Title:  Relationship marketing with a dash of guanxi – the recipe for success for Sino-Swedish business?

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## Abstract

**Aim:** After discussing marketing issues with representatives from a number of companies established on the Chinese market, we came to the conclusion that it would be interesting and useful to further investigate relationship marketing models from a Swedish perspective when doing business in China.

The aim of the study is to highlight, by examples and experiences from firms dealing with or on the Chinese market, what makes up successful marketing between Swedish and Chinese businesses.

**Research question:** Is relationship marketing with a dash of guanxi the recipe of success for Sino-Swedish businesses?

The result of successful relationship marketing is a marketing network and it is an important asset for companies today. Competition is not between single business units or entities any more but between marketing networks (Kotler et al., 2006).

To get a full view of relationship marketing between Sweden and China, we have also studied the Chinese culture context.

**Method:** We interviewed 10 firms in various industries. Common for all respondents is an extensive experience of over 5 years of doing business in China. A questionnaire was used as a foundation for the interviews.

In the analysis findings regarding how the respondents have handled their internationalization process are highlighted. Also how they handle the relationship marketing on a market, where guanxi have been a dominating way of doing business.
Result and conclusions: Relationship marketing with a dash of guanxi is the road that most companies take already today and should take if not yet doing so. As we can see from the study, China is not under as strong influence of guanxi as it used to be. Our respondents offer insights and examples of that Chinese businessmen and women are adapting a more global approach to business negotiations. Operating on the Chinese market requires a relationship marketing approach although it is more personalized to better suit the Chinese culture context.

Suggestions for future research:
- Relationship marketing in China and corruption: how is it handled, avoided, viewed.
- Relationship marketing in Sweden by Chinese firms: How can Chinese firms succeed on the Swedish market?
- Deeper research into relationship marketing strategies for Swedish companies in China.
- Study Swedish firms on the Chinese market today and how they experience the paradoxes mentioned by Fang and Faure (2008).

Contribution of the research: The study offers insights in the actual marketing strategy implementation and how firms with extensive experience from China and the Chinese market approach it.

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1. Introduction

In the introduction the problem will be defined. The purpose of the research will be described as well the purpose and limitations of the research will be presented. Finally the structure of the study is outlined.

1.1 Problem definition

In recent years, in business related media such as for example the Economist (The Economist June 15th 2006) & (The Economist January 10th 2008), it is frequently reported about a growing trend. During the years, companies in emerging markets like China have developed and grown, partly because of the increasing demand from Western companies that need low cost production capacity. The fact that the interaction between Sweden and China also has grown becomes apparent when looking at the import/export statistics between the two countries. The exports to China have increased by 26% and imports increased by 22% last year (Statistics Sweden, 2008).

Today businesses and marketing are global. For many years foreign companies have established subsidiaries, joint ventures and wholly foreign owned companies in China. Initially the reason was the possibility to produce at a low cost, but soon companies realized the huge market potential that China constituted (Chong & Nailer, 2005).

When a firm is becoming a multinational company there are aspects that need to be identified in the host country that could impact the commitment to internationalization. Such factors are cultural distance, political, economic, technological, and market factors (Javalgi & Martin, 2007). It is also important that the managers have a global mindset, i.e. that they acknowledge the interdependence of their company with the global economy. A global mindset is characterized by openness to an awareness of cultural diversity and market (Gupta & Govindarajan in Javalgi & Martin, 2007).
Persons possessing this attribute are open minded and viewing the world from a broad perspective according to Arora et al. (in Javalgi & Martin, 2007).

When entering the Chinese market, they have to change their methods they use in their domestic markets due to the different cultural norms, competitive dynamics, and demographics that exist in the market abroad (Javalgi & Martin, 2007). Undoubtedly, there are both possibilities and risks to do business, not just across borders but also most importantly in different business-cultures.

There are many other complications that can occur when a company is trying to expand their business to another country. The managers then have to operate with a wide range of assumptions that vary in the different countries’ culture. Trompenaars and Hampden-Turner (1997), state that it is important for corporations to gain an understanding to these premises in order to achieve their corporate goals. According to Usunier (2000), Swedish businessmen need to create personal relationships with important business contacts in China, in order to be successful. This type of network is called guanxi and is a part of the business culture in China and therefore is very essential for a foreigner to understand (Worm, 1997).

There is a wide range of differences between cultures, e.g. Power Distance, Uncertainty Avoidance, Individualism/Collectivism to mention a few, and it is important to recognize them and learn to use them to your advantage (Adler, 2002).

In Western Europe the concept of relationship marketing strives to create long-term mutual relationships with key parties - customer, suppliers, distributors and other marketing partners. The long-term relationship will create strong ties between the partners from economic, technical and social aspects. The result of successful relationship marketing is a marketing network that is an important asset for companies today. Competition is not between companies but between marketing networks (Kotler & Keller, 2006).

Relationship marketing is successful in many cases but it can also be unsuccessful. Companies today must be able to judge when and for which segment and which customer relationship marketing is applicable and profitable (Kotler & Keller, 2006).
Relationships are important and essential for a business to exist according to Gummesson (2002). To do business is creating relationships and create trust between the partners. To fail to do so has impact on the business as well as the bottom line.

In the developed societies there are laws and regulations to create a smooth system for the relationship handling and control. In China and other emerging countries, the laws are not yet up to par so the society has created other ways to control and monitor the quality of relationships. Other great challenges at different levels have faced foreign companies in their efforts to do business in China, despite company size. Companies face difficulties in adapting the Chinese *guanxi* when building successful business relations, encounter obstacles to completely benefiting from the cost advantages, supply issues, price pressure etc (Chong & Nailer 2005).

*Guanxi* at its best can be a relationship that is long-term, sincere and mutually beneficial. It saves time and energy. At its worst it will dim the vision, create unnecessary discussions and relationships with people/organizations that are not suitable, not even eligible to be in a relationship.

Some are quick to point out that the Chinese *guanxi* is completely different to anything else in the world and a unique concept. It is difficult to differentiate it in its worst shape to nepotism and corruption and therefore in most societies deemed illegal. It is the oil in the machinery that is required for an over-controlled, bureaucratic society like China to be able to function. Wong (2007) argues that *guanxi* connects social networks as well as it is one of the fundamentals and a framework in Chinese business culture.

With this background as starting point we contacted a number of companies which already had entered the Chinese market. We met with representatives from these companies and discussed marketing issues in China.
The conclusion from these discussions was that it would be interesting and useful to further investigate relationship marketing models from a Swedish perspective when doing business in China.

1.2 Research objective

From the discussion we conducted in the previous section we define our research question as:

Is relationship marketing with a dash of guanxi the recipe of success for Sino-Swedish businesses?

In order to answer the research question, we will have to address questions such as:

- Can a relationship marketing strategy be used and effective in different geographical locations or is it essential and imperative to add local flavor?
- Is the approach to relationship marketing similar in China and Sweden?
- In the respect of relationship marketing, how do Swedish companies apply and/or adapt it for the Chinese market?
- From Swedish company perspective - how is the concept of guanxi integrated into marketing?

The study aims at researching if relationship marketing can benefit from becoming more familiar with the concept of guanxi.

1.3 Scope of study / Limitations

The topic is generally not well documented, especially concerning the relationship marketing and guanxi and how these two concepts are related and/or interrelated. The study will concentrate on investigating the concepts of relationship marketing and guanxi and how these two can coexist and create an even stronger and successful marketing strategy for Swedish companies entering or already established in China.
As a foundation for the study, we have limited this study to only investigate how relationships and culture influences the cooperation between Swedish and Chinese corporations. Hence all the Swedish respondents in the empirical research mainly have long experiences from doing business in China.

This research will not cover any legal and political aspects in the result presented, since we will focus on the buyer-seller relationship. As a consequence some issues will not be covered, for example human rights, censorship, IPR.

The companies researched are present on both markets and their marketing strategies will be reviewed and compared to find common denominators that can show and/or predict marketing success on both markets. A descriptive study has been carried out through in depth interviews and questionnaires. Some of the data collected is presented in text and others in tables.

The literature review will focus on relationship marketing and its strengths and weaknesses as well as similarities and differences with guanxi. Also it will look in detail at the concept of guanxi and how Swedish companies operating in Chinese markets practice it today. One important part of the literature will also focus on how companies handle it internationalization process.

### 1.4 Structure of the study

The study is structured as follows: Section 2 discusses and describes the methodology and reasons for the design of the study. Section 3 presents the Literature and theoretical background. Section 4 covers the Empirical findings, section 5 offers Discussion and analysis, section 6 is the Conclusion, section 7 Recommendation and section 8 contains the References. Finally a section of Appendices is also included.

In the literature and theoretical section the relationship marketing theories and frameworks are discussed. An extensive review of the different definitions of guanxi is presented.
Through the literature and journals, an in-depth look at marketing in Sweden and China, similarities, differences and frameworks is carried out.

2. Method

The choice of the research method is the underlying foundation for how to conduct the entire research. In this chapter a discussion regarding the theory of science, research approach and choice of method will be held. Later on the techniques for gathering information and how the selection was determined will be presented. The trustworthiness of the research regarding validity and reliability is also discussed in this chapter.

2.1 Theory of science

The intention of this research is to what extent relationship marketing can benefit from becoming more familiar with the concept of guanxi. To be able to accomplish this, it is salient to have a well-structured research method that is based on the purpose of the research. A deeper understanding is required in order to obtain valuable knowledge due to the complexity of the research. A yes or no question, as in the case of hypothesis testing, may not be sufficient or not even possible in this situation. There are so many factors that must be taken into consideration, therefore, an analysis and interpretation of each case is vital to attain a generalized conclusion. This is in line with the hermeneutic science, which has interpretation and comprehension as its main approach (Lundahl & Skärvad, 1999).

The other main philosophy that exists in the theory of science is positivism. Positivism is according to Guneriussen (1997) the science where all theories and concepts should be built on one-sided and completely reliable observations. Deductive hypothesis testing is mainly the basis for positivism (Molander, 2003).

Lundahl and Skärvad (1999) states that positivism constitutes the underlying philosophy for a quantitative research approach whereas hermeneutic is the
philosophy behind a qualitative approach. Because of the relative complexity of our area of investigation and the fact that all respondents involved are different in terms of peoples’ perceptions of the effects and consequences, it is not feasible to adopt a positivistic approach. Thus, it is hard to draw a line between facts and perceptions that are required in the positivistic science (Lundahl & Skärvad, 1999). Another aspect of the complexity regarding this research is the problem to measure the effects that different marketing strategies has on the organization and the market outcome. The trend in our research is therefore moving towards a non-positivistic research approach to be able to measure and understand the impact of relationship marketing and guanxi. However, one of the main advantages with the positivistic philosophy is that high reliability can be achieved which makes it possible to repeat the study with the same result (Lundahl & Skärvad, 1999). Though, this may not be possible in our research due to situational dependence and environmental aspects such as changes in people’s perceptions as well as the time factor involved.

The study will use the hermeneutic approach as the underlying philosophy based upon the above discussion and the fact that this study requires pre-understanding and interpretation through the entire process of the research. This includes interpretation and an increased understanding regarding theories as well as the information gathered through the empirical study to the analysis and then finally to the end conclusions. Based on hermeneutic as the underlying philosophy for this study the research approach is selected.

It is referred to as the “hermeneutic circle“ (Molander, 2003; Repstad, 1999). This study requires a pre-understanding of the terms marketing strategy and globalization and related theories to interpret the concept of relationship marketing and guanxi. Further, the aim is to find patterns between these parts to come up with a generalized conclusion, regarding effects for the business, consequences for its processes together with identifying the critical success factors of globalization.

Criticism, which is often discussed regarding research based on a hermeneutic approach, is directed to the issue of maintaining a high level of objectivity (Repstad, 1999). The criticism is based upon the belief that the research becomes biased by the investigators own values and prejudices. However, Guneriussen (1997) claims that this is not always the case since some situations do not require interpretation due to the fact that they are so obvious for everyone. As a result, these situations
cannot be misinterpreted and that reaches high objectivity. This motivates the use of a hermeneutic approach in our research since objectivity still can be obtained. An open approach together with two persons with different background interviewing the respondents will contribute to higher objectivity in this study. The positivistic philosophy aims at finding linear causality between observed parts whereas this research focuses on more complex issues where interaction is a more suitable way of generating knowledge as in the concept of “General Systems Theory”.

2.2 Research approach

Three main research approaches exists, namely the deductive-, inductive- and abductive approach (Wigblad, 1997). The selection of an appropriate approach has to be based on the problem definition and the theory of science (Lundahl & Skärvad, 1999). This study is more issue-oriented and focuses more on the case study for finding effects and consequences rather than hypothesis testing based on existing theories. Further, an inductive approach is usually combined with a qualitative research method and with hermeneutic science (Wigblad, 1997; Bryman and Burgess, 1999) as in the case of this study. An inductive approach starts with the empirical data and thereafter creates theories based upon these facts (Lundahl & Skärvad, 1999). The deductive approach is based on already established theories and then draws logical conclusions and test (verify or falsify) these through empirical studies (Lundahl & Skärvad, 1999). However, it is possible to use these two approaches in combination that is defined by Björklund and Paulsson (2003) and Wigblad (1997) as an abductive approach. The abductive approach can best be described as a reciprocal action between theory and empiricism (Wigblad, 1997). The positive aspects of the abductive approach according to Wigblad (1997) are the possibility to include several perspectives to reach a complete picture of what is being researched.

A pre-understanding of the topic that is being studied is necessary to have in order to generate meaningful research questions (Wigblad, 1997). Since the study topic and purpose is relatively new it is difficult to find any existing theories to evaluate and test.
Therefore it is necessary to go out and observe to gather information of existing practices and interpret this to create new theories based upon this new knowledge. Still there is a need for fundamental knowledge within the topic initially to gain a pre-understanding to base the research questions and observation on.

The above arguments are in correspondence with the inductive approach. Because this research is not concerned with testing already established theories versus practice it is not suitable to adopt a deductive approach. Further, there is no intention to create a hypothesis to get a simple yes or no answer. For the purpose of this study it is essential to reach a deeper understanding concerning effects for the business and related consequences for its processes to be able to draw valuable conclusions. However, these conclusions can not be seen as “laws” for each case due to the complexity, though it is still of higher value for this area of interest to gain a deeper understanding than only focusing on establishing a simple “law”. Due to the limitation of time in this research and lack of existing theories, the abductive approach will not be considered. According to Wigblad (1997), the abductive approach would span a longer period of time and often take several years to complete. Hence, the inductive approach is most suitable for the purpose of this study and will guide the choice of method.

2.3 Choice of method

The choice of method must be in accordance with the entire research approach and based on the selection of an inductive- or deductive approach or combination of these two. Two research methods exist, the quantitative- and the qualitative method, or a mix of both (Halvorsen, 1992). A deductive approach assumes exactly what constitutes a meaningful area of investigation and the formulation of precise problem statements (Halvorsen, 1992). The deductive approach is according to Bryman and Burgess (1999), Halvorsen (1992) and Wigblad (1997) often associated with a quantitative method. The inductive approach is more concerned with developing a thorough understanding of the phenomena being studied without much previous knowledge and no stated hypothesis (Halvorsen, 1992). This can be rolled out with a vague and explorative problem definition. The inductive approach often implies a
The choice of method for this study is therefore aligned with the last statement and uses the qualitative research method for studying the phenomena of globalization, relationship marketing and guanxi. This includes finding the business effects of use of different methods.

Kumar (1999) also agrees to the fact that it is the type of information that is sought that decides the choice of method. According to him the choice is dependent on three criteria, the purpose of the study, how the variables are measured and how the information is analyzed (Kumar, 1999). The following discussion covers the differences in the quantitative- versus the qualitative approach based on these criteria.

The quantitative method involves some kind of measurement that should be reliable and valid (Lundahl & Skärvad, 1999). Mark (1996) defines quantitative method as the approach that study phenomenon using numerical means. In these approaches there is an emphasis on counting, describing and using standard statistics, such as means and standard deviations. A quantitative method is more suitable for high-structured research that can be statistically measured (Wigblad, 1997). High-structured research is more formal, with standardized research questions. It leaves little room for variance and interpretation. Further, Wigblad (1997) claims that higher complexity should be followed by a lower level of structure that a qualitative method represents. An example of this that corresponds with this study is a dialog with more open answers that can be followed up by complementary questions compared to a more standardized (high-structured) research approach.

According to Bryman and Burgess (1999) the tendency for quantitative researchers are to reach generalized findings while contextual understanding outlines the basis for qualitative research.

The qualitative method is defined as a research or study that implies to generate results and conclusions with the help of qualitative analyzes and mainly with qualitative data (Lundahl & Skärvad, 1999). The purpose with this method is to describe, analyze and understand the behavior or impact of a certain phenomena
often by using hermeneutic science (interpret and analyze) so a new theory or understanding could be outlined (Repstad, 1999; Lundahl & Skärvad, 1999). Mark’s (1996) definition has almost the same significance since he states that the qualitative approach studies phenomena using general description to describe or explain them. Also, narrative descriptions of persons, events and relationships tend to be used by the researchers who use the qualitative approach. An example of this could be according to Kumar (1999) a description of the living conditions of a community where a numerical measure is not sufficient to cover their independent behavior and its impact on the conditions as a whole. Further, the findings are often presented in general statements about the complex nature of persons, groups or events (Mark, 1996) as in the case of this study.

Repstad (1999) describes that with the qualitative method one is better able to reach a depth and nearness in the study and at the same time attaining flexibility. Nearness to the phenomena that is being studied is one of the ideal when it comes to the qualitative method. It is possible to have a close relationship with the object you are researching since you as a researcher could attain a deeper understanding compared to the quantitative approach where the researcher needs to be more or less completely objective. Additionally, this gives the opportunity to be more flexible regarding the information you collect and interpret. As an example of flexibility that is applicable for the study one could mention that it is possible for the researcher to change and adapt the questions depending on the answers given by the respondent (Repstad, 1999).

The above discussion gives the view of a divergence between the two approaches. However, both Bryman and Burgess (1999) and Wigblad (1997) conclude that the differentiating features are not that distinct. Wigblad (1997) mentions that the quantitative research studies also could be subjective like the qualitative approach but by that, it does not mean that it is negative for the result or conclusion of the research study. Bryman and Burgess (1999) have a discussion about whether the quantitative-qualitative contrast still has credibility or not, since some qualitative researches uses a theory-based approach instead of an empirical-based approach. Thus, the choice of method is and should not be so strict by following some certain
rules. Most important is that you are aware of the differences and how you can apply each approach to your own research.

Within the qualitative research method there are different ways of how to carry out the research since one can choose which depth it should have. For instance, one could choose to have many respondents to get a broader view but not receiving an in-depth understanding about the phenomena the researcher is studying. A more in-depth approach could be a specific case and thereby doing a case study that will be the focus of the study. Merriam (1994) defines a case study as a research where a specific phenomena, like for example a special event or some course of events is being researched. Merriam (1994) continues by claiming that a focus on only one certain phenomenon (the case) one is able to illuminate the vital and typical factors for that phenomenon. When reaching such depth, one is able to draw conclusions that could be generalized for other similar cases.

This study is more concerned with contextual understanding related to the use of relationship marketing and guanxi and of describing and explaining nature due to the identified effects and consequences of globalization. Because of this, an inductive approach together with a qualitative research method is considered most suitable to fulfill the purpose of this study. Further, the study will be researching specific cases and therefore, a case study research of companies in Western Europe gone global in China and Chinese companies gone global in Western Europe will be carried out. The result of this case study should give us the possibility to come to a conclusion whether it is possible to create a global recipe for business relations.

2.4 Information gathering techniques

The selection of information gathering technique and the choice on how to organize, gather and interpret the information is depending on which general philosophy and theoretical approach the research is based upon (Merriam, 1994). In this case the study will be using both literature studies and interviews to gather information since the method chosen advocates to first get a pre-understanding and thereafter trying to reach a depth in the case that is being studied. Further, a discussion will be
presented regarding the selection of respondents, design and procedure of the interviews and how collected data and information will be interpreted and analyzed.

Some authors divide the type of information gathering into two categories, primary and secondary information. Primary data or information is when the researcher collects the data by himself. Secondary data or information is when the data already exists but needs to be extracted from the source (Lundahl & Skärvad, 1999). Thus, normally primary data or information is collected through questionnaires, observations and as in the case of this study through interviews. Secondary data is collected through literature (Kumar, 1999) that constitutes the theoretical foundation of the study. Secondary data or information in this case have been collected mainly through literature and scientific journals but also by using secondary documents such as corporate brochures to broaden the empirical understanding.

