Offshoring to China
A case study of an SMEs offshoring to China

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Abstract

The rising globalisation, supported by rapid technology innovations has changed our current business environment within the last years. As a result, especially SMEs have to cope with a higher pressure of maximising their efficiency and competitiveness in order to survive on the market. Nevertheless, many managers recognised the great potential of outsourcing to utilise the enormous benefits of external suppliers to solve this problem. For instance, it enables the SMEs to concentrate on their core capabilities combined with exploiting synergy affects of the supplier cooperation as costs savings, access to R&D knowledge etc. But the outsourcing dimension changed as well, due to the increased globalisation, companies are not hesitating anymore to step over their country boundaries and offshore to high promising emerging countries like China. However, offshoring cannot perform miracles, more it presents one of the most strategic and complex decisions affecting the whole company.

Based on these facts, this Master Thesis investigates how an SME should outsource to China. The basis of the outsourcing decision is examined to make the right strategic decision, which is illustrated with a developed model. More, the supplier selection and maintenance are explained, followed by the description of the facts which have to be considered when offshoring to China. Particularly due to the focus on offshoring to China, this thesis will further look into the affects of the Chinese culture on the companies’ networks. The research is based on a case study, which is further used to derive general conclusions for other SMEs.

The result of the investigation is that SMEs should decide which parts to outsource from a strategic point of view. Further to cope with the lack of resources and the Chinese cultural issues the cooperation with an intermediary is recommended.

Keywords: Outsourcing, Offshoring to China, Purchasing, Networks, Relationships
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Cecilia Johansson & Elisabeth Reischl
Abbreviations

ELA European Logistics Association
MNC Multinational Corporation
MRO Maintenance Repair and Operation Suppliers
OEM Original Equipment Manufacturers
RBV Resource-based View
SCM Supply Chain Management
SME Small- to Medium Sized Enterprises
WTO World Trade Organisation
# Table of Contents

1 Introduction ............................................................................................................. 1
   1.1 Background ...................................................................................................... 1
   1.2 Problem discussion ....................................................................................... 3
   1.3 Research questions ...................................................................................... 5
   1.4 Case company description ......................................................................... 9
      1.4.1 Åkerströms Björbo AB ............................................................................ 9
      1.4.2 Startup China Based Solutions Ltd ....................................................... 10
   1.5 Purpose ........................................................................................................ 11
   1.6 Delimitations ............................................................................................... 11
   1.7 Thesis outline .............................................................................................. 12

2 Methodology ........................................................................................................ 13
   2.1 Research approach ..................................................................................... 13
   2.2 Research strategy ....................................................................................... 14
   2.3 Research design ........................................................................................ 16
      2.3.1 Case study research .............................................................................. 16
   2.4 Data collection ........................................................................................... 18
      2.4.1 Principles of data collection ................................................................ 18
      2.4.2 Primary data ........................................................................................ 19
      2.4.3 Secondary data ................................................................................... 23
   2.5 Research quality ......................................................................................... 24
      2.5.1 Validity ................................................................................................ 24
      2.5.2 Reliability ............................................................................................ 26
   2.6 Research ethics ........................................................................................... 27

3 Theory ............................................................................................................... 28
   3.1 Outsourcing .................................................................................................. 28
      3.1.1 Definitions of outsourcing .................................................................. 28
      3.1.2 Potential benefits of outsourcing ....................................................... 29
      3.1.3 Potential disadvantages of outsourcing ............................................ 31
      3.1.4 Strategic decisions on outsourcing .................................................... 33
      3.1.5 Outsourcing decision model ............................................................... 38
   3.2 Purchasing .................................................................................................... 41
      3.2.1 Purchasing definition .......................................................................... 41
      3.2.2 Purchasing strategy ............................................................................ 41
      3.2.3 Supplier integration ............................................................................ 43
      3.2.4 Supplier relationship management ..................................................... 44
      3.2.5 Supplier communication .................................................................... 46
      3.2.6 Supplier selection model when outsourcing ....................................... 47
   3.3 Offshoring .................................................................................................... 49
      3.3.1 Offshoring to China ............................................................................. 50
   3.4 Relationships in supplier networks .............................................................. 52
      3.4.1 Supplier networks ............................................................................... 52
      3.4.2 Relationships ....................................................................................... 52
      3.4.3 Basic rules model ............................................................................... 54
      3.4.4 Network mapping .............................................................................. 56
      3.4.5 The network strategy ......................................................................... 57
6.3 Areas for future research .................................................................................................................. 131

7 References ........................................................................................................................................ 133
  7.1 Articles ............................................................................................................................................. 133
  7.2 Books ............................................................................................................................................ 136
  7.3 Internet sources ................................................................................................................................. 137
  7.4 Interviews ...................................................................................................................................... 138

8 Appendix .......................................................................................................................................... 139
  8.1 Interview questions Åkerströms ................................................................................................. 139
  8.2 Interview questions Startup ......................................................................................................... 144
  8.3 E-mail interview with the President at Åkerströms ....................................................................... 146
  8.4 E-mail interview with the Project Manager at Startup ............................................................... 146

List of figures

1.1 Research model .................................................................................................................................. 8
1.2 Thesis outline ..................................................................................................................................... 12
3.1 Appraising organisational capabilities .......................................................................................... 38
3.2 The outsourcing decision model .................................................................................................... 40
3.3 Types of operative flows between customer and suppliers ........................................................ 47
3.4 The outsourcing process model ..................................................................................................... 48
3.5 Basic rules model ............................................................................................................................. 54
3.6 Network map .................................................................................................................................. 57
3.7 Theoretical model ........................................................................................................................... 63
4.1 Organisational structure of Åkerströms ......................................................................................... 65
5.1 The capabilities along the value chain .......................................................................................... 93
5.2 Appraising organisational capabilities of Åkerströms ................................................................. 94
5.3 The outsourcing decision model .................................................................................................... 97
5.4 Åkerströms outsourcing process ................................................................................................. 104
5.5 Basic rules model of Åkerströms ................................................................................................. 110
5.6 Network map for Åkerströms ........................................................................................................ 112

List of tables

2.1 Relevant situations for different research strategies ................................................................. 14
3.1 Strategies for parts in a customer-supplier relationship with partnership characteristics .................................................................................................................................................. 45
3.2 Factors influencing the power balance between the customer and the supplier .................... 45
1 Introduction

This chapter aims to introduce the reader to the topic by first presenting the background of this thesis followed by the problem discussion. The problem discussion leads to our main research question and our four sub questions. Additionally, the case company and the intermediary will be briefly presented, as well as the purpose and delimitations. The chapter ends with an outline of the chapters in this thesis.

1.1 Background

The globalisation, supported by rapid technology innovations, changed the basis of competition within the last years (Gottfredson, Puryear & Phillips, 2005). Therefore, in our existing business situation the pressure for firms to improve efficiency and competitiveness leads to the question if there are some activities of the business which can and should be outsourced to reach this target, presenting the main argument why outsourcing is of that important (Baden-Fuller, Targett & Hunt, 2000).

The managerial trends advocate the specialisation on core competencies and outsourcing other activities in order to gain competitiveness. According to the fact that by delegating parts of their production to externals, known as outsourcing, the company can focus entirely on their competitive key abilities (Sislian, 2000). The purpose is to continuously invest into the companies’ core competencies to establish or maintain the sources of competitive advantage. Therefore the issue of outsourcing is still prevailing and is of high importance in order to compete on the market. Especially well-established and integrated companies are determining that argument, through their success of outsourcing non-core activities to improve their profitability (Quinn & Hilmer, 1994). In other words, outsourcing is that important because not only cost reductions will be achieved, more it allows an organisation to develop a range of capabilities for competitive advantage and understanding where it is appropriate to pursue efficiencies (McIvor, 2009).

In the past, the main reason for outsourcing was to save costs and only a few managers put attention to the actual impact on the company value. But nowadays, stated by Holcomb & Hitt (2007), outsourcing is one of the most important strategic issues in our current business environment, because when outsourcing the company can utilise several supplier advantages (Holcomb & Hitt, 2007). In other words, outsourcing is an attractive and powerful strategy to reduce costs and improve performance at the same time. The specialists in the supply markets
can utilise a deeper knowledge and higher investments into software as well as training systems to be more efficient. Often the integrated companies are attracting more specialised and trained people due to the focus on core capabilities (Quinn, 1995). As a result the outsourced activities move from peripheral ones, like cleaning or security, towards somewhat more critical business activities (Holcomb & Hitt, 2007).

Another factor why outsourcing cannot be excluded as an opportunity in the strategic planning of managers is that the organisations are not able to update all their activities to the current technologies and innovations. That is caused by the rapid developments in information and communication technology, and the increased number of demanding customers. The high importance of outsourcing is determined by the wide range of available theoretical studies, which ranges from economic disciplines, business strategies, organisational theory, as well as general management. Many authors put effort in studying the outsourcing phenomena in order to utilise the full potential of that sourcing strategy, which is a valuable contribution to understand outsourcing. Nevertheless, outsourcing provides an opportunity as well as posing a challenge to many organisations (McIvor, 2009).

The term outsourcing includes ‘outside’, which can be interpreted as creating value from outside the company. Thus, the integration of external partners in order to create value is aligned with the outsourcing process, leading to that the supplier involvement becomes a central part of outsourcing. The topic is important and essential for companies because it presents the strategic access to external resources, and without those sources many companies would not be able to survive the competition. Derived from the impact of the supplier, the purchasing strategy of the company is vital in the outsourcing process, which has to develop suitable instruments to obtain competitive advantages from the sourcing markets. In other words, it is not enough to know about the external resources; moreover, they must be used and utilised by the company according to their specific requirements (Arnold, 2000). Stated by Gottfredson, Puryear & Phillips (2005) it is not anymore a question about outsourcing a capability but rather how to source every single activity. In that context, global sourcing is getting more and more important because it enables the company to exploit its suppliers’ competitive advantages and the location advantages of various countries (Kotabe & Murray, 2004).
When outsourcing to another country, it is called offshoring (Kotabe & Murray, 2008). China has especially been at the forefront of outsourcing services for more than 30 years. The main advantages to move production to China are the low labour costs, cheap raw materials and relatively low costs of transportation. But aligned with the increased Western influence from the foreign entrepreneurs, the economic and political environment within the country will change, which has to be taken into consideration when offshoring (Kennedy & Clark, 2006). The country is moving from being a command economy towards a market economy, which further makes the business environment and institutions even more unstable. However, these changes take time because culture only changes gradually. Therefore, Western companies are adapting to the Chinese environment by considering and respecting the Chinese culture, in order to make business there. The Chinese culture is based on trust, hence also the networks and relationships, and the heart of the business system is still the family (Jansson, Johanson & Ramström, 2007).

Based on the mentioned arguments, outsourcing is an important issue for companies today, thus we decided to write our Master Thesis within this field, with a focus on China. The case company of the thesis is Åkerströms Björbo AB, which is a Swedish SME in the process of moving some parts of their production to China. They are using an intermediary in China to handle the process and to overcome some of the involved risks. Thus, the intermediary, Startup China Based Solutions Ltd, is also a part of our thesis.

### 1.2 Problem discussion

In order to improve efficiency and competitiveness in our integrated and global business environment, outsourcing is an appropriate strategy to cope with that issue. However, the outsourcing is tough since a lot of aspects need to be taken into consideration. First of all, the managers have to clarify; *which parts of the value chain that should be purchased from external suppliers.* Due to the fact that the outsourcing decision might affect the whole company performance, as well as business of the company which are not obviously connected to the strategic change, the whole outsourcing decision is rather complex and difficult. Therefore one major problem is to figure out *on which information manager should base their decision about which parts to outsource.*
By outsourcing activities to external suppliers the company can significantly improve the productivity as well as the profitability. However, especially when outsourcing could affect the company’s core competencies or competitive advantages, the company cannot accomplish the strategic aim of outsourcing. Because, outsourcing as a strategy is aligned with high risks, for instance it can weaken the company’s core competencies if activities that should have been kept in-house are outsourced.

Another threat is that a reliance on outsourcing is declining innovations by the outsourcer, because cooperating with externals is often used as a substitute for innovations. But in the long-run, research and development competitiveness can be lost through that strategy (Gilley, 2000). Furthermore, another scenario could be that competitors are able to gain access to intelligent properties when outsourcing due to misunderstandings or failures of suppliers. This is particularly a high risk when outsourcing to an offshore location.

Additionally, if the same suppliers are used by competitors, issues like quality and price might arise. It is of great importance to consider when having more expensive products than your competitors, because then the customers might question why, due to the offer of the same quality. Besides, when suppliers gain knowledge of the product that is being manufactured, they might use that knowledge to begin marketing and selling the product on their own (Prahalad & Hamel, 1990).

Furthermore, there are several other risks associated with outsourcing. The costs savings might not be as great as expected, especially when cooperating with foreign suppliers. The cost advantages of outsourcing might fleet when the foreign wages are continuously rising, or due to fluctuations in the currency. It seems as if many companies mainly base their decision on short-term cost savings, this threat must be considered from the initial stage. Moreover, the lead times could get longer caused through several problems like larger inventories, communication and coordination difficulties, lower demand fulfilment and unexpected transportation and expediting costs (Gilley, 2000). Especially customised products can be an issue itself, because they are hard to outsource to externals. The transfer of information from end-customer to an offshore supplier might be too long in order to reach the preferred level of quality and to meet customers’ requirements.
As mentioned before, China is a country to where many companies outsource parts of the production in order to gain cost savings, but nevertheless, failures determine that managers are not considering the business and legal environment of the outsourcing partner in China. Most of the companies are mainly looking at the cost aspect, leading to that they underestimate the complexity of managing trade with and offshoring to China. Through the increased foreign influences China will not stay inexpensive forever. That is, especially since China continues the enforcement of regulations pertaining to the environment, minimum wage, worker safety etc. Further, the Chinese government views outsourcing arrangements as a preferred mode for attracting, demanding and gaining access to leading-edge technologies from foreign firms as the ‘cost’ of entering the Chinese market. As mentioned earlier, many foreign companies are indirectly ‘selling’ their technologies and innovations to China and in the worst case the provider might sell the improved capabilities to the firm’s competitors (Lei, 2007).

Summarised, the major problems related to outsourcing are in the area of the decision-making process, and due to the mentioned threats, like negative impact on the core-capabilities or competitive advantage, it seems like one of the most important issues when outsourcing. Further problems might occur when the suppliers or competitors are using the transferred technical knowledge for their purposes. As a result, the suppliers are another problematic component in the outsourcing process. By considering to offshore to an emerging country like China, further threats might occur like future rise of the countries labour costs, increasing transportation expenditures and longer lead times. Nevertheless, the major problem when offshoring to China is to handle the cultural differences between the offshoring partners.

In the next part we present our research questions, starting with the main research question, followed by the four sub questions. Furthermore, each question is followed by an explanation of how to answer the question in terms of theoretical models, and together with the background and the problem discussion, they create the basis of this thesis.

1.3 Research questions

According to the mentioned threats and opportunities in the background and problem discussion, the main research question of this thesis is:
In order to answer this main research question, four sub questions has been developed. As mentioned in the problem discussion, one major concern regarding outsourcing is on which grounds the decision should be based; therefore our first research question is defined as follows:

**Main Research Question:**

*How does a SME offshore to China?*

To be able to answer this sub question the definition and theory of outsourcing will be described, as well as potential benefits and disadvantages. An analysis of the company strategy, competitive advantage, perceived customer value and resources and capabilities, follows in order to evaluate which parts that should be outsourced. Finally, an outsourcing decision model including all mentioned aspects to take the right decision concludes the first sub question.

**Sub Question 1**

*What is the basis for the decision of which parts to outsource?*

According to the problem discussion it is necessary to analyse purchasing and the different aspects regarding suppliers. The second sub question will be answered by defining purchasing and explaining the purchasing strategy. Then comes a description of supplier integration, supplier relationship management and supplier communication. Finally, a model for finding suitable suppliers in the outsourcing process is presented.
This sub question is about all aspects which have to be considered when offshoring to China. In that context, the reason why China is the most suitable offshoring country, and the major risks related to this decision, will be explained. Furthermore, the definition of offshoring, related to China, will be described to answer the question.

In our last research question a detailed investigation into the networks is conducted to deal with the problem of the cultural differences, as stated in the problem discussion. In order to answer the fourth sub question, supplier networks and relationships are presented, followed by the network map and network strategy. Further, the basic rules model of the institutions aligned with the networks is described. Additionally, general characteristics of the Chinese business environment are used to answer all the aspects related to the main research question.

The next graph gives an overview about the different steps in the conducted research. As mentioned before, the first part is the explanation of the problems, which is followed by the illustration of the methodology structure of the thesis. Afterwards, the theory is explained, which is necessary to answer our research questions. The empirical chapter presents the necessary data from our case companies, which is needed in our analysis chapter. Finally, the last part of the thesis is the conclusions and recommendations for the case company.
Figure 1.1 Research model (Source: own)
1.4 Case company description

In this section the case company Åkerströms Björbo AB and the intermediary Startup China Based Solutions Ltd will be briefly described to give the reader an overview of the businesses of the companies. They will hereafter be referred to as Åkerströms and Startup, if the whole name is not needed for clarification.

1.4.1 Åkerströms Björbo AB

Åkerströms is developing, producing and selling radio remote controls, with focus on the industry. They are the market leader in industrial radio controls in the Nordic region. Their products are for cranes, professional mobile vehicles, door-opening systems and locomotives (www.akerstroms.com). Further, the remote control solutions cover all applications from small sophisticated to complex systems, depending on the customers' needs. The products are characterised by reliability, durability and safety. This leads to their high quality, which is one of the company’s core values.

The company was founded in 1918 by Anders Åkerström and have since then been located in Björbo in Sweden. Åkerströms has about 50 employees; however, they are part of an extensive international network of partners to provide local service and support to their customers. The company developed the first radio controlled door-opening system in 1969, and now they have a complete portfolio of radio based products and solutions (Power Point presentation). They have three different product groups; Remotus, Sesam and Locomote, where Remotus is radio controls for cranes, overhead cranes and mobile units, Sesam is a series of products for wireless door-opening systems, and Locomote is a series of products for radio control of locomotives. Related to all of their products they offer after sales services, support and education to their customers since the products are advanced and highly developed. Examples of their customers are: ABB, Volvo, AstraZeneca, SCA, Scania and SAAB (Power Point presentation). Their business concept is to: “develop and market robust wire-less products for demanding industrial environments and mobile units. Together with our partners we create solutions which increase the efficiency and profitability of our customers.” (Power Point presentation)

In the beginning of 2008 the company decided to move the production of their new standardised product Sesam 800, to China, to keep the production costs down. As mentioned
before they are using an intermediary in China, who is helping them with the contacts and relationships with the Chinese suppliers. Together with Startup they try to work out the most suitable way to expand on the Chinese market. In the next part, the intermediary will be described briefly.

1.4.2 Startup China Based Solutions Ltd

Startup is a company based in China and Sweden, owned and run by a Swedish businessman. It was established in 2004 in Beijing, China, by Conny Jakobsson and an American businessman, and the idea is to help Western companies entering the Chinese market. Now the company has five employees, four of them are situated in China and one representative is in Stockholm. The representative in Stockholm is concerned with purchasing, outsourcing and the contact with the companies in Sweden. The company also has their own product which they sell mostly to Sweden, but it will not be included in this thesis (interview with the Managing Director at Startup, 2009-04-22).

Startup can be seen as “the spider in the web” helping Western companies to outsource their production to China, by securing for instance the quality of the products. According to the Managing Director at Startup also big companies fail when outsourcing their production to China, since it is hard to find and establish good relationships with suppliers when coming from another country (interview with the Managing Director at Startup, 2009-04-22). Therefore companies like Startup exist, guaranteeing the quality, logistics and production of the products through their already existing networks of people and companies inside and outside China. This makes the process shorter and more efficient, since Startup already has worked with the suppliers before and knows that the quality is good. The companies contacting Startup is also offered to meet suppliers and other involved people in China. The representative in Stockholm travels with the company to China and together with the Managing Director they go to the different suppliers in his network that are suitable for the company (interview with the Managing Director at Startup, 2009-04-22). In other words, Startup is like a consultant for the companies, handling everything between the Western company and the Chinese suppliers, securing delivery time, quality, quantity, logistics etc. Startup is working mostly with companies from the Nordic countries, but they also have clients in Austria, Canada, Brazil and Australia.

In the next part of the chapter, the purpose of this Master Thesis will be presented.
1.5 Purpose

The purpose of the thesis is to investigate how a SME should outsource to China. Therefore, an examination of the company’s strategy, outsourcing, purchasing and Chinese cultural issues is conducted to obtain the essential components, which have to be considered when outsourcing. The purpose is to describe and define all relevant aspects that are inherent with the strategic decision of a SME to outsource to China. It is necessary to analyse the aspects in order to reach our initial aim to recommend SMEs how they should pursue their outsourcing process, which is done with own modified models.

In order to proof the developed models we describe and analyse how our case company Åkerströms conducted the outsourcing decision as well as how they are managing the whole process. Finally, the purpose of that investigation is to provide supportive models and information for our case company as well as for SMEs to enhance their success.

