is not one homogeneous market and that 2) there are trade barriers; 3) establish local offices (and let the Chinese deal with the Chinese); 4) invest time and effort in building strong and trusting business relationships; 5) make sure the suppliers meet quality standards (both in production and working conditions) and 6) instruct suppliers of your own market structures.

Most of these issues intertwine with the results of the present study. Quality issue, control and codes of conduct are inevitably present in efficient Chinese procurement. Most importantly, the need to build and nurture business relationships is evident although the study by Fang, Olsson & Sporrang (ibid.) did not explicitly concentrate on relations. They report also about personal face-to-face contacts: as illustrated by a quotation from Hennes & Mauritz: “*The Chinese prefer to do repeated transactions rather than one-off deals. ... In face-to-face communication the social event of dining is an essential part. To take important decisions without eating together with your Chinese supplier counterparts is almost impossible*”. In addition, one interviewee from ICA comments: “*For a Chinese person it is important to meet face-to-face. We go to China twice a year, just to build relationships*”.

Another interesting piece of research is a recent study on knowledge transfer between MNEs and Chinese suppliers by Duanmu and Fai (2004). On the basis of qualitative in-depth methods they established a path of supply-chain relationship development, consisting of initiating, developing and intensifying phases. They analyzed also the type of knowledge (technological and managerial, tacit and codified) that is embedded and the forms in which they are passed from the MNE to the supplier. Their study points to more extensive knowledge transfer between the companies than the present study reveals. One explanation may be that the Finnish companies analyzed here are still in their early phase of establishing relations, thus involving mostly the initiation phase. Another reason for the difference may be the differing size of the companies: our sample consists of mostly, but not only small companies. In fact, all our respondents noted that Finnish companies are small, and consequently less interesting from the Chinese suppliers’ point of view, if compared with the big volume customers, such as MNEs.

On a more general level of global supplies, Handfield and Nichols Jr. (2004) have recently stressed the importance of trust in buyer-seller relationships together with communication and personal aspects of supply base management. Thus they conclude that while it is tough to develop effective relations with

suppliers that are located in different parts of the globe, positive supplier relationships can be established if the “human factor” is taken into consideration. Our study confirms this, and is also in line with the argument by an expert on Confucian Asian management systems (Chen 2004, 55) that “in dealing with the Chinese, a foreign businessperson should acquire a basic understanding of *guanxi* dynamics, even though he does not necessarily have to play by Chinese rules”.

Conclusions

This study has shown that both inter-organizational and inter-personal relations are important when sourcing from China. Thus, there are two basic options for a company: either the company itself should be interested enough in the supply base to invest in building up and nurturing long-term supplier relations. Or, it can let this activity to be handled by a committed, trustworthy partner who has the required expertise: e.g. a domestic or local agent, other middleman, or in case of foreign direct investments, trustworthy Chinese management and personnel.

As comes to the basic decision to source from China, i.e. the scope of supplies, our interviews seem to show that Chinese sourcing is not the best choice for critical products. Or at least the Western buyer must establish very strict quality control. Especially, when product specifications change, one must make sure that new requirements are taken in and understood by local producers. Problems occur if there is not enough trust and close personal relations to discuss difficulties, or if local language skills are not sufficient for understanding guidance by the Western partners. Thus, information exchange and communication is highly critical and often requires local presence. The situation is different, if the goods are easily replaced by others (as often is the case in low-priced consumer goods). All in all, the companies were stressing the importance of low price in their sourcing decision from China.

Supply base, i.e. the configuration of the supplier relationships, varied in the case companies and on this basis one can not give any general recommendations. Rather, this study shows that what ever the arrangement (e.g., with varying distance to suppliers and directness of contact) one needs to take a long-term view to Chinese sourcing. Interestingly enough, the companies had not built any strategic partnerships with suppliers. Often, direct relations are recommendable but also demanding. Chinese business culture evidently appreciates long-term business relations. With committed Western partners, the Chinese aim at win-win situations. These features fit well to the contemporary interest in Western companies to build up cooperative supplier relations. Consequently, we can conclude that Chinese procurement emphasises close relations with a limited number of suppliers, where it is possible to nurture the relations. This nurturing, or relationship handling, is in many ways done with the help of the system of personal relations. This system of *guanxi* can be purposefully used for extending the network too: Western manager with good personal relations can turn to locals in search for new partners. Thus, the supply network may then include also weaker (starting) inter-organizational relations established, e.g., with the help of inter-personal relations. So, not all relations are necessarily close and strong.

The study provides several findings concerning handling and managing individual relationships. Accordingly, the more involved the company is in China, the more emphasis is placed on developing and maintaining supplier relations. Friendly and cooperative atmosphere is created by regular visits to the country. This helps exchange of information and building of mutual trust, together with controlling activities. Clearly, the tighter the links to the Chinese partners, the more explicitly the relations are managed, and thus the cultural distance also seems to become smaller. All of the interviewed companies agree that the keys to success in the Chinese sourcing are strict control of product quality and delivery times, together with a long-term viewpoint.

The general approach of the companies towards Chinese sourcing seems to be cautious and incremental. Companies are gradually increasing their investments and commitment as more experience is gathered. Personal interaction and relations are clearly an important way of decreasing the cultural distance between the two countries. Moreover, use of intermediaries seems to be common in the first stages of purchasing (cf. Johanson & Vahlne, 1977)

Over the past few years, China has experienced tremendous changes and economic development. While cultural legacies can still be seen in the area of cultivating personal relations, it is expected that the Chinese will have to gradually combine *guanxi* with the increasing pressure of market rationality (Chen

2004, 55). Of course, this does not mean that all network structures are replaced with pure transactions. In general, global supply strategies today are based on various supplier relations and networks. Consequently, efficient supply strategies pay explicit attention on relationships and their management. In some cultures, personal relations characterize interaction to a high extent – Chinese being an example of a personalized business culture. Thus when Western companies are establishing relations with Chinese suppliers, they are bound to meet with this feature. Overtime, if relationships become closer and tighter, also the cultural distance between the partners will reduce, thus leading to – if not convergence of norms and values – at least better understanding of the behaviour and motivations of the other party. And, probably, to better results in business, too.

The present study is exploratory in character, focusing on a small number of (Finnish) companies. It is thus limited, but easily shows new areas for future research. Above all, there is lack of empirical studies on Western companies' supply strategies in China. Evidently, we need more studies, e.g., comparing experiences of companies from several Western countries and investigating sourcing of industrial products in particular (in business-to-business contexts with high technological requirements and adaptation needs). Moreover, it would be fruitful to analyze business relationships from the perspectives of both the buyer and the supplier, thus enhancing our knowledge of the content and development of the relationships (instead of one-party perceptions on it). Finally, in addition to empirical data base, the concept of personal relations in business and especially the specific feature of *guanxi* call for conceptual development. Especially today, when China is beginning to play a bigger role in the global economy and international business, we need more information about the Chinese ways of doing business.

ACKNOWLEDGEMENTS

This study was made possible by the financial support from the Antti and Jenny Wihuri Foundation.

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