### 2.4.1 Literature study

The literature study in this study is used as a tool to attain and provide a pre-understanding and knowledge within the research topic. This is due to the fact that the topic is relatively new considering the purpose of this study and as a result of that more general theory exists compared to specific theories. Another aspect that is worth mentioning is the opportunity for the reader to attain a complete understanding of the research without having so much pre-knowledge within the topic. However, some theories and definitions might require some knowledge which will not be described in detail since it is not easy to identify every reader’s pre-knowledge. The goal is also to try to find information regarding globalization processes and marketing strategies.

The realization of the literature study in this study is conducted through a certain method based on Merriam’s (1994) discussion regarding the literature study. The procedure could be seen as very obvious but it is according to us relevant to present the way the literature study is conducted to be able to provide a better understanding of the procedure and the approach. First a fundamental search of literature is being done based on the definition of the problem and topic of the research. Literature like
books, journals and work of reference within a certain subject field is selected mainly by using databases.

Thereafter a decision of which sources that should be included in the study to underpin the problem and purpose needs to be taken. It is also vital to know when there are enough sources for the study so a focus towards the purpose could be kept. Finally the structure and content of the theoretical framework is finalized and if needed some additional sources are added to ensure completeness and the existence of a red thread.

The literature study in this study will provide fundamental information (concepts and theories) regarding Relationship Marketing and Guanxi to the theoretical framework. Further on it will discuss the globalization process and what strategies companies use when going global from the marketing point of view.

2.4.2 Interviews

The use of interviews in this study is equivalent to the empirical study. The empirical study in this case is an attempt to reach a depth and to attain a deeper knowledge of the use of marketing strategies when going global. The definition of an interview is very simple “as any person-to-person interaction between two or more individuals with a specific purpose in mind is called an interview” (Kumar, 1999, p. 109). Interviewing as a method of collecting information is commonly used according to Kumar (1999) and Merriam (1994).

The plan for the interviews for this study is to have the possibility to discuss openly with the respondent and ask questions that were not written down beforehand so you can be flexible and discuss interesting topics more deeply. Nevertheless, it is important to have some questions written down beforehand so you could make sure that you cover the areas needed. By using this approach we believe that a greater knowledge could be attained compared to using only beforehand written down questions. A classification exists of interviews, namely, structured-, unstructured- and semi-structured interviews depending on the degree of flexibility (Lundahl & Skärvad, 1999). We interpret the meaning of standardized as the same thing as structured in
this case. This is based on the explanation that Lundahl and Skärvd (1999) gives for the word standardized and we will therefore use the word structured to be consistent with the other authors. With a high degree of structure, the questions are predetermined and the order as well. An unstructured interview is very flexible and the interviewer only uses a guide of how to carry out the interview. The last way of conducting an interview is by using the semi-structured approach that is a combination of both structured and unstructured. Here one might have some predetermined questions but could expand those questions during the interview by having follow-up questions to reach a satisfying depth. The advantage of a less structured interview is that the answers could become more comprehensive (Lundahl & Skärvd, 1999). On the other hand, the main advantage of structured interviews is that they might provide more comparable information and is therefore easier to generalize (Kumar, 1999). To reach the desired depth, which is important for attaining good knowledge about the implementation’s impact in terms of consequences for business processes not just the effects, this study will be using the semi-structured approach as one of the information gathering techniques. This will give the benefits of being able to follow-up and expand the interview to reach a two-way discussion around each of the questions. A clear advantage can be gained by having a semi-structured approach in this study through little guidance of the interview and more in the form of a discussion that will better ensure coverage of all areas of interest. This will also lead to higher objectivity since the respondents are free to talk around the questions assuring correspondence.

Structured interviews are foremost suitable for hypothesis- and theory testing studies according to Lundahl and Skärvd (1999). The unstructured- and semi-structured approach are particularly useful in situations where either in-depth information is needed or little previous knowledge exists within the area as in the case of this study (Kumar, 1999; Merriam, 1994). These statements by Kumar (1999), Merriam (1994) and Lundahl and Skärvd (1999) justify the semi-structured approach used in this study as choice of information gathering technique.

2.4.3 Selection of respondents
Lundahl and Skärvad (1999) argue for the importance of what perspective is chosen in relation to the phenomena that is being studied. The selection of perspective in this study is based on three perspectives to get a holistic view. These perspectives are the impact of relationship marketing, the impact of guanxi and the globalization process for companies in general. In this case relationship marketing is the marketing method used by Western companies, guanxi is the marketing/relationship method used by Chinese companies and globalization is a company’s process to enter other markets – outside its own original habitat. To use several perspectives increases the level of objectivity regarding diversification, completeness and unbiasedness (Lundahl & Skärvad, 1999). It is evident because the information gathered from these different perspectives may be divergent and a completely objective picture can therefore only be gained by including all the various perspectives. When analyzing the information, these perspectives will be compared to reach a more accurate view of the effects on the business and the consequences when deciding which marketing strategy to use when going global.

The main criterion in the selection of interviews using the qualitative method is according to Repstad (1999) that the respondent has important and relevant information about the research topic and its problems. Thus, it is the problem definition and the purpose that decides the selection of respondents. We will therefore choose respondents that we think have a good knowledge about both doing business in Western Europe and also in China. Merriam (1994) divides the selection into two types, probability- and non-probability selection. The most common type in qualitative case studies is the non-probability selection. The non-probability selection is also the one that corresponds best with Repstad’s (1999) choice of selection method. Within the non-probability selection two strategies exists, either targeted strategy or criteria-related strategy (Merriam, 1994). Targeted strategy is based upon the wish to explore, understand and attain knowledge. Hence, the researcher selects the respondents where he/she could attain most knowledge. However, criteria-related strategy is based upon a selection where the respondents need to fulfill some defined criteria chosen by the researcher and thereafter a selection is made of those that fulfill these criteria.
Thus, based on the arguments by Merriam (1994) and Repstad (1999) the respondents in this study will be selected in a non-probability approach with the use of some basic criteria. The reasons behind these criteria are logical thinking of what kind of companies and situations that is interesting in order to fulfill the purpose. We need quite large sized companies in order to get thorough experience in Western and Chinese way of doing business. Furthermore, we need companies that recently established themselves in other regions of the world or are continuously working with this process. We also want to use several perspectives so we can get a holistic view and a more complete understanding of the globalization process and the effects when using different strategies of doing business.

Following Repstad’s (1999) method, the respondents for this study need to have knowledge within the field of marketing and experienced both Western business methods and Chinese ditto. Further, the respondents have to be able to reflect and draw conclusions regarding the effects and consequences of Relationship marketing and Guanxi, otherwise it would not provide any value for the study. Adding Merriam’s (1994) method as well will form the basic criteria that need to be fulfilled.

Short description of the companies in the empirical study is made below.

In the quest for suitable respondents to this study we focused on respondents that have important and relevant information about the research topic and its problems as Repstad (1999) supports as his main criterion in the selection of interviewees using the qualitative method. Also the type of interviews that we are conducting in this study are quite time consuming for the respondents and therefore we have focused on existing contacts within the business world.

As for the Sweden-based respondents (the respondents located in Sweden but frequently traveling to China) we have six respondents, of which two are purchase managers and the other four are sales managers or CEO focusing on the selling process.

The companies vary from smaller ones with an annual turnover of 15 MSEK to larger ones with annual turnover of 33.500MSEK. In case of the smaller companies (two of
six respondents) the CEOs have prior been working in other, larger organization with focus on doing business in China.

All in all, with the skills and experience of the Sweden-based respondents, negotiating with Chinese businessmen and women, they all have the prerequisites for a suitable respondent required by Repstad.

There are four China-based respondents (that is Sweden-based respondents residing in China on a long-term basis and the companies have been established in China for 9 years or more). All the respondents have been in China on a permanent basis for more than five years. Three of the respondents are communicating fluently in Chinese and using it regularly in business settings.

2.4.4 The design and procedure of the interviews

The tool used to collect data needs to be well developed so that correct data could be collected and analyzed. In the qualitative method this tool is often the interview guide that is used as foundation for the interviews. The design of this interview guide is therefore important and the content of it needs to reflect and be motivated by the purpose. As stated in Chapter 2.4.2 a semi-structured approach for the interviews has been chosen. The interview guide is more open and not so strict due to that approach since complementary questions are asked and the researcher is allowed to lead the interview differently based on each situation (Lundahl & Skärvad, 1999).

The guide of the interview needs to have a good opening so the respondent feels comfortable in the beginning of the interview (Repstad, 1999). Lundahl and Skärvad (1999) mention that background questions is a good start of the interview. An example of this could be questions like: “Tell me a little about your history in this company?” and “How come that you started working here?” Both of these questions are easy for the respondent to answer since the questions are related to the respondents’ own life and experiences. Later on, the interview guide could allow the researcher to go more deeply and have more focus towards the research problems and purpose. The interview guide should according to Repstad (1999) end with questions that allow the respondent to add additional information or the possibility to
correct some answers. The reason for this is that the respondent should not feel that anything was unsaid or a slip of the tongue was made.

Kumar (1999) discusses the order of the questions in the interview, either the questions are asked in random order or they follow a logical progression. Kumar (1999) advocates the latter, since that approach is keeping the interest of the respondents and encourages them to gradually answer more complex and in-depth questions.

The interview guides for this study can be found in appendices 3 and 4. The interview guide that is sent beforehand is intended to give the respondent an idea of what kind of questions that will be discussed throughout the interview. The questions given in the guide are more topic-oriented compared to the actual interview questions and will be supplemented by follow-up questions when performing the interviews.

2.4.5 Interpretation and analysis of the data

Data does not speak for itself it has to be interpreted. The analysis of the data is the process where one is trying to gather and present the data in such way so it has a good structure and becomes easy to understand (Repstad, 1999). During the analysis the information is being consolidated, reduced and in some cases interpreted (Merriam, 1994). The goal with the analysis is to be able to come up with trustworthy conclusions that are based on the empirical data.

When carrying out the analysis it could be a good idea to go back and look at the initial problem discussion and purpose to ensure the connection to the purpose (Merriam, 1994). Halvorsen (1992) mentions that the data analyzed usually are interviews that are written down. The data needs to be interpreted and it is then vital that the researcher performs it with objectivity so the respondents recognize the information in the analysis (Halvorsen, 1992).

The process of handling the data in this case is to write down the interviews after conducting them and then read and analyze that information through interpretation. If a lot of information exists in one interview it might be useful to make it shorter by
selecting the most distinct and interesting comments. A draft of this composition will be sent to each respondent to make sure that they have been understood correctly which makes it possible for them to correct minor errors. After this is completed we will analyze the information as mentioned above where a comparison will be made between the interviews. This comparison is vital in order to reach a complete and accurate view regarding the subject investigated. Based on this view we will compare the empirical study and the theoretical framework by analyzing the data that has been collected in relation to existing theories. To reach a generalized conclusion drawn from this analysis, a modeling approach will be used to connect the effects to related strategies and find cross-relations. By combining the data gathered from the empirical study with existing theories as well as own interpretation the critical success factors could be presented – the global way of doing business could evolve.

2.5 The trustworthiness of the research

All research aims to provide valid and approved results in an acceptable ethical way (Merriam, 1994). Compared to quantitative studies the qualitative studies are harder to measure when it comes to validity and reliability since one could decide the validity and reliability beforehand more or less when using quantitative methods. For that reason, Lundahl and Skärvad (1999) believe it is salient that a discussion regarding these issues is held in a qualitative study. The discussion will strive to clarify the definitions and thereafter connect it with the study’s approach and working method.

2.5.1 Internal validity

The definition of internal validity is more or less the question if the instrument the researcher is using actually measures what it is supposed to measure (Lundahl & Skärvad, 1999). The instrument could for example be interviews, surveys or some other technique. What really is being asked is if the research method and information gathering technique is valid enough for the purpose of the research (Mark, 1996).

As the researchers in a study do everything it is their obligation to present the data in such an honest way so the respondents and other informants can feel recognition
with the data and result (Merriam, 1994). By doing this, the internal validity becomes a definite strength in the research. However, a problem could be that the researcher thinks and interprets something as true but in fact it could be the other way around. This might be due to the fact that the researcher simply misunderstood the explanation or that the researcher had a prejudice in that question based on the theory or the wish for a certain research outcome. Every result is a result and even if the result does not correspond with what the researcher had in mind from the beginning it does not mean that it is not interesting and not having a high validity.

To maintain a high internal validity in this study a focus towards an open approach will be chosen where we will have an open mind and not have any wish for a certain outcome as well as present the data in the most unbiased way. By having the possibility to record the present interview, factors like misunderstandings, information losses and misinterpretations will be minimized. Case studies tend to go more deeply into the subject that is being researched and by that it contributes with a more complete view over how things work which improves the possibility for high internal validity. Further on, we believe that the research approach and the instrument chosen for this case study are valid enough for the purpose of this research.

2.5.2 External validity

In general, the more one is able to generalize the result of a study the higher value it receives as long as the findings are valid. External validity is mentioned by Merriam (1994) as to which extent the result from a certain study is applicable to other similar situations. In order to even consider and discuss the external validity one need to make sure that internal validity is fulfilled. Not having internal validity means that the information is more or less useless and there is therefore no reason to generalize such information. However, Merriam (1994) states that qualitative studies usually have a high internal validity, rather than external validity, which could be hard to accomplish. Additionally, one needs to be aware of that in some cases a high degree of external validity is not the goal with the research (Merriam, 1994).

Sometimes, a certain case is so special and important that it is very interesting to research, but it is almost impossible to generalize the findings.
The interest and hope with this study is that the research will find factors that were crucial for success when going global and entering Western markets and Chinese ditto and that some of these factors are applicable to other companies and in their globalization process as well.

2.5.3 Reliability

The structure of this research and the choice of method could make it hard to reach a high reliability. We will however try to present our methods and the material used for this study in a clear and consistent way in order to attain a high reliability. The interview guides and the plain research method will contribute to this. In each research there will always be a questioning regarding the result and its reliability. If the research should be carried out again with the same research method, will it provide the same result as last time, is usually the most common question from skeptical readers. This is the arguments for reliability according to Merriam (1994) and Halvorsen (1992). Kumar (1999) has a similar definition of reliability where it is the consistency and stability of the research tool that for this reason causes the result to be predictable and accurate. Kumar (1999) continues by stating that 100 percent accuracy is impossible to have since there are some factors that affect the reliability that the researcher cannot control. An example of this could be that the respondent interprets the questions differently at different times. Merriam (1994) argues for concentrating on the internal validity instead of the reliability due to the fact that the internal validity affects the reliability. However, one still needs to consider the structure of how the information was collected so it could be used like a manual for repeated study (Merriam, 1994).

The reliability in this research is reached by having a plain and structured research method. The interview guides are also presented in the appendices 3 and 4 so the same questions could be asked again if someone would like to conduct the research once again. Additional persons with different perspectives are interviewed and that excludes the problem with only one talking in favor for its own business or case. Thus, conducting the research again and having this holistic view would secure that the result would be the same or very close to it since it is not only one person that affects the result.
3. Literature and theoretical background

In the literature and theoretical background chapter, an extensive review and description of the existing theories and concepts will be done. In order to fully grasp and understand the research questions and the respondents’ answers in the empirical section of the study, here follows an in-depth view at the sources on the subjects.

First there will be a description of the internationalization process and the different alternatives companies face today when globalizing. An in-depth look will then be taken on culture in international marketing in general as well as in networks and relationships. To further deepen the understanding of the research question, a deeper knowledge of the Chinese culture context will be required. Here the concepts and theories of guanxi, Confucianism and present perspectives are reviewed.

Finally Chinese business culture and negotiating styles are described and explained. Cultural influences, China’s modern history and the 36 stratagems are explained.

3.1 Internationalization process

Internationalization – the process of increasing involvement in international operations across borders – comprises both changed perspectives and changed positions. Thus internationalization is a major dimension of the ongoing strategy process of most business firms (Osarenkhoe, 2008). In global and international business, conditions are more complicated than in the home market and thus requires more extensive planning as well as well equipped resources.

3.1.1 The Uppsala Internationalization Model

During the 1970s, several researchers at Uppsala University focused their research on the internationalization process of companies (Hollensen, 2004). The observations made were that Swedish companies preferably developed their international operations in small steps instead of starting to make large foreign production
investments right away (Johanson & Vahlne, 1977). It was also found that many firms started their international operations when they were still relatively small and then gradually developed their business abroad (Johanson & Wiedersheim-Paul, 1975). The basic assumption in the Uppsala theory is that a company initially develops in the domestic market and that internationalization then occurs as an outcome several incremental decisions. It is also assumed that the main barriers to internationalization are lack of knowledge and lack of resources. These barriers can however be reduced through successively increasing decision-making and learning about the foreign markets and operations. Furthermore it is considered that, as a result of lack of knowledge and a wish to avoid uncertainty, a company first start exporting to neighboring countries or countries that are relatively familiar or similar regarding business practices etc. (Johanson & Wiedersheim-Paul, 1975).

When a firm enters another country, a stepwise extension of operations is expected. Four different stages are distinguished, which are all different concerning the degree of involvement of the firm in the market. The four stages are (Johanson & Wiedersheim-Paul, 1975):

1. No regular export activities
2. Export via independent representatives (agent)
3. Sales subsidiary
4. Production/manufacturing

This sequence of steps is called the establishment chain. It has two important characteristics concerning the degree of involvement of the firm. The different stages successively represent larger resource commitments and they also cause a different degree of market experiences and information for the firm. The basic idea is that companies are believed to start selling abroad by using independent representatives, because this requires a smaller resource commitment than the establishment of a sales subsidiary (Johanson & Wiedersheim-Paul, 1975).

In the internationalization theory, the concept of psychic distance plays an important role. This notion is defined as “factors preventing or disturbing the flows of information between firms and market” (Johanson & Wiedersheim-Paul, 1975).
Examples of such factors are features like language, culture or level of industrial development. Psychic distance is not a constant factor, but it changes as the communication system, trade or other kinds of social exchange develop, even if a slow change can be expected in most cases. Another important aspect for international business is the size of the potential market. Consequently, firms should choose to start operating in countries with rather large markets. Small markets could also be an option for reasons like similarity to the domestic market, requirements of less initial resource commitment or fewer competitive industries (Johanson & Wiedersheim-Paul, 1975).

The two factors, psychic distance and market size, are both important for the internationalization process, but they will affect the patterns for agency establishments and sales subsidiary establishments in different ways. Since the agency establishment is supposed to take place during the early stage of internationalization, it is expected to be more linked to psychic distance than to the size of the market. The sales subsidiary establishment, and even more the stage of production, is on the other hand more closely linked to the market size since this normally requires a larger minimum resource commitment than the establishment of an agent. It could also be expected that Production is affected by psychic distance, but since it is also influenced by factors as for example tariffs or transportations costs, it is hard to find any correlation between psychic distance and production establishments (Johanson & Wiedersheim-Paul, 1975).

Johanson and Vahlne (1977) have further developed the Uppsala theory by creating a model of the internationalization process of companies. This model focuses on a firm’s “gradual acquisition, integration, and use of knowledge about foreign markets and operations and on its successively increasing commitment to foreign markets” (Johanson & Vahlne, 1977). The hypothesis behind this model is that lack of knowledge about foreign markets is an important obstacle to a company’s internationalization. Yet, necessary knowledge can primarily be acquired through operations abroad. These assumptions result in a dynamic model where the present state of internationalization is an important factor of understanding the direction of the following internationalization.
The model shows the relationship between different factors concerning internationalization decisions. The present state of internationalization can be estimated through two different aspects: *market commitment*, which is the amount of resources committed to the foreign markets, and *market knowledge*, which is the firm’s knowledge about foreign markets and operations. The concept of change aspects for future internationalization is composed of the company’s *commitment decisions*, which refer to decisions to commit further resources, and the performance of the firm’s *current activities* (Johanson & Vahlne, 1977). (see Fig 3-1)

There is a direct connection between market knowledge and market commitment. This model is based on the idea that the more knowledge a company has about a market, the more valuable are its resources and the stronger is its commitment to the market. A firm’s further commitment decisions will therefore be influenced by its present degree of market knowledge. Finally, a firm’s current business activities will affect its experience and market commitment, since operating in a market is argued to be the best way to gain experience and consequently also knowledge about a market (Johanson & Vahlne, 1977).