1.6 Delimitations

Due to the scope of the thesis and the boundaries of resources, the following delimitations have been made:

- The study is limited to SMEs that wants to outsource their production, and not other parts of the value chain.
- Due to the context of our case company Åkerströms, the chosen offshoring country of the thesis is China; other rising emerging countries are not considered.
- Åkerströms uses the intermediary Startup in their outsourcing process, which is included in the study. Therefore any further investigation about establishing relationships in China will be neglected.
- It is not possible to cover all components of the strategy analysis. Therefore based on the mentioned arguments the thesis analyses outsourcing from a strategic perspective and not from a completely cost perspective. The strategy is not entirely employed to reduce costs, more it allows the organisation to develop a range of capabilities and leverage the specialist benefits of the suppliers.
In this thesis the investigation of the logistics management when offshoring to China is neglected as well as the settlement of the specific contract with the involved parties.

1.7 Thesis outline

- In the first chapter the Thesis will be introduced by stating the research questions, purpose, delimitations, etc.
- The second chapter is the methodology chapter where we present the chosen methodology of our study, and describes how it was conducted.
- In the third chapter the theoretical framework is described with the chosen theories and models for the research.
- The fourth chapter is the empirical chapter where all the primary data collected during the interviews are presented.
- Fifth chapter is the analysis, where the theory and the empirical data are combined in an analysis.
- Lastly are the conclusions of this thesis where we also present our recommendations for the case company.

Figure 1.2 Thesis outline (Source: own)
2 Methodology

In this chapter the methodology of the thesis will be discussed in order to give the reader an overview how the study has been conducted. The methodology plays a critical role in the scientific work because it connects the empirical data with the theoretical framework. The first part explains the research approach, moving on to the research strategy and why the single case study is chosen. Thereafter, the data collection and analysis is described which is followed by the issue of research quality. Finally the discussion on research ethics will conclude the chapter.

2.1 Research approach

In this part the different research approaches will be discussed and compared, focusing on the approach chosen for this thesis.

By analysing the research approach there are three different forms; induction, deduction and abduction. Bryman & Bell (2005) define induction as when the theory is generated from practice. However, deduction is the most common understanding of how the relationship between theory and practice works in the social science. It begins with the knowledge and the theory in the field, and then the researcher deduces hypotheses which will be tested in an empirical study (Bryman & Bell, 2005). According to the case study that has been made, abduction is the most suitable research approach. The abductive method is according to Dubois & Gadde (2002) a combination of induction and deduction, and therefore not an approach in itself, however it is a method to use when moving back and forth between the empirical world and the model world. When doing so, the researcher’s understanding of both worlds will be further extended, since it is not possible to understand the whole picture with just one of the two parts.

In their article, Dubois & Gadde (2002) introduce an alternative approach which is based on the abductive method, called ‘systematic combining’, which is closer to an inductive than a deductive approach. “Systematic combining is a process where theoretical framework, empirical fieldwork, and case analysis evolve simultaneously, and it is particularly useful for development of new theories” (Dubois & Gadde, 2002, page 554).

When using the abductive (or systematic combining) approach the researcher does not have to force the data to be suitable for the categories, but rather develops the categories from the
data. Another important factor is that the theoretical framework can be expanded and changed during the research process (Dubois & Gadde, 2002), whereas in other methods, it cannot.

The next part is about research strategy in general and case study design in particular, since it is the strategy chosen for this study. A definition of a case study is presented, followed by an explanation of purposeful sampling, and the part ends with a description of convenience sampling. All parts are related to the study in order to make the reader aware of our research strategy.

### 2.2 Research strategy

According to Merriam (1998) the decision on the strategy model is related to the research problem. By suggesting that the decision on the research strategy is based on the types of research questions, the degree of control over actual events, or the focus on contemporary or historical events, Yin (2003) defined five main research strategies: experiment, survey, archival analysis, history and case study, which are explained in the following table.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of Research Question</th>
<th>Requires Control of Behavioral Events?</th>
<th>Focus on Contemporary Events?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, why?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>How, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>How, why?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Table 2.1 Relevant situations for different research strategies. (Yin, 2003, 5)*

Due to the fact, that more than one research strategy might be relevant for the specific research problem, Yin (2003) states, that in some cases it is possible to use two strategies. Although to decide which strategy is the most appropriate one, the research question is the most important variable. According to our research problem the case study approach is the
most suitable strategy. Yin (2003, 13), defines a case study as “…an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” The case study examines contemporary events, when the relevant behaviours cannot be manipulated, which is aligned to the research problem of this thesis. Additionally, the examined phenomena should be of theoretical significance. According to Dubois (2002) the case study must not be based on prior theory, however it should be aligned with a subject of research interest.

When doing a case study research, it is essential to use multiple sources of data (Yin, 2003), for instance through interviews, questionnaires, observations, documents or databases (Fisher, 2007). The reason for that is because one of the sources can be biased. The sources in this study are interviews, observations and documents which will be described more in detail later in the chapter.

Unfortunately it is impossible to collect all available data, to interview everyone and to observe everything, and due to that, some kind of method of selection needs to be chosen (Merriam, 1994). For case study research, the most commonly used non-probability sampling method is called purposeful sampling (Yin, 2003), which is about finding a sample from where as much as possible can be learned, since the case study is about to discover, understand and gain insight about the topic. In this thesis, purposeful sampling was used by interviewing the people at the company that have been involved in the process of moving their production to China, and other managers of products and markets, to discover, understand and to gain insight about these issues. Yin (2003) states different types of purposeful sampling, where convenience sampling is in accordance with the research of this thesis. Convenience sampling means that the sample is chosen based on time, money, location and availability. One risk with the method is information poverty; however, we had the possibility to interview all the involved persons because all of them were available during our visit, which helped us to overcome this problem.

In the next section the research design of our study will be presented more in depth, explaining the different types of case study designs with the focus on single case descriptive design, which is the design of the study in this thesis. Further, the critics of case studies will be described in order to overcome the risks related to making this type of study.
2.3 Research design

Research starts according to Merriam (1994) with a problem or a question, which scientists solve by doing research. To investigate or research something, a research design is needed. Finding the way from the research question to the solutions or answers is done with the help of a research design.

2.3.1 Case study research

In order to collect relevant data, defining questions and to find conclusions it is important to generate a logical framework, and that requires a suitable case study design (Yin, 2003). The design is a logical frame that connects the empirical data to the study’s research questions and to its conclusions. The components of the case study, described by Yin (2003) are; the study’s questions, the propositions, the unit(s) of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings. Merriam (1998) says that the interest is more in the process than in the outcome. Furthermore, it is important to consider that the results from case studies can influence the practice, policy and future research.

Yin (2003), defines four types of case studies; single-case design, multiple-case design, holistic design, and embedded design. This thesis is based on a single holistic case study which will be described in the following section.

2.3.1.1 Single case study design

A crucial decision the researcher must make is whether they require multiple case studies or if a single case study is suitable. According to Yin (2003) the single case study is justified according to the following five factors:

- The case represents a critical test of existing theory
- The case represents a extreme or unique circumstance
- The case shows a representative or typical case
- The case serves a revelatory purpose
- The case serves a longitudinal purpose

A single case study design deals with a logical problem and helps the researcher to remember which questions to study, what data that is relevant, which data to collect and it is used when
analysing the results (Yin, 2003). The reason for choosing a single case study research is because the research question is about trying to understand a specific social phenomenon (Yin, 2003). A social phenomenon can be a person, a company, an occurrence, an institution or a social group, and in this thesis the social phenomenon is the company (Merriam, 1994). In other words, a case is something that exists here and now, where the boundaries are diffuse and it can only be studied in its own context (Gillham, 2000). The purpose of the case study is to get a deeper understanding of a phenomenon, which enables the researcher to keep a holistic view of the subject (Fisher, 2007). As mentioned, a single case study design can take either a holistic or an embedded approach, and this single case study research is holistic, since it only concerns one organisation with no subunits, which determines the choice of the single case study in our context.

Furthermore, Yin (2003) distinguishes three different types of case studies, exploratory, descriptive and explanatory studies. The difference between the three case studies is whether the research question asks who, what, where, how or why. What-questions are exploratory by nature (Yin, 2003) and it can be used for case studies. How and why-questions have a descriptive approach and is often used for case studies, since it is about studying something over time, rather than presence or frequency. However, Yin (2003) states that the three types of case studies are overlapping each other, meaning that it is not necessary to change your research questions just because it begins with the wrong question, as long as the question matches the chosen strategy. This study is a descriptive case study because the research question asks how a Swedish SME is offshoring to China.

2.3.1.2 Critics against case studies

There are some concerns and arguments against using a case study research, and the biggest one is about generalisation (Yin, 2003). In fact, it is not possible to generalise the findings from a case study in the same way as from a statistical point of view of samples or populations. Instead the case study focuses on investigating one single case in depth to get a deeper understanding, which Merriam (1994) argues is the reason for choosing case study research. However, Yin (2003) argues that it is possible to generalise the theories from the results, but not to specify frequencies. Therefore, the aim of this study is not to generalise the results and make them valid also for other organisations, but to look deeper into the case of the company and analyse their outsourcing process.
Another concern that Yin (2003) mentions, is the fact that it takes time to conduct a case study research and that it results in a lot of unreadable documents. This is not the case anymore because it nowadays is possible to make a good case study rather quickly since interviews can be made over the phone or Internet.

The next part is about the data collection process of this thesis and it starts with the principles of data collection which covers three principles about how to ensure the quality of the sources. Then the differences between primary and secondary data will be explained. The part about primary data explains the conducted interviews together with the observations. The secondary data concerns the collected information from documentations and other available secondary sources.

2.4 Data collection

Data collection is about how the data for a study is collected, and Yin (2003) presents three different principles to ensure the quality of the sources. Further, data collection covers primary and secondary data.

2.4.1 Principles of data collection

To ensure that the collected data from the sources are proficient the researcher should follow the next three principles. Additionally, it helps to improve the validity and reliability of the case study (Yin, 2003).

2.4.1.1 Use multiple sources of evidence

It is not recommended to use only one source when conducting a case study. Thus, the first principle is related to the usage of triangulation, which means the usage of multiple sources of data to increase the overall trustworthiness of the study. In the context of the thesis we used multiple sources, which will be described in detail later in the chapter.

2.4.1.2 Creation of a case study database

The second principle deals with the way the collected data is organised and documented. In this thesis the interviews were recorded and written down, word by word. Then a summary
was made and the questions was reorganised in order to structure the data and make it easier for the reader to find the needed material.

2.4.1.3 Maintenance of a chain of evidence

The last principle is related the case study protocol to increase the reliability of the information in the case study. By maintaining a chain of evidence it is possible to move from one part of the case study process to another, with clear cross-referencing to methodological procedures and to the resulting evidence. To ensure the maintenance of a chain of evidence, we established a protocol to track all the gathered data.

2.4.2 Primary data

Primary data is collected by the researchers explicitly for the study at hand. The primary data that will be used in this thesis are interviews and observations which will be described further.

2.4.2.1 Interviews

An interview is between three people; the interviewer, the respondent and the spectator (Jacobsen, 1993). The interviewer is the one asking the questions, the respondent answers them and the spectator takes part of the results afterwards in for instance a report. There are several different types of interviews, but only qualitative interviews will be described further, especially the semi-structured one, since that is the type of interviews used for the study in this thesis. The qualitative interview, according to Kvale (1996, 1): “attempts to understand the world from the subject’s points of view, to unfold the meaning of peoples’ experiences, to uncover their lived world prior to scientific explanations”.

Yin (2003) says that interviews are an important source of information when doing a case study research. Foddy (1993) takes that statement one step further by saying that it is sometimes the only way to collect information about behaviour and experiences, motives, beliefs, values and attitudes of people. The strengths of doing interviews are according to Yin (2003) that they are targeted and insightful. A weakness on the other hand is the risk of both researcher and respondent being biased if the questions are constructed poorly. This might lead to the respondent answering what he thinks the interviewer wants to hear. Another fact is that the respondents might have forgotten some parts or having problems to explain their views (Yin, 2003). Qualitative interviews are according to Kvale (1996) too person-dependent
to be called a scientific method and they are subjective, not objective. However, interviews are used anyway to collect data when doing qualitative research, with the intention to minimise the weaknesses as much as possible, which we also tried to achieve in this study.

An interview is based on a regular conversation but it has a structure and a purpose which distinguishes it from a conversation (Kvale, 1996). The goal with making an interview is to collect data and it is therefore controlled by the interviewer (Lantz, 2007). The interplay between the interviewer and the respondent, the answers, as well as the body language, is the object of interest when conducting an interview. A conversation on the other hand, does not necessarily have to have a purpose and it is controlled and driven by both parties (Lantz, 2007). The interviews conducted for this case study was not as conversations, since we were leading it in the wanted direction; however, the intention was to make it as relaxed as possible for the respondents, which in one way can be seen more as a conversation than an interview.

There are three different forms of interviews; open, semi-structured and structured (Lantz, 2007). In the open interview, the interviewer tries to understand the social reality of the respondent by asking such questions that the respondent can answer freely regarding his or her thoughts, beliefs and experiences (Lantz, 2007). In the structured interview on the other hand, the questions are more direct, often with given alternatives for the respondent to choose between. All the questions are prepared in advance in the direction of finding out quantitative data. The semi-structured interview is the type that was used in this thesis, and according to Fisher (2007) it means that the interviewer has a schedule to follow to remember the main topics, but the respondent can still answer freely like in the open interview. The approach of the semi-structured interview is a mixture between a structured and an open one, and Yin (2003) states that it is like a guided conversation instead of a well-structured interview.

The purpose of the interviews in this study was to find out as much information as possible about the companies, the manufacturing, the products, relationships, suppliers etc. The intention was to make the interviews as relaxed as possible, in order to achieve a deeper understanding of the discussed topics and the companies’ situations. Therefore, the interviews with Åkerströms were conducted at the company in Björbo, in available offices, to make it more comfortable for the respondents. We had three days to make the interviews which meant that the respondents had plenty of time to answer our questions. All in all we made six
interviews with different people at Åkerströms, spread over these three days. The interview with Startup was made over Skype because it was not possible for us to visit the company.

Since the interviews were semi-structured, they were open, but we still had an interview guide in order for us to not forget important areas. The interviews were recorded to increase the validity of the study, and afterwards we transcribed them to be able to analyse the data.

An interview guide is a good tool for the interviewer to be able to keep focus on the right things during the interview and to remember the beforehand decided questions (Kvale, 1996). The interview guide for semi-structured interviews includes the outline of the topics and some suggested questions. It is also a help for the interviewer to ask all the different respondents more or less the same questions (Jacobsen, 1993). Our interview guide consisted of a few different areas and some broad questions that were beforehand decided in order to get the right information out of each interview. Our somewhat extended interview guide can be found in the appendix in the back of the thesis.

Before going out conducting the interviews it is important to do a literature study about the topics. This enables the interviewer to ask about the right things and to avoid unnecessary questions during the interview (Lantz, 2007). We conducted a literature study in the fields of outsourcing, strategy, companies’ resources and capabilities, relationships, and purchasing.

Kvale (1996) describes seven steps of an interview investigation;

1) Thematising – is about answering the questions what, why and how? What, is about defining the topic and preparing by reading and making a literature study of the topic. Why, is the purpose of the study, and thereby also the purpose of the interviews. The how question is related to the next step, designing.

2) Designing – is the planning of the interviews, including all the following steps. It includes interview types, number of interviews and the resources available for conducting the study.

3) Interviewing – is the actual interviewing with the help of an interview guide.

4) Transcribing – means writing down what was said during the interview and preparing the interview material to be analysed.
5) Analysing – here it is decided which methods for analysing the material that are appropriate.

6) Verifying – is about how valid and reliable the findings from the interviews are, and also if it is possible to generalise the results.

7) Reporting – is writing the results of the study down in a readable and scientific way, considering the ethical aspects of the investigation.

These seven steps shortly describe how an interview is to be conducted and how the results should be handled, and we used them to organise the process of conducting the interviews of this study.

When looking deeper into the actual interview, Kvale (1996) says that it is important to start with a briefing and to end the interview with a debriefing. The briefing is made to explain the subject, the purpose, and some practical things to make the respondent feel more confident and comfortable to answer the questions. The briefing started with us introducing ourselves, telling about our school and the program we are attending, and we also told the respondents about the thesis. Finally we told them what the interview would contain, before the actual interview started.

During the interview it is crucial how the questions are asked. Even though the reason for asking a question is to find out why, it is better to ask how, in order not to create defensiveness of the respondent (Yin, 2003). Leading questions, as well as yes or no questions, should be avoided in order to increase the reliability of the study (Kvale, 1996). We took these issues into consideration, and avoided them, which then increased the reliability of our study.

When asking open questions the respondents are allowed to answer in their own words, compared to closed questions where the respondents are answering in the same way. The closed questions makes it possible to compare the answers (Foddy, 1993), but since it is not the intention of this study we asked only open questions. It is important to separate the questions and make sure that only one question is asked at the time. If you ask two questions at the same time, the respondent tend to answer only the last one instead of both (Jacobsen, 1993).
The debriefing ends the interview, by for instance explaining how the answers will be used and how they, if needed, will handle follow-up questions (Kvale, 1996). When all the interviews have been conducted, the interviewer has to transcribe the interviews. That is, to get the recorded interviews on paper to be able to analyse them (Kvale, 1996). We ended our interviews with the debriefing by explaining what the next step of our thesis, with the answers, would be. Additionally we always received their business cards with all the necessary contact information if some follow-up questions would be needed.

2.4.2.2 Observations

There are two different types of observations that can be used in a case study research; participant observation and direct observation, either exclusively or in combination (Yin, 2003). Participant observation is when the researcher for instance follows a person around in a shop to observe his/her shopping behaviour. This kind of observation has the risk of bias since the researcher is active in the situation that is being observed. Direct observation on the other hand can be done without the person being observed knows about it, for instance through surveillance cameras. In this study we visited the factory and walked around there to look at the production, and we asked them some questions, which mean that we did a combination of participant and direct observation. Further, we observed less formal things during the interviews, making it possible for us to analyse the status of the person inside the company, by looking at the environment in the offices etc., which is also called direct observations (Yin, 2003).

In the next section the secondary data will be described further, compared with the primary data, and in the end documentations will be discussed in combination with our research.

2.4.3 Secondary data

The secondary data is when using already existing data, such as books, articles, internet sources etc. The use of secondary data is in many cases good since it is not that time-consuming and expensive as primary data. In this thesis we have used observations, books, academic articles and material from the case company as our secondary data.

One thing that is important to remember about secondary data is the fact that it is not created for the specific topic or problem at hand. However, we used reliable sources to try to overcome this risk.
2.4.3.1 Documentations

Documents are secondary data from the company, such as annual reports, articles about the company and its competitors, etc (Yin, 2003). The researchers have to be careful when using documentations since they are often biased by the company. Documentations are good to use when needing additional information about the company, and to make sure the information you already have is correct. If contradictory information appears it is necessary to ask the company again, and not to rely on the documentations (Yin, 2003). The usage of documents in this thesis was through an annual report, product-brochures and a power-point-presentation from the company. No contradictory information was found in the documentations received.

In the next part the issues of research quality will be discussed, starting with construct validity, moving on to internal and external validity. This part ends by explaining the issue of reliability. These issues are important to consider when conducting research in order to reach trust from the reader.

2.5 Research quality

To evaluate if the study results show the reality or not, researchers apply specific measurements to deal with that issue. Therefore it is necessary to consider methods in the study to create trustworthiness by the reader. The general measurements used in that context are validity and reliability, which will be described in the following part (Yin, 2003).

2.5.1 Validity

Validity is about the adaption and translation of theory into the reality, as well as a valid study provides a clear picture of the studied phenomena. Yin (2003) developed three different forms of validity with different countermeasures, which are construct validity, internal and external validity.

2.5.1.1 Construct validity

To meet construct validity, Yin (2003) explained two important steps which should be used by the researchers. First, it is important to select the specific types of changes that are to be studied (and relate them to the original objectives of the study) and demonstrate that the
selected measures of these changes do indeed reflect the specific types of change that have been selected. Possible case study tactics are to use multiple sources of evidence, establish a chain of evidence and have key informants review draft case study reports (Yin, 2003). To meet the requirements from construct validity in this thesis, we used multiple sources of evidence and the managers of the companies read the written texts about them to confirm that the information was correct. Furthermore, the basis of this thesis is on four main pillars; outsourcing, purchasing, offshoring and relationships. Related to these pillars, suitable existing and approved theoretical models were used as frameworks of how we collected the data.

2.5.1.2 Internal Validity

As internal validity is related to the matching and congruence of the findings to reality, the higher the internal validity the more strategically important conclusions and recommendations of the study can be made for the case company. Because data is not interpreting the studied phenomenon itself, the researchers are responsible to do that. As suggested by Merriam (1998) there are different strategies to improve the internal validity. For instance the researcher should use triangulation, which is when multiple sources of data are used, repetition of observations and the usage of independent researchers. Further the researcher can conduct member checks, which is a going back to the people from which the data was derived and ask them if the results are plausible. To increase internal validity long-term observation or repeated observations can be made to check the gathered data over a time period. By asking the colleagues to comment on the findings the internal validity will be increased, which is defined as peer examination. Finally Merriam (1998) suggests using collaborative modes to conduct research and researches biases to gather other researcher’s assumptions (Merriam, 1998). Yin (2003) put forward four other tactics for ensuring internal validity which are pattern-matching, explanation-building, address rival explanations and use of logic models.