### 3.1.2 The Foreign Direct Investment Theory

“Foreign direct investment is the process whereby residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country” (Moosa 2002,). Furthermore the international Monetary Fund’s Balance of Payments Manual describe Foreign Direct Investment (FDI) as “an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of its investor, the investor’s purpose being to have an effective voice in the management of the enterprise” (Moosa, 2002). These definitions by Moosa and the Monetary Fund have one
common feature and that is the term “control” or “controlling interest”, which characterizes the important feature that distinguishes FDI from portfolio investment. Concerning what actually constitutes a controlling interest, there is no general agreement, but a common rule is that a minimum of 10 percent shareholding is regarded as enough control for the firm to exert a significant amount of influence over the underlying project. Many firms, unless having 100 percent equity ownership and control, are unwilling to carry out foreign investments. Others settle to make investments if they have at least majority control (51 percent stake). However in recent years a lean towards FDI co-operative arrangements, where several parties participate and no single firm holds majority control, i.e. joint ventures (Moosa 2002).

The Foreign direct investment theory derives from neoclassical and industrial trade theories. The view explains internationalization of firms with the argument that firms choose their optimal structure for each stage of production by evaluating the cost of economic transactions (Coviello & McAuley 1999). Organizational form and location is therefore chosen where overall transactions costs are minimized. According to Buckley and Casson (1979), the decision of a multinational enterprise to service a final market is closely linked to the costs of benefits of internalization. The strategy of a company is explained as a combination of ownership and location effects, meaning that the least cost location of an activity is determined by the ownership of the activities integrated with it (Buckley & Casson, 1979). Hence, transactions related with high risk and high resource commitment, are more likely to be internalized as part of a hierarchically structured organization (Coviello & McAuley, 1999). Classifying FDI can be done from the perspective of the investor and host country. Three types of FDI can be distinguished from the investor’s perspective. They are horizontal, vertical and conglomerate FDI. From the host countries perspective, FDI classifies by: import-substituting, export-substituting and government-initiated FDI. Lastly FDI can also be classified into defensive and expansionary types (Moosa, 2002). A growing interest in FDI, which has motivated attempts to come up with theories explaining its cause and effect, results firstly from its rapid growth, secondly from the concern it raises over foreign ownerships causes and consequences and lastly from the fact that developing countries has discovered FDI as an important source for funds (Moosa, 2002).
3.1.3 The Network Theory

The Network model describes industrial markets as networks of relationships between companies (Johanson & Mattson, 1988). These kinds of relationships can for instance involve customers, suppliers, sales agencies and competitors, as well as family and friends. As a result, organizational boundaries are considered to include both business (formal) and social (informal) relationships (Coviello & McAuley, 1999).

One of the basic assumptions behind the Network theory is that companies are dependent on extensive knowledge from others in order to do business (Antti & Räisänen, 2003). To be able to get hold of such external resources, companies have to establish exchange relationships to each other. This is a long and effort-demanding process and consequently it also limits the companies’ possibilities to change counterparts. Certainly, new relationships get established and some old ones are terminated for reasons such as competitive activities. However, most business transactions between companies generally take place within already existing relationships. Both the considerable effort to form networks and the competition between companies are reasons contributing to the fact that industrial networks are both stable and changing at the same time (Antti & Räisänen, 2003). To be able to enter a new network, a company has to build up relationships that are new to both itself and its counterparts. This can be done by braking already existing relationships or by adding a relationship to a network. The initiative can be taken both from the seller and the buyer.

The Network model suggests that the global industrial network can be divided into two different categories; national nets that are grouped according to national borders and production nets that contain companies linked through a specific product area. Concerning the degree of internationalization of a production net, the number and strength of the relationships between its different national sections are essential (Antti & Räisänen, 2003). Explicitly, this model implies that internationalization occurs through a company’s establishment and development of positions in relation to counterparts in foreign networks. According to Johanson and Mattson (1988, p.296), such a process can be achieved in three different ways:
1. International extension – establishment of positions in relation to counterparts in national nets that are new to the firm.

2. Penetration – developing the positions and increasing resource commitments in those nets abroad, in which the firm already has positions.

3. International integration – increasing co-ordination between positions in different national nets.

According Coviello and McAuley (1999), the Network theory thus suggests that internationalization depends on a company’s different relationships rather than a firm-specific advantage. Research made by Coviello and Munro (1997) to some extent also confirms this assumption. Their studies of the internationalization patterns and processes of small firms shows that network relations possibly not only drive internationalization, but also affect the pattern of market investment. Fast and successful growth within the studied cases, appears to be a result of the firms participation in international networks in view of the fact that major partners often guide foreign market selection and provide the mechanism for market entry.

Moreover, Johanson and Mattson (1988) stress that a company’s development is significantly dependent on its positions, as a company can use its market assets in its further development. Hence, the internationalization characteristics of both the company and the market will influence the process. A company’s market assets have a different structure depending on the degree of internationalization of the company. Also the structure of the market assets of other companies in the network is affected by a high or low internationalization of the market. Therefore, the Network model deals with four different situations concerning the internationalization process in the three dimensions mentioned above: extension, penetration and integration (Johanson & Mattson, 1988). (see figure 3.2)
This classification of different types of internationalization is based on the assumption that each category of companies internationalizes in a different way. Similar to stage models of internationalization, the Network theory considers lack of knowledge and other resources as the major challenges during the establishment of international business (Antti & Räisänen, 2003). Thus, the Network model suggests that companies defined as early starters, should use a strategy of internationalization beginning in nearby markets using agents. As such a company then gets more internationalized it changes from an early starter to a lonely international. A company finding itself in the position of a lonely international has less difficulty in entering tightly structured nets, since these kinds of companies already have a wider range of resource adjustments as well as a good knowledge about different national markets (Johanson & Mattson, 1988).

When classified as a late starter, relationships in the domestic market might motivate a company to enter foreign markets. For such a company there is no need of taking small steps from a nearby market to a distant market, since its market assets form the domestic market can be used when going abroad. However, the late starter's lesser market knowledge is a relatively important disadvantage. In the case of an international among others, both the firm and its environment are highly internationalized. This increases the company's possibility to use its positions in one net to bridge over to another one. A company's operations in one market can also make it possible to use production capacity for sales in other markets. Still, there is a strong need for this kind of company to coordinate its activities in different markets (Johanson & Mattson, 1988).
3.1.4 The Born Global theory

The popular business press has since the late 1980’s been reporting on a new and expanding phenomenon, the establishment of new ventures that are international from start (Oviatt & McDougall, 1994). These companies often raise capital, manufacture and sell products on several continents, predominantly in advanced technology industries where many competitors are already global. Any person with some international experience who can attract a reasonable amount of funding can do business anywhere in the time it takes to use his/her telephone and travel virtually anywhere in the world in no more than a day. The ease of use of low-cost communication technology and transportation means that the ability to find and make use of business opportunities everywhere on the globe is not restricted to large, mature corporations. New ventures could compete successfully, even with limited resources, in the international market (Oviatt & McDougall, 1994).

Harveston, 2000, has identified the born globals where there was a clear international focus of the business from the day the day of they were founded.

McDougall et al., 1994 and Cavusgil et al., 1996, show empirical evidence of the new type of companies that redefine the globalization process. These companies are from the start focusing on global markets and it seems they are not following any kind of model such as for example Uppsala model (Johanson & Vahlne, 1977). Partly it is a result of the fact that professionals with cross cultural experience and international experience are more available today then before. Business founders today have more international experience, knowledge and networks before setting up their business than in the past.

A born global company, or an international new venture, can be described as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries (Oviatt & McDougall 1994). These businesses distinguish themselves by that their origins are international. The focus lies on the age of the firms when they become international, not on their size. In contrast to organizations that develop gradually from a domestic to international business, these firms start with an aggressive
international strategy. Many believe that multinational enterprises only evolve after a period of domestic maturation and market saturation. In addition, large size is also a requirement for multi-nationality. Oviatt and McDougall (1994) state it is not entirely accurate. If large size were a requirement for internationalization, new international ventures would rarely form since they are almost always small at the start-up. However, increased speed, quality, and efficiency of international communication and transportation have reduced the cost of international exchange making it possible for smaller firms to broaden their horizons (Oviatt & McDougall, 1994).

The theoretical framework of born globals can be according to Oviatt and McDougall (1994) described as four elements in succession. The first is internalization of some transactions, which can be described as the most basic and clear part of traditional multinational enterprise theory. It is the defining element of all organizations, whatever new or established, domestic or multinational. The second element is alternative governance structures. A lack of resources and power may not be a defining characteristic of a new firm, but it is a nearly universal association. New ventures tend to internalize a minor percentage of the essential resources to their survival than what most mature organizations do. Alternative modes of controlling fundamental resources must be found by the entrepreneurs and that fact distinguishes new ventures from other organizations. For new firms network structure is an even more powerful resource-conserving alternative.

The third element is foreign location advantage. Firms are basically international because they find an advantage in moving resources across a national border to be combined with a stationary resource or opportunity. However, doing business in a foreign country has its disadvantages in opposition to indigenous firms. Such disadvantages can be trade barriers, incomplete understanding of laws, language and business practice etc. Private knowledge has been the most obvious alternative to this problem, for it can create differentiation and cost advantage for many multinational enterprises. The fourth and last element for new ventures is unique resources. To sustain competitive advantage, all firms need their resources to be unique. For the knowledge-based international new venture, knowledge is unfortunately to some extent a public good and therefore the capacity to reproduce and move knowledge to a low marginal cost is a beneficial, but bothersome property.
To have commercial value, new ventures must limit the use of its knowledge by outsiders in many countries (Oviatt & McDougall 1994).

Oviatt and McDougall (1994) also present several types of international new ventures. Figure 3-3 shows the different forms of ventures that may be distinguished by the number of value chain activities that are coordinated and by the number of countries entered (Oviatt & McDougall 1994). The first type of venture is new international market makers (quadrant i and ii). These firms are the “old fashioned” type of companies in which import and export results in profit by moving goods between nations. The most important value chain activities, and the ones most likely to be internalized, are the system and knowledge of inbound and outbound logistics. Transactions involving other activities have a tendency to be governed by alternative structures. The next kind of venture is geographically focused start-ups (quadrant iii). Such companies have an advantage by the use of foreign resources, serving the specialized needs of a specific region. In contrast to multinational traders, they are restricted to the location of the specialized need. Their competitive advantage is found in the coordination of multiple value chain activities, such as technological development, production and human resources. Finally the last kind of venture is the global start-ups (quadrant iv). These new ventures are the most radical in their strategies, because they obtain competitive advantage from widespread coordination among multiple organizational activities which locations are geographically unlimited. Such firms act on opportunities and globalizing markets proactively to acquire resources and sell outputs wherever in the world. Global start-ups may be the most difficult international venture to develop, because they have need of skills at both geographic and activity coordination. Once established though, they appear to have the most successful competitive advantage due to complex and ambiguous network alliances in multiple countries.
The reasons for internationalization of firms is on one hand the market size of the companies market of origin as well as the market size or potential markets outside of the market of origin. Sweden for example is considered a small but highly developed market. By internationalization, the Swedish firms are expanding the market physically as well as fulfilling the demands of major customers that has internationalized as well.

For Chinese businesses, the export markets might be of high interest, also due to the size of the market. In China the potential market segment for a certain product might be smaller than in for example Sweden, due to the fact of for example customer affluence or infrastructure development.

3.2 Relationship marketing

3.2.1 Relationship marketing – definition

As Nevin (1995) points out, the term *relationship marketing* has been used to reflect a variety of themes and perspectives. Some of these themes offer a narrow functional marketing perspective while others offer a perspective that is broad and somewhat paradigmatic in approach and orientation.
One narrow perspective of relationship marketing is database marketing emphasizing the promotional aspects of marketing linked to database efforts. Another narrow viewpoint is to consider relationship marketing only as customer retention in which a variety of after marketing tactics is used for customer bonding or staying in touch after the sale is made (Vavra, 1991). A more popular approach with recent application of information technology is to focus on individual or one-to-one relationships with customers that integrate database knowledge with a long-term customer retention and growth strategy (Peppers & Rogers 1993). Thus, Shani and Chalasani (1992) define relationship marketing as "an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time". Jackson (1985) applies the individual account concept in industrial markets to define relationship marketing as "marketing oriented toward strong, lasting relationships with individual accounts". McKenna (1991) professes a more strategic view of relationship marketing by putting the customer first and shifting the role of marketing from manipulating the customer (telling and selling) to genuine customer involvement (communicating and sharing the knowledge).

Berry (1983), in somewhat broader terms, also has a strategic viewpoint about relationship marketing. He stresses that attracting new customers should be viewed only as an intermediate step in the marketing process. Developing closer relationship with these customers and turning them into loyal ones are equally important aspects of marketing. Thus, he defined relationship marketing as “attracting, maintaining, and – in multi-service organizations – enhancing customer relationships”. Berry’s notion of relationship marketing resembles that of other scholars studying services marketing, such as Gronroos (1985), Gummesson (1987), and Levitt (1981). Although each one of them is espousing the value of interactions in marketing and its consequent impact on customer relationships, Gronroos (1990) and Gummesson (1987) take a broader perspective and advocate that customer relationships ought to be the focus and dominant paradigm of marketing. For example, Gronroos (1990) states: “Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises”. The implication
of Gronroos’ definition is that customer relationships is the ‘raison de être’ of the firm and marketing should be devoted to building and enhancing such relationships.

Morgan and Hunt (1994), draw upon the distinction made between transactional exchanges and relational exchanges by Dwyer, Schurr and Oh (1987), to propose a more inclusive definition of relationship marketing. The following definition according to Morgan and Hunt (1994): “Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relationships.” Such a broadened definition has come under attack by some scholars. Peterson (1995) declared Morgan and Hunt’s definition guilty of an error of commission and states that if “their definition is true, then relationship marketing and marketing are redundant terms and one is unnecessary and should be stricken from the literature because having both only leads to confusion”. Other scholars who believe that relationship marketing is distinctly different from prevailing transactional orientation of marketing may contest such an extreme viewpoint.

For an emerging discipline, it is important to develop an acceptable definition that encompasses all facets of the phenomenon and also effectively de-limits the domain so as to allow focused understanding and growth of knowledge in the discipline. Although Morgan and Hunt’s definition focuses on the relational aspects of marketing, it is criticized for being too broad and inclusive. They include buyer partnerships, supplier partnerships, internal partnerships, and lateral partnerships within the purview of relationship marketing. Many of these partnerships are construed as being outside the domain of marketing and hence face the risk of diluting the value and contribution of the marketing discipline in directing relationship marketing practice and research or theory development (Peterson, 1995). Therefore, Sheth (1996) suggested that we limit the domain of relationship marketing to only those cooperative and collaborative marketing actions that are focused on serving the needs of customers. That would be consistent with marketing's customer focus and understanding that made the discipline prominent. Other aspects of organizational relationships, such as supplier relationships, internal relationships, and lateral relationships are aspects being directly attended to by such disciplines as purchasing and logistics management, human resources management, and strategic management. Therefore, relationship marketing has the greatest potential for
becoming a discipline and developing its own theory if it de-limits its domain to the firm-customer aspect of the relationship. However, to achieve mutually beneficial relationship with customers, the firm may have to cooperate and collaborate with its suppliers, competitors, consociates, and internal divisions. The study of such relationships is a valid domain of relationship marketing as long as it is studied in the context of how it enhances or facilitates customer relationships.

An important aspect of, Gronroos, and Morgan and Hunt definitions is that they all recognize the process aspects of relationship development and maintenance. A set of generic processes of relationship initiation, relationship maintenance and relationship termination is also identified by Heide (1994). His definition claims that the objective of relationship marketing is to establish, develop, and maintain successful relational exchanges. Wilson (1995) develops a similar process model of buyer-seller cooperative and partnering relationships by integrating conceptual and empirical researches conducted in this field. Thus, a process view of relationship marketing currently prevails in the literature and indicates that the discipline is in its early stages of development whereby marketing practice and research needs to be directed to the different stages of the relationship marketing process. In addition to the process view, there is general acceptance that relationship marketing is concerned with cooperative and collaborative relationships between the firm and its customers. Such cooperative and collaborative relationships are more than a standard buyer-seller relationship, yet short of a merger or acquisition relationship. They are formed between the firm and one or many of its customers, including end-consumers, distributors or channel members, and business-to-business customers.

Also, a prevailing axiom of relationship marketing is that cooperative and collaborative relationships with customers lead to greater market value creation and that such value will benefit both parties engaged in the relationship. Creation and enhancement of mutual economic value is thus the purpose of relationship marketing. Hence, we could define relationship marketing as the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value, at reduced cost.
3.2.2 Relationships and Networks

"No business is an island"

The quote by Agndal and Axelsson (2002), relates to the complicated organization of today’s business world that is far from clear-cut and simple when it comes to interaction aspects that impact firms’ operations. Agndal and Axelsson (2002) also brings up the fact that in the last two decades the concept of network has become popular, both among researchers and business practitioners, and is used in a wide variety of contexts such as; describing business systems or creating prosperous regional development. The Uppsala model by Johanson and Vahlne (1977) is based on the idea that experiential knowledge only can be acquired through operating in a market and that this knowledge is market specific and cannot be transferred. Lindstrand (2003) on the other hand explains in the research of the usefulness of networks in the internationalization process that knowledge can be transferred without experiencing it. According to Lindstrand (2003) knowledge can for example be gained by acquiring or imitating others, reflecting the importance of networks. This implies that when a firm moves towards the global market it becomes increasingly necessary to rely on a network of relationships with external organizations.

Todeva (2006) states that since its foundation network theories have been focusing on the structural implication of social interaction and relationships. Where business networks are structures of relationships between actors such as; business organizations, individuals within them, managers that make decisions on the behalf of an organization and various institutions that are interacting with each other for a business purpose. Further on Todeva (2006) makes the statement; “One of the strengths of the business network metaphor lies in its bridging function, between the social and economic dimensions of human conduct, between different disciplines and methodologies, between the academic community and the world of practice. Business network is an essential concept that can explain the organization of the contemporary economy and society and the behavior of interconnected business actors”. The concept of business networks can be complicated to manage because of its high complexity, meaning that it can stand for many things at the same time.
Despite the advantages networks provide, they can be time consuming, costly and generate conflicts. The globalization of the economy and its impact on business relationships has escalated the interest in business networks (Todeva, 2006). One purpose with business alliances and network relationships according to Hollensen (2004) is to reduce market uncertainties; however they also need more coordination and communication. Nevertheless, the importance of external triggers cannot be ignored and Hollensen (2004) continues by saying that formal and informal meetings among managers from different firms and trade associations, conventions or business round tables often serve as a major change agent. Todeva (2006) continues by arguing that the increased research in this field has led to a gradual change in paradigm in the neo-classical economy theory, where the focus of analysis has shifted from individual firms to business networks, collaborative business relationships and strategic alliances. The increased globalization can be linked with liberalization policies worldwide that trigger firms’ internationalization and accessibility to foreign markets. The response by firms is no longer based entirely on cost calculations and expectations of return on investment, but rather is driven by motives for uncertainty avoidance, establishment in strategically significant markets and strategically important global alliances (Todeva, 2006). Moreover one can distinguish between the different sort of networks that are created with a specific purpose in mind, “alliance networks” and “naturally emerging networks” (Agndal & Axelsson, 2002). Also Todeva (2006) differentiate diverse types of networks such as entrepreneurial small business networks, Family business networks and Chinese family and community business networks as guanxi networks for example. Håkansson and Johanson (1992) explain the network aspect in a more detailed version by using the A-R-A framework that contains the importance of actors, resources and activities within a network. Framework (Håkansson & Johanson, 1992) "Often relationships established in the past, relationship sediments, appear to play crucial roles as driving forces and enablers of internationalization” quoted by Agndal and Axelsson (2002), regarding their way of viewing relationships as assets when it comes to the network theory. Agndal and Axelsson (2002) have created a framework by modeling the different dimensions of relationship sediments that can be identified. The dimensions are summarized into the following five groups, the type of contact or relationship (the sediment origin), its importance or role, its structure, availability and reach. The sediment structure of the relationship refers to its content and the
commitment to its actors, which can be broad, narrow, deep, shallow, strong, weak or a combination of these. The availability of the relationship explains to what extent that the relationship can be mobilized or activated. The reach or context of the relationship clarifies the context in which it is embedded and give access to, for example countries, networks or industries. Last Agndal and Axelsson (2002) are saying that “the importance of the relationship sediment is characterized as being a critical bridge to other relationships or network contacts, or of marginal value where it represents one of several ways of achieving the same end”, which reveals the uniqueness from relationship to relationship.

Agndal and Axelsson (2002), explains relationships as an immaterial resources that could be tied either to the firm or to specific individuals that can be used as direct or indirect links to other actors when initiating a development process, acquiring information or for learning experiences. Further on Todeva (2006) conclude that relationships and interaction are the essence of business networks and explains each type of business network as unique, determined by historical, institutional, and cultural conditions. The concepts that economic actions are imbedded in social structures as well as the positive and negative effects of social relations in economic activities have been examined by Uzzi (1997). Uzzi divides relationships into market relationships and close/special relationships when studying the degree of trust in existing social structures. Close/special relationships are regarded as embedded relationships that include mutual trust between the actors. Trust is developed over time when close network members are helping each other. The research of Uzzi illustrates how unspoken bonds were particularly important in creating effective business collaboration. Trust is also important when gathering new information as it enables you to faster acquire data and reduce the uncertainty involved. Close relationships are a good way of transferring tacit knowledge between actors and development of trust is important for the overall success of cooperation (Uzzi, 1997). This quote by Agndal and Axelsson (2002) highlight the importance of relationships, “Relationships are assets just like knowledge, financial and other resources that enable firms’ actions and activities” (Agndal & Axelsson, 2002).

Uzzi’s research (1997) needs to be looked upon with a critical eye, first, since his agreements are grounded in observation only made in the garment industry. Second, the small employment size and the personal nature of the ties within this industry
may have provided a natural ground for embeddedness. When it comes to relationship theories in general, one need to observe the uniqueness of each case which means that one theory that fit one firm might be impossible to apply to another.

3.2.3 The Impact of Relationships and Culture on International Marketing

As ‘western’ markets become saturated, international marketers have been turning increasingly to markets in developing countries. In most cases they have been targeting the wealthy elite at the top of the income scale and when considering the future potential of such markets, their focus has usually been on the expanding middle class. Rarely do international marketers focus on the masses in these countries, be they the urban poor or occupants of rural towns and villages. Prahalad and Lieberthal (1998) attribute this to firms having an ‘imperialist mindset’ which drives firms to sell the same products as in the west in an unchanged form to established upscale markets in developing countries. London and Hart (2004) claim that this approach only captures the tip of the iceberg of commercial potential in such markets. Prahalad (2005) illustrates it in Figure 3-4.

The figure shows that the number of potential customers whose annual purchasing power is less than USD1500 per year amount to 4 billion people (which is estimated to exceed 6 billion by 2045). This group at the bottom of the pyramid (BOP) accounts for 65% of the world’s population and it is amongst this group that future growth prospects are likely to be greatest. However, a different mindset will be necessary to tap this potential, particularly in the short term. As will be shown, those at the BOP exhibit cultural traits that are different and less influenced by globalization. They are highly dependent on relationships involving both the family and the local community and are highly influenced by the network within which they are embedded. This
network could be based on family, clan or caste, religion, ethnic group or location. A standardized ‘western’ marketing mix offering will not ‘cut it’ with this group whose circumstances will require a highly customized approach. Furthermore, such a standardized offering is unable to cope with the informal economy that accounts for between 30 and 60% of total economic activity in most developing countries (de Soto, 2000).

In this situation, those at the bottom of the pyramid are likely to be heavily involved in the informal economy that can extend from simple barter to smuggling and corruption. Prahalad (2005) cites a retailer in Brazil as advising that the informal market is twice as big as the formal market, especially with the lower income population and that the retailer has to believe what his customers are telling him as they do not declare their income. In this situation, trust assumes considerable importance in the behavior of buyer and seller. The role of trust varies from one culture to another and the issue of culture needs to be taken into account in reaching customers at the bottom of the pyramid.

### 3.2.3.1 Culture

The works of Hofstede (1994) and Trompenaars and Hampden-Turner (1997), although criticized in respect to methodology and recency, do illustrate major cultural differences between emerging and developed markets. Schutte and Ciarlante (1998) compared Hofstede’s and Trompenaars’ dimensions between Asian and Western markets and found that of Hofstede’s dimensions, Asian markets reflected higher power distance (i.e. an acceptance of hierarchy and inequality as the natural order of things), and greater collectivism than in western markets. They found with Trompenaars’ dimensions that Asian markets reflected more focus on relationships (particularism), on group rights (collectivism), on the indirect expression of emotions (neutral rather than affective) and a view of status being due to position (ascription) rather than to individual efforts. Subsequently Hofstede and Bond (see Hofstede 2001) came up with an Asian cultural dimension of Confucian Dynamism (long term orientation). These findings were supported by another study that compared the fourteen least developed (i.e. emerging) with the fourteen most developed countries (Fletcher & Melewar, 2001). The study found that with Hofstede’s dimensions,
emerging markets exhibited much greater degrees of both power distance and collectivism. With Trompenaars’ dimensions, the study found that emerging markets tend to be particularist rather than universalist with obligations and particular circumstances taking precedence and that ascription played a greater role than achievement in such cultures. They also found that emerging markets were specific rather than diffuse and characterized by cultures that are highly focused on context. In such cultures, information is largely obtained from personal information networks. However, these researchers and others do not explore cultural differences between the more affluent and those at the bottom of the pyramid in the developing countries. In Hofstede’s case, his sample of IBM employees by its very nature excluded those at the bottom of the pyramid. It is likely that in emerging markets, those at the bottom of the pyramid will more strongly reflect cultural differences due to their lack of exposure to external (and often western) influences as a result of limited access to the media and limited education. The knowledge of the cultural drivers for those at the BOP is necessary so as to appreciate their underlying thinking. It was the approach adopted by the highly successful Grameen bank in Bangladesh and with ‘barefoot banking’ as exemplified by the Wao Microbank in Papua New Guinea. Hindustan Lever Limited (HLL), when promoting their iodized salt in India, had to educate the local population as to the product’s health benefits and include local village women in their distribution activities (Prahalad, 2005). These cultural drivers may be reflected in the social climate of communities at the BOP. For example, collectivism is manifested in India where it is not uncommon with collective purchasing and common use of facilities as for example several families band together to buy a washing machine. Such collective activities also create an emphasis on the need to maintain relationships. This is illustrated in the Chinese concept of *guanxi* where the aim is never to completely discharge the obligation as the existence of an un-discharged obligation in a relationship ensures its continuity.

3.2.3.2 Relationships

Effective international marketing is becoming increasingly dependent on the cultivation of mutually beneficial relationships and nowhere is this more evident than in emerging markets due to the cultural drivers mentioned above. Such dependence on relationships is especially important at the BOP. The collectivism at the BOP can
result in a deep loyalty to the product or service that becomes available to this group for the first time. Although the concept of ‘guanxi’ discussed above is usually associated with China, its underlying promise of reciprocal obligation is manifest in most Asian countries and in many non-Asian BOP markets. As a prerequisite for doing business in many BOP markets, reciprocal obligations mostly operate at the individual rather than at the firm level. Interpersonal trust is also important and provides the sources of information for making decisions. This trust in turn derives from connections that are viewed as key assets in societies at the BOP. In such societies, the family has a strong influence on decisions. Social capital plays an important role in transactions at the BOP as evidenced in lending by a group and the implicit peer pressure to payback the loan. In BOP groups, there is strong emphasis on integrating activities into the local environment, as this is better understood. As earlier mentioned, there will be a greater presence of the informal economy at the BOP and when the informal economy is involved, relationships will be grounded on social rather than on legal contracts.

From the above discussion of relationships at the BOP it would appear that trust is an important factor in consumer decision-making. The networks created by these relationships provide a means of getting around such mistrust as may exist. It is for this reason that appeals to buy need to be made by persons whom the consumer knows, with whom they can identify or to whom they look up to. This is also important in establishing a distribution structure to tap the BOP sector of the market in an emerging economy. Culture, relationships and networks will influence how buyers behave at the bottom of the pyramid. There are a number of ‘western’ derived models of buyer behavior that research has shown need to be modified when doing business in developing countries. Different tastes, customs and habits are likely to result in different preferences. Also the popularity of western luxury goods among non-western consumers may be due to different factors such as saving or giving ‘face’ or peer pressure, rather than because of perceptions of value. These factors explain why people at the bottom of the pyramid are brand conscious, especially for aspirational reasons. The model of innovation adoption for example does not apply uniformly to all international markets. In many respects, this is due to differences in culture. Different cultures have a different attitude towards the past, present and the future, which in turn impacts on the degree of enthusiasm for adopting new
technologies. Also different cultures exhibit different degrees of individualism and collectivism and this influences the readiness to adopt something new or preference to wait until many others have adopted the technology. Some research has been undertaken on differences in buyer behavior between the ‘west’ and Asia. Figure 3-5 (from Bradley 2003) shows that in ‘eastern’ countries, the response pattern is different to that in the ‘west’ and the life cycle much shorter.

Another model impacting on the way buyers behave is Maslow’s hierarchy of needs – this shows the order in which needs are satisfied by buyers. Research by Schutte and Ciarlante (1998) shows that in Asia not only is the order in which these needs are satisfied different, but also the needs themselves vary compared to the ‘west’. It is illustrated in Figure 3-6. These models of buyer behavior illustrate that in emerging or less developed markets consumers are driven by different motivations to those that operate in western developed markets.
The problem with these models is that they view eastern or Asian markets as a whole and do not differentiate between groups within such markets on socio economic lines. In these countries, buyer behavior is likely to be markedly different between the wealthy elite and growing urban middle class on the one hand and the urban poor/rural masses on the other. Whilst advocates of globalization argue that over time such consumers will become more westernized, to the extent that this is true, it is only likely to apply to the upper and middle class elements of such markets. Those in the markets at the bottom of the pyramid are much less likely to be exposed to western influences as disseminated by eCommerce and the media. Only 50% of those at the BOP in many developing markets actually have access to the media (Prahalad, 2005). Therefore, the observed buyer behavior differences commented upon above are more likely to be evident at the BOP. It is because embedded cultural differences are likely to be greater or subject to less modification by exposure to western influences.
3.3 Chinese culture context

3.3.1 General outline

As the People’s Republic of China is opening up to the world, they are also showing up a more multifaceted society than has been projected over the last 30 years. The picture of blue-clad bikers with red-starred Mao-cap has been deeply ingrained in the Western world. Still today when some foreign visitors come to China they want to find this typical sight to photograph. For those who have been involved with China and its market for decades know that this picture is rapidly fading.

Today we can see how industries are prospering and growing, the inflow of foreign investment is booming and the nation is preparing to host the 2008 Olympics. Through the globalization that has been evident during the past decades, the Chinese find themselves part of a global society with certain demands and expectations on its members.

Murphy et al. (2006) is arguing that the Chinese culture is homogenous and has developed over 4000 years. They claim that the language is shared among Chinese all over the world (Hong Kong, Taiwan and overseas Chinese). In 2004, the Chinese government commissioned a study that showed 53% of the Chinese population understands Putonghua (People’s Daily, 2004 and Ooi, 2007). Putonghua is the official language in the People’s Republic of China and is used by the government offices and bodies as well as in state media. When looking at the global context of Chinese culture, groups are spread over the world, the ratio between Putonghua speakers- non-speakers, would be even less.

As China is opening up, the once homogenous country and people is showing up a multifaceted society. Historically guanxi, mianzi, renqing and xinyong have been essential parts of doing business in China and the concepts are still valid. But through a more internationalized society, not necessarily westernized as Ooi, 2007,
argues, the Chinese society is adapting, changing and developing at all levels. The importance of the Chinese Confucianism culture context is declining in importance.

Ooi, 2007, is presenting the picture of changing Chinese values, as social, political and economic changes will take place. Cultural practices are in this sense, not carved in stone but rather written in sand. The Chinese way of doing business is not a result of Confucian heritage but rather a result of the social, political and economic systems (Gates, 1996).

3.3.1.1 Guanxi – definition

Literally, *guanxi* means connection and is made up by two words: *guan* and *xi*. According to the Modern Chinese Dictionary, *guan*, as a noun, originally refers to a juncture or a pass that is usually of strategic importance. It is then used figuratively to refer to barriers such as in technical barriers (*jishu guan*). *Guan* is, in one sense, a barrier and, in another, a conjunctive point that connects otherwise separate entities. As a verb, however, *guan* by itself means to close, but together with other words that denote connection it means to relate to (e.g., *guan lian*). Such is the case with *guanxi*. *Xi* can serve as a linking verb like “be” in English, or a conjunctive word meaning in relation to or having a bearing on. When used as a regular verb, it means to tie up. *Guanxi* together can be used as a verb or a noun. As a verb it means to have bearings on; as a noun it denotes a state in which entities (objects, forces, or human beings) are connected. In human relations, *guanxi* can refer either to the state of two or more parties being connected or the connected parties themselves. As a state of being connected, it is either in existence or not (e.g., two people either have or do not have *guanxi*), good or bad, close or distant, deep or shallow, in tension or in harmony. In reference to the actual parties involved, a *guanxi* can be an individual (e.g., he/she is my *guanxi*) or an organization (e.g., Company X is our *guanxi hu*), as a dyad (e.g., persons X and Y have a deep *guanxi*) or as a network (e.g., these five people are all in the same *guanxi net*).

There are other ways of describing *guanxi* and *guanxi* activities. For example, *guanxi* operates in different life spheres, so there are family-, friendship-, political-, and business *guanxi*. Guanxi-related activities are often described by applying different
verbs. For example, to “pull guanxi” refers to actions of initiating and establishing a
connection, and to “walk guanxi” is to use connections to achieve specific purposes. Other frequently used verbs include building, developing, consolidating, maintaining, breaking and so on.

3.3.1.2 The Confucian heritage of guanxi

The implication of guanxi can be viewed in differently in various Chinese societies and is evolving over time in a given Chinese society. Still the fundamental meanings of guanxi can be found in ancient Chinese philosophies, especially the teachings of Confucianism (Confucius, 1915). King (1991) dwelled into Confucianism to find the historical and cultural roots of guanxi. He discovered that guanxi is not found in the Confucian classics as it is a modern expression. Instead, the word lun is used (King, 1991). The literal term lun is not used in daily speech in China but it confines the most fundamental sides of the ancient Chinese social system and its political and moral philosophy.

Explaining meanings of lun may therefore shed lights on the historical backgrounds of guanxi. The first meaning of lun pertains to the paramount importance of human relationships. The fundamental Confucian assumption of human kind is that individuals exist in relation to others. Of the great variety of relationships, the most important ones were known as the Five Cardinal Relationships (wu lun): ruler-subject, father-son, husband-wife, elder brother-younger brother, and friend-friend.

Although the structural make-up and the nature of the relationship may have evolved since the time of Confucius, modern Chinese societies (on the mainland or overseas) remain very much relationship oriented (Redding & Wong, 1986). The second meaning of lun is social order or what Fei (1992/1947) called differentiated order. Analogous to natural order, social order or stability lies in differentiation, which can be interpreted hierarchically and horizontally. In hierarchical differentiation, members of each relationship enjoyed unequal rights and obligations so that sovereign, father, husband, elder brother; the senior friend had more prerogatives and authority than the subject, son, wife, younger brother, and the junior friend. Horizontally, the self is “at the center of a series of concentric circles” (Redding & Wong, 1986). While
socially related others were differentiated in terms of their closeness to the self. In the traditional family situation, the closeness is based on blood ties such as family member, clan member, close relatives, and distant relatives. Here, rights and obligations of others differ depending on the relative positions in the circles.

Finally, lun refers to moral principles regarding interactive behaviors of related parties.

Just as the relationships are highly differentiated, so are the moral principles. The implication is that there are no universal moral standards applied consistently to all human relationships. Instead, each relationship operates under its own moral principles. The Confucian prescriptions of social relationships appeared to put conflicting demands on the Chinese individual. On one hand, in a relation-oriented society, one was a socially dependent being, which made it imperative to know one’s social position, to fulfill one’s duties and obligations, and to observe the appropriate moral standards. On the other hand, the Confucian self was at the centre of the concentric circles and played an important role in defining, interpreting, or even constructing the lun relations. Except for the preordained relations such as father-son in which behaviors and responsibilities were largely fixed, the Confucian individual had “considerable freedom in deciding whether to enter into voluntarily constructed relations” outside the family structure (King, 1991). In this sense, the Confucian self is the initiator of social communication and the architect in relation construction.

3.3.1.3 Current perspectives on guanxi

Guanxi is defined as personal relationships of informal social connection where individuals are expected and obliged to exchange favors among them (De Keijzer, 1992; Davies, Leung, Luk & Wong, 1995; Lovett, Lee & Raja, 1999; Ambler, Styles & Wang, 1999). In China when doing business, people are instinctively looking for common guanxi connections. It could be in the form of for example clanships, friendships, schoolmates, teachers and students and these facilitate and simplify the business life (Tsang, 1998).
Guanxi is the oil in the machinery of a cranky political, social and economic system. Similarities can be found in for example Brazil where the society needs extra oil to function where the “despachante” or “jeitincho” are persons with right and/or important connections. You pay them for getting things done quicker or smoother than you could ever do yourself. In Russia a similar system is in place called blat (Michailova & Worm, 2003). In Indonesia it is called bapakism, in Japan konne and Pakistan sifarish.

In a guanxi network, individuals are committed to the relationship in a long-term perspective. This is controlled through a norm of reciprocity that concerns a process of exchanging favors and equity (Luo, 2000; Ang et al., 2000). The guanxi network members should refrain from showing “any form of physical aggression” and “to help each other in order to promote the harmony and integrity of the group” (Hwang, 1987, p. 950).

Chen and Luo (1996) elaborate on the Chinese discomfort with Western internalization strategy through acquisitions. Since acquisitions implies that there is a risk for liquidation or other actions resulting in lay-offs. Instead Chinese firms will promote a growth strategy based on guanxi, creating loosely connected cooperative networks, enabling economic growth potential and limiting major structural changes such as transfer of ownership or merging business cultures. As the strategy is guanxi based, it requires favors and returning them. As we speak, the acquisition and merger of Chinese company Lenovo and IBM, has proven the opposite.

In the guanxi network, the collaboration and cooperation between people is flexible and manages non-contractual issues smoothly.