In our thesis we used multiple sources of information data to cope with the issue of internal validity. Moreover triangulation was conducted by asking independent persons the same questions, which can be seen as a repetition. Even though the case study is done during a short time to assure that the gathered data is still relevant we asked the case company over a certain time again, if there are changes in the data. Related to our close contact to the case
company we received trustful data and got confirmation of the gathered data and the resulted interpretations. Summarised the internal validity of the case study can be seen as rather high.

2.5.1.3 External validity

External validity concerns the extent to which the findings of a particular case study can be applied to other situations. Therefore, the higher the external validity, the higher the level of generalisation is (Yin, 2003). Merriam (1998) suggests two relevant strategies for increasing the possibility of generalisation of a single case study. The first strategy is that the researcher provides enough description, because then the reader can decide if the situation is close to their case. Additionally the model category strategy can be used to describe how typical the phenomenon studied is. These methods allow the readers to make relevant comparisons related to their own situation. External validity is hard to achieve since this thesis is a single case study (Merriam, 1998).

The external validity of our case study is rather high, because other Swedish SMEs can apply, to some extent, the theory, empirical data and analysis of the thesis. For other companies the analysis might be of great relevance and helpful to decide whether to outsource or not. Nevertheless, the case is adjusted to the specific case of our company and related to offshoring to China, which must be considered, when using the models. Furthermore, our aim is to describe the conducted research as clearly as possible for the reader to understand the situation and thereby determine if the findings can be used for their specific case or situation.

2.5.2 Reliability

Merriam (1994) says that reliability is about to which extent the findings can be repeated or replicated. In other words, if the study is repeated could the same results be found? Thus, reliability in a research design is based on the presumption that there is a single reality and by studying it again leading to the same results (Merriam, 1994). By conducting a qualitative investigation to meet the reliability might be hard because the respondents in the interviews might be changed over the time. Therefore it is quite hard to come up with the same results in the same research when it is done in different time periods. Further, Yin (2003) says that reliability is used to minimise the errors and biases in a study. It is impossible to reach internal validity without reliability, and stronger internal validity leads to increased reliability, which makes it essential to focus on internal validity. However, according to Merriam (1994)
there are some factors to ensure that the results are reliable, and one of them, is triangulation. When conducting multiple methods of data collection and analysis it strengthens the reliability as well as the internal validity. Another strategy mentioned by Merriam (1994) is investigator position, meaning that the researcher provides a clear explanation of the theory and the assumptions behind the case study, the researcher’s position towards the studied group, the criteria’s of the selected interviewed persons and the social environment from which data was collected. Finally audit trial can be conducted, which means that the researcher explains in detail how the data was collected. In general the goal of reliability is to decrease the risk of making mistakes in the thesis.

In order to meet the reliability in this thesis we used triangulation by sending the case company the data gained from the interviews to make sure that there are no misunderstandings. Further, we forwarded the questions beforehand to our interview partners to be able to think about the answers and prepare themselves. Thus, if the same research would be conducted it might not be with the same results, due to the fact that the respondents might learn more about personal experiences and the case company as well as the whole environment is changing. Nevertheless, through the usage of the suggested methods we expect that the result will be quite similar since the study was conducted with the aim to prevent outside things to disturb during the study.

The next part is about research ethics and that part is finalising the whole methodology chapter. Here we discuss the different aspects to consider when doing research regarding sensitive data and bias.

2.6 Research ethics

According to question of the research ethics we expect that the provided data is true and accurate and assured that this data is used in an appropriate way. Further we did not include any sensitive data in our thesis. To avoid any bias, caused through the close relationship with one of the interviewed persons, we decided that the second person should conduct the interview.
3 Theory

In this chapter the theoretical framework of the study will be presented and described. The chapter is based and structured according to the research questions, starting with describing and defining outsourcing. Furthermore, a discussion about strategic decisions on outsourcing, purchasing and offshoring with the focus on China will follow. The chapter ends with the theoretical explanation of relationships in supplier networks.

3.1 Outsourcing

The first part of the chapter defines and describes outsourcing by presenting different definitions found in the theory.

3.1.1 Definitions of outsourcing

One definition of outsourcing is (Heywood, 2001, 27): “... the transferring of an internal business function or functions, plus any associated assets, to an external supplier or service provider who offers a defined service for a specified period of time, at an agreed but probably qualified price”. In the context of this thesis, the definition of outsourcing is aligned with the definition from McIvor (2005, 7): “Outsourcing involves the sourcing of goods and services previously produced internally within the sourcing organisation from external suppliers”. Outsourcing is often related to the switch of supply of product or service activities to external suppliers. Heywood (2001) says that the external supplier is a specialist which can add more value to the outsourced product than the company can do itself in-house. But outsourcing is often related to other terms; thereby clear definitions are quite seldom found in the literature. For instance, related to outsourcing the term ‘vertical integration’ is used and it is similar to the outsourcing process because it refers to the decision if the activity should be performed internally, or sourced to externals. Additionally, the term ‘make or buy’ is often used in the outsourcing context, which deals with the issue if a component should be manufactured internally or sourced from an external supplier (Arnold, 2000).

During the 1990s, managers realised that in order to stay competitive, non-core functions had to be outsourced to specialists. The idea was not new but it increased in importance during that time. Analysing the history of outsourcing, Edgell, Meister & Stamp (2008) argues that the cost saving aspect was in the early days the most important reason for outsourcing, but
nowadays it is not the real potential of outsourcing. Therefore, the outsourcing decision is not a sole purchasing or financial decision, but often it is based on major strategic issues implying enormous organisational changes. What to outsource is hard to say, but you should keep everything in-house that you can do better than any supplier, and outsource the rest.

Thus, the decision if outsourcing is appropriate for the company is complex and involves various components. The most common way to start outsourcing is with functions that are not so strategically important for the company, and if this succeeds, there is a big chance that more parts with higher strategic importance will be outsourced in the future (Bragg, 2006). In general, the starting point in the outsourcing evaluation process is the analysis of the organisational capabilities, the importance of the activity to competitive advantage, the capability of suppliers to provide the activity, the risks in the supply market, possible workforce resistance and affect on employee moral (McIvor, 2005). After the decision is made, the process continues with the supplier selection, contract negotiation and management of the relationship to ensure the success of outsourcing (Bragg, 2006). The major benefits and threats, caused through outsourcing, will be illustrated in the next part.

3.1.2 Potential benefits of outsourcing

The top reason of outsourcing is the improvements of the company performance, the access to world-class capabilities, accelerate benefits from reengineering, sharing risks, flexibility and free resources for other purposes (Deavers, 2005). Related to further research these are not the most important incentives, therefore the benefits are grouped as followed.

3.1.2.1 Cost reduction

According to Bragg (2006) there are several different reasons for companies’ managers to consider outsourcing one function of their company to externals, such as the cost saving aspect. Regarding that aspect, Bragg (2006) argues that it is not always possible to reduce your cost only by outsourcing; it also depends on the supplier. If the supplier can buy large quantities of materials, or if it can employ people in low-wage areas for instance, then the costs can be reduced for the outsourcing company (Bragg, 2006). The major strategic issue while conducting outsourcing is to reduce costs mainly on a short-term scale. Through sourcing from external suppliers, the company can use their economies of scale, experiences or location benefits (Sislian, 2000). Manufacturing costs can be reduced, as well as
investments into plant and equipment. The reduced investment leads to lower break-even points caused through lower fixed costs and therefore, outsourcing presents an attractive way to improve a firm’s financial performance, especially in the short run (Bettis, 1992; Gilley, 2000). Furthermore, the supplier’s investment and development costs in addition to related risks are shared among a larger number of customers, which leads to reductions of cost (Sislian, 2000).

### 3.1.2.2 Core competencies

Overall, it is good to outsource the manufacturing function to an external supplier, if they are better producers, and maybe also faster and cheaper (Bragg, 2006). Because outsourcing noncore activities enables the firm to increase managerial attention and resource allocation to those tasks that they do best, and to rely on externals regarding activities where they have disadvantages (Gilley, 2000). Through outsourcing activities to external suppliers, the company can focus on core competencies in order to achieve competitive advantage. The core competencies of a firm are what they do better than their competitors, and it is the basis for the competitive advantage (Prahalad & Hamel, 1990). The establishment of extensive networks of product- and service-providers creates better performance within the entire network through the expertise in the specific field. Especially in the manufacturing context, one major source of competitive advantage is often the integration of external partners among the value chain, instead of producing and assembling everything internally. Another potential benefit is that specialist suppliers can achieve higher levels of performance in certain activities; compared to if the outsourcing company would conduct the task in-house. But the better performance is not mainly based on reduced costs but more on the higher level of service quality provided by the supplier. Thus, the performance improvement of some activities is one major strategic reason considering outsourcing. In order to gain this benefit, the outsourcing company must implement an effective measurement system to evaluate the performance of the suppliers (McIvor, 2005).

### 3.1.2.3 Flexibility

According to the rapid changes in technology, reduced time-to-market and increased sophisticated consumers, it is getting more difficult to control and manage all activities that create competitive advantage internally (Bryce, 1998). Outsourcing can enhance the
organisation’s flexibility, especially when their activities are in the field of rapidly new developing technologies or fashion goods, because specialist suppliers can provide innovative new technologies or products. In former times companies tended to conduct and control the majority of activities internally in order to avoid any short-runs affecting the production. Nevertheless, in many cases that strategy was creating a higher number of inflexibility within the company, as well as increasing the number of risks instead of ensuring the availability of the activities (McIvor, 2005). Thus, companies can switch suppliers when conducting outsourcing allowing them to react to changes in the environment (Gilley, 2000).

3.1.2.4 Access to innovation

To create competitive advantage, companies must ensure that they are able to come up with innovations. Many organisations fear that they might lose their ability to create innovations through outsourcing. Nevertheless, through the leverage of supplier capabilities into organisations’ products and services, outsourcing presents more opportunities than threats (McIvor, 2005). Outsourcing provides the company with access to world leading expertise, which is according to Bryce (1998) not available internally. Hence, the company can exploit the supplier’s innovation, specialist capabilities and the full investment companies can enhance their own performance without huge investments (Baden-Fuller, Targett & Hunt, 2000).

3.1.3 Potential disadvantages of outsourcing

In this part, the potential disadvantages of outsourcing will be presented. They are grouped into; supplier change, market change and competitor access.

3.1.3.1 Supplier change

As mentioned before, many organisations pursue outsourcing in order to decrease their costs. But often this goal cannot be achieved; moreover the costs even increase due to underestimating several factors involved in the outsourcing process. Especially the future costs of managing the process are often neglected. To ensure successful outsourcing, management resources and time must be invested to follow up the relationship with the suppliers (McIvor, 2005). There are certain risks associated with outsourcing. It can for instance be changed conditions of the supplier in the future, supplier failure, loss of
One of the biggest and mostly debated reasons for outsourcing manufacturing is to take advantage of the current low-wage rates in some parts of the world, such as emerging countries like China and Mexico (Bragg, 2006). This also leads to problems and risks since those markets are far away from the place where the products should be delivered to and consumed. Though, it is becoming more and more common to have different suppliers at different locations assembling the products, instead of letting one supplier do it all. This makes it possible to offer the end-customer a bigger variety of products since the supplier do not have to be that specialised if they only make parts of the products, and not the whole ones. However, a disadvantage is that the suppliers do not assemble the products in a proper way since they do not know the product, leading to end-customer complaints (Bragg, 2006).

### 3.1.3.2 Market change

Today the markets are rapidly changing, especially in the information technology field. Thus, it is difficult to predict what are core and peripheral competences in the company or which will be in a few years. Furthermore, it should be considered that even if it seems that the activity is not that important for the company’s competitive advantage, there might be implicit or tacit interdependencies with core competencies. Therefore it is essential to coordinate and integrate the activities with each other to avoid this mistake. Through the underestimation of that process, the entire company performance will be negatively influenced (Bryce, 1998). Since there are several risks involved with outsourcing, the signing of contracts gets even more important (Edgell, Meister & Stamp, 2008). Another factor to take into consideration is to where you should outsource, and Edgell, Meister & Stamp (2008) says that outsourcing towards China will continue to grow, even though it is not as cheap as it was before. It is still clear cost advantages, but the costs are rising, mainly on the east coast of China and in the bigger cities.

### 3.1.3.3 Competitor access

By outsourcing, the company supports the supplier to expand their capabilities and technological know-how. Nevertheless, this benefit for the supplier can be indirectly used to offer better technologies or prices to their competitors (Bryce, 1998).
The next part is about the strategic decisions which parts to outsource. Therefore a theoretical investigation into the business strategy, perceived customer value, resources and capabilities and competitive advantage is conducted. The findings will be combined with the outsourcing strategies, leading to the outsourcing decision model.

3.1.4 Strategic decisions on outsourcing

In order to understand the strategic impact of outsourcing it is necessary to analyse and identify the company's business strategy, which is conducted by analysing the resources, capabilities and competitive advantages.

3.1.4.1 Business strategy

Stated by Grant (2008), the business strategy determines how the firm is going to deploy its resources within its environment to satisfy its long-term goals, and how to organise itself to implement that strategy (Grant, 2008). In other words, the business strategy is the plan that integrates an organisation’s major goals, policies and actions into a cohesive whole. A well-formulated strategy helps to allocate an organisation’s resources into a unique posture based on its internal competencies, which is anticipated to changes in the environment (Quinn, 1995). Therefore the aim of the business strategy is to determine how the organisation should deploy its resources and set its organisational structures and management systems to satisfy its long-term goals (Grant, 2008).

The strategy model includes two main pillars; the analysis of the firm and the industrial environment. By analysing the firm their goals and values, resources and capabilities and structure and systems are defined. Because the firm is a complex institution itself, thus for the analytic approach it is useful to divide the corporation into these three key characteristics. The external environment of the firms includes all influences which affect the firm’s performance and decisions. That analysis consists of the competitors, customers and supplier observation. All this components are affecting and forming the business strategy of the organisation. Nevertheless, within the scope of this thesis it is not possible to analyse each component of the company strategy. Due to the context of outsourcing, the focus is on the following parts of the strategic analysis; perceived customer value, resources and capabilities and competitive advantage.
3.1.4.2 Perceived customer value

Stated by Andersson, Jain & Chintagunta (1993) value in business markets is the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product, taking into consideration the available suppliers' offerings and prices (Anderson, Jain & Chintagunta, 1993). In other words, the perceived customer value is the buyer’s perceptions of the change between the quality and benefits they will perceive in the product relative to the sacrifice of paying the product price (Monroe, 1990). Furthermore, the customer perceived value can be related either to a single purchase of a good or a service, or to a relationship between a supplier and a customer, or even to a network of such relationships (Lapierre, 1997).

3.1.4.3 Competitive advantage

Competitive advantage is gained when the offer of a company creates more value for its customers compared to their competitors. In the literature there are two different ways of how competitive advantage can be achieved. The company can offer the products on a lower price level, reached through lower production costs, procurement, distribution and allied costs, which is defined as cost advantage. Therefore, when a company pursues cost advantage, their focus will be to increase efficiency within their company to lower the prices. The second type of competitive advantage is the differentiation advantage, which is reached through the fact that customers perceive a difference between the offered products compared to the competitors (Kaleka, 2002). The differentiation advantage is grouped into product and service advantage. The product advantage is related to the perceived customer value of the product quality and innovation. To achieve this advantage, the company needs innovations and improvements across different parts of the value chain (Grant, 2008). The service advantage on the other hand, describes the customer awareness of the firm’s service responsiveness and requirements. Due to the increased competition in the business environment, a company should strive to achieve both competitive advantages. Nevertheless, the achievement of competitive advantages is based on the company’s resources and capabilities (Kaleka, 2002). Another question is how sustainable that advantage is, which depends on the durability of the resources and capabilities, the transferability and if it is possible for competitors to imitate them (Grant, 2008).
3.1.4.4 Resources and capabilities

The strategy deals with the matching of a company’s resources and capabilities to the opportunities which are arising from the external environment. Therefore it is essential to analyse the resources and capabilities of the company. Nowadays, the resources and capabilities become more important as a strategic basis since the external industrial environment has become more unstable, and the competitive advantage became the major source of profitability. As mentioned before, the firm’s potential for establishing competitive advantage is based on the assessment of its resources and capabilities (Grant, 2008).

Resources

Resources can be described as the assets of a company that are used as inputs to organisational processes (Kaleka, 2002). The resources are classified into three major groups which are tangible, intangible and human resources. The tangible are financial resources and physical assets, which are the easiest ones to describe compared to the other groups. The goal when analysing them is not primarily to calculate the value of a company’s assets, it is more to determine how much value they can create for the company. The second group are the intangible resources such as technology, reputation and culture. Additionally, in many companies these resources are more valuable than the tangible resources. For instance the brand reputation creates confidence from the customers (Grant, 2008).

The last group, the human resources, are really difficult and complex to define because they are the expertise and effort offered by the employees. Companies are continually putting efforts in enhancing the motivation, qualification, learning capacity and attitudes related to organisational culture of their human resources. The importance of the human resources is determined through many experts like Barney (1991), who stated that the organisational culture is one of the most important valuable strategic resources. In order to create competitive advantage, a resource must meet the following criteria’s; value, rarity, imitability and organisation. Barney (1991) writes that resources and capabilities are valuable if they allow the company to exploit opportunities and counter threats in their business environment. Linked to the rarity which means how many competitors possess a valuable resource, the resource imitability deals how easily competitors can replicate a valuable and rare resource. Thus, it is strongly linked how sustainable a resource is. To exploit its resources and capabilities an organisation needs a clear structure, management control system and
compensation policies which is meant with organisation (Barney, 1991). Further, it is necessary to look inside the organisational capabilities, because resources are not productive on their own.

**Organisational capabilities**

Defined by Grant (2008, 135), organisation capability is a “firm’s capacity to deploy resources for a desired end result”. In order to perform a task a team of resources must work together, but as mentioned before resources on their own are not productive. Therefore, the company must as well possess the needed capabilities. The main focus is set on those capabilities that are the basis for the competitive advantage. The core capabilities make a fundamental contribution to a firm’s strategy and performance. That is because they enhance customer value or efficiency with which that value is delivered or it provides a basis for entering new markets (Grant, 2008). Krüger & Homp (1997) stated that core competencies combine three elements. First of all, from the view of the customer their characteristics differentiate the company from its competitors. The resources and know-how for the product must be unique over time. Hence, it must be protected against imitation by competitors and the resources should be usable for multiple purposes (Krüger & Homp, 1997). Some capabilities are institutionalised, meaning that through the continuously repetition they are becoming routines in the company. Oppositely to distinctive capabilities where a company does a particular activity very well compared to the competitors, in order to achieve competitive advantage. To identify organisational capabilities the value chain from Porter (1985) is used.

The value chain shows total value and consists of value activities and margin. The valuable activities can be described as physically and technologically distinct activities which an organisation performs. Further, these are the pillars by which a firm creates a product valuable to its customers. Porter (1985) distinguishes between primary and support activities. The primary activities are involved in the physical creation of the products and its sale and transfer to the customer, including the after-sales service. The primary activities are divided into five categories (Mintzberg, 1995);

- Inbound logistics (purchasing, inventory holding and material handling)
- Operations (production activities)
- Outbound logistics (warehousing and physical distribution)
- Marketing and sales
- Service (dealer support and customer service)

The support activities are providing purchased inputs, technology, human resources and various organisational functions in order to support the primary activities. The last component, the margin, is the difference between the total value and the cost of performing the valuable activity (Mintzberg 1995).

After the definition of the capabilities, the importance or strengths of the capabilities are examined. The importance of the capability is related to the company’s competitive advantage, so either the activity is not important or critically for their competitive position. The second criterion, which is used to evaluate the organisational capabilities, is the relative strength of the company which can be deficient, parity or superior. Due to the two criteria’s, four scenarios are created. The first one is that the capability is not important for the competitiveness and the company, and it is done deficiently by the company, defined as inconsequential weaknesses in the graph. The second possibility is that the organisational capability is deficient but critical important for the competitiveness, which is labelled as key weaknesses, which presents the worst case for the company. Oppositely, if the organisational capability is superior and critically important it can be defined as key strengths of the company, which is then the best situation for the organisation. The last possibility is that it is not that important for the company but the activity is still superior defined as superfluous strengths (Grant, 2008). The four scenarios are depicted in figure 3.1.
After the explanation of the needed corporate information to take an appropriate strategic outsourcing decision, the next step is to put this information into an adequate decision model.

### 3.1.5 Outsourcing decision model

The developed outsourcing decision model (figure 3.2) is based on the resource-based and core capabilities view, because the resource-based view (RBV) is the utilisation of firm-controlled capabilities and resources (Kaleka, 2002). The RBV is important to study outsourcing as superior performance achieved in organisational activities relative to competitors, would explain why such activities are performed internally. Thus, it is necessary to figure out what the resources of the company are and where the weaknesses and strengths are, to take the right outsourcing decision (Peteraf, 1993). Thus, the outsourcing decision model starts with the analysis of the capabilities, which is done with the model from Grant (2008). The capabilities are analysed and evaluated according to their competitive advantage’s impact, and the company’s capability, to figure out which sourcing strategy should be conducted. There are four different options of sourcing as illustrated in figure 3.2. In the first quadrant the critical processes are included, where competitors or suppliers are
more capable than internally within the sourcing organisation. In that case, the company has to decide how performance of that activity can be improved either by investing to perform internally or through outsourcing. By performing internally the aim is to close the gap between the more competent external providers and the disparity of the company. If the company realise that the advantage of external suppliers is too difficult to reach internally, the most appropriate strategy is to outsource that activity. More, the organisation might consider outsourcing activities in order to focus on resources and capabilities that promised to be a source of competitive advantage in the future.

The second quadrant describes processes that are critical to competitive advantage in which the sourcing organisation has a strong performance position. If the sourcing company has built up a superior performance advantage over time, it will be difficult for external sources to replicate that capability. Therefore, keeping the activity in-house is the most appropriate sourcing strategy in that case, but the company has to continue investing in that activity to maintain their position. The best would be if the company has superior activities in many areas. Nevertheless, it is only possible to be superior in a limited number of activities due to restricted resources required to maintain the position. As a result, the organisation may realise that they might not be able to keep that superior performance in this activity in the future, and decides to outsource that activity to the most competent external sources.

The activities, which are not critical to competitive advantage and where competitors are more capable than the sourcing company, are described in quadrant three. Potential ways of solving this problem is to outsource. But if there are only a limited number of capable suppliers in the supply market, the organisation might consider continuing to perform the activity internally.

The last quadrant includes the activities which are not essential for the competitive advantage but the company are still doing it better than its suppliers and competitors. The organisation should consider outsourcing these activities to focus their resources on building capabilities in activities that are more critical for them (McIvor, 2008). After applying the sourcing model, the next step is to think about all the possible advantages and disadvantages occurred by outsourcing the activity. Finally, the decision will be made what is the most appropriate activity to outsource from a strategic point of view. The outsourcing decision model is depicted below in figure 3.2.
Figure 3.2 The outsourcing decision model (Source: own)
In the outsourcing decision model only a narrow analysis of the suppliers’ capabilities is conducted. But further, it is vital for the outsourcing process how to select and cooperate with the right supplier. In that context, all the relevant suppliers’ aspects, such as the way of purchasing, the integration, the relationship and the communication have to be considered in order to select the right supplier. Therefore, the next part goes deeper into the purchasing theory in order to include all aspects which might affect the supplier selection and maintenance.

3.2 Purchasing

In this part the purchasing definition and the purchasing strategy are explained, followed by the description of the supplier relationships, integration, supplier relationship management, and communication. This part ends with a supplier selection model.

3.2.1 Purchasing definition

Purchasing can be described as obtaining the product at the right cost, in the right quantity with the right quality and at the right time from the source. Therefore, it is of high importance to choose the right supplier in order to be able to fulfil these requirements (Sarkis & Talluri, 2002). The purchasing function of a company is a very important function, but it does not always get the attention it deserves even though it is an essential part of a company’s costs (Gadde & Håkansson, 1993). The authors present a study from 1989 of 123 Swedish small and medium-sized companies, which showed that already then, almost in half of the companies’ purchasing accounted for 40-60% of the total turnover. Even though the study is old, it is evident how important the purchasing activity is for companies, and it is interesting to see that they already saw in the 1980s that it will increase in importance for companies (Gadde & Håkansson, 1993). Further, in the next part, the purchasing strategy will be described with the differences between single and multiple sourcing.

3.2.2 Purchasing strategy

Regarding the organisational structure of the firm, Gadde & Håkansson (1993) differs between centralised and decentralised purchasing activities. The centralised purchasing means that everything is at the same place, making it easier to allocate the resources. Though it can
be hard to manage the communication internally, and as a result, the different departments of the company are not working together, but rather against each other. However, this can be solved through making the purchasing as a specialisation inside the company. Then it gets some status since when centralised, purchasing becomes an essential part of the firm (Gadde & Håkansson, 1993). The work is most often divided up between the different product types, for instance it can be divided into a components group, a group for general material and one for investment products. This leads to a sense of responsibility since every group is in charge of a product.

Decentralised purchasing activities, on the other hand, do not see purchasing as a specialist function. Instead it is considered in a larger context, integrated in all the parts of the firm, making it impossible to separate it (Gadde & Håkansson, 1993). However, usually there are selected employees responsible for purchasing activities. But since purchasing is not their only task, they are not specialists in the field, leading to unprofessional purchases. To decide whether to have a centralised or decentralised structure of purchasing is not always easy to make, but Gadde & Håkansson (1993) argues that if the structure of the company is decentralised, it is not possible to centralise the purchasing unit.

In that context, it is also necessary to look into single versus multiple sourcing. Single sourcing is when only one supplier is used for each product, whereas multiple sourcing is when a company is buying from several different suppliers for a product at the same time (Mattsson, 2002). Multiple sourcing has for a long time been the most used strategy, and the reason for using it is to set the suppliers in competition with each other. This leads to lower prices and better conditions for the customer in the end, and some of the risks involved with sourcing are reduced. For instance if one supplier fails in delivering on time, another supplier can easily be used instead. Multiple sourcing is most common regarding standardised products that are easy available on the market.

However, Mattsson (2002) claims that single sourcing is becoming more and more common, even for standardised products, since companies are striving for a long-term relationship with their suppliers, which is not possible when using multiple sourcing. The lower price for components when using multiple sourcing is not worth the troubles when managing many loose relationships. Multiple sourcing can also lead to competition between the involved parties and it affects the relationship in a negative sense. Single sourcing can on the other
hand lead to an integration of the supplier and the customer’s businesses, leading to less administrative work and easier communication (Mattsson, 2002). Sometimes the price when using single sourcing can be lower than with multiple sourcing, because the supplier can produce bigger quantities when the customer only uses one supplier, and more time and effort is spent on product development.

There are four other forms of sourcing which Mattsson (2002) mentions in his book; sole, single group, dual and hybrid sourcing. Sole sourcing is like single sourcing, but there is only one supplier for that product on the market, because the competitors of the supplier have for some reason disappeared. Sole sourcing has the same advantages and disadvantages as single sourcing, but the customer is thereby more dependent on the supplier than in single sourcing.

Single group sourcing is also a type of single sourcing, but here the customer acquires a whole group of products from a single supplier. According to Mattsson (2002) this is for instance when all products consisting of one raw material are purchased from a single supplier. The customer can demand better conditions, even though it is dependent on the supplier, because it becomes such a big customer.

Dual sourcing is a special case of multiple sourcing, which according to Mattsson (2002) is when a company uses two suppliers parallel for one product. Then one of the two can be appointed primary supplier, and the other becomes secondary supplier, making a type of competition between the two regarding price and other conditions (Mattsson, 2002). The last version is hybrid sourcing, which is a combination of single and multiple sourcing. The customer uses multiple sourcing on product groups and single sourcing for individual products within the groups (Mattsson, 2002). Also hybrid sourcing has similar advantages and disadvantages with single sourcing. This part of the chapter moves on to supplier integration, which is related to the supply chain management.

3.2.3 Supplier integration
The suppliers are integrated into the company’s supply chain. Every company has relationships with externals, such as suppliers, customers, distributors, etc, and these chains of relationships are often referred to as supply chains (Mattsson, 2002). Lambert (2004) states that supply chain management (SCM) requires cross-functional integration of the key business processes across the network of firms, challenging to determine the successful
accomplishment of this integration. The term SCM is rather new, and came in the 1980’s as a way to explain the logistics management in a broader sense (Mattsson, 2002). The official definition of SCM founded by ‘The Global Supply Chain Forum’ members is, “[…] the integration of key business processes from end user through original suppliers that provides products, services, and information that add value for customers and other stakeholders“(Lambert, 2004, 2). A company’s supply chain is an integral part of its approach to the markets it serves. The supply chain needs to respond to market requirements and do so in a way that supports the company’s business strategy. The business strategy a company employs starts with the needs of the customers that the company serves or will serve. Depending on the needs of its customers, a company’s supply chain must deliver the appropriate mix of responsiveness and efficiency. A company whose supply chain allows it to more efficiently meet the needs of its customers will gain market share at the expense of other companies in that market and also will be more profitable. SCM is considered to be a holistic concept since it focuses on the end-customer as well as the whole process before that (Håkansson & Persson, 2004).

The supply chain network structure, the supply chain business processes, and the supply chain management components are the three inter-related elements of the SCM framework. The supply chain network structure clarifies who are the key supply chain members with whom to link processes, where the suppliers are a major group. In general a supply chain is composed of a company, the suppliers and customers of that company. This is the basic group of participants that creates a simple supply chain. The illustration of the supplier networks will be explained later in the network relationship part of the thesis. In the next part, the supplier relationship management is also embedded within supply chain management.

3.2.4 Supplier relationship management

The supply chain management processes clarifies which processes that should be linked to each of the key members in the supply chain. According to ‘The Global Supply Chain forum’ the supplier relationship management is one of the chain management processes. Customer relationship management describes how the relationships with customers will be developed and maintained (Lambert, 2004). The relationship between customer and supplier is regarded to be a partnership, which in later times has a more long-term focus (Mattsson, 2002). This leads to a win-win-situation for both customer and supplier, and they try to increase the value
for each other, compared to former times when it was more about lowering prices and having as many suppliers as possible. Mattsson (2002) argues that a more close relationship with your supplier will shorten the delivery-times and secure the profit. The main disadvantage with such relationships is the risk of being too dependent on the supplier/customer, leading to bad consequences for either part if the relationship ends. The different characteristics are summarised in table 3.1.

Table 3.1 Strategies for parts in a customer-supplier relationship with partnership characteristics (Mattsson, 2002, 108)

When having a partnership relationship there is a kind of power balance that is needed to take into consideration. According to Mattsson (2002) it is about the contents and the time aspect of the contract in such a relationship, which tends to favour the stronger part in the relationship. The factors influencing this power balance can be summarised as in table 3.2.

Table 3.2 Factors influencing the power balance between the customer and the supplier (Mattsson, 2002, 110)

When having this type of customer-supplier relationship there is mutual risk-taking since the parties are included and influencing in each other’s businesses. The information-flow in this relationship is two-way with a more extensive exchange of products and services than in
short-term relationships (Mattsson, 2002). According to the information-flow the next part presents a deeper explanation of the communication channels towards the suppliers.

3.2.5 Supplier communication

The information flow in SCM was earlier regarded as one-way communication, which in turn results in flows of material and payment (Mattsson, 2002). However, it is nowadays more a question of two-way communication between the customer and supplier in order to keep the delivery times down. The supplier needs information about the demand and the customer needs information about the supply, as shown in figure 3.3. The mentioned information about the demand is mostly information like predictions, demand-history and customer orders (Mattsson, 2002). Demand management is the process where the customers’ requirements with the capabilities of the supply chain are weighted. This includes forecasting demand and synchronising it with production, procurement, and distribution capabilities. An important component of demand management is finding ways to reduce demand variability and improve operational flexibility. The management needs to select the appropriate forecasting approaches and according to that, determine the levels and time frames of the forecasts through the firm, as well as indentifying the data sources and finally each forecasting procedure for each forecast. Different parts of the firm might need different levels of forecast. One important strategic point is that forecasts are made collectively by a team of managers. Although there might be several forecasts used in the firm they have to be consistent, because if each function develops their own forecasts independently, the firm will lose control over the forecasting process. The followed step is to determine the sources of the data required to generate each forecast. Once the team has an understanding of what type of forecast is needed, and what data are available, they can select a forecasting method and define a process to follow for each required forecast.

After the appropriate forecasting approach is determined, the team selects the specific forecasting method. It is important for the team to understand the nature of the demand because if the demand is seasonal, they will select a method that incorporates seasonality. Afterwards the management have to plan the information flow, that defines how the input data will be transferred, and what output needs to be communicated to whom. They need to identify what data will be shared with other members of the supply chain. Next, the team figures out the synchronisation procedures required to match the demand forecast to the
supply chain’s manufacturing, supply and logistics capabilities (Lambert, 2004). The supply information is used by the customer to plan their activities and in turn serve their customers (the end-customer) such as purchase orders and delivery announcements. Other types of flows are invoices and reminders of the same. Further, by establishing a close and long-term relationship between the participants in the supply chain, the information flow will be easier to handle and the coordination of activities will become clearer (Håkansson & Persson, 2004). Additionally, this will lead to sharing of risks and creation of trust in the supply chain, which also makes the process easier.

![Flow of information about demand](image)

*Figure 3.3 Types of operative flows between customer and suppliers (Mattsson, 2002, 73)*

The next part will present a supplier selection model for companies who outsource, including both an intermediary and the outsourcing company.

### 3.2.6 Supplier selection model when outsourcing

One result of the explained supplier issues is that the supplier selection is one of the most important strategic decisions but at the same time one of the most difficult and critical. This is caused through the increased level of complexity in analysing various supplier performance and relationship factors. Thus, it is necessary to develop criteria’s related to the needs and a general model for selecting the suppliers. Possible criteria’s could be design competency, process capability etc. The models for selecting the right supplier vary from simple scoring methods to complex mathematical calculations (Sarkis & Talluri, 2002). According to the
context, the next model shows the whole outsourcing process including the supplier selection with the help of an intermediary.

Figure 3.4 The outsourcing process model (Source: own)

The first step is to analyse the company’s needs in order to evaluate the supplier capabilities. In that stage, the collaboration with the demand management and consideration of the company’s strategy is of high importance to define clear requirements for the supplier selection. The next step is to analyse the capability of possible suppliers related to the company needs, which is conducted by an intermediary. The intermediary has to think about the supplier’s ability to meet their product and quality standards. By evaluating the supplier, other criteria’s like capacity, lead time, reliability, supplier’s customers and company history
are also considered in the evaluation. Additionally, the values of the supplier should be aligned because negative reputation could have impact on the company’s image.

The next stage presents the cost analysis, which is executed by both parties. The intermediary calculates the different purchasing costs of the suppliers and the company determines afterwards if the outsourcing process is profitable. In that calculation it is important that the provision for the intermediary and the administration costs are considered.

The next step is to think about the possible risks when outsourcing, which is done by the outsourcing company and the intermediary. Especially possible negative effects on the competitive advantage have to be considered, like delays in delivery, quality issues, copying of intelligent property rights or increasing purchasing costs, which are only a few examples of possible threats when outsourcing. In order to deal with threats, an appropriate contract must be set with all involved parties. In that stage it is important to negotiate about the responsibilities, liability of the partners and the companies have to clarify how the communication process will look like. Especially future threats like price rises, or changes of supplier must be already included in the settling of the contract, thus the contract settling presents one of the most important parts.

Finally, the last step is that the intermediary and the company think about the follow up of their relationship and how the supplier maintenance should be handled. After a certain time, the company can evaluate if the outsourcing decision was successful. Furthermore, the analysis helps to determine if it is necessary to make improvements or changes in the outsourcing process. If the company wants to outsource in the future, they can use the evaluation of their experiences to determine the strong and weak points to enhance the success of the outsourcing process. In the next part of the theory chapter, the theory about offshoring to China will be presented.

### 3.3 Offshoring

In this third part of the theory chapter, offshoring will be further described and investigated. Different factors when choosing offshoring country are discussed, as well as the two major groups of risks which are related to offshoring.
3.3.1 Offshoring to China

When a company is outsourcing to a foreign country, it is referred to as offshoring. History shows that manufacturers set up facilities in lower-cost countries, or outsource components or finished products to lower-cost offshore producers, in order to compete on the global market (Kotabe, Mol & Murray, 2008). It is a trend and since the 1990s it has played a major role in the restructuring of companies’ supply chain.

Offshoring is nowadays considered to be an important strategy for companies since it allows to focus more on core competencies (Jain, 2006) and to improve competitiveness (Lau & Zhang, 2006). The companies that offshore are mostly from the Western part of the world, and they are offshoring to countries in the East, such as China, India, Malaysia and Russia. China is the second most popular offshore location after India, according to Jain (2006), and the country’s greatest strengths are its low-cost labour and high-technology manufacturing (Lau & Zhang, 2006). China’s biggest disadvantage is its high political and economical risk (Jain, 2006), which however is being improved upon because of the membership in the World Trade Organisation (WTO) (Lau & Zhang, 2006).

When looking at the factors that determine which country to choose, Farrell (2006) gives six different factors to consider; cost, availability of skills, environment, market potential, risk profile, and quality of infrastructure. By looking at these factors, the whole country or city will be evaluated in terms of number of skilled workers, infrastructure, government, accessibility, GDP, intellectual-property risks, transportation, etc. The number of university graduates in emerging countries is increasing which leads to that their wages will raise in the future, especially in India, to approximately 30% of the wages in the USA. Farrell (2006) presents a study saying that the wages of graduates in China will probably remain the same or below the wages in India until at least 2015 since the supply of engineers is big enough to meet the demand.

By outsourcing production processes and supply chains to an offshore location, companies can lower their costs significantly and thereby also their prices, leading to higher demand for their products as well as attracting new customers (Farrell, 2004). Lau & Zhang (2006) divides the reasons for offshoring decisions into three key factors; economic, strategic and environmental. Under the economic factors they mention cost reduction and cost saving as drivers of outsourcing in order to improve the profitability and cash flow and to add value to
the products. The strategic factors include focus on core competencies in order to achieve competitive advantage, to enhance customer satisfaction, to improve business focus and performance, and to increase competitiveness. Further, the environmental factors include globalisation and capabilities of suppliers in order to gain global competitive advantage and to improve service quality and customer service (Lau & Zhang, 2006). Also Farrell (2004) takes up different cost-saving opportunities linked to offshoring; low-wage labour, using the capital equipment more efficient (by producing 24 hours), and by hiring local engineers for developing for instance new capital equipment. Furthermore, she says globalisation can help companies save up to 70% of their total costs, where 50% out of these comes from offshoring activities.

However, Lau & Zhang (2006) states that there is evidence saying that offshoring does not reduce costs in the way companies think. Other obstacles to offshoring are loss of control, critical skills and flexibility, insufficient capacity of service providers, and fear of job losses. Certain impacts are related to the obstacles such as loss of core competencies, market share and competitive advantage, increased number of competitors, and lower staff moral (Lau & Zhang, 2006).

Aron & Singh (2005) presents three fundamental mistakes that companies commit when considering offshoring to be an easy task. First, the focus is too much on selecting countries, cities, and retailers instead of focusing which processes to offshore, and which they should not. Second, the companies do not consider the risks related to offshoring, and third, they do not realise that offshoring nowadays is not an all-or-nothing decision (Aron & Singh, 2005). The third mistake was the only option in the 1990s; however, today it is possible to enter into joint ventures with companies instead of doing everything alone.

When the company has decided to offshore some of its processes, two major groups of risks occurs; operational and structural. Operational risks concern the risk that processes will not work as good after offshoring as before, and structural risk is about the relationship with the service provider (Aron & Singh, 2005). To overcome and respond to operational risks, companies should use location; onshore, nearshore or offshore. Regarding structural risks they should consider organisational structures, such as captive centres and joint ventures. According to Aron & Singh (2005) a company can offshore processes when both the operational and structural risks of offshoring are low. When they are high, however,
offshoring is not sufficient for the company. If only the operational risk rises, the company shall locate those processes in nearby countries, and when the risk is high, it is better to have it in the same country. If the structural risks rise, joint ventures are to prefer to overcome the risks, and when the structural risks are very high, outsourcing is not feasible. Further, Jain (2006) says that the cultural differences between the concerned countries are important to take into consideration before outsourcing to an offshore location.

The next part is the last one in the theory chapter and it considers the relationships in supplier networks. It starts with supplier networks, followed by relationships, basic rules model, network mapping, network strategy and the characteristics of the Chinese business environment.

### 3.4 Relationships in supplier networks

This fourth part of the theoretical chapter starts with a discussion about supplier networks, followed by relationships with the basic rules model, the network map and the network strategy. Further, this part ends with a discussion of the characteristics of the Chinese business environment.

#### 3.4.1 Supplier networks

The network of a company’s suppliers is very important for the purchases to be made as easy as possible. Networks are not stable or in balance and therefore timing is an important aspect, according to Gadde & Håkansson (1993). Timing means both to push and to be patient, because sometimes others have to adapt and sometimes the company has to react and take actions. All this is related to the relationships inside the networks and everything that happens affects everyone (Gadde & Håkansson, 1993). The relationships will be described further in the next part through its different stages.

#### 3.4.2 Relationships

Relationships are according to Jansson (2007, a) especially important on emerging country markets, such as China, because these markets are uncertain, turbulent and complex. The networks on an emerging country market differ from the networks on the Western markets in terms of culture, organisation and economy. The method of entering an emerging market is
about establishing relationships in networks. It is divided up into five different stages (Jansson, 2007, a):

- The pre-relationship stage
- The early stage
- The development stage
- The long-term stage
- The final stage

In the pre-relationship stage all the introductory work is done to prepare for the networking to start. This also includes evaluating potential customers and organisations, and most of the network mapping is in this stage. The early stage is about getting to know the partners that the company have identified in the first step, and trust and commitment are being established. Next step is the development stage, and according to Jansson (2007, a) it is here the contracts are signed and the relationships changes towards a more deep and broad one. Here it is important to match the new relationship with the existing ones and also to share norms and values to be able to use the same routines and habits.