At first glance, guanxi has a clear definition, namely it refers to personal connections between two or more people. However, a review of how the concept has been operationalized in research revealed some major differences. The first difference is in what we called the categorical-dimensional conceptions of guanxi. The categorical conception views guanxi as a particular type of personal relationship (Tsang, 1998; Yeung & Tung, 1996), which is further differentiated into different subtypes (Fahr, Tsui, Xin & Cheng, 1998; Tsui & Fahr, 1997; Yang, 2002). Here, guanxi has three
types depending on the bases upon which *guanxi* is built (Jacobs & Bruce, 1982): family ties (kinship), familiar persons (e.g. former classmates and colleagues), and strangers (with or without common demographic attributes). Different *guanxi* bases tend to define different types of relationships and trigger different principles of interaction, which in turn bring out different outcomes. Instead of classifying *guanxi* in terms of its bases, other scholars do it according to the nature and purpose of interactions. For instance, Hwang (1987) classifies *guanxi* into three categories: socio-affective, instrumental, and mixed. Socio-affective *guanxi* refers to family and family-like relationships, whose social interactions involve primarily exchanges of feelings for the satisfaction of needs for love and belongingness. Instrumental *guanxi* refers to the market type of resources exchanges (sellers and buyers of goods and services) for the satisfaction of material needs. The mixed *guanxi* involves exchanges of both feelings and material benefits that often occur among classmates, colleagues, and people from a same region. Although the ultimate types of *guanxi* as classified in Hwang (1987) seem to correspond roughly with the above base-based *guanxi* types (affective-family, instrumental strangers, and mixed-familiar persons), the identification of different contents and purposes of *guanxi* paves the way for a dimensional approach to *guanxi*. Yang (2002) argues that all types of *guanxi* (family, school, or workplace) involve exchange of both materials and feelings. Depending of the type of *guanxi*, the type exchange varies. She also separated the functional nature of the interactions from *guanxi* bases. Also, she suggests a global assessment of how a *guanxi* stands at a certain point in time. Another difference lies in whether or not viewing *guanxi* from a network/group or a dyadic perspective. The network/group perspective of *guanxi* examines *guanxi* at the network level and identifies its function in maintaining social order and substituting where the legal system cannot reach (Alston, 1989). The dyadic approach to *guanxi*, on the other hand, argues that the fundamental unit of Chinese *guanxi* is the dyad rather than the group (Yang, 1994; Alston, 1989) because *guanxi* stresses mutuality without connection to groups. By taking a dyadic perspective, we do not mean to suggest that the Chinese do not form networked groups but rather that those network groups have interpersonal *guanxi* dyads as their fundamental units. For instance, the Chinese *guanxi* network is defined as a group of people connected by personally defined mutual bonds or particularistic interpersonal ties (Jacobs & Bruce, 1982; Redding, Norman & Schlander, 1993).
Finally, researchers also differ in their *value judgment* of *guanxi*. Some view *guanxi* as typifying the purely instrumental and particularistic dimension of interpersonal relationships, which contrasts with the affective and expressive dimension of friendship on one hand and the universalistic, equality oriented dimension of comradeship on the other (Gold, 1985). For instance Gold (1985), he views *guanxi* and its related activities as both reflecting and contributing to the widespread corruption in the Chinese society. Others, while concurring on the instrumental nature of *guanxi*, tend to see the more functional side of it, viewing it as a human or organizational capital that helps gain competitive business advantages (Tsang, 1998; Yeung & Tung, 1996), improve economic efficiency by reducing transactional cost (Davies et al., 1995; Nee, 1992), or mobilize political support (Jacobs & Bruce, 1982). Still others view *guanxi* as multidimensional and having both positive and negative ramifications (Chen, 1995). In her comprehensive review, Yang (2002) identifies a few major weaknesses in the literature of Chinese *guanxi* theory and research. First, previous literature has been primarily concerned with the pragmatic utility of *guanxi* but not on the construct building and operationalization (e.g. Fahr et al., 1998; Xin & Pearce, 1996). Second, emphasis has been placed on the classification of *guanxi* types and on how *guanxi* types and various relational principles codetermine, but not on the measurement of these *guanxi* types or their different objectives or functions. Third, models of *guanxi* tend to be static, which does not account for how *guanxi* is initiated, developed, and changed overtime (e.g. Tsui & Fahr, 1997). Despite the differences and the limitations of the *guanxi* literature, there appears to be consensus on some of the fundamental conceptions of *guanxi*. One consensus is that all *guanxi* ties are highly personal and particularistic rather than impersonal or universalistic. The other is that *guanxi* building is often initiated after identifying a *guanxi* base and that many candidates for *guanxi* bases are unique to the Chinese culture. For example, the most common bases will be sharing the same birthplace, graduating from the same school, worked in the same organization, and so on. The numerous overseas Chinese associations of hometown sharing (*tong xiang hui*) in foreign countries are distinct examples of identifying such common *guanxi* bases. Finally, a set of key indigenous Chinese concepts has been identified as correlates or constituent dimensions of *guanxi*. 
MacKinnon (2008) argues that there is change in China today with respect to traditional values and international strategic thinking. He states that a reconfiguration is taking place, driven by strategically and economical factors to meet challenges of competition on a global scene. As guanxi springs from a requirement to create a protection against an insufficient and unpredictable legal and ideological framework, the guanxi concept is not yet changing and is not expected to change in the near future although other traditional values and concepts are.

Strategic practicality is the main force in changing national and managerial values, not economic ideology, nor crossvergence according to MacKinnon.

Fang (2008) points out that guanxi and professionalism are interrelated in China today. They are both important in Chinese business life today. It is still used as a tool but is not a prerequisite to be successful in business or having a professional career.

3.3.1.4 Xing (trust) and guanxi quality

The Chinese societies are described as high in particularistic trust, such as among family members, but low in general trust in larger collective units (Fukuyama, 1995; Gudykunst et al., 1996). To the extent that guanxi building represents efforts by individuals to deal with an environment lacking general trust, interpersonal trust is essential in building a quality guanxi. In other words, trust underlies the differentiated order of one’s guanxi net: the higher the level of trust between two individuals, the better the guanxi quality will be. The Chinese word for the trustworthiness is xing (faith), which, as a characteristic of Chinese root words, takes on different meanings depending on the context. A person is trustworthy (ke xing) when he or she is sincere, honest, credible, reliable and capable. Two points need to be emphasized. First trustworthiness refers primarily to the sincerity (cheng) than the ability of the person. Sincerity (cheng xin cheng yi, 诚心诚意,) according to Yang (2002), means that the person has the true intention (yi) to enter and stay in the relationship and has your best interest at heart (xin). Sincerity is manifested in being reliable by following social norms of guanxi. Although sincerity is a more salient feature of trustworthiness in China, ability is nevertheless important. Indeed, when the English word, trust, is
translated into Chinese, it takes a compound (xing ren), meaning a person is trustworthy and usable/employable. And usable refers primarily to one’s ability. The second point about the Chinese interpersonal trust is that the sincerity-ability distinction corresponds well to the well-established Western distinction of trust in benevolence vs. ability (Mayer, Davis & Schoorman, 1995).

That is, sincerity-based trust corresponds to trust in benevolence and ability-based trust corresponds to trust in ability. The ability-based trust also corresponds to what McAllister (1995) termed “cognitive trust”, which emphasizes the importance of a person’s competence or expertise in certain areas in the process of trust building. It is evident that the ability-based trust is domain specific whereas the sincerity-based trust is more broadly related to the person as a whole. Since guanxi quality is an overall judgment of guanxi between two individuals, sincerity-based trust may carry a heavier weight than the ability-based trust in developing close guanxi.

3.3.1.5 Qing (feeling) and guanxi quality

Qing by itself means feeling but takes on different meanings when put in different contexts. For instance, the compound of ganqing emphasizes the affective attachment between two people but the compound of renqing emphasizes the sense of obligation owed to each other. In traditional rural communities, renqing is built up through the exchange of gifts for events such as marriages, birthdays, and funerals (Hwang, 1987; Yang, 1994). In contemporary China, especially in urban and metropolitan areas, the compound jiaoqing is often used in place of renqing. Jiao literally means interaction or exchange and often includes business transactions too.

Ganqing and jiaoqing: We use ganqing and jiaoqing to illustrate what is known in the Western literature as the expressive and the instrumental aspects of a relationship (Thibaut & Kelley, 1959; Zajonc, 1968). Ganqing refers to the degree of emotional understanding and connection, and the sharing of feelings of happiness and fears alike. Additionally, it refers to a sense of loyalty and solidarity, the willingness to take care of each other under all circumstances. Jiaoqing, on the other hand, pertains to the sense of obligation and indebtedness that result from social and economic transactions to satisfy the pragmatic needs of work and life. Related to the degree of
indebtedness, *jiaoqing* is often described in terms of amount and depth to mean a long exchange history or a wide scope of exchanges. The accumulation of both *ganqing* and *jiaoqing* will increase the closeness between two guanxi parties.

It is apparent that trust and *qing* are closely related, in particular, sincerity-based trust or trust in integrity is more closely related to *ganqing*, whereas ability-based (or cognitive) trust is more closely related to *jiaoqing*. However, we maintain that *xing* and *qing* are two discernible concepts that both contribute to the increase of *guanxi* closeness.

### 3.4 Chinese Business Culture and Negotiating Style

#### 3.4.1 Cultural Factors Influencing the Negotiation Process

Culture is widely defined as a socio cultural system where the people in it share common values and defines people’s behavior. There are many definitions of culture, however, most anthropologists agree on three fundamental characteristics of culture; culture is not innate but learned; the various facets of culture are interrelated – if you touch a culture in one place, everything else is affected; and culture is shared and, in effect, defines the boundaries of different groups (Fang, 2001).

In literature, two different perspectives can be found on how culture influence on behavior (Fang, 1999). Culture influences on behavior by: (1) Implicitly or explicitly construct desirable values that consciously or unconsciously are held by people shaping attitudes to act in a certain way (Adler, 1991), (2) Shaping a “repertoire” or tool kit of habits, skills and styles from which people construct “strategies of action”(Swindler, 1986).

Fang (1999) concludes that regardless of perspective culture and behavior are closely linked to one another, but it is important to not only look for cultural values but also examine other distinctively cultural phenomena. According to Fang (1999), the Chinese business culture and style is shaped by three fundamental underlying socio-cultural traits or forces: 1) the PRC condition (basic political and social characteristics of the PRC), 2) Confucianism (values and norms of Confucian traditions), and 3)
Chinese stratagems (ancient Chinese wisdom used to explain Chinese negotiating strategies and tactics). These forces are interrelated and influence the way Chinese business and negotiation is conducted. The PRC Conditions represent the changing element of Chinese business culture as opposed to the enduring traditional elements, such as Confucianism and Chinese stratagems. According to Fang (1999) the traditional Chinese culture offers a Chinese negotiation theory. Confucianism provides the Chinese with a cooperation-oriented strategy, and the Chinese stratagems provide a competition-oriented strategy. The Chinese stratagems shape the strategic pattern of Chinese business negotiating style.

According to Fang (1999) trust is the prime indicator showing which role the Chinese will play. When the closeness between the parties is high, the Chinese will negotiate as “gentlemen”; when it is low they, will negotiate as strategists. The PRC condition influence negotiators to negotiate as “bureaucrats” when the environment requires that behavior.

### 3.4.1.1 The PRC Condition

The PRC condition is best described by the Chinese word “Guoqing” meaning “Chinese characteristics” or “China’s situation”, referring to the overall characteristics forming the foundation of the social and institutional system of China. China’s great size, large population and one-child-per-family policy are examples of China’s “Guoqing”. Fang (1999) describes the PRC condition by using eight variables; consisting of; (1) Politics, (2) economic planning, (3) legal system, (4) technology, (5) size, (6) backwardness, (7) rapid change and (8) bureaucracy (Fang, 1999).

**Politics:** China is a socialist state, with its politics grounded in Marxism-Leninism and Mao Zedong Thought (Fang, 1999). China has a political structure of the party, the state and the government, with the party having the supreme leadership – making the Communist party controlling the government. There is also a strong relationship between politics and Chinese business, where “the Chinese government is the biggest boss.” Foreign direct investments (FDI) was, for instance, banned until the Communist party, as a step in their reform and open-door policy, decided to allow it in 1978.
Economic Planning: The economy of China is characterized of centralized state planning; however, China is striving towards a market economy with gradually more capitalistic features. Today, they have more of a multi-economic system with state-owned-, private-, semi-state owned- and foreign-owned -companies. Since the Communist party is in control of the government, they also become the owners of the Chinese industry. This results in severe drawbacks for the companies such as lack of decision-making power getting their instructions from above, thus, outside the company. Furthermore, the state economic planning has difficulties in meeting the rapid changes in the market and demand of the society. The state owned enterprises are still the backbone of the Chinese economy, but many of them are operating at a loss and with poor efficiency, due to weak relationship between the profit, quality of the products and contribution of the employees. The centralized power in the politics is also shown in the companies, which are characterized by vertical authority and little horizontal dependency.

Legal system: In theory the Chinese legal system is well developed. In practice there are still much to do before the system is functioning as a system should in a stable legal society. In theory, there are laws against corruption and fraud. The Chinese government is strongly focused on these as well as other issues and realizes it is not part of the image they want China to have.

Although there is a trend towards more transparency and institutional trust, it is still lacking in many areas of Chinese society today (Redding & Witt, 2008). Fang (2008) is exemplifying with the term qianguize which refers to “hidden rules of the game” that is gaining in popularity today in China. As Fang continues to point out “corruption is the dark side of guanxi”.

Technology: There is a gap between China and its European counterparts when it comes to technological development. The open-door policy has been a prerequisite for China in its battle to close the gap, which is becoming smaller at a rapid pace. The open-door policy has not only contributed to foreign direct investments, but also the possibility to import foreign technology and technology transfer. When it comes to
technology protection China has passed laws regarding patents and copyrights. The question is now how to implement them.

**Great Size:** With a population of 1.3 billion people, constituting approximately a sixth of the world’s total population, China is a huge and attractive market for foreign companies. China is also the third largest country in the world land wise, covering 6.5 % of the world’s total. Not only the size and population is why some say “China should be seen as a continent instead of a country”, but also because there are great differences within the country border (Fang 1999). There are more than 40 different languages spoken in China, and there are also important differences in local culture as well as economic standard in the different parts of the country. China is becoming more and more urbanized, although from a rather small level, with the population concentrated along the east coast. The southeast coastal area, with cities like Hong Kong and Shanghai, is also the center of economic activity.

**Backwardness:** Despite development in many sectors and an explosive increase in GDP China is still a developing country, lagging behind the Western countries since the industrial revolution. The country is suffering from an inferior infrastructure and is to date not at the competitive edge when it comes to technology and science. There is also a shortage of some basic important resources, such as water and electricity. Furthermore, the education system in China is not too well developed. The education level is uneven within the country, but altogether the level of education is low. The literacy rate is approximately 69 %.

**Rapid change:** Since China opened their doors to the world over 25 years ago the country has undergone extensive changes throughout the society. The transfer to a market economy, approach to a more decentralization of government control and rapid economic growth are examples that have led to change in most corners of the society. The infrastructure has developed tremendously the past years generating new possibilities. The language barrier is a problem for many foreigners trying to do business in China, especially since there are few over 25 years old who speak good English.
Chinese bureaucracy: The government structure, planning hierarchy and the Chinese government policy of “contract management responsibility system” give authority to the state and the party and heavily impacts Chinese companies’ autonomy. According to Fang (1999) the Chinese bureaucracy impact on Chinese negotiators’ behavior by fear of taking risks or making mistakes, showing indecision, avoid talking responsibility and having no final say. As for a Chinese negotiator the rewards for good performance are minimal, whereas the penalties for making mistakes are great. On the other hand, negotiation deadlocks may quickly be resolved by orders from the top.

It is important to note that the PRC Condition is; in itself a foundation, for change. The Chinese interest in replacing the backwardness with progress and development of the country, business wise, and to become, once again, the leading nation, should not be underestimated.

3.4.1.2 Confucianism

Confucianism, the second component of Chinese business culture, is a philosophical tradition that has affected the values and behavior of the people not only in China, but also most parts of East Asia, the past 2500 years. Confucianism can be explained by containing six core values: (1) Moral cultivation, (2) importance of interpersonal relationships, (3) family orientation, (4) respect for age and hierarchy, (5) avoidance of conflict and need for harmony, and (6) concept of face (Fang, 1999).

Moral Cultivation: Confucianism is a form of moral ethic, emphasizing lifelong learning and moral cultivation, which should guide every man through life. Virtues advocated by Confucianism are such as trust, wisdom, righteousness, propriety, kindness, but above all sincerity. For Chinese trust is high within the family but low outside, and distrust towards foreigners and strangers is often prominent. Furthermore, for Chinese trust is sooner interpersonal than organizational. Chinese only do business with people they trust, explaining why doing business with Chinese sometimes takes time and calls for patience, since taking time is the only obtainable test for trust. Credibility, reputation, personal character and quality are variables the Chinese put high value on. Fang (1999) states that according to Yuan (1987) honesty
is probably the most important factor in negotiating in China because it builds trust, a major consideration in the Chinese decision.

Importance of Interpersonal Relationship: An individual is in Confucianism conceptualized by its relationships with others. For Confucians there are five Cardinal relationships, known as “Wu lun”, through which the world is viewed: the relationship between ruler and minister, father and son, husband and wife, elder and younger brothers, and difference in age between friends. Hierarchy and reciprocity characterize these relationships. If the senior treats the junior with kindness, generosity and love, he will be answered with loyalty and respect (Fang 1999). The main difference between Western and Chinese business practices lies in the relative importance of personal relationships – or “Guanxi” (Davies et al., 1995). The concept of “guanxi” is an important trait of the Chinese culture, deriving from the teachings of Confucius. “Guanxi” can be translated to “personal connections” and be understood as a special relationship where the individuals have a continual exchange of favours (Fang, 1999). Due to the fact that China is not a free economy, it is difficult to rely on the market mechanisms in order to allocate the necessary resources. Thus, “guanxi” is often necessary to get things done in China and to conduct business effectively. “Guanxi” takes time and effort from both sides to build and maintain, engaging a high degree of trust. In nature “guanxi” is reciprocal; meaning mutual benefit and equality. Chinese negotiators will not accept terms that are not beneficial for both sides (Davies et al., 1995).

Family Orientation: The family is the root of Chinese society, making it the centre of everything, putting the family and collective before the individual. There has in China been a lack of legal system and welfare programs, where instead the family had to work as a safety net when it comes to security. There is also a linkage between personal character, family and state in Confucianism. The collectivism and family orientation is also seen in business negotiations, where Chinese tend to favor meeting in groups rather than one-to-one.

Respect for Age and Hierarchy: Respect for age and hierarchy is considered very important in Confucian teaching and, thus, Chinese society. As discussed earlier, lifelong learning and self-cultivation are vital parts of building character, deriving from
the notion that age means wisdom. Social stability and order can only be reached through everyone’s fulfilling of their duties and social obligations, determined by their role in the hierarchical society. It is important for foreign negotiators to keep in mind that hierarchy and age are important traits for the Chinese. Sending someone to negotiate with low rank or with a low age might be seen as insulting.

Avoidance of Conflict and Need for Harmony: Harmony is a basic theme in the Confucian philosophy, which is reached by acting morally in all social relationships. Individuals are expected to adapt to the collectivity, control their emotions, and avoid confusion, competition and conflict (Fang 1999). Negotiations are situations having a conflicting nature, which during Chinese people tend to act from the importance for and purpose of the organizational unit or even the society at large. Therefore efforts will be made to avoid antagonism and direct confrontation between individuals and groups to maintain harmony (Ma, 2006).

Concept of Face or Mianzi: Although the concept of face is universal and present in most societies around the world, it is especially important to the Chinese. The face represents a person’s dignity, self-respect and prestige. Losing the face is in the Chinese tradition the same as “losing one’s eyes, nose and mouth”, would bring shame upon one. Face is not only a personal matter, but also applies to the family and social networks, making it even more important not to lose face, thus, you would bring shame to the entire family. Face can be lost and saved as well as given or received (Fang, 1999).

The concept mianzi is changing due to the fact that personal obligations concerning face and face saving are transferred to contractual agreements or other ways to control transactions other than through exchange of face. After saying this it is still important in the daily interaction as a behavioral and etiquette marker.

Showing anger and leaving a meeting in anger is an example of loosing face due to two facts: 1) it is not appropriate to show anger openly and 2) it is disrespectful to the person you are talking to. The “right” way to handle the situation is to sit quietly and pretend to agree and then leave the room calmly. After the meeting you quietly
engage in civil disobedience, appearing to agree but not putting an extra effort into the job, sometimes even pretending to have forgotten about it.

3.4.1.3 Chinese stratagems

The third component of Chinese business culture is Chinese stratagems, or “ji” in Chinese, referring to long-lasting Chinese cultural traditions that shape the strategic Chinese business behavior. The Chinese stratagems can be traced back 2400 years to the military strategist Sun Tzu’s art of war – a treaty on military strategy. Stratagems found in Art of war include deception, espionage, benchmarking, flanking, shared vision, flexibility, leadership and much more. Most important of all, however, is painted by the aphorism of Sun Tzu: “To win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill.” The aphorism explains that the skilful way of conquering the enemy is not by physically fighting, but by using human wisdom and thought (Ghauri & Fang, 2001).

There are thirty-six Chinese stratagems and all appear in the form of Chinese idioms. These stratagems provide examples of how the Chinese “subdue the enemy without fighting”. The Chinese stratagems provide a useful guide for Western business people to diagnose Chinese negotiating tactics. People with experience in international business negotiations will notice that the Chinese stratagems listed in Appendix C may apply in other cultural environments as well as the Chinese, but there are reasons to assume, as ji is a strategic component of Chinese culture, that Chinese adopt the stratagems when negotiating more frequently than Chinese-culture outsiders (Fang, 2006).

Fang (1999) also gives “A Bird’s-Eye View of Chinese Business Negotiating Style” a summary of the Chinese business negotiation tactics that are most frequently mentioned in the literature, whereof drawn from our own experience from sales negotiating in China, the following Chinese negotiation behaviors are the most frequently used and many of them also described by the Chinese stratagems.
Large team, vague authority, the presence of technical people, often with incompetent interpreter: The Chinese negotiating teams are often large, and it is sometimes difficult to know who really has the authority. Personnel such as technical people, with no or little actual influence on the final decisions, may take great part of the discussions. The interpreter provided by the Chinese counterpart might not be familiar and competent with special terminology and might even generally inferior.

Exploit agreed principles: The Chinese insist on opening negotiation with general agreed principles without clarifying details. Then they press the other side to live up to the “spirit” of agreed principles.

Play home court: Important negotiations always take place in China. The Chinese are skilled at controlling the schedule and timing of negotiations.

Mask interests: The Chinese often invites the opposing party to reveal their preferences and demands, while concealing their own interests and priorities. Often the Chinese negotiator expects the counterpart to reveal detailed information and to propose concrete details before even giving an outline of their own plans.