The long-term stage is when the relationship has stabilised and both parties know and trust each other. The relationship is characterised of more routine since the thought styles are well established between the parties. The main goal when establishing a relationship is to reach this step, otherwise the process stops on earlier stages. However, there is one more stage, which is called the final stage. Now the risk is that the relationships are taken for granted, leading to difficulties to adapt to environmental changes. Then it is important to look for new possibilities for the relationship by for instance connecting existing relationships with each other. Otherwise the relationship has reached its end (Jansson, 2007, a). As mentioned before, it is possible for the relationship to end earlier, because of changed conditions, lack of commitment or resources. The chapter moves on with a discussion about the basic rules model.
3.4.3 Basic rules model

The basic rules model by Jansson (2007, b) is about four basic rules that constitutes the foundation of institutions in a society; thought styles, norms, values and enforcement mechanisms. These four basic rules are about the formal and informal rules of the company’s external and internal environment. The informal rules dimension consists of beliefs, norms and values, and since they are the dimensions of interest, they will be discussed further.

Institutions conclude individuals’ rules to follow, which standardises the behaviour of the participants in the organisation by passing on these rules as well as norms and ways of thinking to them. The basic rules model is built up upon three pillars; cognitive, normative and regulative structures (Jansson, 2007, b). The institutions are being reproduced over and over again through the existence of companies. When the companies move around the globe, so do also the thought styles, norms, values and enforcement mechanisms. The basic rules model is depicted in figure 3.5.

![Diagram of the basic rules model](image-url)

*Figure 3.5 The basic rules model (Jansson, 2007, b, 48)*

The cognitive structure is according to Jansson (2007, b) about the structures of the mind compared to the institutions, whereas the normative and the regulative dimensions are about the structures of the society. The normative and regulative dimensions are an informal rule,
and as mentioned earlier, it consists of norms, values, thought styles and enforcement mechanisms, and as Jansson (2007, b) states: “they are the major rules behind the regular behaviour patterns, and provide behavioural stability through repetition” (Jansson, 2007, b, 46). However, the cognitive structure is also influenced by the social factors of the normative and regulative structures, and all these three factors are dealt with in every organisation, but the interplay between them differs somewhat depending on the organisation. Therefore, the three structures are divided up into the four basic rules, and it looks as follows. The cognitive structure is developed into thought styles, the normative into norms and values, and the regulative into enforcement mechanisms (Jansson, 2007, b).

When entering an emerging country market, the Western company brings its norms, values, thought styles and enforcement mechanisms from home. To make it work on the new market, they might have to adapt and match them with the ones already existing in the country, and by doing an institutional analysis on the external environment, the needed adaptations become clear (Jansson, 2007, b). If there for instance is a mismatch between the institutional factors, it can be analysed by looking at the thought styles of the institution.

When looking further and more specific into the different structures, the cognitive structure is about how the employees think, why they think in the same way and what the results are from thinking in this way (Jansson, 2007, b). This structure also includes how the organisations’ decision-making process looks like and why it looks in that way. In a multinational company with many different cultures represented, this cognitive structure can somewhat differ between the units inside the company.

Moving on to the normative structure, it consists of values and norms. Values are the source of cultures and behaviour, such as business values and common goals among the employees (Jansson, 2007, b). Values are further described as feelings with a plus and a minus pole, like unnatural versus natural, irrational versus rational, or dirty versus clean. Norms can work as guiding principles, how to act and what acceptable behaviour is (Jansson, 2007, b). Norms and values are closely related to each other, they might even be hard to separate.

The regulative structure is about what happens if the normative structure does not work, in other words, if the preferred behaviour is not followed (Jansson, 2007, b). In order to make behaviour work efficiently inside an organisation, it is good to make use of sanctions and
incentives, which are defined as the enforcement mechanisms. These incentives should be given both to the individuals and the organisation (Jansson, 2007, b). To take this one step further, and to be able to see the relationships of the company, the network map will be described in the next part.

3.4.4 Network mapping

A common way to start the networking is by doing a network map to see where to put the focus (Jansson, 2007, a). The main dimensions in a network map are the vertical, the horizontal and the diagonal dimension. The vertical dimension is concerned with customers and suppliers that are included in the value added product chain. The customers are the most important relationship for a company and they are divided up into private and public customers (Jansson, 2007, a). The private customer relationships on emerging country markets are more relaxed by nature then public relationships, since the discussions continue throughout the whole process. The public relationships tend to be more formal. Another way to distinguish the customer networks is between new and established customers. Jansson (2007, a) states that new customers is more profitable than established ones, but the relationships are easier to handle with the latter ones.

The other player on the vertical dimension is the suppliers (Jansson, 2007, a). The relationship with suppliers can be either long-term or short-term, but in emerging country markets they tend to be long-term oriented. It is therefore divided up between domestic and international suppliers, suppliers’ suppliers and so on. With the international suppliers, the signing of contracts is of high importance to be able to conduct the purchase safely for the company. The finding of new suppliers is a time-consuming process and therefore the relationships with the existing ones are maintained even though no business is conducted between them for some time (Jansson 2007, a).

On the horizontal dimension it is about the networks with the company’s competitors (Jansson, 2007, a), and they can be divided up into different clusters. The company can observe its competitors in different ways, for instance through published information, talking to customers or former employees, or visiting fares where competitors are present (Jansson 2007, a).
The diagonal dimension takes up other organisations, such as the government and the financial market network. Looking at the financiers, Jansson (2007, a) states that there is a trend towards having financial networks as a competitive tool. The financiers can be organisations such as banks. One way is to provide its customers with financial support in different projects, especially to private customers. Then a bank is the financier through the company to the customer, which is mostly done internationally. In big projects more than one bank can collaborate in the project with one assigned bank being the lead bank.

The other aspect on the diagonal dimension is the government. The government relationship decreased in importance during the 1990s according to Jansson (2007, a). That is because the rules became clearer, making the whole organisation more transparent in emerging countries.

Figure 3.6 Network map, Jansson (2007, a, 59)

The next part is about the network strategy, which is based on the network map and the relationships within the network.

3.4.5 The network strategy

The network strategy is according to Jansson (2007, a) a way for the company to relate itself to the rest of the market, using the same dimensions as in the network map. It is in fact based on the network mapping, because it includes the same parties on the vertical, horizontal and
diagonal dimension. Two important things that the network strategy takes up is on which parties the focus of the company is, in other words if there is a broad or narrowed approach, and the size of the network.

Further, Jansson (2007, a) states that it is important to make sure that the partners in the network can work together. If not, they can work against instead of supporting each other. Since it is about working on an emerging market, these issues related to relationships are, as mentioned before, even more important. When working together with one supplier, it can also mean that you have to work together with another organisation because it is in the supplier’s network, which is different from operating on the Western market.

To be able to finalise this part of the theory about offshoring and to really relate it to China, the characteristics of the Chinese business environment is needed, and will therefore be presented in the last part of the chapter.

3.4.6 Characteristics of the Chinese business environment

When doing business, different institutions are involved which needs to be considered, and to describe these institutions words like codes, rules, habits, routines and procedures are often used (Jansson, Johanson & Ramström, 2007). Institutions tend to only change deliberately and gradually, which is also the case for culture, meaning that they are closely related to each other. However, the cultural aspect from an institutional perspective is sometimes used to confirm and distinguish between institutions. The three major substances of the institutions are; cognitive, normative and regulative (Jansson, Johanson & Ramström, 2007). These substances can also be found in the basic rules model, which was mentioned earlier in this chapter.

In China, the heart of business network is the family business system, and it has been for a very long time (Jansson, Johanson & Ramström, 2007). However, the whole business system in China is experiencing major changes at the moment, with the movement from command economy to market economy and the privatisation of state-owned enterprises as two examples. Further, trends towards opening up the economy in general are being pursued, with the aim of making the business environment easier. That is done by introducing a property-based legal framework, business legislation and making the rules more favourable for entering and starting up new business in China. Though, when changing the rules and regulations in
the Chinese business environment, already weak institutions are becoming even weaker, which leads to that they have to go back and rely on the old system. When comparing the business environment to the Western countries, it is obvious that China still has a gap between existing and desired institutions, where Western business are characterised as more stable, transparent and stronger (Jansson, Johanson & Ramström, 2007).

As mentioned earlier there are three different substances when analysing and defining different institutions; cognitive, normative and regulative. Regarding the cognitive aspect it is further divided into; self, time and causality (Jansson, Johanson & Ramström, 2007). Self is about the networks of which the institution is a part of. The relationships in China are based on personal relationships and a collectivistic and holistic way of thinking, compared to Western relationships. The next aspect, time, concerns the perspective of relationships and the ability to change. Chinese social relationships are close and long-term and inside the family it is on a lifelong basis. A business relationship starts with building up trust and establishing the fundamentals of it, before the actual business starts. In other words, it is characterised as socially strong with a long-term focus and with the aim of satisfying the interests of the group. The last aspect is causality, and it is about the decision-making which is based on feelings. Instead of planning and budget their business, the Chinese tends to be more flexible.

Moving on to the normative substance, it is divided up into; achieved versus ascribed status, inner versus outer direction, universalism versus particularism, and trust (Jansson, Johanson & Ramström, 2007). The Chinese business environment is characterised as follows. The status is ascribed through family connections and the social networks are based on social trust. Direction is ‘outer’ because of the culture of the face behaviour which is linked to the shame culture. Inside the business cooperation, harmony is the major value, and firms highlight social values to achieve social acceptance. The Chinese business networks are closed and particularistic with a low transparency and blurred boundaries. Furthermore, they tend to be informal and personal. The last aspect of the normative substance is trust, and in China trust is considered to be essential for successful relationships. The trust is personal and private and cannot be taken for granted (Jansson, Johanson & Ramström, 2007).

Lastly, the regulative substance is split up into authority and sanction system. The authority system defines China as having paternalistic networks and a centralised decision-making (Jansson, Johanson & Ramström, 2007), and its networks are hierarchically structured and it
follows the structure of the family firm. The sanction system in China is based on informal rules, and an important concept is ‘face’. It is considered to be an informal sanction mechanism and the business networks are ruled by personal relationships, and verbal commitments are considered more serious than formal ones. If breaking any of the personal relationships, your company will be blacklisted instead of brought to court, leading to no one wanting to do business with you.

Three aspects of strategy to consider when doing business in China are; patience, suspicion and performance. Patience is of high importance in China because of the long-term relationships. Suspicion has medium importance and since it is related to trust the suspicion is somewhat reduced because of the trustfully relationships among the networks. Performance is also considered to be of medium importance and it is about carrying out activities and operations in the network. It cannot be neglected but objective against social issues.

To sum the whole theory chapter up, and make the alignment with the research questions even clearer, the chapter now ends with a summary of the theoretical framework of this Master Thesis. Further, it is illustrated in an overall theoretical model (Figure 3.7).

3.5 Summary of the theoretical framework

To answer the major research question “How does a SME offshore to China?” four research questions have been derived. In figure 3.7 the theoretical answer to the research questions is illustrated. The first sub question is about, “What is the basis for the decision of which parts to outsource?” and here it is necessary to:

- Define the term outsourcing, what it means in the context of the company.
- Evaluate the competitive advantage and the perceived customer value to understand what is critical for the company’s success.
- Evaluate the company’s capabilities related to their competitive advantages, in order to figure out where are the company’s strengths and weaknesses.
- Evaluate the sourcing strategy of the obtained capabilities to defined the most appropriate strategy.
• **Think about the possible benefits and threats**, when pursuing outsourcing of the activity.

The mentioned steps illustrate the theoretical way of how a company can decide what to outsource. Further it is necessary to go deeper into the supplier selection and maintenance process, because the analysis of the suppliers in the decision model is just considering their possible capabilities. Therefore, it is necessary to answer the question “*How does the selection and maintenance of the Chinese suppliers look like?*” The theoretical answer for that question is to:

- **Define what purchasing means for the company**, because it presents the basis of which requirements has to be considered when choosing the supplier.
- **Define which purchasing strategy the company pursues** in order to gain more specific requirements for the supplier selection and maintenance.
- **Define how the supplier is integrated in the company** to figure out the impact of the supplier and the involved parties within the company.
- **Define how supplier relationship management is pursued** in the company to obtain the criteria’s for the maintenance process, which is also considered when selecting the supplier.
- **Define how the supplier communication process** is conducted in the company to assure a successful maintenance process and to obtain criteria’s for the selection decision.
- **Decide which supplier should be chosen and how the maintenance process is conducted**, that is done through the outsourcing process model, which includes all the gained criteria’s of the before mentioned supplier aspects.

Through the increased globalisation and the reduction of trade barriers, the company can as well consider starting cooperation’s with a foreign partner, if their requirements are more aligned with their needs. Due to the fact that China presents one of the most attractive offshoring countries, the next question is about “*When offshoring to China, what needs to be considered?*” The theoretical answer to that question is:
• **Define the specific characteristics and definitions of offshoring** in order to understand why it is of advantage to go abroad.

• **Define the country factors** to determine why China is the most appropriate country for the company.

• **Define the benefits and threats of going to China** to be aware of the possible difficulties and the full potential of the Chinese suppliers.

Finally after the analysis of the offshoring country, the next step is to think about “*Does the Chinese culture affect the networks of a company?*” The theoretical study leads to the following answer:

• **Evaluate the relationship stages** to obtain which stages are necessary in the supplier management process, especially in China.

• **Apply the basic rules model on the company and China** to understand the thought styles, norms and values of the society in order to figure out differences which might affect the supplier networks.

• Illustrate the **network map** of the company to get an overview of all involved parties and their relationships.

• **Define the Chinese business environment characteristics** to enhance the understanding of the specific ways of conducting business in China to gain possible different aspects, which affect the business networks.
Figure 3.7 Theoretical model (Source: own)
4 Empirical study

In this chapter the empirical data will be presented to give the reader an overview of the case companies and their businesses. The structure of the chapter is aligned with the structure of the theory chapter. The empirical data was collected through interviews, which were presented more in detail in the methodology. This chapter starts with the collected data about Åkerströms Björbo AB, followed by Startup China Based Solutions Ltd. The third part present general information about China from one of the interviews, and the chapter ends with a summary of our empirical findings.

4.1 Åkerströms Björbo AB

In this part the collected data about Åkerströms will be presented, starting with the background of the company, products, competitors, customers, markets and suppliers. Additionally, the outsourcing will be discussed, and then this part ends with a description of the relationship with Startup.

4.1.1 Company background

Åkerströms is developing, producing and selling radio remote controls, mostly for the heavy industry. The company was founded in 1918 by Anders Åkerström and then the idea was to provide power to the houses in the village. In 1958 they produced their first radio to be used in the forest, because there was a demand for wire-equipment when loading timber. However, the wires broke down and they developed a wireless radio (interview with the President at Åkerströms, 2009-04-06).

Through the years the company has developed and produced many different products, for instance in 1969 they launched their first radio controlled door-opening system, and in 1995 they produced the first installation for radio-controlled locomotives (interview with the President at Åkerströms, 2009-04-06).

Earlier Åkerströms consisted of three different companies; Åkerströms Björbo AB, Åkerströms Truck AB, and Åkerströms No-Wire. Åkerströms Truck AB was working with computers and forklift trucks, and Åkerströms No-Wire with wireless networks. Åkerströms No-Wire was bought by a Finnish supplier in year 2000 that closed it down. Both Åkerströms Björbo AB and Åkerströms Truck AB were situated in the same area in Björbo, and in 2001
BrainHeart Capital AB bought the companies from Jan Åkerström. However, in 2008, a competitor of Åkerströms Truck AB bought them and now they are situated in Borlänge. The same year, Åkerströms Björbo AB was bought by Verdane Capital, which is the present owner. Verdane Capital is a Norwegian venture-company with offices both in Oslo and Stockholm and they own about 50 companies in Sweden, and 40-45 in Norway (http://www.verdanecapital.com). The company was founded in 1985, and their idea is to buy up companies and to maximise the profit for about 7-8 years before selling them again. In other words, around year 2015, Åkerströms Björbo AB will be sold again (interview with the President at Åkerströms, 2009-04-06).

The organisational structure of the company looks as illustrated in Figure 4.1.

![Organisational Structure of Åkerströms](image)

*Figure 4.1 The organisational structure of Åkerströms (Power Point Presentation)*

The company consists of five departments; sales, logistics, R&D, service, and economics, but all the departments are working closely together. The purchasing department is working under the logistics and in close collaboration with R&D. Åkerströms has a management team consisting of one manager from each department and the President. The management team is meeting every week to discuss the current situation (interview with the President at Åkerströms, 2009-04-06).

At the moment the company has around 50 employees, however they used to be more than 60 employees, but due to the financial crisis they had to lay off 20% of the workforce. All the
employees are located in Björbo and around 10 are working with the production. The other 40 is sales, R&D, purchasing and service. They offer their employees some internal training on the production and service department, and they also educate the sales persons working with the products in other countries (interview with the President at Åkerströms, 2009-04-06).

The company's values are; quality, reliability, design and service. Especially in Scandinavia they see these values as very important for their customers (interview with the President at Åkerströms, 2009-04-06). Today, Åkerströms is the market leader in the Nordic region and they have an established network of partners world-wide. They have partners in Sweden, Norway, Finland, Czech Republic, Slovakia, Poland, Italy, UK, Hungary and Australia, and they are negotiating with partners from China and the US. The company gives their partners education about their products (interview with the Sales Area Manager Locomote at Åkerströms, 2009-04-07). They have resellers in Australia, Italy, Poland and Scandinavia, and the focus is still on Scandinavia, but they do not have any sales offices in other countries.

The company is working with two projects which are funded by the European Union involving both industries, universities, and institutes (interview with the Development Engineer at Åkerströms, 2009-04-06). The first one is called Reliable Wireless Machine-to-Machine (M2M), and is done together with the radio centre at the University of Gävle in Sweden. It is about measuring and studying the industrial environment, and the aim is to find out how the environment looks like. The other project is called the WISA-project, which is together with Kungliga Tekniska högskolan (KTH) in Stockholm, and a university in Finland, and is about trying to reduce the amount of cables used in the industry by instead using wireless control applications (interview with the R&D-manager at Åkerströms, 2009-04-07).

Åkerströms is also in some ways affected by the ongoing financial crisis. As mentioned earlier, they had to lay off 20% of their employees, and their profit is reduced by 25-28%. However, this is not bad compared to other industries which have lost a lot more. They will try to increase the sales again by entering new markets with the new innovative products which will be launched under 2009 (interview with the President at Åkerströms, 2009-04-06).
4.1.2 Products

Åkerströms produces wireless solutions for industrial and mobile environment and locomotives. The wire-less products are developed for demanding industrial environments and mobile units for instance the steel industry. The company offers a wide product range including various types of transmitters, receivers, and other equipment. By manufacturing and developing simple standard systems and sophisticated customised systems, they are flexible to meet the specific customer demands (Commercial material).

The product range of the company is divided into three main product groups, Remotus, Sesam and Locomote. The first one, Remotus, is radio remote controls for overhead cranes and mobile applications for different vehicles. The product group is further divided into three types; Saturn, Jupiter and Mercury. Jupiter is an ordinary remote for cranes, which is a preferred product of the crane manufacturers leading to that Åkerströms, can produce it in a higher volume. The second type within the Remotus group is the custom-designed Mercury products. The customer can decide themselves about the buttons, manipulators and text used on the remote, which leads to a higher product price. The last Remotus type is Saturn representing custom-standard products, which are totally customised according to the specific customer requirements and they are only produced for the customer with particular article numbers (interview with the Development Engineer at Åkerströms, 2009-04-06).

The second product group of Åkerströms is Sesam, which are door opening systems for industrial doors (interview with the President at Åkerströms, 2009-04-06). It is used for opening and closing boom gates and for switching fans or floodlights on and off (Commercial material). Within this product group there are three different types; Sesam 2000, 500 and 800. The oldest one is Sesam 2000, in 1999 they developed Sesam 500 and the newest one is Sesam 800. There are several transmitter models available from the simplest with only one function to more sophisticated ones able to open 999 doors or other equipment. For instance, when using one function, the customer can open and close one door, when using six functions it is possible to open and close six doors, and so on. Further, it is also possible to customise the functions and for instance open and close three doors, and have three other functions on the transmitter with six functions. The company offers different sizes of the Sesam product, from small key-rings to medium and large ones. The small one has only a few buttons and less battery capacity and functions, oppositely the large ones are rather complex with displays.
and other functions (interview with the Development Engineer at Åkerströms, 2009-04-06). The more sophisticated transmitters are able to use access coding, that is, uniquely paired transmitters and receivers are working together. To fulfil user-friendly needs the receivers are available in various sizes and can be carried on a belt clip or placed in a holder (Commercial material).

The main difference between the Sesam product group and Remotus is the safety issue, because in Sesam the safety of the receiver is neglected, there is only the function up or down. But in the Remotus control it could be very dangerous if you have another transmitter on the same frequency and the same ID, because then it would be possible to accidently drive another receiver, meaning driving other machines (interview with the President at Åkerströms, 2009-04-06).