Price sensitive: The seller’s price is always too high.

Hierarchical: Instead of having the one with mandate asking the questions and negotiating, the frontline negotiators take the front role. The real authorities are often behind the scene, which sometimes makes it more difficult for the counterpart who is unsure of whom he really is negotiating with. The executives are usually involved in the beginning and the final phase of negotiations, the higher ranking, and the greater flexibility.

Play competitors against each other: Some Chinese firms invite competing companies to China at the same time for negotiations. Then during the negotiation the Chinese negotiators move from room to room, and from one competitor to another, telling them that the others are making more attractive offers, and sometimes even what they are offering (Pye, 1982).
**Show anger**: Confucian ethics prohibit public expression of anger, despite that; Chinese negotiators may pack up their papers demonstratively and storm out form the room, in which the negotiation is taking place.

**Friendship means obligation**: By creation of friendship, the foreign party ends up with obligation toward the Chinese.

**Double standards**: The Chinese tend to have different standards for their and the other party’s obligations. The tendency is that when they deal with matters important to themselves, they want to deal with concrete matters and specifications. When discussing issues that are of great concern for the foreign party, they only want to discuss it on a general level. In a joint venture, for instance, the Chinese party might push hard to get the foreign team to promise to export a fixed percentage of the product, but will only promise to make its “best efforts” in realizing their obligations.

**Renegotiate old issues**: The signing of a contract does not mean the end of the negotiation for the Chinese. They attach much more importance to the long-term relationship and do not hesitate to change their preferences and make adjustments after the contract is signed.

### 3.5 Summary of Literature and theoretical background

#### 3.5.1 Internationalization process

Four types of internationalization processes are described in the theory section: the Uppsala internationalization model, the Foreign Direct Investment theory, the Network theory and the Born Global theory.

In short, the Uppsala internationalization model is the slowest, less risk involved and also the knowledge about a new market is built up step by step. The financial investment is the same, as the investment as the involvement increase slowly over time (Hollensen, 2004).
The Foreign Direct Investment theory is when acquiring a firm in another country than your own, in order to control the operations and other activities of the firm (Moosa, 2002). It is a more rapid way to establish presence on a new market and more risk is involved.

The Network theory is viewing industrial markets as networks of relationships between firms (Johansson & Matsson, 1988). It can involve customers, suppliers, sales agencies and competitors, as well as family and friends. The knowledge from others is the base for a firm to do business. It is a time- and effort-consuming way to create business, and thus limits the companies to change counterparts.

Finally, the Born Global theory is described. Since the late 1980’s the Born Globals, firms that are global and have an international focus from day one (Harveston, 2000), have been an emerging phenomenon. The focus lie on the firm and when they become international, not their size (Oviatt & McDougall, 1994).

3.5.2 Relationship marketing

In this section the theories and literature regarding behind relationship marketing is described in depth. Berry (1983) has a strategic viewpoint of relationship marketing and defined relationship marketing as “attracting, maintaining and (…) enhancing customer relationships”. Other scholars such as Gronroos (1983), Gummesson (1987) and Levitt (1981) have a resembling view of the concept. Gronroos (1990) and Gummesson (1987) are taking a broader perspective and argue that customer relationships should be the focus and main paradigm of marketing. Morgan and Hunt (1994) suggested a more inclusive definition of relationship marketing as “as all marketing activities directed toward establishing, developing and maintaining successful relationships”. This broadened view has come under strong criticism from other scholars, for example Peterson (1995).

Thus, Sheth (1996) suggests limiting the domain of relationship marketing to only cooperative and collaborative marketing actions focused on serving the needs of customers. Studies of aspects other than the customer-firm are valid as long as it is studied in the context of how it enhances or facilitates the customer relationships.
Relationship marketing can then be defined as the ongoing process of engaging in cooperative and collaborative activities and programs with customers to create and or enhance mutual economic value, at reduced cost.

An in-depth look is taken on the impact of culture and relationships on international marketing as well as networks and relationships. The literature and theories are necessary to create a base when further studies are done in the Chinese culture context specifically.

The economic pyramid by Prahalad and Hart (2002) (see figure 3-4) is used to describe a market. Depending where in the pyramid a customer or market segment is located, different aspects of the culture as well as relationships are influencing the consumers.

As a summary, according to the theories of Hofstede (1994) and Trompenaars and Hampden-Turner (1997), although criticized, do illustrate differences between emerging and developed markets. The further down towards the BOP, bottom of the pyramid, the more important the personal relationships and culture become in deciding consumer behavior.

### 3.5.3 Chinese culture context

When looking at the Chinese culture context we have focused on the concept of **guanxi** as this is a type of relationship and the values behind it is part of this research paper. **Guanxi** is defined as personal relationships of informal social connection where individuals are expected and obliged to exchange favors among them (De Keijzer, 1992, Davies et al., 1995, Lovett et al., 1999 and Ambler et al., 1999). The positive aspects of guanxi imply that it is smoothing the way when doing business or interacting in society. The negative result of guanxi can be corruption.

Guanxi is formed between individuals that share a common denominator, guanxi base. It could be classmates, former colleagues, friends, relations etc. In the Chinese society of today, guanxi is not a prerequisite for doing business and succeeding in
doing business but it can speed up, smooth out or making life easier (Fang and Faure, 2008).

The concepts of xing and qing are also described. They are values that affect the quality of guanxi created. Xing is in short defined as trust or sincerity. Qing is defined as feeling and this is enhanced through sharing of feelings and emotional understanding and connection.

3.5.4 Chinese business culture and negotiating style

Fang (1999) is summarizing the Chinese business culture and the background to it in a tridimensional form where the PRC Condition (guoqing), Confucianism (rujia) and the 36 stratagems (ji) are the three aspects. With knowledge of each of them, a deeper understanding of the Chinese business culture can be acquired.

The PRC condition is best described by the Chinese word “Guoqing” meaning “Chinese characteristics” or “China’s situation”, referring to the overall characteristics forming the foundation of the social and institutional system of China.

Confucianism, the second component of Chinese business culture, is a philosophical tradition that has affected the values and behavior of the people not only in China, but also most parts of East Asia, the past 2500 years. Confucianism can be explained by containing six core values: (1) Moral cultivation, (2) importance of interpersonal relationships, (3) family orientation, (4) respect for age and hierarchy, (5) avoidance of conflict and need for harmony, and (6) concept of face (Fang, 1999). The third component of Chinese business culture is Chinese stratagems, or “ji” in Chinese, referring to long-lasting Chinese cultural traditions that shape the strategic Chinese business behavior. The Chinese stratagems can be traced back 2400 years to the military strategist Sun Tzu’s art of war – a treaty on military strategy. Stratagems found in Art of war include deception, espionage, benchmarking, flanking, shared vision, flexibility, leadership and much more. Most important of all, however, is painted by the aphorism of Sun Tzu: “To win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill.” The aphorism explains that the skilful way of conquering the enemy is
not by physically fighting, but by using human wisdom and thought (Ghauri & Fang, 2001).

*Through the extensive knowledge from this chapter, now we move on to connecting the theories with empirical findings.*

### 4. Empirical findings

*In the Empirical findings section, the result from the interviews is presented. The empirical findings are presented for each company separately including a company description in order for the reader to get a more complete picture of the findings.*

The questionnaire we used contains two different sections. In the first section we present a number of open ended questions and in the second section we present a set of close ended questions. The answers to the open ended questions are summarized below and the answers to the close ended questions are summarized in a matrix presented in appendix 5.

#### 4.1 Dynapac (China) Compaction and Paving Equipment Co., Ltd.

##### 4.1.1 Company description

Dynapac is a global player in the compaction and paving equipment field. They have around 250 employees in China and an annual turnover of about 350 million CNY per year. The company set up production in China in 1999 but had already established a firm sales volume in China as well as having a sustainable growth. With a local Chinese production they could develop their business further.

The interviewee was the business controller with a personal experience of China firsthand of over 5 years.

As mentioned earlier the company had sales and sustainable growth when they set up the production in China.
4.1.2 Findings

Customers/Market
The customers are in the road and major infrastructure construction industry. They are private companies in construction or rental industry. In addition municipalities and state owned enterprises are part of the customer base.

Products
The products can be described as standardized, technically complex, easy to install and requires technical after sales service. They consist of a high engineering content and are slowly changing.

Marketing strategy
Concerning the marketing strategy and its general outline, the strategy is global, local, central as well as decentralized. The strategy is developed with a starting point from head office and top management and then it is gradually developed by the local (China) management to suit the specific market.

The general manager and sales manager are main responsible. Business control gets involved more and more and the China management team is part of the decision process.

In China the strategy is developed locally in detail. The strategy is built mostly on the experience on the Chinese market, i.e. individuals’ experiences of the Chinese market. Segmentation, territory mapping and channel management are getting increasingly important as well as defining each strategy.

Marketing strategy result
The company measures the result of the marketing strategy by market contribution and market efficiency. They also use Net Promoter Score (NPS) and territory mapping follow up.

The Chinese market
The market is fragmented according to the respondent and the market consists of to a large extent, local competitors that do not yet provide premium products as the international brands do.

4.2 Nordic Ways

4.2.1 Company description

Nordic Ways is a sport event company with China as their main market. They focus on sports events in China as well as cultural exchange between Scandinavia and China. The company was established in 1998. The company has 25 employees and an annual turnover of RMB 35 million. The deputy general manager was interviewed.

The customers consist of local and regional Chinese government, Scandinavian original brand event owners, general public (professionals and students) leading a healthy and active life as well as medium to large international companies.

4.2.2 Findings

Products
The products are differentiated, technically simple and require specialized installation and after sales service. The products, events, have low engineering content and defined as slowly changing. Finally the products are considered to be unique.

Market
The market consists of all aspects, global, local, centralized and decentralized. The market is China, Scandinavia and Eastern Europe.

Marketing strategy
It is developed based on target market segments and target customers. The marketing director in cooperation with the management develops the marketing strategy and the marketing director is responsible.
The strategy is local adaptation and designed specifically for the Chinese market. It is based on internal as well as customer feedback. It is also based on habit “the way we use to do business” attitude but they plan to change that. Individuals’ market knowledge is important but can now say it has become company knowledge according to the respondent.

Marketing strategy result
The result of the marketing strategy is measured on number of established new events, number of paying participants in the events, sponsor value/event and overall.

4.3 Ericsson (China) Co., Ltd

4.3.1 Company description

Ericsson China has 4000 employees with an annual turnover of about 1.5 billion USD/year. In 1985 a representative office was set up in China and since then it has grown to its present size. The Vice President Marketing and Strategy answered the questionnaire.

Globally the company is active in 140 countries around the world. The company in China serves the telecom operators in China.

4.3.2 Findings

Products
The unique products and services that the company provide are differentiated, technically complex, requires specialized installation. They also require extensive technical after sales service due to it high engineering content. The market and innovations are quickly changing.

Marketing strategy
The marketing strategy used by the Ericsson is described as local. It is developed as part of their strategy process that is done on a yearly basis and with a three-year
span. The strategy is then discussed, updated and decisions are taken. The marketing strategy includes winning propositions, marketing themes, branding, CSR (Corporate Social Responsibility), government relationships etc. For each category of strategy, it results in a plan, e.g. marketing plan, sales plan, product plan, Human resources plan etc. The plans are then executed and followed up. After one year, the whole process restarts with review, discussion, decision and results in updated plans and strategies.

The president of Ericsson (China) is overall responsible. Regarding the marketing strategy, the heads of marketing, product lines, government affairs, communication and so on are involved.

Top down directives from global headquarters are involved in the process as well as bottom down working groups contribute with market reality and situation analysis.

The marketing strategy is developed for the Chinese market. It is a local strategy where global strategies are taken into account but local environment is the main focus. Feedback is an important part of the process, both internal as well as customer. Customer feedback comes in the form of annual customer satisfaction survey for example and other feedback from the customers facing the sales organization.

4.4 Nordea Bank AB publ

4.4.1 Company description
The company is a global bank, with focus on the Baltic region. The company has own branches on 8 locations around the world, where Beijing, Shanghai and Singapore are three. Cooperation through bank collaboration systems gives Nordea the possibility to be present and help its Nordic customers on almost every market in the world. The company has 39.000 employees of which 50 works in Singapore, 2 in Beijing and 7 in Shanghai. The interviewee was Relationship manager corporate banking for two years.
4.4.2 Findings

Customer/Markets
They are mostly Nordic companies doing business in the area.

Products/Services
All banking services, which is related to the corporate segment. They are standardized and require a high degree of service.

Marketing strategy
The marketing strategy is set to be global and central. The strategy is evolved during the 90’s and group executive management consists of the persons responsible for the marketing strategy.

Marketing strategy results/measurements
The company Nordea uses CSIs (customer satisfactory indexes) and top line growth in order to measure whether the strategy is successful or not.

Chinese markets
According to the respondent it takes a long time to trust a Chinese customer. They are very skilful and devious negotiators. The sentiments are that the relationship takes long time to develop, especially between Chinese and non-Chinese.

4.5 Company X

4.5.1 Company description

The company is a global player, within the field of child support gear. The company sells its products through local distributors and wholesalers and does most of its purchases from China. The company has 95 employees and an annual turnover of about 400 MSEK. The interviewee is the purchase manager, who has been doing business with China since 1999.
4.5.2 Findings

Customer/Markets
It covers worldwide markets through wholesalers and distributors. The end customers are families with small children.

Products/Services
The products are standardized, technically complex, easy to install with a high degree of after sales service. The products demand quite a high degree of engineering and the line of business is slowly changing.

Marketing strategy
The current marketing strategy is global and it is mostly based on experience really, since the company has been doing business since 1961. Only a small part of the marketing strategy development process is based on actual customer feedback (CSI’s). Otherwise knowledge within the company is a useful source of information.

Marketing strategy results/measurements
They don’t measure at all, but feel comfortable in this global marketing strategy solution, meaning that they spread their risk exposures.

Chinese markets
The respondent defines it as “Smoothness and long term co-operation and thinking”. It is also crucial with experience, it is “important for long term good win-win business”.

4.6 Rapid Granulator AB

4.6.1 Company description
The company is a global player, within the field of equipment to plastic industry, regrinding new plastic parts and post recycling industry. The company has 250 employees and has an annual turnover of app 400 MSEK. The company has production and sales organization in China since 2000. The internationalization process of the company was made partly through the model described by the
Network Theory since having coopetition agreements within Asia. The interviewee is the company CEO and he is also one of the founders of Swedish ICC in Beijing.

4.6.1 Findings

Customer/Markets
The customers are companies within the plastic industry and post recycling industry. A government regulation is sometimes the lead initiative for a company to contact Rapid Granulator. The company is global in its business yet quite small. They work through distributors/wholesalers as well as through their indoor sales organization.

Products/Services
The products are described as differentiated, technically complex with specialized installations. Good deal of after sales service is this line of business with a high engineering content. The line of business is described as slowly changing.

Marketing strategy
The marketing strategy of the company is global and decentralized. Through the marketing strategy, the company focuses very hard on communicating the message towards the customers and prospects that the products from Rapid have high quality.

The company has a global message of energy saving and quality.

All top management within the company develops the marketing strategy.

Marketing strategy results/measurements
The company measures the marketing strategy by number of visits to the Web-site as well as numbers of inquiries from customers and quotations.

Chinese markets
According to the respondent, 10 years ago it was almost impossible to do business in China without “relationship” marketing. Today it is important but very quickly it is becoming like in western countries price and quality. It is not enough to have friends
anymore you can open doors but demand on products and service is higher then just friendship

4.7 Proximion Fibre Systems AB

4.7.1 Company description

The company’s primarily focus is optical telecom, but they also focus on industries as Metrology, Medical technology and sensing. The company is experiencing strong growth (over 100% a year) and has currently 93 employees with an annual turnover of 50 MSEK. The interviewee was the company CEO.

4.7.2 Findings

Customer/Markets
The customers are 80% so called OEMs. In Proximion’s case this means larger system houses such as NokiaSiemens Networks, Huawei, Alcatel Lucent, ZTE, Infinera, etc.
20% of Proximion’s customers are operators (e.g. Telia Sonera, Cheznet and D2) or governmental agencies. The market area of the company is global.

Products/Services
The products are considered differentiated, technically complex and easy to install. Furthermore Proximion considers its products having a high engineering content, slowly changing and unique.

Marketing strategy
In Proximion market there are approximately 10 customers that stand for 80% of the volume and there are some application areas which allow high margins which add 3-5 more customers. They focus on these customers. 3 of these customers are headquartered in China and the additional 5 have R&D + Procurement offices in China.
The basic data such as Customer Account Plans are set by Sales supported by Tech Sales. Business Cases and initial market analysis is done by Product Management. The overall sales and market strategy is set by the management team and then presented by the CEO to the board for approval as the budget follows these guidelines.

The market strategy is developed for markets and customers?

The Market strategy is also set on both product and product application areas such as for their DCM ITU where they have one plan for terrestrial applications and another strategy for marine networks.

Proximion is working with applications on a Global basis but with regards to sales plan on a local basis. Pricing and also buy decision key players alter in these large customers between different geographical locations. To some degree it is based on internal feedback especially with regards to applications. The company marketing plan is strongly customer driven. As Proximion is relatively young and also by the nature that they bring something new, there are no habits yet.

Marketing strategy results/measurements
Proximion set goals on how many new contacts which this should generate. This is monitored via requests and also on exhibitions. A more concrete way is also that they set account closure objectives and regularly monitor their fulfillment.

Chinese markets
The respondents definition is that you go out openly and co-market yourself towards mutual customers to gain more trust. They have just started to do this both in China and in India together with some of their partners.
4.8 Husqvarna AB

4.8.1 Company description

The company is a worldwide supplier of garden products established in 1689. The company has about 17,000 employees and an annual turnover of about 30,000 MSEK. The company has a combination of internationalization processes depending on which market you are looking at.

The interviewee is area sales manager of Asia with focus on China, with experience of Asian market since 1994.

4.8.2 Findings

Customer/Markets
The customers are primarily demanding customers with in the area, professional customers, farmers etc.

Products/Services
The products are outdoor products. The products are described as standardized, technically complex, easy to install and high engineering content.

Marketing strategy
The company uses a global and centralized market strategy. The market strategy is developed by a team of central MC, sales managers, local distributors and local media brokers. The brand targeting is important, although adapting towards different customer groups.

Marketing strategy results/measurements
It is difficult to measure, since Husqvarna focuses on brand awareness a lot.

Chinese market
The company adapts their global strategy to Chinese conditions.
They view relationship marketing as very important, more important in Asia than elsewhere.

4.9 Bulten Fasteners (China) Co., Ltd.

4.9.1 Company description

Bulten (China) was established in China in 1996. Initially the focus was on the Chinese market and on the telecom industry but overtime the focus widened to cover global sales as well as automotive industry. It was done in accordance with the owner’s, Finnveden, strategy.

4.9.2 Findings

Customer/Markets
Customers are in the automotive industry such as VW, Volvo, Renault, Siemens, Phoenix Contact.

Products/Services
The products and services consist of fastening technology and fastening products for high safety demand applications.

Marketing strategy
Long-term strategy is to be a global supplier to the automotive industry. IN short term the strategy is to supply the Asian market.

Finnveden, the owner of Bulten, developed the strategy. The previous owners’ strategy is still kept which is to serve the automotive as well as the telecom industry. In a long-term perspective, it will change to focus only on automotive industry.

The owners in Sweden developed the strategy and then the Chinese entity just follows the strategy. As the strategy is working towards global players in the automotive industry, the contracts are global as well as the supplier base.
Marketing strategy results/measurements

Being a global supplier to the automotive industry, the marketing strategy is successful; it fulfills the targets that have been set.

Chinese market

In the Chinese market, the personal contacts with the customers are the main focus of the marketing strategy. The company’s relationship as well as the employees’ relationship is important for the company’s success. In big international companies, the relationship has to be on a higher level and during the supplier selection period, China operations will need great support from the work of higher management.

5. Discussion and Analysis

*In the Discussion and Analysis section the empirical findings will be connected with the theoretical section.*

5.1 Internationalization process

As described in chapter 3, companies face different obstacles when turning to an international marketplace. These obstacles, described as “factors preventing or disturbing the flows of information between firm and market” by Johanson and Wiedersheim-Paul, could be exemplified by for instance language, culture, and level of industrialization. All these examples are applicable to the Chinese market – a market where linguistic, cultural, and industrial reality differs from Western Europe.