The last product group of Åkerströms is Locomote, driving and moving locomotives both within the railroad stations and on the tracks. By using them, it is no longer necessary to have a driver for the locomotives. The product line is designed to meet the specific safety needs for remote control of locomotives, and it is mainly based on Remotus and has the same rugged design and high reliability. Furthermore, transmitters and receivers are automatically linked by a special coding system. This means that the operator can easily take command of the locomotive (interview with the Sales Area Manager Locomote at Åkerströms, 2009-04-07). According to the safety, it is the safest system because there are strict rules regarding locomotives. Åkerströms is one of three players in the world which are certified according to a European Union railway norm/standard, called EN 50239 (interview with the President at Åkerströms, 2009-04-06).

The biggest product grouped in terms of sales is Remotus with 53 % of total sales, followed by Sesam with 40 % and Locomotives with 7% (interview with the Marketing Director at Åkerströms, 2009-04-06).

The prices of the products depend on the customised functions. For instance a modified product can cost approximately 50 000 SEK compared to the standardised version which are about 10 000-15 000 SEK. As mentioned before, the price is based on the specific functions of the product (interview with the Marketing Director at Åkerströms, 2009-04-06). In the Sesam product group, a system with one transmitter and one receiver is less than 5000 SEK,
again depending on the kind of transmitter (interview with the Development Engineer at Åkerströms, 2009-04-06).

When conducting business on the international market it is necessary to adopt the products to the specific country requirements and needs. For instance the products sold on European market are different to the US products. That is because the transmit frequency is different, and therefore you have to know when assembling the products for which market it is intended (interview with the Development Engineer at Åkerströms, 2009-04-06). There are further different country regulations regarding for instance radiations.

The lead time of the products depends on the level of customisation. Some projects are running over one year, if the customer wants a completely new transmitter with a new size it takes longer time combined with higher costs. For other products it can take about 3-4 months or even shorter depending if the product is in stock (interview with the Development Engineer at Åkerströms, 2009-04-06).

The lead time of Mercury, which is their biggest product group, is approximately four weeks because it is customised after customer needs. The order will run through the construction department, who are designing the equipment for the customer, and then it goes further to the purchasing and planning in order to finally producing the product. In general the lead time is very short compared to their competitors caused through their experiences in how the products should look like. From history they build up a stock of spare parts by calculating what the customer demands (interview with the Production Manager at Åkerströms, 2009-04-08).

4.1.3 Competitors

The main competitors of Åkerströms are HBC and NBB from Germany because they have a similar product range. In Sweden, Tele Radio is another major competitor within the Sesam product group. Further, Datek, ScanReko, Jörgensen and Industrielektronik from Sweden, Cavotec from Norway, and Ikusi from Spain, are a few main competitors of Åkerströms. By analysing the competition from China it is known that there are more and more providers, but caused through their lack of quality they are not in direct competition with Åkerströms (interview with the Marketing Director at Åkerströms, 2009-04-06).
4.1.3.1 Competitive advantage

In order to distinguish from their competitors their strategy is to provide better service for their customers. The customers can buy different service packages based on how they want to maintain their products. Providing good service is one of the company’s competitive advantages, and through that they can establish a trustworthy relationship with their customers. This helps Åkerströms to conduct future businesses with its customers, because they come back even though the prices are higher compared to their competitors. Åkerströms has service centres around the world to be able to act as fast as possible in emergencies to support their customers, which is also seen as a competitive advantage. Moreover, the customers have specific contact persons to ensure a trustful and personal relationship with them. Another strategy to distinguish from their competitors is to provide customised products, which are robust with an outstanding quality. The company is a small organisation compared to the others, which is another competitive advantage in order to come up with new innovative products as well as customised ones (interview with the Production Manager at Åkerströms, 2009-04-08).

Their short lead time, as mentioned earlier, is a major competitive advantage for Åkerströms because their competitors need 8-16 weeks to deliver their products. To be able to produce that fast and to deliver spare parts as soon as possible, Åkerströms has a stock of 4,500 articles and to deliver spare parts as soon as possible (interview with the Production Manager at Åkerströms, 2009-04-08).

One major weak point to their competitors is still their high prices as well as the fact that they are mainly known in the Nordic countries. Compared to their competitors HBC or NBB which are operating worldwide, the brand Åkerströms is rather unknown, which makes it more difficult to acquire new customers in other countries (interview with the Marketing Director at Åkerströms, 2009-04-06).

Åkerströms is observing its competitors through its sales persons. Further, Åkerströms uses an internet program to scan all the published news from the competitors in the internet.

4.1.4 Customers

The biggest customers of Åkerströms are; SSAB, Ovako, Volvo, SAAB, Hammar Maskin, Kvarnsvedens Pappersbruk, Sandvik and ABB, which are all mainly operating in the heavy
industry. The company does not distinguish between key customers, instead they pursue the strategy to keep in touch with all of them, regardless if they are big or small (interview with the Marketing Director at Åkerströms, 2009-04-06).

One major strategy to acquire new customers is to stay in close contact with their Swedish resellers, which have further close contact to their customers (interview with the Marketing Director at Åkerströms, 2009-04-06). The contact to the customers is primarily running through their sales persons (interview with the Development Engineer at Åkerströms, 2009-04-06). Many customers are mainly looking at the price and choose cheaper competitors, so there is also the need to produce products cheaper by making their products simpler in order to gain cost advantages. The main benefit for the customer is the good service both in sales and design, compared to the competitors (interview with the Production Manager at Åkerströms, 2009-04-08).

4.1.4.1 Perceived customer value

Åkerströms has faithful customers through their established long-term relationships with the customers directly, as well as indirectly through their partners and resellers. That is possible because the customers perceive the value of the products higher than the sacrifice they have to make for buying it. The perceived customer value is mostly based on Åkerströms’ high-quality products, extensive after-sales services and maintenance, which makes the customers prepared to pay more for their products than for the competitors’ products. That is because Åkerströms’ competitors do not offer the same range of services to their customers (interview with the President at Åkerströms, 2009-04-06).

4.1.5 Markets

Åkerströms' main market is the Nordic countries where they are the market leader, but they also have partners in Czech Republic, Slovakia, Poland, Italy, UK, Hungary and Australia. However, they sell their products to over 60 countries in the world (interview with the Marketing Director at Åkerströms, 2009-04-06). Åkerströms exports about 25-40% of total sales to customers outside Sweden, but the number differs from year to year. Their biggest customer is located in Finland, and if that customer sells the products to other countries, or maybe back to Sweden, is hard to say. That is also the case for other customers of Åkerströms and therefore it is hard to say exactly how much they export (interview with the President at
Future markets that Åkerströms wants to enter are Benelux, China and USA. They are looking for partners on these markets, but it takes time to establish a good relationship with new partners and to educate them. When deciding on new markets to enter, the company always starts by looking for a partner, because the products are too complex to just sell from Sweden, and the service of the products will be too expensive to handle. They are also considering the trends on the market before entering it. Besides that, they do not have any particular strategy when looking and entering new markets (interview with the President at Åkerströms, 2009-04-06). If for instance a customer in Spain wants to buy something from the company, Åkerströms contacts the partner which is closest to Spain. In this case it would be Italy, and then the purchase will be handled through that partner. The reason for that is mostly to overcome the cultural issues and language difficulties.

As marketing channels they go to the biggest fares. The trends on the markets are observed by the sales managers who visit the markets and looks at the customers' forecasts (interview with the Marketing Director at Åkerströms, 2009-04-06).

4.1.6 Outsourcing

In the beginning of 2008, Åkerströms took the decision to outsource the production of their new product-family Sesam 800. The new Sesam 800 is a more standardised product than their earlier products, which makes it easier to outsource the whole production of it. However, the older products in the Sesam-family will still be produced in Björbo since Åkerströms’ customers already have and use these products, which make it too hard to outsource the production of it (interview with the President at Åkerströms, 2009-04-06).

4.1.6.1 Benefits of outsourcing for Åkerströms

The biggest benefit of outsourcing is the cost-saving aspect, since the outsourced products will be produced in higher volumes at a lower cost. Another mentioned benefit is that the company can instead focus more on their customised products and core competencies. Also the collaboration with the suppliers can be beneficial for Åkerströms since they can together develop new technologies and innovations. Through the outsourcing, the company might access new knowledge via the relationships with suppliers and other involved parts in the
outsourcing process, which would not have been reached internally (interview with the President at Åkerströms, 2009-04-06).

4.1.6.2 Disadvantages of outsourcing for Åkerströms

The biggest problem related by pursuing this outsourcing strategy is to be able to control and check the quality of the products. When producing in-house it is easier to check the quality and you can control the whole production process, but when outsourcing it, the supervision and control mechanisms disappears. Another problem that was mentioned during the interviews what the aspect of increased lead times, however that depends on where the outsourcing is made (interview with the Production Manager at Åkerströms, 2009-04-08).

4.1.7 Suppliers

Åkerströms has around 200 suppliers but of those, about 15 are delivering 70% of the components, in terms of money. By analysing the suppliers, 90% of them are Swedish companies but they have also German suppliers for radios and Danish suppliers for batteries. When choosing the suppliers, Åkerströms is looking in detail at their quality, but since the price factor is so important it now comes as the second most important criteria. Due to their competitive advantage of outstanding product quality, Åkerströms needs to ensure that the quality of their suppliers is aligned with them (interview with the Production Manager at Åkerströms, 2009-04-08).

Åkerströms’ strategy is to have a really long and good relationship with their main suppliers in Sweden (interview with the Production Manager at Åkerströms, 2009-04-08). With their main suppliers, Åkerströms sets an expected order for one year and from this amount the company orders smaller deliveries within the time span. The purpose of this strategy is to support the supplier to plan the production in order to ensure the access to the needed items. The supplier lead time is about 28 days in Sweden from order to the delivery, and if the supplier has the demanded item at their storage it might take only a few days. When buying from other countries like Germany, the lead time will increase, and it takes on average around 60 days to receive the products. Thus, demand planning is essential to avoid shortcuts of production (interview with the Production Manager at Åkerströms, 2009-04-08).
4.1.8 Purchasing
The purchasing department at Åkerströms consists of one full-time and one half-time worker, which is working directly under the logistics department and in close collaboration with the R&D-department. The full-time worker is working with contracts and strategic purchasing, whereas the half-time worker is responsible for purchasing after orders. Since many of the orders are technical special-orders they are always consulting the R&D-department in order to purchase the best components possible (interview with the President at Åkerströms, 2009-04-06).

4.1.9 Offshoring to China
Since Åkerströms decided to outsource their production to China, it is called offshoring. The production of the first sales batch of Sesam 800 has just started and the first test-prototypes will be ready during the spring 2009. Up until now only a few parts have been made to test and develop the value chain further (interview with the Development Engineer at Åkerströms, 2009-04-06). The whole process of making the first batch has been delayed because of some problems with the design (interview with the R&D-manager at Åkerströms, 2009-04-07). The amount of products produced in China in the Sesam 800 family is now around 35-40; in 5-10 different projects (interview with the President at Åkerströms, 2009-04-06).

Åkerströms is very new in the low-cost alternative of products, but they need it in order to be able to meet the competition from their competitors. When keeping the volumes of the production up, the prices can be kept low, leading to more sold products to customers. All the other products will be kept in-house in Björbo. These are customised and not produced in large volumes making it hard to move production offshore.

The lead times will naturally be longer when producing in China instead of Sweden. How long it takes depends on which type of transportation-mode you use; air-plane or boat. The first products will be sent to Sweden by air-plane which takes about 3-4 days. Later they will use boat to transport the products, which is cheaper than by air. Shipping from China to Sweden takes about 1-2 months but since it then will be larger volumes, the time delay does not matter very much (interview with the Production Manager at Åkerströms, 2009-04-08).

Even though the transportation costs are higher when producing in China, the total cost to produce will be lower if the produced volume is high enough. These types of lower-cost-
alternative products are too expensive to produce in Sweden since the labour-costs are much higher than in an emerging country like China. To find that level can sometimes be difficult because it is different from product to product, but once you find it, the real cost-saving can begin (interview with the President at Åkerströms, 2009-04-06). Another reason for Åkerströms to move to China is that their competitors are already present on the Chinese market (interview with the Development Engineer at Åkerströms, 2009-04-06).

In the beginning Åkerströms is checking all the products in Sweden before sending them out to their customers. In the future these checks will be less extensive, when the relationships with Startup and suppliers have been more developed. Åkerströms have many big customers in Sweden so they are very careful with the quality of their products. They will also educate the suppliers in China on how to do every step in the production-line, which in turn will lower the need for such extensive checks in Sweden (interview with the President at Åkerströms, 2009-04-06). Another solution to secure the quality aspect is to hire someone in China to do the quality-checks for the company. Someone has to supervise the production, but it would be too expensive to send someone from Åkerströms to do these tests. At the moment it is up to Startup to handle these issues (interview with the R&D-manager at Åkerströms, 2009-04-07).

A problem when offshoring to China is how to protect the IP since the Chinese is known to copy things. Åkerströms try to overcome that risk by being in China, teaching them how and what to do in the production facility (interview with the Development Engineer at Åkerströms, 2009-04-06). One way to solve this problem would be to only produce the shell in China, ship them to Sweden, and put in the sensitive parts in-house. But then it does not make sense to move to China because it is the assembling part that is expensive since the man-hours are too expensive in Sweden. Preferably, the whole product is done in China, sent to Sweden, and then sent out to customers after orders, and only to make sample checks of the products (interview with the R&D-manager at Åkerströms, 2009-04-07).

Further problems discussed during the interview with the R&D-manager at Åkerströms (2009-04-07) is the fact that Åkerströms has to keep the number of different products down in order to be able to produce them in high volumes, otherwise it will be hard to make money on the transfer to China. Another reason for keeping the number of products down is to reduce the risk for mistakes being made in the production by the Chinese suppliers. Since they are producing many products very fast, there will immediately be many mistakes if something goes wrong in the production process. The Chinese suppliers are only producing in high
volumes and they are not easy adapting to changes in the products. “So it is also a challenge for us to develop few products and still fulfil the market needs” (interview with the R&D-manager at Åkerströms, 2009-04-07). The Chinese suppliers are very high-skilled and can handle a lot of technical issues; however, it becomes a problem when small adaptations or changes have to be made.

Still, the products will be sent to Sweden, and then Åkerströms deliver them to their customers. In the future it can be possible to send the products from China directly to customers, but that also depends on how the relationships develop.

4.1.10 Relationships
Åkerströms have outsourced their production to an offshore location through an intermediary in China which is Startup. Further, it is Startup's responsibility to find suitable suppliers for Åkerströms in China, because they already have an established and trustworthy network there. All the decisions and negotiations are made through Startup in order to avoid misunderstandings caused by the language barrier or cultural differences. Åkerströms now have weekly meetings via Skype with Startup and the Chinese suppliers to discuss certain issues and to plan the work. Åkerströms also contact the Chinese suppliers directly if there are any technical issues to be solved (interview with the Development Engineer at Åkerströms, 2009-04-06).

The main benefit for Åkerströms to work with Startup is according to the President at Åkerströms that they are both Swedish and Chinese people working together, in China. They understand how the Swedish system and production works, they speak our language, but they also know a lot about the Chinese culture and once again the language. The price is also another mentioned benefit working together with Startup (interview with the President at Åkerströms, 2009-04-06).

Another benefit is that Startup is handling all the quality-issues in the beginning of this project. Åkerströms has to go to China in the beginning of producing the first batch to educate the suppliers to make sure that the products are handled and produced correctly. So far, Startup has to secure these issues.

In the future Åkerströms can consider producing more products in China, but only the ones that are standardised. The customised products are too complex, and then they will risk losing
their competitive advantage. However, with a long-term perspective it would be possible to produce some hardware parts for customised products in China, and then to put in the software in Björbo (interview with the President at Åkerströms, 2009-04-06).

It is hard for the company to guess what will happen in the future regarding if any more parts of the value chain will be outsourced to China, and the opinions among the employees differ. However, one major step has already been taken when moving production of the Sesam 800 to China. In the next part of this chapter, the intermediary Startup China Based Solutions Ltd’s business will be presented.

4.2 Startup China Based Solutions Ltd

In this second part of the empirical chapter the collected data about Startup will be presented. First, the company background, competitors, customers, markets and suppliers will be described. Then the chapter moves on with a discussion about their collaboration with Åkerströms and the outsourcing in China. This part is finalised with a general discussion about doing business in China.

4.2.1 Company background

The other company in this thesis is Åkerströms’ intermediary, Startup. The company was founded in 2004 by Conny Jakobsson, a Swedish businessman living in China. He started it together with an American man and they developed the company together. The concept is to help Western companies to establish their business in China, either new companies, or companies already present there. However, most often they help companies setting up their production in China, sourcing in China, offshoring to China, or they handle the whole production process for the companies. When doing business in China it is essential to have an organisation there, but many Western companies do not have the capabilities to set up such an organisation, and therefore Startup does the work for them. “Then we are like their office in China, without being employed by the company” (interview with the Managing Director at Startup, 2009-04-22).

Startup has five employees; one is situated in Sweden and four in China. Further, they have established partnerships with companies in China and other countries which they collaborate with to serve their customers (interview with the Managing Director at Startup, 2009-04-22).
Their competitive advantage is their extensive network of suppliers and partners in China, established and developed during many years of business. Another essential strength is that they have both Swedish and Chinese employees situated in both countries, which make it easier to handle the cultural issues between China and Sweden, as well as other Western countries. Their experience automatically leads to reducing the risk of making mistakes when doing business in China (interview with the Managing Director at Startup, 2009-04-22). The government constantly changes the rules, but because of their long experience, they can get started faster than others. Another cultural issue to bear in mind is about trust. For Chinese and Western people trust is not the same, and to establish trust in China takes many years (interview with the Managing Director at Startup, 2009-04-22).

The reason for many Western companies’ failure when going to China is that they think it is easier than it is. Startup’s experiences are that many companies trust the Chinese too much before an actual long-term and close relationship is established. Also, many failures happen when Western companies give too much of the responsibility to the Chinese company, in particular if the Western company do not have a presence in China. This can in fact lead to that the Chinese company does not trust them, and the whole project fails (interview with the Managing Director at Startup, 2009-04-22). Before doing profitable business with Chinese, they have to respect you as a business-person. However, it is easier to do business in China today than it was 10 years ago, but the cultural differences are still there and needs to be considered.

The last one and a half year, Startup has also focused more in the green area, developing LED lamps which are environmentally friendly by their saving of energy. They are also working in different projects, for instance with wind mills and heating systems for houses. They are producing the LED lamps in China and selling them to countries outside China (interview with the Managing Director at Startup, 2009-04-22).

4.2.2 Competitors

There are a lot of companies in China having the same or somewhat similar business concepts as Startup has, but they do not see all of them as competitors, rather as partners. Since the companies tend to be small, it is more beneficial to collaborate and help more customers, than to compete with the risk of losing. The other companies differ from Startup regarding
products, suppliers and customers (interview with the Managing Director at Startup, 2009-04-22).

4.2.3 Customers

Over time, some of Startup’s customers have become long-term partners, while some have just been short-term assignments. At the moment they are working with five new customers and three of these are from Sweden. According to the Managing Director at Startup they do not start business with customers unless they are solid and serious, and they are not handling too many customers at the same time. Then it would be hard to do consulting and sourcing etc., and still maintain their high quality. However, if a new customer contacts them, Startup can take advantage of the collaboration with the partners by hiring one of them to help the customer. In that way they can help more customers without employing any more people within Startup (interview with the Managing Director at Startup, 2009-04-22).

4.2.4 Markets

Their focus market is Scandinavia, but they are also working with Australia, Brazil, and USA. At the moment they are only marketing themselves through their web-page, but in the future they will use other marketing channels, mostly towards Scandinavia (interview with the Managing Director at Startup, 2009-04-22).

4.2.5 Outsourcing

Startup’s collaboration with Åkerströms started in September 2007. Now they have a long-term contract with the outsourcing of Åkerströms’ production as the base. Åkerströms and Startup work together and decides which products that is most suitable to outsource to China. Åkerströms decision to outsource is based on several different factors; however, one of the most important ones is the total price (interview with the Managing Director at Startup, 2009-04-22). Startup works with their already established networks of manufacturers and suppliers, and decides which are most appropriate for Åkerströms’ products. In this cooperation, Startup is handling both new products, and older products in Åkerströms product portfolio which are already being produced (interview with the Managing Director at Startup, 2009-04-22). Currently, Startup is producing 11 of Åkerströms products, and another 20-25 products are in the pipeline of being produced in the future. For these 11 products they use a couple of suppliers for the plastic and rubber parts, and they have hundred of suppliers for the
electronics. The assembling and testing of the final products are made in one of Startup’s partner’s factories. Startup’s supplier base is big, but they only use a handful when assembling the different products, and they are specific and unique for Åkerströms. The assembly and test is made in one factory since the volume of the production is not high enough to divide up into several (interview with the Managing Director at Startup, 2009-04-22).

The cooperation between Startup and Åkerströms is long-term and based on trust, which means that Åkerströms can visit Startup’s manufacturers and suppliers to discuss technical issues, in order to make the transfer and problem solving easier. When setting up production of a new product, Startup contacts their partners to get the best price and quality possible for that specific product, as well as looking into which manufacturer that is most appropriate to produce that product; different products can be suitable for different manufacturers. Åkerströms can of course decide not to use Startup’s partners and instead find solutions by themselves (interview with the Managing Director at Startup, 2009-04-22). The future looks promising for the collaboration with Åkerströms. The company is well-known on the market, and they have a very solid customer base (interview with the Managing Director at Startup, 2009-04-22).