Even though the companies’ internationalization processes are not the main focus of the study, it is considered interesting and useful to make an analysis how the respondents have handled their internationalization processes.

When penetrating the literature and discussing with respondents we find that the way the company have entered foreign markets in general and the Chinese market in
particular affects the way they handle the businesses from relationship marketing point of view – coincidence or not, remains to be seen.

The companies within this study have been working towards the Chinese market in a different number of years. The company having the longest track record entered the Chinese market in the 1980’s and the youngest company entered the same market as late as 2005. According to the Uppsala model described in 3.1.1 many companies start their international operations in small steps instead of starting to make heavy investments. In our study some of the companies are larger multinational companies and most of these companies have entered the Chinese market by buying local company groups. By doing this, these companies get a number of Chinese employees already familiar with the concept of guanxi.

However, although having benefits of “acquiring” local knowledge, these multinational companies face difficulties when adapting global marketing strategies and also when having employees from Western Europe having to cooperate with Chinese co-workers.

According to Moosa (2002) emerging markets, such as China, have discovered the Foreign Direct Investment as an important source of funds. Moosa (2002) further argues that many companies, unless having 100% equity and control, are unwilling to carry out foreign direct investments. However in recent years, joint ventures have appeared as a way for companies to enter emerging markets without taking control of the entire production process, distribution process and/or sales process of the firm that is the objective.

In our study, two of the companies have entered the Chinese market by using the Foreign Direct Investment as the main process for their internationalization. One company entered the Chinese market buying production capacity needed to source Chinese market as well as other parts of the world. The other company entered the Chinese market by a joint venture, with the main objective to obtain production capacity, distribution channels and sales organization. Both companies face cultural differences when adapting marketing strategies that are created from a global point of view with a western touch. The Western European persons entering these new
Chinese facilities also face difficulties described by for instance Johanson and Wiedersheim-Paul. However the obstacles adapting a western way of marketing in to the organization is not as big as when the larger companies buy entire company groups. One of the respondents even says that relationship marketing, guanxi and Chinese culture is no longer as important as it was some years ago. Now price and quality of your products are as important when you do business – just as the case is in Western Europe.

Two companies, finally, have entered the Chinese market by using the Born Global Theory – or really the Born China Theory if this is an existing phenomenon. The companies using Born Global Theory in their internationalization process are predominated in advanced technology industries according to Oviatt and McDougall (1994). This is the case with one of the respondents that we refer to. The other company is working in an entire line of business. These respondents are the two companies most eager to point out that their marketing strategies are developed with local adaptation for the Chinese market as starting point.

5.2 Relationship marketing

As Sheth (1996) suggests we focus on relationship marketing limited to the customer relationship or what directly benefits the customer. The respondents are highly focused on their customers and the creation of profitable and long-term relationships with them. They acknowledge that the product and company is the foundation for it all, but the customers and how to fulfill their demands are the main focus.

Gronroos (1990) and Gummesson (1987) argue that customer relationships are the focus and main purpose of marketing. It is also the main reason for a company’s existence. In the interviews the respondents are continuously stressing that the company’s global strategy is the foundation. Although for the Chinese market there are local adaptations and/or adjustments to better fit the Chinese business culture and thus better fulfill the customers’ demands.
Lindstrand (2003) emphasizes the importance of networks for gaining knowledge and thus implying that when a firm is going into new markets it is of high importance to rely on networks with external organizations. One of the respondents is describing their marketing in China and India as such. They are together with partners marketing themselves together towards mutual customers. It is done in order “to gain more trust” as they describe it. This is all according to the studies by Lindstrand (2003).

### 5.3 Chinese culture context

Looking at China and Chinese culture and how they influence the marketing strategies for the respondents, one clear pattern emerges. In most of the companies the global strategies form the base and then it is adjusted and molded to be even more suitable and effective on the Chinese market.

Creating a guanxi network requires a guanxi base (Tsui & Fahr, 1997). The guanxi base could be sharing same birthplace or previous classmates for example. For a foreigner it is possible to create a guanxi network but it will take longer time due to the fact that the guanxi base might not be that obvious. Nordea has experienced this and describes it as “the relationship takes long time to develop, especially between Chinese and non-Chinese”.

All respondents deem guanxi important for their business. They see the guanxi between individual employees as well as the company itself to be important. There is an increasing trend that guanxi is moving towards a more systematic approach than previously. In the past companies could employ certain individuals with specific guanxi. Today many companies set up a dedicated organization for government relations. The purpose of the function is to create a guanxi network with officials in the government on all levels and with the purpose to find ways to cooperate on a business level.

As China becomes more and more familiar and used to contractual obligations, the trend will continue to weaken the foundation or demand for...
5.4 Chinese business culture and negotiating skills

The Chinese market is highly differentiated and follows in large the Economic Pyramid of Prahalad and Hart (2002). The companies researched are all towards the top of the pyramid, high-end market. Three of the respondents are although mostly involved in major infrastructure projects that will benefit the whole pyramid more or less. One respondent is focused on a niche market but also towards the high end.

As the questions to the respondents touched relationships specifically in China or with Chinese companies, the respondents were saying that the personal relationships are important, i.e. between employee and customer but also the company and customer relationship is of increased importance. As the customer base is getting more foreign and/or used to external influences and experiences, it will continue to develop. This follows the theories and discussions by Fang (2008). He sees the Chinese culture and value base from Confucianism and the PRC condition but is also strongly pointing out that culture is not static but developing and changing over time.

Another respondent is saying that personal relationships are the foundation of the Chinese culture. He continues to stretch it even further by saying when doing business in China relationship marketing is essential and sometimes it will not benefit your business but not hurt it either. He is finishing by claiming that if you are less skilled in relationship marketing “it may hurt your business and you don’t even know why”.

One respondent noted that “it takes time to trust my Chinese customers” and that “they are skillful and devious negotiators”. This observation is most correct as the Chinese still use the 36 stratagems more or less daily as pointed out by Fang (1999).

Culture and relationships are strongly interrelated and of greater importance as we move from the top of the pyramid and downwards. The respondents mentioned few cultural traits or issues that influence their marketing strategy although they pointed out that the personal relationships are more important in China than in Sweden.
As it has been shown in previous and other research, the closer to the BOP you are, the more important guanxi and other personal relationships become. As the lack of external or international (western) influence give more importance to personal relationships. Research has shown that it is not only in China and other Asian markets but in other BOP markets as well (Prahalad, 2005).

Fang, 1999 describes the three major parts of knowledge about China and its business environment that will enhance a company’s performance in the Chinese market. They are: the PRC condition, Confucianism and the 36 stratagems.

There is a difference between the respondents in Sweden and those in China regarding for how they experience the frankness from suppliers for example. The difference can be due the fact that those respondents in China have a deeper knowledge of the above-mentioned three areas and thus can better decipher the information they get.

Another interesting finding when looking at the responses divided geographically, there is a notion among the companies in Sweden that the customer is trying to impress them by himself. For the respondents in China there is no or very low such notion. It could be due to the fact that in China, the companies can better read the customer as just being interested in creating showing he has xing, trustworthiness (Yang, 2002) and thus presenting himself as a potential, reliable guanxi as described by Fang (1999). In Sweden where the Jante law is one Swedish cultural trait that clearly states that boosting about your self is not proper behavior could be the explanation of the different views.

In Chinese business culture, the signing of the contract does not end the negotiations (Fang, 2006) as some of the respondents noted. The Chinese customer can continue to bargain and search for ways for discount long after the contractual agreement is settled.

When the respondents were asked about specific challenges in doing business in China and/or with Chinese customers their responses showed strong resemblance. One main concern and challenge was corruption. According to Gold (1985) guanxi
and related activities are the foundation for and contributing to widespread corruption in China. The government is cracking down harshly on corruption since they have realized it is not an image they want to keep of China. The respondents seem aware of that guanxi and corruption are two separate issues. Guanxi can and will continue to exist and be used as a catalyst of creating profitable business. Corruption exists due to a malfunctioning legal system. Guanxi is a personal network that smooth out the way in doing business and not having monetary implications more than creating a better and more prosperous business (Fang, 1999).

Other challenges the respondents encounter when doing business with Chinese firms are the actual definitions of concepts such as quality and deadlines. Here it can be summarized as a communication issue. How to communicate and get a mutual understanding and a mutual platform to establish a profitable cooperation from? Fang (1999) is suggesting that by knowing the Guoqing (PRC Condition), Confucianism and the 36 stratagems, a firm is one a good to way to understand and better be equipped to do business in and with China.

Although the respondents suggest and also actively use relationship marketing with a dash of guanxi to market their firms in China, they point to contradictions in the way the Chinese culture and business environment function. The contradictions are:

1. Long term relationships versus quick fast deals: Here some respondents experience that they are not deemed interesting as a customer since they have too small volumes to be interesting to start up business with.

2. Chinese culture is changing due to globalization and in some ways it stays the same: When looking at the way firms are doing business in the early industrialized areas of China, such as Beijing, Guangzhou and Shanghai-Jiangsu area, it is rapidly moving to be similar to other parts of the world. In other areas of China, and also in certain industries, little has changed since 1980’s when China started to open up to the world.
Contradictions are deemed natural in the framework of foreign companies working in an emerging market and not a mature one. Also Fang and Faure (2008) have studied the paradoxical values and claims that they can co-exist in China of today.

Finally, as several respondents have long experience of doing business on the Chinese market, they also note a change in the importance of guanxi. It is still important. It helps open doors but not necessarily “close the deal”. It is also noted that “doors can be opened anyway”.

6. Conclusion

In the conclusion section the key result and findings of the study will be summarized.

Coming to the conclusion of the study we will once again highlight the initial question:

Relationship marketing with a dash of guanxi –
the recipe for success of Sino-Swedish business?

The answer to the questions is yes.

Our conclusion is that business in China is not under as strong influence of guanxi as it used to be. Our respondents offer insights and evidences that Chinese businessmen and women are adapting a more global approach to business negotiations. A new generation grows up in China with a more “global” than “local” thinking. The Chinese culture context is still valid but it is changing and developing due to the past 30 years of openness and the globalization trend in general.

The respondents as well as the researchers in the field of marketing as well as culture in general and Chinese culture especially agree. By listening to the customers and creating a long-term relationship with them, a firm is creating the foundation for success. In the Chinese market it will mean that personal relationships, guanxi, will be an integrated part of a relationship marketing strategy.
Relationship marketing with a dash of guanxi is the road that most companies take already today and should take if not yet doing so. As we can see from the study, operating on the Chinese market requires a relationship marketing approach although it is more personalized to better suit the Chinese culture context. This is also according to the theories of relationship marketing where the core is the relationship with the customer—listening and fulfilling the customers’ demands. In effect it will mean that by listening to your customers, they will make clear how you should market yourself.

It is also important to take into account that the several companies encounter a challenge in handling the balance between guanxi and corruption. Corruption will continue to exist in China and the question is how firms, in this case Swedish, should handle the issue when it arises. It is a field we have not dwelled deeper into in this study but could be interesting for future research.

7. Recommendations

In the recommendations section, suggestions for relationship marketing with Chinese culture context will be presented as well as suggestions for further research and critique of our method used.

7.1 How to do relationship marketing with a dash of guanxi

From our study, we offer the following recommendation:

The Chinese culture, history and civilization are 4000 years old, but they are also changing constantly and at this very moment. Nothing remains static. Culture is changing and evolving over time. Therefore we recommend firms to gain knowledge about Chinese history and culture as suggested by Fang (1999). Then use common sense and business acumen to create a profitable business.
7.2 Suggestions for further research

After researching for and completing this study, we have come across some additional areas of interest and therefore come up with suggestions for further research:

- Relationship marketing in China and corruption: how is it handled, avoided, viewed.
- Relationship marketing in Sweden by Chinese firms: How can Chinese firms succeed on the Swedish market?
- Deeper research into relationship marketing strategies for Swedish companies in China.
- Study Swedish firms on the Chinese market today and how they experience the paradoxes mentioned by Fang and Faure (2008).

7.3 Critique of method used in the study

When reflecting on our choice of method, we feel obligated to make conclusions regarding the choice. Would we use the same method approach to the study if we were to investigate the question or related issues once again? The answer is that we most probably would choose a similar method, with minor adjustments and/or complements.

First of all the group of respondents would be larger – rather double the population. Although in-depth interviews with 10 respondents give us sufficient information to make relevant general conclusions, a larger number of respondents would give us more clarifications to certain details, where the answers in this study were contradictory. The contradictions were adding interesting angles to the study but with more respondents the result could have been more definite on the reason for the contradictions.

Furthermore and in line with the previous section of critique, we would increase the number of questions to the respondents. Questions would be more detailed and offer
the respondents more space to elaborate. It would contribute to a better foundation for us when we make the conclusions and recommendations within the study.
8. References

Literature, academic research, dissertations, other publications


人民日报 2004 年 12 月 27 日, (People’s Daily, 27 December 2004), 2004


Websites

www.diva-portal.org

www.emeraldinsight.com


# Appendix 1: Respondents and companies

Nordea  
Johan Sundström - branch manager at Nordea Singapore (former branch manager at Nordea Beijing).

Rapid Granulator  
Rolf Gren - CEO (founder of Swedish Chamber of Commerce in Beijing, China)

Dynapac (China)  
Fredrik Hallen - Financial Controller,

Bulten Fasteners (China)  
Ingela Carlstrom - former Vice President Finance and Administration

Proximion Fibre Systems  
Stefan Eriksson - CEO

Company X  
Confidential - Sourcing Manager

Husqvarna AB  
Henric Samuelson – Manager Sales and Marketing, China

Ahlifax AB  
Jan Hedenborn - CEO (former manager of purchase Micro Bildelar, China)

Ericsson (China) Co., Ltd.  
Erik Feng - Vice President Marketing and Strategy

Nordic Ways  
Niklas Hellqvist – Deputy General Manager

**Following organization offered insight in Chinese firms established in Sweden:**

ISA (Invest in Sweden)  
Jane Sun - Investment Promotion Officer, ISA Beijing office
Appendix 2: 36 stratagems

Part 1: Winning Strategies

1. **Deceive the sky to cross the ocean** (Traditional Chinese: 瞒天過海; Simplified Chinese: 瞒天过海; Pinyin: Mán tiān guò hǎi)

Moving about in the darkness and shadows, occupying isolated places, or hiding behind screens will only attract suspicious attention. To lower an enemy's guard you must act in the open and hide your true intentions under the guise of common every day activities.

In the Second World War, the Allies' Operation Quicksilver created a phantom army in Kent complete with fake radio chatter that diverted German attentions from real Allied armies and their intended objective of Normandy.

2. **Besiege Wèi to rescue Zhào** (Traditional Chinese: 围魏救赵; Simplified Chinese: 围魏救赵; Pinyin: Wéi Wèi jiù Zhào)

When the enemy is too strong to be attacked directly, then attack something he holds dear. Know that in all things he cannot be superior. Somewhere there is a gap in the armour, a weakness that can be attacked instead.

The origins of this proverb are from the Warring States Period. The state of Wèi attacked Zhao and laid siege to its capital Handan. Zhào turned to Qí for help, but the Qí general Sun Bin determined it would be unwise to meet the army of Wèi head on, so he instead attacked their capital at Daliang. The army of Wèi retreated in haste, and they were ambushed and defeated at the Battle of Guiling, with the Wèi general Pang Juan slain on the field.

In the Second Punic War at the Battle of Zama Scipio Africanus was able to defeat Hannibal's army in Italy not by facing him in the field but by destroying his power base in Spain and menacing his home city of Carthage.

3. **Kill with a borrowed knife** (Traditional Chinese: 借刀杀人; Simplified Chinese: 借刀杀人; Pinyin: Jiè dāo shā rén)

Attack using the strength of another (in a situation where using one's own strength is not favourable). Trick an ally into attacking him, bribe an official to turn traitor, or use the enemy's own strength against him.

4. **Substitute leisure for labour** (Traditional Chinese: 以逸待勞; Simplified Chinese: 以逸待劳; Pinyin: Yǐ yì dài láo)
It is an advantage to choose the time and place for battle. In this way you know when and where the battle will take place, while your enemy does not. Encourage your enemy to expend his energy in futile quests while you conserve your strength. When he is exhausted and confused, you attack with energy and purpose.

5. **Loot a house on fire** (Chinese: 趁火打劫; Pinyin: Chèn huǒ dǎ jié)

When a country is beset by internal conflicts, when disease and famine ravage the population, when corruption and crime are rampant, then it will be unable to deal with an outside threat. This is the time to attack.

6. **Make a sound in the east, then strike in the west** (Traditional Chinese: 聲東擊西; Simplified Chinese: 声东击西; Pinyin: Shēng dōng jí xī)

In any battle the element of surprise can provide an overwhelming advantage. Even when face to face with an enemy, surprise can still be employed by attacking where he least expects it. To do this you must create an expectation in the enemy's mind through the use of a feint.

In the 1991 Gulf War the coalition through Military deception was able to convince the Iraqis that the coalition intended an amphibious attack into Kuwait and was able to fix Iraqi forces in positions that could play no effective part when the real attack came.

**Part 2: Enemy Dealing Strategies**

7. **Create something from nothing** (Traditional Chinese: 無中生有; Simplified Chinese: 无中生有; Pinyin: Wú zhōng shēng yǒu)

You use the same feint twice. Having reacted to the first and often the second feint as well, the enemy will be hesitant to react to a third feint. Therefore the third feint is the actual attack catching your enemy with his guard down.

8. **Sneak through the passage of Chencang** (Traditional Chinese: 暗渡陳倉; Simplified Chinese: 暗渡陈仓; Pinyin: Ān dù Chéncāng)

Attack the enemy with two convergent forces. The first is the direct attack, one that is obvious and for which the enemy prepares his defense. The second is the indirect, the attack sinister, that the enemy does not expect and which causes him to divide his forces at the last minute leading to confusion and disaster.

This proverb is a shortened form of 「明修栈道，暗渡陈倉」, literally translated as "openly repair the gallery roads, but sneak through the passage of Chencang". The phrase originated from the Chu-Han contention, where Liu Bang retreated to the lands of Sichuan to prepare for a confrontation with Xiang Yu. Once he was fully prepared, Liu Bang sent men to openly repair the
gallery roads he had destroyed earlier, while secretly moving his troops towards Guanzhong through the small town of *Chencang* instead. When Xiang Yu received news of Liu Bang repairing the gallery roads, he dismissed the threat since he knew the repairs would take years to complete. This allowed Liu Bang to retake Guanzhong by surprise, and eventually led to his victory over Xiang Yu and the birth of the Han Dynasty.

9. **Watch the fires burning across the river** (Traditional Chinese: 隔岸觀火; Simplified Chinese: 隔岸观火; Pinyin: Gé àn guān huǒ)

Delay entering the field of battle until all the other players have become exhausted fighting amongst themselves. Then go in full strength and pick up the pieces.

10. **Hide a knife behind a smile** (Traditional Chinese: 笑裏藏刀; Simplified Chinese: 笑里藏刀; Pinyin: Xiào lǐ cáng dāo)

Charm and ingratiating yourself to your enemy. When you have gained his trust, you move against him in secret.

11. **Sacrifices the plum tree to preserve the peach tree** (Chinese: 李代桃僵; Pinyin: Lǐ dài táo jiāng)

There are circumstances in which you must sacrifice short-term objectives in order to gain the long-term goal. This is the scapegoat strategy whereby someone else suffers the consequences so that the rest do not.

Cao Cao of the Three Kingdoms Period demonstrated this strategy. During a siege, Cao supplies ran low so he called in the supply captain and told him to dilute the rice with water to save grains. When the soldiers started to complain, Cao ordered for the captain to be killed. He would explain to his troops that the captain has been selling supplies to the enemy. This raises the army morale and they were victorious in a few more days.

12. **Take the opportunity to pilfer a goat** (Traditional Chinese: 順手牽羊; Simplified Chinese: 顺手牵羊; Pinyin: Shùn shǒu qiān yáng)

While carrying out your plans be flexible enough to take advantage of any opportunity that presents itself, however small, and avail yourself of any profit, however slight.

**Part 3: Attacking Strategies**

13. **Startle the snake by hitting the grass around it** (Traditional Chinese: 打草驚蛇; Simplified Chinese: 打草惊蛇; Pinyin: Dà cǎo jīng shé)

When preparing for battle, do not alert your enemy to your intentions or give away your strategy prematurely.
14. **Borrow another's corpse to resurrect the soul** (Traditional Chinese: 借屍還魂; Simplified Chinese: 借尸还魂; Pinyin: Jiè shī huán hún)

Take an institution, a technology, or a method that has been forgotten or discarded and appropriate it for your own purpose. Revive something from the past by giving it a new purpose or to reinterpret and bring to life old ideas, customs, and traditions.

15. **Entice the tiger to leave its mountain lair** (Traditional Chinese: 調虎離山; Simplified Chinese: 调虎离山; Pinyin: Diào hǔ lí shān)

Never directly attack an opponent whose advantage is derived from its position. Instead lure him away from his position thus separating him from his source of strength.

At the Battle of Hastings the Normans were initially unable to break the Saxon shield wall placed at the top of a hill, however by feigning retreat they were able to entice some of the Saxons to break ranks and opened a gap that allowed them to scatter the Saxon army.

16. **In order to capture, one must let loose** (Traditional Chinese: 欲擒姑縱; Simplified Chinese: 欲擒姑纵; Pinyin: Yù qín gū zòng)

Cornered prey will often mount a final desperate attack. To prevent this you let the enemy believe he still has a chance for freedom. His will to fight is thus dampened by his desire to escape. When in the end the freedom is proven a falsehood the enemy's morale will be defeated and he will surrender without a fight.

17. **Tossing out a brick to get a jade** (Traditional Chinese: 拋磚引玉; Simplified Chinese: 抛砖引玉; Pinyin: Pāo zhuān yǐn yù)

Prepare a trap then lure your enemy into the trap by using bait. In war the bait is the illusion of an opportunity for gain. In life the bait is the illusion of wealth, power, and sex.

This proverb is based on a story involving two famous poets of the Tang Dynasty. There was a great poet named Zhao Gu (趙嘏) and another lesser poet by the name of Chang Jian (常建). While Chang Jian was traveling in Suzhou, he heard news that Zhao Gu would be visiting a temple in the area. Chang Jian wished to learn from the master poet, so he devised a plan and went to the temple in advance, then wrote a poem on the temple walls with only two of the four lines completed, hoping Zhao Gu would see it and finish the poem. Zhao Gu acted as Chang Jian foresaw, and from this story came the proverb.
18. **Defeat the enemy by capturing their chief** (Traditional Chinese: 擒賊擒王; Simplified Chinese: 擒贼擒王; Pinyin: Qín zéi qín wáng)

If the enemy's army is strong but is allied to the commander only by money or threats, then take aim at the leader. If the commander falls the rest of the army will disperse or come over to your side. If, however, they are allied to the leader through loyalty then beware, the army can continue to fight on after his death out of vengeance.

**Part 4: Chaos Strategies**

19. **Remove the firewood under the cooking pot** (Chinese: 釜底抽薪; Pinyin: Fǔ dǐ chōu xīn)

When faced with an enemy too powerful to engage directly you must first weaken him by undermining his foundation and attacking his source of power.

The Cold War was won not by defeating the Soviet armies in the field, but by an ever more expensive arms race that destroyed the Soviet economy and its ability to remain in the race.

20. **Catch a fish while the water is disturbed** (Traditional Chinese: 混水摸魚; Simplified Chinese: 混水摸鱼; Pinyin: Hún shuǐ mō yú)

Before engaging your enemy's forces create confusion to weaken his perception and judgement. Do something unusual, strange, and unexpected as this will arouse the enemy's suspicion and disrupt his thinking. A distracted enemy is thus more vulnerable.

21. **Slough off the cicada's shell** (Traditional Chinese: 金蟬脫殼; Simplified Chinese: 金蝉脱壳; Pinyin: Jīn chán tuō ké)

When you are in danger of being defeated, and your only chance is to escape and regroup, then create an illusion. While the enemy's attention is focused on this artifice, secretly remove your men leaving behind only the facade of your presence.

With the Battle of Gallipoli evacuation the British and Anzac forces were able to retreat without being routed by creating the illusion that their trenches remained occupied.

22. **Shut the door to catch the thief** (Traditional Chinese: 關門捉賊; Simplified Chinese: 关门捉贼; Pinyin: Guān mén zhōu zéi)

If you have the chance to completely capture the enemy then you should do so thereby bringing the battle or war to a quick and lasting conclusion. To
allow your enemy to escape plants the seeds for future conflict. But if they succeed in escaping, be wary of giving chase.

23. **Befriend a distant state while attacking a neighbour** (Traditional Chinese: 遠交近攻; Simplified Chinese: 远交近攻; Pinyin: Yuǎn jiāo jìn gōng)

It is known that nations that border each other become enemies while nations separated by distance and obstacles make better allies. When you are the strongest in one field, your greatest threat is from the second strongest in your field, not the strongest from another field.

24. **Obtain safe passage to conquer the State of Guo** (Chinese: 假道伐虢; Pinyin: Jiǎ dào fá Guó)

Borrow the resources of an ally to attack a common enemy. Once the enemy is defeated, use those resources to turn on the ally that lent you them in the first place.

**Part 5: Proximate Strategies**

25. **Replace the beams with rotten timbers** (Traditional Chinese: 偷梁换柱; Simplified Chinese: 偷梁换柱; Pinyin: Tōu liáng huàn zhù)

Disrupt the enemy’s formations, interfere with their methods of operations, change the rules in which they are used to following, go contrary to their standard training. In this way you remove the supporting pillar, the common link that makes a group of men an effective fighting force.

26. **Point at the mulberry tree while cursing the locust tree** (Traditional Chinese: 指桑骂槐; Simplified Chinese: 指桑骂槐; Pinyin: Zhǐ sāng mà huái)

To discipline, control, or warn others whose status or position excludes them from direct confrontation; use analogy and innuendo. Without directly naming names, those accused cannot retaliate without revealing their complicity.

27. **Play dumb** (Traditional Chinese: 假痴不癫; Simplified Chinese: 假痴不癫; Pinyin: Jiǎ chī bù diān)

Hide behind the mask of a fool, a drunk, or a madman to create confusion about your intentions and motivations. Lure your opponent into underestimating your ability until, overconfident, he drops his guard. Then you may attack.

28. **Remove the ladder when the enemy has ascended to the roof** (Chinese: 上屋抽梯; Pinyin: Shàng wū chōu tī)
With baits and deceptions lure your enemy into treacherous terrain. Then cut off his lines of communication and avenue of escape. To save himself he must fight both your own forces and the elements of nature.

The Grande Armee was destroyed in the 1812 invasion of Russia by a combination of the Russian winter, a scorched earth strategy and the Russian army. Napoleon had been spurred on by the prize of capturing Moscow and with it the defeat of Russia; however all he found was a burnt out and empty city, and found his forces cut off in hostile terrain and weather with no supplies.

29. **Deck the tree with false blossoms** (Traditional Chinese: 树上開花; Simplified Chinese: 树上开花; Pinyin: Shù shàng kāi huā)

Tying silk blossoms on a dead tree gives the illusion that the tree is healthy. Through the use of artifice and disguise make something of no value appear valuable; of no threat appear dangerous; of no use appear useful.

30. **Make the host and the guest exchange roles** (Traditional Chinese: 反客为主; Simplified Chinese: 反客为主; Pinyin: Fǎn kè wéi zhǔ)

Defeat the enemy from within by infiltrating the enemy's camp under the guise of cooperation, surrender, or peace treaties. In this way you can discover his weakness and then, when the enemy's guard is relaxed, strike directly at the source of his strength.

The Peninsular War started when Napoleon attempted to conquer Spain by stealth, under the guise of friendship and forming an alliance against Britian and Portugal.

**Part 6: Defeat Strategies**

31. **The honey trap** (Traditional Chinese: 美人計; Simplified Chinese: 美人计; Pinyin: Měi rén jì)

Send your enemy beautiful women to cause discord within his camp. This strategy can work on three levels. First, the ruler becomes so enamored with the beauty that he neglects his duties and allows his vigilance to wane. Second, other males at court will begin to display aggressive behavior that inflames minor differences hindering co-operation and destroying morale. Third, other females at court, motivated by jealousy and envy, begin to plot intrigues further exacerbating the situation.

Even though this has been done many times, perhaps the most famous historical example is Xi Shi who was sent to the State of Wu during the Spring and Autumn Period.
32. **The empty fort strategy** (Traditional Chinese: 空城計; Simplified Chinese: 空城计; Pinyin: Kōng chéng jì)

When the enemy is superior in numbers and your situation is such that you expect to be overrun at any moment, then drop all pretense of military preparedness and act casually. Unless the enemy has an accurate description of your situation this unusual behavior will arouse suspicions. With luck he will be dissuaded from attacking.

33. **Let the enemy's own spy sow discord in the enemy camp** (Traditional Chinese: 反间计; Simplified Chinese: 反间计; Pinyin: Fǎn jiàn jì)

Undermine your enemy's ability to fight by secretly causing discord between him and his friends, allies, advisors, family, commanders, soldiers, and population. While he is preoccupied settling internal disputes his ability to attack or defend, is compromised.

During the Second World War the German intelligence agency the Abwehr under Wilhelm Canaris actively colluded with the Allies to undermine the Nazi regime.

34. **Inflict injury on one's self to win the enemy's trust** (Traditional Chinese: 苦肉计; Simplified Chinese: 苦肉计; Pinyin: Kǔ ròu jì)

Pretending to be injured has two possible applications. In the first, the enemy is lulled into relaxing his guard since he no longer considers you to be an immediate threat. The second is a way of ingratiating yourself to your enemy by pretending the injury was caused by a mutual enemy.

This strategy was perhaps best demonstrated during the Spring and Autumn Period. After his defeat by King Fu Chai of Wu, King Gou Jian of Yue pretended to go to Wu to become a servant of Fu Chai. After gaining Fu Chai's trust, Guo Jian was allow back to Yue. There he strengthens his military and in 482 BC while Fu Chai was trying to gain hegemony, he attacked and conquered the capital. Some years later in 478 BC, he annexed Wu and forced Fu Chai to commit suicide.

35. **Chain strategies** (Traditional Chinese: 连环计; Simplified Chinese: 连环计; Pinyin: Lián huán jì)

In important matters one should use several strategies applied simultaneously after another, as in a chain of strategies. Keep different plans operating in an overall scheme; however, in this manner if any one strategy fails the chain breaks and the whole scheme fails.

36. **If everything else fails, retreat** (Traditional Chinese: 走为上; Simplified Chinese: 走为上; Pinyin: Zǒu wéi shàng)
If it becomes obvious that your current course of action will lead to defeat then retreat and regroup. When your side is losing there are only three choices remaining: surrender, compromise, or escape. Surrender is complete defeat, compromise is half defeat, but escape is not defeat. As long as you are not defeated, you still have a chance.

This is the most famous one of the 36th strategy, immortalized in the form of a Chinese idiom: "Of the Thirty-Six Strategies, fleeing is best." (三十六計，走為上策)

Appendix 3

Executive summary to respondents

“Is Relationship marketing with a dash of guanxi the recipe for success for Sino-Swedish businesses?”

To get answers to the question, we are happy to get your support. Through your assistance, we will get facts and evidence to back up the theories and finally present an answer to the question. By your real life examples and experiences, we can further deepen the understanding of what makes up successful marketing in China and between Swedish and Chinese companies. From your answers we will be able to draw conclusions how a sustainable and growth oriented marketing strategy can succeed, thanks to cultural differences and similarities.

In the thesis we study Relationship marketing theories in the Sweden-China perspective. Are the similarities greater than the differences today? Is the approach to relationship marketing similar in China and Sweden? Can a relationship marketing strategy be used and effective in different geographical locations or is it essential and imperative to add local flavor?

Let us first look at defining and describing relationship marketing. Relationship marketing strives to create long-term mutual relationships with key parties- customer, suppliers, distributors and other marketing partners. The long-term relationship will create strong ties between the partners from economic, technical and social aspects. The result of successful relationship marketing is a marketing network and it is an important asset for companies today. Competition is not between single business units or entities any more but between marketing networks (Kotler et al., 2006).

In order to get a complete picture of relationship marketing between Sweden and China, we take a deeper look at the Chinese cultural context.

The Chinese market is booming and the double-digit growth is expected to continue. In 2025, the middle class in China is estimated to grow to a staggering 500 million people. At the same time, Chinese companies are looking for further opportunities globally. Some Chinese firms have already taken a giant step outside their own home.
market and are now going global. Lenovo (personal computers), Chery (automaker) and Asimco (auto parts maker) are a few successful examples.

In order to succeed in the Chinese market, what is required by today’s companies? What are companies doing today concerning marketing and how do you expect that your marketing strategy will be successful and sufficient for the future?

Being a Chinese firm, how will you succeed on the global arena? How is your company adapting, adjusting or not to a different culture context than your own?

We are looking forward to your answers and comments on these subjects. We are also looking forward to sharing the results with you when the thesis is completed.

Once again thank you for your kind support and interest in these issues.

Mats Nilsson and Maria Lustig
Gavle Hogskola, MBA in Marketing Management
20080513
Appendix 4

Questionnaire to the investigated companies

General information about respondent and company:

1. Company name?

2. Company size, in terms of number of employees and annual turnover

3. In which year was the company founded?

4. Your title and function in the company?

5. In what type of industry is the company active? On which markets do the company operate?

6. Who are your customers?

7. Where do you think the company’s products/services fit in the following matrix?

   | Standardized products | Differentiated products |
---|-----------------------|-------------------------|
| Technically complex   | Technically simple      |
| Easy to install       | Specialized installation|
| After sales service   | Technical after sales service |
| Low engineering content | High engineering content |
| Quickly changing      | Slowly changing         |
| Unique                | Common                  |

8. The marketing strategy, information and focus for Sino-Swedish perspective:

   In which business/industry are your customers and suppliers?

   The marketing strategy – general outline

   Global   Local
   Central  Decentralized

   Other comments regarding marketing strategy

9. How was the marketing strategy developed?

10. Who is responsible and who is involved in the process of developing the market strategy? Functions and geographical location

   11. The market strategy is developed for which

      - Markets?
      - Customers?
      - Other, please specify

12. Are you working with global strategies or local adaptations? Why? Why not? What are the reasons?

      - Is it based on internal feedback?
      - Customer feedback?
      - Habit, the way we always do business here?
- Personalized (individuals have experience and knowledge, can summarize it as company knowledge)?
- Other, please specify

13. For how long have you worked with Chinese suppliers/customers?

14. How do you evaluate/measure the success of the marketing strategy?

15. In contact with Chinese/Swedish suppliers/customers, do you adapt your marketing approach? If yes, describe how and give some examples. If no, why not?

16. Are there any specific issues, customs, cultural traits or habits that you find challenging when dealing with your foreign suppliers/customers?

17. Your experience of relationship marketing and China
   What is your definition and experience of the concept?
   Do you consciously apply it in your marketing strategy?
   Do you decide to use it only in certain contexts?
   Is it valuable to your business? If yes, describe how.
   Do you use it in other markets?
   Has it been globalized or globally applied?

Respondent’s customer/supplier information
18. Who are your customers/suppliers? Local, global, Swedish, Chinese

19. Are their marketing strategy business-to-business or business to end customer?

20. How is their marketing strategy towards you? Special traits, global traits, etc

21. How important are each of the following statements in your organizations relationships with Chinese companies? (Answer with 1-5 from not very important to extremely important)

   Meeting customers away from the work place for breakfast, lunch, dinner or other social activities
   Talking to customers about family, sport or other personal interests
   Sharing personal advice and support
   Having friendship
   Waiting with patience is a must in establishing a profitable relationship
   The customer is easy to talk to
   The customer tries to impress me with himself
   The customer likes to talk to people
   The customer wants to complete the business deal as quickly and effectively as possible
   The customer is personally interested in socializing
   Promptly pay back a favor

22. With your organizations relationship with current Chinese customers/suppliers as starting point, what is your opinion regarding the following statements? (Answer with 1-5 from strongly disagree to totally agree)

   In our relationship, my customers can be counted on to do the right thing.
   The people from the purchasing departments do not seem to be concerned with our needs.
   The people from the purchasing departments are frank in dealing with us.
   The people from the purchasing departments do not make false claims
   In our relationship, my customers have high integrity
   The people from the purchase departments are not trustworthy.
23. How important are each of these factors in you organizations relationships with Chinese customers? (Answer with 1-5 from not very important to extremely important).

Long-term economic benefits
Competitive or strategic benefits
Access to knowledge and technology
Sharing of industry and competitive information
Electronic linkages to manage the value chain activities.
Guidance of formal contracts and agreements.
Other ____________________________

24. How often does the following occur when, in your relationship with Chinese customers (answer with 1-5 from Almost never to Very frequently)

Establishing a relationship based on friendship
Showing empathy/concern for each other’s well being.
Sharing personal advice and support
The customer wants to complete the business deal as quickly and effectively as possible.
The customer likes to talk to people.
The customer likes to impress me with himself
The customer is easy to talk to
The customer keeps paying back favors.
Meeting customers away from the work place for social activities
Talking to customers about family, sport or other personal interests
The customer is personally interested in socializing.
Our customers can wait with patience for profitable relationship to be established.
Other ____________________________

25. Do you characterize your marketing strategy in China as successful? How do you measure it?

26. What are the most important reasons for a successful marketing strategy in China?
Our relationship/guanxi with important people is essential for our success.
Our employees’ guanxi with important people is essential for our success.
Our products are superior and there is a demand that we have been able to fulfill with our existing and global strategy.
## Appendix 5

**Matrix presenting the answers to the close end questions in the questionnaire.**

21. How important are each of the following statements in your organizations relationships with Chinese companies?
(Answer with 1-5 from not very important to extremely important)

<table>
<thead>
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<th>Statement</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
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<th>G</th>
<th>H</th>
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<td>Talking to customers about family, sport or other personal interests</td>
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<td>4</td>
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<tr>
<td>Having friendship</td>
<td>4</td>
<td>3</td>
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<tr>
<td>Waiting with patience is a must in establishing a profitable relationship</td>
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</tr>
<tr>
<td>The customer wants to complete the business deal as quickly and effectively as possible</td>
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<td>2</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>The customer is personally interested in socializing</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Promptly pay back a favor</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

22. With your organization’s relationship with current Chinese customers/suppliers as starting point, what is your opinion regarding the following statements?
(Answer with 1-5 from strongly disagree to totally agree)

<table>
<thead>
<tr>
<th>Statement</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>In our relationship, my customers can be counted on to do the right thing.</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>The people from the purchasing departments do not seem to be concerned with our needs.</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>The people from the purchasing departments are frank in dealing with us.</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>
15. The people from the purchasing departments do not make false claims  
   1  5  2  3  4  2  3

16. In our relationship, my customers have high integrity  
   2  4  2  4  4  2  2  3

17. The people from the purchase departments are not trustworthy.  
   1  2  4  2  2  3  2  3

23. How important are each of these factors in your organizations  
   relationships with Chinese customers?  
   (answer with 1-5 from not very important to extremely important).  

<table>
<thead>
<tr>
<th>Factor</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>18. Long term economic benefits</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>19. Competitive or strategic benefits</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>20. Access to knowledge and technology</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>21. Sharing of industry and competitive information</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>22. Electronic linkages to manage the value chain activities.</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>23. Guidance of formal contracts and agreements.</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
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</tr>
</tbody>
</table>

24. How often does the following occur when, in your relationship with  
   Chinese customers?  
   (answer with 1-5 from Almost never to Very frequently)  

<table>
<thead>
<tr>
<th>Factor</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>24. Establishing a relationship based on friendship</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>25. Showing empathy/concern for each others well being.</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>26. Sharing personal advice and support</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>The customer wants to complete the business deal as quickly and</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
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<tr>
<td>effectively as possible.</td>
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<tr>
<td>27. The customer likes to talk to people.</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
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<td>2</td>
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<tr>
<td>The customer likes to impress me with</td>
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<td></td>
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<tr>
<td>himself</td>
<td>5</td>
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<td>4</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>30. The customer is easy to talk to</td>
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<td>2</td>
<td>2</td>
<td>5</td>
<td>4</td>
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<tr>
<td>31. The customer keeps paying back favours.</td>
<td>2</td>
<td>3</td>
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<td>4</td>
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<td>4</td>
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<td>2</td>
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<tr>
<td>32. Meeting customers away from the workplace for social activities</td>
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<td></td>
</tr>
<tr>
<td>33</td>
<td>Talking to customers about family, sport or other personal interests</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
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</tr>
<tr>
<td>34</td>
<td>The customer is personally interested in socializing.</td>
<td>3</td>
<td>4</td>
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<td>4</td>
<td>4</td>
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</tr>
<tr>
<td>35</td>
<td>Our customers can wait with patience for profitable relationship to be established.</td>
<td>3</td>
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<td>3</td>
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