4.2.6 Suppliers

Since Startup is working with suppliers in China it is very important to check the quality and processes of the suppliers before hiring them to produce for any customer. This controlling is done through a quality audit, which means looking into the suppliers’ history, the products they are already producing, their engineering, design, organisation, lead time, etc. These checks are conducted both on new suppliers and existing ones as follow-ups, and the process is time-consuming, since a relationship still needs to be established. The responsibility of the suppliers’ ability is in Startup’s hands, meaning that if something goes wrong, Startup has to solve it (interview with the Managing Director at Startup, 2009-04-22).

“Buying simple products from China is very easy, but if you do not have control over it, the first delivery will be good but the second will probably be no good at all” (interview with the Managing Director at Startup, 2009-04-22). It is very important to supervise the production in China, and therefore it is common to hire consultant companies inside China to do it for you. Being present in China as a small Western company could be too expensive, and therefore
another Chinese company is hired to do it. However, the labour-costs are rising in China, especially in the bigger cities since the people are getting more and more educated and experienced. Outside the cities the labour-costs are still lower, which the Managing Director at Startup thinks makes China a country for outsourcing also in the future. The IP is another issue which can be difficult to protect in China. One way to do it, when having complex products, is to keep the sensible parts of the products in your own factory, and code them in China because the codes are hard to copy (interview with the Managing Director at Startup, 2009-04-22).

The next part of the empirical chapter presents an e-mail interview with a Chinese employee at Startup. It is about China’s institutions, relationships, networks and generally about doing business in China.

### 4.2.7 Chinese characteristics

In this part of the empirical chapter, the findings about Chinese institutions from the conducted e-mail interview with the Project Manager at Startup will be presented.

The institutions in China are based on relationship management, instead of a clear process or system to follow, which leads to the fact that they can change rather easily. In other words, it is the relationships that govern in China, and therefore it is more unproblematic to carry out changes in the institutions compared to if it was only systems and processes. One disadvantage is that they do not have any processes to measure if the potential changes are correct or not (e-mail interview with the Project Manager at Startup, 2009-05-20). However, the relationships themselves can sometimes limit their ability to change, but when the government command changes; the companies tend to change directly to show that they act upon the government’s orders. And as the Project Manager at Startup stated: “in general I would say that Chinese companies can change direction quickly based on their perception of the market change, but they are frequently changing to follow others and not really innovating” (e-mail interview with the Project Manager at Startup, 2009-05-20). Due to this, the Chinese institutions are generally perceived as being flexible, since they have the possibility to change rather easy. Though, they do not have any processes to compare with or to measure the outcome of the changes with, instead they tend to follow the others.
Right now China is going through major changes in their business environment, and regarding the privatisation of state-owned companies, the changes are not that visible for outsiders. Even though they are being privatised they are still reliant on the government, due to the government’s incentives to keep the employees within the company. That is without considering how the business is going, they are continuing on the same way as they always have without closing down if not successful. That is a major difference from Western companies, where the profitability of the company decides the future decisions and actions (e-mail interview with the Project Manager at Startup, 2009-05-20).

The transition from being a planned economy to a market economy does not affect today’s business environment that much, because it started and was pursued for such a long time ago. Obviously, the government does still set directions and policies which force the companies to work in the government’s preferred direction, but that is not considered to be a problem anymore since the companies also decides a lot on their own. Moreover, sometimes these directions and possibilities still seems to be necessary for the Chinese companies, as going from being totally controlled to free is a huge step for companies to take (e-mail interview with the Project Manager at Startup, 2009-05-20).

China is open and welcoming new companies to establish its’ business there if they bring new jobs, technologies and knowledge into the country. However, they do not want the foreign companies to be successful; instead they see them as their inspiration and try to transfer the knowledge back to the local Chinese companies.

China has some goals as a player on the global market which they want to fulfil. According to the Project Manager at Startup, China wants to be the technology leader in most areas, as well as to be as self-sufficient as possible regarding telecom, resources such as food, water, energy, etc. (e-mail interview with the Project Manager at Startup, 2009-05-20). When looking further into the Telecom for instance, China wants their companies to be the global leaders in telecom systems, R&D and technology. To reach the goal of being the global leader, the Chinese government has invested in some of the local companies and their joint ventures, in order to achieve better technologies. That also makes the local Chinese companies more profitable on the Chinese market. Furthermore, the Chinese government has supported by several different preferential policies, such as reducing the VAT, giving companies bank loans both locally and for export. Additionally, the government has hired these companies to do local projects which
make them more profitable, so they can expand overseas. It is hard to set any time-horizon regarding how long it will take until they reach their goals, but all these support and investments are present in China at the moment (e-mail interview with the Project Manager at Startup, 2009-05-20).

If looking further into the networks in China, the Project Manager at Startup says that it can be hard to enter already established networks if it is related to high risks, and the relationship is very tight. But as long as you can find someone with good connections to the networks and if you have a cost competitive product, it can actually be easier to enter a network in China than in other countries, even though it is a family network. Another advantage is if you have a product that adds extensive value to the purchasers, then it is easier to enter networks (e-mail interview with the Project Manager at Startup, 2009-05-20).

Trust is another crucial issue in China, and it is very important to build up trust within the relationships and networks. However, it is very hard to gain this trust because in China no one really trusts anyone else in a business relationship. The level that is possible to achieve is weak, and if someone else enters, everything can be destroyed immediately. But as long as you have the same interests and want to reach the same goal, then you can likely trust the Chinese people when doing business. That differentiates China from both Taiwan and Hong Kong, where trust is easier to establish, according to the Project Manager at Startup (e-mail interview, 2009-05-20).

The decision-making process in China is complicated and not at all transparent. Even if there is a bidding-process or a simple purchase, it almost never clear how the decision is made and it is rarely in the way as the process was defined. If you lose a bidding-process, they say it was because of the process, but that is rarely the truth. Therefore, the decision-making is perceived to be unstructured in China (e-mail interview with the Project Manager at Startup, 2009-05-20).

Regarding the hierarchical structure of China, the Project Manager at Startup does not perceive China as being that hierarchical as many believes it is. In some senses it is still very hierarchically structured, but most of the situations and solutions are based on the relationships and friendships with other people. The networks do often play a larger role than the hierarchy in China (e-mail interview with the Project Manager at Startup, 2009-05-20).
The concept of losing face is an issue in every country, and the difference between the countries lies in what face is being perceived as. In China it is defined by stature and position, as well as the position in relation to the other person. Furthermore, in China it is not expected that foreigners knows about all these aspects regarding face, but in some situations it can be good to take into consideration (e-mail interview with the Project Manager at Startup, 2009-05-20).

The last part of the empirical chapter is a summary of all the empirical findings in the conducted interviews.

4.3 Summary of the empirical findings

Due to the case study conducted for this Master Thesis, the key empirical findings can be summarised as follows:

- Åkerströms is an old former family owned company, which was sold to Verdane Capital. The new owner pursues to maximise the profitability of the company, in order to sell it again within the next 7-8 years. The company focus to keep their values, which are quality, reliability, design and service, because their market leader position in the Nordic countries is based on them.
- Åkerströms established a partner network worldwide but due to their major focus on the Nordic countries, they do not have any sales offices in other countries.
- The company produces wireless standard products and sophisticated customised systems for heavy industrial and mobile environment and locomotives. According to the products, the company is superior in meeting the safety standards and requirements.
- Åkerströms states that their competitive advantage is based on their offer of better service to their customers in order to establish a trustful relationship with their customers, which is also pursued through their local service centre and their personal contact persons. Further the lead time is considered as one major reason why the customers choose Åkerströms instead of their competitors. Nevertheless, the company recognised that their high prices of their products and the lack of brand awareness in other countries are their major weak points.
• Åkerströms perceived customer value is mostly based on their high-quality products, extensive after-sales services and maintenance.

• The company’s main market is the Nordic region but their goal is to expand their market position to other countries, which is conducted by looking for new international partners, particular in Benelux, China and USA.

• The decision to outsource, the new standardised Sesam 800, have been made by Åkerströms top-management. The reason for why Åkerströms is outsourcing their standardised products to China is because the labour costs are too high in Sweden on such simple products. Instead they can focus more on their customised products and after-sales services, which are aligned with their competitive advantage. Moreover due to the collaboration with Chinese suppliers Åkerströms might get access to new knowledge. The total cost of producing in China will be lower even though the lead times will be longer and the transportation-costs higher, assumed the demanded volume is big enough.

• When Åkerströms makes the decision which supplier should be selected, their major concern is about the quality followed by the price. The suppliers are of high importance due to the impact on the lead time and the product quality, which are presenting their competitive advantages.

• In this case study, an intermediary is used to make the entry and establishment of networks easier on the emerging market. The intermediary is also used to overcome some of the disadvantages and risks related to offshoring to an emerging market, especially the product quality concerns. The issue of longer lead times will be solved through better forecasting or a faster way of transportation. Even though the transportation costs are higher the total product costs will be lower if the produced volume is high enough. The issue of IP copying is handled by the company through the trust into the intermediary, nevertheless the company thought about possible strategies.

• Both Åkerströms and Startup are using multiple sourcing since they have an extensive network of suppliers and partners worldwide. Åkerströms’ network includes the partners serving the end-customers as well as the suppliers both in Sweden and internationally. The suppliers in China are in Startup’s network and it is the company’s biggest strength because relationships are crucial for making business in
China. In order to cope with the mentioned supplier risks Startup is conducted audits before the selection as well as a follow up tool to assure the requirements.

- **The reason for many companies’ failure** when entering China is that they think it is easier than it is. Most of them do not consider that *trust* has to be established within the networks before it is possible to conduct business, because the Chinese people build up everything on trust. Due to the governing of relationships the *institutions* in China are more *flexible and easier to change*, but nevertheless a threat is that the Chinese are not measuring if the change was appropriate or not. More the entrance into an established network is only possible through relationship with one member which is already integrated in the network. According to the *hierarchical structure* of the country, many solutions are based on the relationships and friendships instead of the hierarchy. Nevertheless, the country is open to foreign companies, because they are bringing new technologies and jobs into their country.
5 Analysis

This chapter starts with analysing Åkerströms’ corporate strategy, perceived customer value, competitive advantage and resources and capabilities in order to gain the strategic information necessary to answer, which activities that should be outsourced. Further, the strategic outsourcing decision based on the capabilities examination, as well as the occurring advantages or disadvantages, presents the second major part of the chapter. Aligned with the structure of the theoretical chapter, the examination of Åkerströms’ purchasing strategies is following. Related to the purchasing context, the supplier selection model in the outsourcing process will be applied. The further analysis of global sourcing is related to China. The illustration of the networks and relationships involved when offshoring to China, will conclude the analysis of Åkerströms.

5.1 Strategic decisions on outsourcing

This first part of the analysis contains the strategic decisions on outsourcing, including analysing business strategy, perceived customer value, competitive advantage, resources and capabilities, and potential benefits and disadvantages of outsourcing. This part of the analysis is ending with the outsourcing decision model.

5.1.1 Business strategy

First of all, Åkerströms’ values must be considered and defined to be able to understand the way of how the company is conducting business to make the right decisions. The company focuses on quality, reliability, design and service, which are their major values and must be considered and pursued in their way of doing business. Åkerströms represents a small Swedish company with a long profitable history, which can be described as open to new innovations. In order to compete on the market the managers recognised that it is necessary to adapt to environmental changes. Especially the product history determines that Åkerströms always developed and produced products, according to the market demand. Therefore, the company was not afraid to step into new product areas, leading to a broad range of different products in the past. Nevertheless, the products were related to the former ones, resulting in that the company has developed advanced technical know-how in their industry over years.
Nowadays, Åkerströms’ major focus is not to have a high rate of economic growth in terms of employees or assets, furthermore they pursue to develop and offer customised products with an outstanding quality and service function, which are still price-competitive. Thus, Åkerströms’ strategy is to maintain their market leader position in the Nordic countries, combined with the expansion to other nations. To reach this goal the company has to be aware which value their customers are gaining by purchasing from them, as analysed in the following part.

5.1.2 Perceived customer value

Åkerströms gives the customers the guarantee that their products are adapted to the specific needs and requirements. As a result, the products might be more expensive but through the modifications, the customers might enhance the productivity leading to higher profitability. Thus, the customisation of the product is an essential value and benefit for the customers. But, only purchasing the best equipment does not lead to enhanced productivity or bring relief in the world of employment, if the reliability and quality of the product is not given. For instance, customer production losses or occupational accidents have major negative impacts on profits and brand reputation. Especially in the heavy industry and hazardous working environments as power plants, the customers want to rely on the quality and safety of the product, which is the second major perceived customer value of Åkerströms. In the case of an emergency, a reliable and quick responding partner creates confidence and trust on the customers’ side. But not only in emergencies, also in routine maintenance issues, Åkerströms has supported their customers through a quick and reliable service function. Summarised, the major perceived customer values are reliability, customisation and service when buying Åkerströms’ products.

5.1.3 Competitive advantage

Through focusing on quality and reliability, Åkerströms’ products are not sold on a low price level. Hence, the customer group whose major purchasing criterion is to buy as cheap as possible, will not be attracted by Åkerströms’ high price products. Therefore, Åkerströms must acquire and maintain their customers through the communication of their values, in order to persuade them to overlook the price disadvantage.
One major competitive advantage is the customisation of their products. Compared to big international companies, Åkerströms develops unique demanded customer systems, which will not be mass-produced afterwards. Further, the company is also a leader in developing new innovative features. Other companies do not have the appropriate company structure to do that, because they are too complex and hierarchically structured. Thus, it would take too much time, combined with high costs to develop a specific customer product without going further into mass production. As a result, Åkerströms can focus on the customer group operating in small specific industries, demanding unique systems, which might be neglected by their competitors because the quantity of sales is not lucrative. For instance, the company developed a remote used for building barrages, or a remote for an explosive ordnance truck.

But, Åkerströms is not only selling tailored products, they offer a broad range of different products from standardised to all kinds of customisation. In other words, the company is not only producing totally customised products; rather many of their products have common features which can be added by specific required customer functions. Another benefit is the history of experiences in knowing what the customers need and how to develop a new product. This capability enhances the customer satisfaction, as well as the reliability of the company’s products.

To gain profit from products which are only sold once to a customer, the development process must be as short as possible. Åkerströms has a well-practised and experienced working team, and thereby the production time can be kept rather short. This leads to another outstanding competitive advantage; Åkerströms has one of the shortest lead times in their industry. Their competitors need 8-16 weeks to deliver the demanded products, but Åkerströms can supply their customers in approximately 2-4 weeks in case of a standardised, or simple customised product. However, it depends on the product, because for larger projects the lead time will be longer. Nevertheless, it is one major competitive advantage of the company to come up with a really short lead time.

In competing with other high quality and advanced providers, Åkerströms remains competitive through their reliable service functions. The company has technical engineers in all export countries, and this is one major requirement before starting to sell in other countries. The partners have to assure that they can provide technical support by engineers to support their customers. The company has service centres around the globe to be near their
customers, and a personal contact person to ensure a trustful and close relationship. These close personal relationships to their customers can be seen as another competitive advantage on the market.

A major weak point is that the company is only known in the Nordic countries, and due to their company size, the number of sales persons is low compared to their competitors. The biggest disadvantage is the generally high pricing of their products; particularly the standardised products have too high production costs compared to the others.

Summarised, Åkerströms’ competitive advantage is based on the following pillars:

- Customisation
- Product quality and reliability
- Product development know-how
- Short lead time
- Customer service and relationship management

Åkerströms has to maintain key resources and capabilities to provide customer value and to stay competitive on the market. Thus, in the next part, the resources and capabilities of the company are analysed, which are needed for the outsourcing decision model.

5.1.4 Resources and capabilities

In this part of the analysis, Åkerströms’ resources and capabilities will be analysed, starting with the resources.

5.1.4.1 Resources

As mentioned before, Åkerströms is dependent on their resources and capabilities. By analysing their tangible resources, the extent of financial assets is strongly dependent on their Norwegian owner Verdane Capital. According to their current aim to maximise the profit of Åkerströms, and sell it within the next 7-8 years, the owners are putting more financial assets into the company in order to reach this goal. The machines, company buildings and related equipments belong to the physical assets, and have an estimated value of 5.7 million SEK, according to their annual report. The second group is the intangible resources, including the
reputation of the company. Åkerströms is a well-known brand in the Nordic countries and acts as a market leader, which can be seen as one of their major key resources. Through the reputation, they have already been able to create a high level of trust and reliability on the market. The basis for that is their high quality focus of their products, which is based on another intangible resource, namely the technological expertise. To be able to come up with high-technology advanced products, the company must develop and maintain high advanced know-how within the company. Hence, according to their market leader position and new product development, it is one of their key resources.

Furthermore, Åkerströms’ organisational culture is another intangible resource, which cannot be measured in monetary value. The company has an open and friendly working climate, which enhances the production and motivation among the people. According to the observations, the employees have a close relationship with their colleagues, and there are no rigid hierarchical structures in the company. As a result, it enables employees to bring up their ideas and recommendations in order to improve the company performance. The major benefit from that type of organisational culture is the personal commitment and ambitions, leading to a high degree of corporate identity among employees, which encourages people to act in the sense of the company. The third group of resources are the human ones. The employees of Åkerströms are open to new products and seem to be eager to gain new skills. Therefore, the motivation and learning capabilities are major strong characteristics of Åkerströms’ human resources. Furthermore, the employees are highly experienced in their working field, thus the skills of the employees can be defined as another valuable resource.

5.1.4.2 Organisational capabilities

As mentioned in the theoretical chapter, the capabilities will be described with Porter’s value chain model, which is illustrated in figure 5.1. By analysing the inbound logistics, Åkerströms carefully select high-quality materials from their range of suppliers. The purchasing skills and long-term relationships with reliable partners guarantees high quality materials, and are major key capabilities within the company. Though, the assembling of the sensitive technical products is kept in-house in order to utilise the technical skills and capabilities of the engineers. Further, by keeping the critical assembling internally, the company assures the vision to be ahead of their competitors in terms of product innovations, and to prevent copying technologies to produce the same outstanding quality products. Thus, Åkerströms’
critical core-capabilities are R&D, as well as their well experienced engineering skills and know-how.

In terms of operations, Åkerströms has highly flexible resources of products, both customised and standardised, and this manufacturing capability enhances the ability to satisfy the specific customer needs on the market. Due to their operational structure, the company is able to develop and produce unique products to gain profits, and this production capability can hardly be copied in other companies.

In the outbound logistics, the company is able to effectively handle incoming orders to keep the short lead time, which represents a high valuable competitive advantage. This is based on their abilities of forecasting customers’ demands.

The next function in Porter’s value chain is marketing and logistics. The company has a strong brand reputation in the Nordic countries, but on the other hand, there is a high potential to expand the brand reputation worldwide. Moreover, the company is concerned about long-term relationships, and has an image of trustworthiness and reliability on the market. By having local sales partners and technical support engineers, the company determines these core-capabilities. According to the customisation of their products, the company can set higher price margins, but due to their high labour costs for standardised products, the company’s price capabilities are rather weak. By analysing the infrastructure of the firm, it gets clear that Åkerströms has a supportive and efficient communication and information system, through their worldwide partner networks. Additionally, Åkerströms provides training in Sweden and aligns internationally the capabilities of their partners to their core values, and the company’s vision.

Finally, in terms of technology development, Åkerströms is ahead in their industry when considering its patents, innovations and successes in product safety regulations.

The strong commitment of their employees and high valuable experiences in developing products strengthens the company when pursuing their strategy of producing customised high quality products. Therefore, the technical know-how and experiences of their human resources are other pillars of their competitiveness. Main weak points of their human resources are the high labour costs and small rate of academically skilled employees,
especially in the administration. The human capabilities in the field of marketing and sales are not proper to expand their sales and brand internationally.

Figure 5.1 The capabilities along the value chain

5.1.4.3 Evaluation of capabilities

After the analysis of the resources and capabilities along the value chain, the next step is to evaluate them related to their relative strengths and importance, which is illustrated in figure 5.2. The major key strengths of the company are their abilities to produce reliable and high quality products, as well as the production of customised products for specific industrial environments. Furthermore, the company’s strength is that their products meet the required
safety regulations and standards, which is essential in their industry. The knowledge about R&D among the employees, the offering of service functions and the local technical support or sales networks, are additional strengths of the company which are considered as critical in their business environment. The communication of their competitive advantage in sales strategies is vital, in order to expand their sales networks and to acquire customers. Though, it is not one of the strengths of the company, as well as the lacking expression of the brand name reputation. More weak points are the production-costs of standardised products and the production capacity for standardised products. Finally, the skills of the administration employees can be improved but are not that important compared to the other capabilities, just as the establishment of supplier relationships in China, where the company has rather weak capabilities.

Figure 5.2 Appraising organisational capabilities of Åkerströms

1. Establishment of reliable supplier relationships in China
2. Communication of their competitive advantage in sales strategies
3. Expression of brand name and reputation worldwide
4. Production of reliable and high quality products
5. Production of customised products for specific environments
6. Production of standardised products
7. Production capacity for standardised products
8. Adhering to safety regulations and standards
9. Providing of service functions
10. Highly trained administration employees
11. R&D skilled employees
12. Local technical support and sales networks

After analysing the capabilities, the next step is to evaluate them according to our outsourcing model, to decide whether the activity should be outsourced or not. The results are illustrated in figure 5.3.

The first capability is the establishment of reliable supplier relationships. Due to the fact that Åkerströms does not have enough human administrative capacity and experiences to establish new supplier relationships in emerging countries, the company should outsource this function. Nevertheless, not only the capacity determines to outsource the supplier choices and maintenances. It is more about the fact that the Chinese supplier cooperation, in terms of quality and ability to supply, is essential for their competitive advantage. Especially when concerning to enter a new international cooperation, it might be of advantage to use expert knowledge of intermediaries. It is important to be aware of the different cultural environment and business habits in order to find a reliable supplier, as well as to establish a trustworthy relationship.

By analysing the communication of their competitive advantage in sales strategies, and the worldwide expression of their brand, the major problem is that the company has too less human capacity and administration skills within their company. Though, the communication of their competitive advantages on the market is essential for their success and to compete with their competitors, thus the company should invest more into that activity internally.

As mentioned before, the production of reliable and high-quality customised products is the key source of the company’s strengths. Therefore, it is one of the most critical competitive advantages, where the company’s internal performance is more capable compared to their competitors. Related to the sourcing strategy model, the production of customised products should be kept in-house.
Due to the fact that Åkerströms has less capacity in the field of producing standardised products, the appropriate sourcing strategy is to outsource it to external partners. The second reason determining the outsourcing decision is that the high internal production costs will affect the whole company performance negatively. Through relying on partners who are more capable in producing standardised products, Åkerströms can utilise that potential to improve their entire profitability. Compared to Åkerströms’ competitors, they are superior in adhering the safety regulations and standards, which is wider critical for their competitiveness. Related to the outsourcing decision model, the appropriate sourcing strategy is to keep it in-house and continue to focus on safety requirements, in order to maintain the market position. The same strategy is applied when deciding where the offer of service functions should be placed. According to their well established capability of providing services and the importance for their competitive advantage, the service management and local technical support, as well as sales networks, should be kept in-house and be continuously improved by the company.

Finally, Åkerströms does not need to outsource the R&D function, because they have skilled employees and are more capable in that field then their competitors. Nevertheless, they must be aware of the need to continue improving and investing into their competitive advantage. In the next part advantages and disadvantages of outsourcing the mentioned functions, are discussed.
Figure 5.3 The outsourcing decision model

1. Chinese supplier management
2. Communication of their competitive advantage in sales strategies
3. Marketing of brand and reputation
4. Production of reliable and high quality products
5. Production of customised products for specific environments
6. Production of standardised products
7. Adhering to safety regulations and standards
8. Offer of service function
9. Highly trained employees
10. R & D
11. Maintenance of local technical support and sales networks
5.1.5 Potential benefits and disadvantages of the outsourcing decision

The major benefit for Åkerströms when outsourcing the production of their standardised products is the reduction of their manufacturing costs. They are caused through their labour costs, which are influenced by the high non-wage duties in Sweden. Further, the company has a highly skilled and experienced workforce, thus it would be uneconomical and too expensive to give them the task to assemble basic standardised products. If that would be pursued, the potential of the employees would not be utilised, leading to negative effects on the level of commitment and personal motivation. Due to the fact that the company’s strategic aim is not to expand their number of employees, particularly the low skilled ones, it is necessary to cooperate with external suppliers to reduce the manufacturing costs. The external suppliers produce at a lower cost level, caused by economies of scale and cheaper workforce. Especially the assembling process of Åkerströms’ products requires manpower, and cannot be replaced by machines, which otherwise would be cheaper. Hence, a supplier from a low labour cost country like China would be a suitable cooperation partner.

Another key benefit of the outsourcing decision is that Åkerströms can concentrate on their core capabilities. By neglecting the production of standardised products, the company can focus on the development of highly customised products, which is their main distinction criterion compared to their competitors. Due to the company’s quantity of sales, it might be hard for them to gain profits from producing and offering cheap standardised products. That is because there are too many big international competitors on the market, who are offering at a lower price level. As a consequence, by concentrating on their competitive advantages, the company can enhance or expand their market position to compete on the market. Nevertheless, their main competitors are also offering cheaper standardised products and for that reason, Åkerströms cannot only rely on their highly customised products, but rather finding profitable ways to come up with standardised products. By outsourcing the assembling of the standardised products, the company decreases their production costs, which enables them to sell the products at a cheaper price level.

Considering that Åkerströms’ owner pursue to expand the profitability as soon as possible before selling the company again, the outsourcing decision of the standardised products would embellish the financial picture of the company on a short-term scale. That is because there are no overhead costs for production listed in the balance sheet. As a result, the stated
end profit will be higher through the fact that no production investments or expenditures are
deducted, instead only the expenditures for the purchase are listed. Another advantage is that
the outsourcing decision enables Åkerströms to avoid large investments into new production
technologies or R&D. But still through their cooperation’s with other suppliers, they will have
access to new innovations. The company also enhances their flexibility as investments in
production processes have long amortisation periods. Based on their small quantity of sales,
that would tie the company for a long time to one specific machine or production process. In
the case of outsourcing, they can easily switch to other suppliers, which might be better to
meet Åkerströms’ product requirements. Especially the perceived customer value and
requirements are changing faster in our current business world, and through the supply from
experts, the company could cope with that issue.

The major disadvantage is that Åkerströms will be dependent on their suppliers. The company
is known as a high quality supplier, and if they will have any quality problems with their
suppliers, their established reputation and image could be destroyed immediately. It does not
matter if it is a high customised product or a cheap standardised one, the quality must be
guaranteed in both cases. Also the production of cheaper standardised products involves
sensible technologies which have to be transferred to their suppliers. Åkerströms must educate
and train their suppliers; therefore they could indirectly handle over their knowledge to
competitors. Another considerable major issue in handling the whole outsourcing process is
the lack of human capacities. Therefore, the usage of the intermediary and consultancy,
Startup, is a strategically good decision.

The lead time might be affected as well, especially when considering using international
suppliers. The logistics managers have to think about this issue and find possible solutions to
cope with it; otherwise they could lose one of their major competitive advantages. Even if it
seems to be cheaper to buy the standardised products from externals from the beginning, there
is still a risk that the supplier could increase the prices afterwards. Therefore, the company
also has to consider the future market developments and trends. Particularly since the
products from Åkerströms are mainly assembled by man power, any new regulations or
labour cost raises will affect the purchase price.
5.2 Purchasing

This second part of the analysis chapter starts with the strategic impact of purchasing and all related supplier issues like the integration, relationship management and the form of the communication. Finally a modified model is applied in order to find the suitable supplier in the outsourcing process; therefore it includes the whole outsourcing process.

5.2.1 Purchasing strategy

The purchasing department at Åkerströms consists of two people, one full-time and one half-time worker. They are working under the logistics department and are also collaborating a lot with the R&D-department, in order to keep their lead times down. There are a lot of steps before the products reach the customers; however, Åkerströms has a short lead time compared to their competitors, which is based in their pursued purchasing strategy. In the context of purchasing strategies, the theory differs between centralised and decentralised purchasing activities, and states that it can be hard to decide which one of them applies for a company. However, it seems like Åkerströms has a centralised purchasing activity, since they have employees focusing only on purchasing and collaborating with other departments of the company. Further, the theory states that it can be hard to manage the communication internally between the departments, but it is possible to solve this issue by transforming the purchasing task to a much specialised issues within the company. At Åkerströms it seems to be no problem with the collaboration between the different departments and employees, as a result of the fact that they have two people only assigned to purchasing tasks. Furthermore, the kind of sourcing has to be clarified, which is mentioned in the theory part. Multiple sourcing means that the company uses many different suppliers for the same product at the same time, and single sourcing is thereby when only using one supplier for each product. Åkerströms is using both single and multiple sourcing, because of the advantages and disadvantages mentioned in the theory. Some of the components for the products are only available at one supplier, and for other components they are using multiple to reach as good prices as possible. It is also important to reach high volumes in order to keep the price down, and then single sourcing is pursued. However, when Åkerströms is using multiple suppliers, the risk of failure of the suppliers decreases, because the switch between them is easier if the relationships are already established. Multiple sourcing is also more common regarding standardised products, and not so much with customised products. Furthermore, the theory
states that it is becoming more and more common to use single sourcing, because of the relationship aspect. Other advantages for single sourcing are less administration and easy communication.

Regarding the four other forms of sourcing; sole, single group, dual and hybrid sourcing, Åkerströms can be considered as a dual sourcing company. This can be explained through their parallel use of two different suppliers for the same product. As stated by the company, the reason for doing so is to put them in competition against each other to reach as good conditions and terms in the contract as possible. The analysis continues with the supplier integration.

### 5.2.2 Supplier integration

The supply chain network structure of Åkerströms is rather complex. As a result of their specific product characteristics, more steps are included from the raw material source to the consumption of the products. As mentioned in the theoretical framework, the network structure involves the key supply chain members, which are the suppliers, partners and customers. Åkerströms works together with a large number of suppliers; approximately 200 companies which are delivering components to them. By analysing the suppliers, around 15 key suppliers are strongly connected to the company, which might create a kind of dependency. To cope with that issue, the company tries to keep the number of suppliers large to avoid any delivery problems, which could cause loss of production and thereby loss of sales. The purchasing department has to guarantee the steady providing of sufficient amount of raw materials for the production. Therefore it is recommendable to conduct an analysis of the suppliers’ supplier networks. Especially the supplier’s business environment and influencing institutions should be kept in mind, because changes might affect the prices and capacity.

In the case of Åkerströms the key suppliers are all from Sweden, which reduces certain risks. They all are operating in the same business environment, which is regarded as rather stable compared to international markets.

### 5.2.3 Supplier relationship management

Related to outsourcing, the next part is the analysis of the customer supplier relationship of Åkerströms. As stated, the company uses around 200 suppliers in their supply chain, but they
do not pursue the same maintenance strategy with all of them. Åkerströms has around 15 partners, with whom they have a long-term oriented and strong personal relationship. The long history in working together with them is crucial in shortening the lead time, because their suppliers know about Åkerströms requirements and needs. Further, they are planning together the expected demands, which support the shortage of lead time and create supply security. Nevertheless, through their large number of suppliers, Åkerströms avoids being dependent on one supplier. In case of different price understandings or quality problems, the company can switch the suppliers.

5.2.4 Supplier communication

The information flow of Åkerströms’ supply chain is a two-way communication process. The customers gives the information about the demand to Åkerströms, the company then make sure if the demanded order can be delivered, and steps back to their customers with the information about delivery. According to their large number of resellers, they inform their customers about the delivery information. In order to predict future customer orders, Åkerströms uses former sales statistics and their close personal relationships with the customers to forecast. Åkerströms does not have a specific forecasting tool to use; instead the managers are trying to come up with forecasts, which might not be as accurate as when using a specific tool.

5.2.5 Outsourcing process model

After the decision to outsource the production of their standardised products, the next question concerns which suppliers should be used, and how the outsourcing process should be handled. Related to the illustrated model in the theory chapter, the first step is to define the need of Åkerströms. According to the fact that the company does not have the resources to handle the selection and maintenance of the Chinese suppliers by themselves, the intermediary Startup helps Åkerströms to cope with that. As explained earlier, the company needs a supplier that is able to produce the company’s standardised products cheaper without neglecting their high quality. Additionally, the supplier must be reliable in order to keep the short lead times. Further, it is important that Åkerströms knows about the expected demanded amount of their products in order to calculate. Therefore, as explained in the supply chain analysis, the sales persons and marketing manager must come up with an adequate market forecast by using their personal relationships.
The next task is conducted by the intermediary Startup which has to evaluate the quality and reputation of possible suppliers. When buying cheaper standardised products it is important to focus on the quality issue, which could be done through examinations of other products from the company with help from Åkerströms’ expert knowledge like their quality audits.

The following step is the cost analysis that is done by both Åkerströms and Startup. Åkerströms has to calculate how much it would cost to produce the standardised product in-house, including the overhead costs like manpower for production and administration, electricity, rent and the needed tools and equipment. It is important to calculate costs which are not obvious, for instance R&D, or the trainee program for employees. After the analysis of Startup about the expected purchase price and intermediary fees, the company can come up with the costs of outsourcing the production. The costs of producing in-house and outsourcing can then be compared, and if the cooperation with externals is associated with higher costs, the company can still step back by rejecting the project.

The next step is to think about possible risks and difficulties. Concerning the suppliers, Startup has to consider the potential quality or capacity problems. Additional risks could be raising costs, copying of sensible technology or delays in delivery. The major risk for Åkerströms is that the intermediary changes the terms of conditions or that the chosen supplier does not meet the company’s expectations, which will have negative effects on their competitiveness.

After the consideration of all possible risks, the most appropriate supplier for Åkerströms will be chosen by Startup and the companies can think about a proper contract to cope with the threats. Therefore, all involved parties have to think about the terms and conditions of the partnership. Åkerströms has to keep in mind that their suppliers could acquire their customers by offering their products cheaper; however, this issue should be fixed in the contract. Therefore, the issues of intellectual property rights and competition clauses must be included in the contract between Startup and Åkerströms. In particular, responsibilities, liabilities and the information flow must be clearly defined and negotiated to avoid misunderstandings.

The last point to be taken into consideration is the future supplier maintenance, which is done by Startup. The company will decide on the relationship strategy, communication channels
etc. After a certain time, Åkerströms can evaluate the whole outsourcing process by considering potential improvements or changes.

Figure 5.4 Åkerströms’ outsourcing process

Through the decision to outsource the production of the standardised products, the most appropriate supplier is a Chinese one. Due to their lack of experience and human capacity, Åkerströms uses Startup as an intermediary to cope with that issue. Based on the fact, that these two activities are falling into the context of offshoring to China, the next part will discuss this.
5.3 Offshoring

In this part of the chapter, Åkerströms’ offshoring to China will be analysed with the major reasons, risks and cultural differences at hand.

5.3.1 Offshoring to China

One of the reasons for offshoring to a low-cost country is that the outsourcing company wants to become more competitive on the global market. That is also the case for Åkerströms. The interviews showed that the two major reasons for placing some of their production in China is because their competitors have done it, and to be able to produce their standardised products at a lower cost to compete with them. It is in fact an important strategy for globally competing companies, because the costs of man-hours are too high in the Western countries in order to be able to compete on the market. Åkerströms has chosen China because of their relationship with Startup and because of their desire to establish themselves in the prospective Chinese market. However, the country also has a really high-technology manufacturing, which attracts companies to outsource there.

There are three different key factors that determine the reasons for offshoring; economic, strategic and environmental. As mentioned earlier, the cost factor is applied by Åkerströms since they want to produce their standardised products at a lower cost in order to be able to sell them cheaper than today. It is the same for the strategic factor, because Åkerströms is in one sense doing it to be able to focus on their core competencies and to improve business focus and performance. Also the third aspect, the environmental factor, is applied by Åkerströms since they mentioned that their aim is to improve the quality of their customer services. This leads to increased global competitive advantage against their competitors, which are not so focused on after-sales services as Åkerströms is.

Besides the aspects of cost-saving and more efficient production, there are also disadvantages related to offshoring. That is for instance the loss of control over the production, fear of job losses and lower staff morale, and for Åkerströms they are important aspects to consider.

Especially the empirical study determines that Åkerströms employees see the offshoring decision to China more as a threat than as an opportunity. The biggest issue for them seems to be the fear of losing their jobs. According to the empirical and theoretical study the other Chinese offshoring risks founded in the empirical and theoretical study are the IP problems,
the lack of quality and the logistic issues. Nowadays, joint ventures are a common way to overcome these risks, which is also the reality for Åkerströms because of the relationship with Startup. The intermediary handles to some extent the mentioned risks. More, to solve the issue of quality and sensible IP issues, Åkerströms is only purchasing standardised products over which production is not as crucial to control.

There are two groups of risks that Åkerströms needs to consider when outsourcing to China; operational and structural risks. The operational risk concerns the processes and the structural risks address issues of relationships. To conquer these risks, Åkerströms has established the mentioned joint venture and they have outsourced to an offshore location. Companies should outsource when both the operational and structural risks are low, otherwise offshoring is not sufficient for the company. Thus the decision to outsource to China is appropriate for Åkerströms. However, in the context of offshoring, especially the cultural differences between the preferred offshoring location and the home-country needs to be considered. In Åkerströms’ case they try to build bridges between Sweden and China through their relationship with Startup. That is because Startup is present in China and has both Swedish and Chinese employees to be able to transfer the requirements from Åkerströms to the suppliers.

Finally after the decision is taken to offshore to an emerging country like China, it becomes necessary to know about the involved relationships and networks in the process. Therefore the final part of the analysis will deal with that issue.

5.4 Relationships in supplier networks

At first the supplier networks and relationships are explained, which is followed by the basic rules model of Åkerströms and China. The next section is the analysis of the network map and network strategy.

5.4.1 Supplier networks

Having a network of suppliers makes purchasing easier for companies, and it is important to maintain the relationships within the network, in order not to lose the contact. Sometimes companies have to adapt to the suppliers and sometimes it is the other way around. When
offshoring to China, it is crucial to adapt to the business environment there, otherwise the whole project will have to face risks of failure. Furthermore, it is not possible to conduct business there without good relationships within supplier networks, and therefore the next part will analyse the impact of relationships.

5.4.2 Relationships

As mentioned earlier, relationships are important for the networks of the company. However, it is even more significant when operating on an emerging country market, such as China, as a result of the differences between Chinese and Western network characteristics. The differences are mostly present in culture, organisation and economy. Especially trust plays a critical role in establishing and maintaining successful networks in China. It takes time to create trust, but once you gained it, it brings a range of long-term benefits. Åkerströms uses an intermediary with an already established network of suppliers in China, and thereby had an extensive and reliable network already from the beginning of their offshoring. Startup has gained trust among the Chinese suppliers by working closely together with them for a long time and demonstrating them their reliability. They have both Swedish and Chinese employees who are capable of supporting them building up the network.

Five different stages when entering an emerging market and establishing the mentioned relationships are presented in the theory chapter. According to these stages, Åkerströms can be seen as being in the long-term stage, or more precisely, Startup is in the long-term stage and therefore also Åkerströms. If they would have entered the Chinese market without Startup’s help, then they would have been in some of the earlier stages, probably still working on the relationship building since it is time-consuming. The long-term relationship stage however, means that the parties know and trust each other, and that the work is mostly based on routine.

The fact that they have a lot of customised products also means that their relationship with suppliers and customers are extensive, and Åkerströms has also a good relationship with their partners. The relationships with the Chinese suppliers are handled through Startup, but that is for the standardised products, and they are using all their suppliers as an extra resource in the company. When Åkerströms is developing new products they are considering the requirements from the customers, as well as from the suppliers, to add extra value to the final
product. The analysis moves on with the basic rules model of both Åkerströms and China in order to see the characteristics of the two, and how they match each other.

5.4.3 The basic rules model

In this part, the basic rules model will be applied and analysed according to our case. First it is applied on Åkerströms, and then on the Chinese business environment. The reason for applying it on both is to be able to draw conclusions about which adaptations Åkerströms has to make in order to do business in China, since the similarities and differences will be distinguished.

5.4.3.1 The basic rules model applied on Åkerströms

According to the theory, the basic rules model consists of four basic rules which are based on the formal and informal rules of the company’s external and internal environment. The four rules are values, norms, thought styles and enforcement mechanisms. When applying these on Åkerströms it is clear that they are bringing them to other countries as well, when moving around the globe. However, they are using partners in different countries, and Startup in China, to adapt their way of thinking to the customers and people in the specific countries. That is to be able to conduct business there and to be able to understand the culture at hand.

Looking more specific into the different rules, starting with values, Åkerströms’ key values are quality, reliability, design and service. These are most applicable for the customers in Scandinavia, but they are trying to implement it also on other markets. Their focus is to keep their position of being the market leader in the Nordic countries, as well as to continue expanding in Europe and maybe in America and China. A lot of effort is put into the relationships with customers, suppliers and partners, and their spirit of serving customers with high-quality, customised products is apparent. They have a strong focus on their customers and to serve their demands, which is easiest done through the local resellers and partners both inside and outside Sweden. They offer after-sales services and technical support, with the aim of establishing a long-term and close relationship with the involved parties.

The norms of the company seem to be very integrated and shared by the employees and it does not seem to be an issue which they have to cope with. That might be because it is a rather small company in a small village in the middle of Sweden, where everyone knows
everyone and most of the employees grew up there. In other words, no written guiding principle is needed for the employees to know how to act and behave among each other.

As mentioned earlier, the thought styles of the company seems to be incorporated into the strategy of the company, when entering new markets and establishing relationships with new partners. The thinking inside the company seems to be aligned with the company’s norms and values, and the employees’ commitment to work is very high. All the employees are working together to reach both their personal goals as well as the goals of the company. Again, a reason for being such an effective environment might be the fact that they more or less grew up together and knows each other from before. The decision-making process of the company is also included in the thought styles. At Åkerströms the process is short and centralised; due to the fact that all decisions are made by the president of the company, and everyone have a close relationship to him, and they are working close together.

The enforcement mechanisms are more or less neglected at Åkerströms, in the sense of incentives and sanctions. The reason for that can be their strong commitment to their work and their close personal relationship among the employees. Instead, if something happens, it seems like the employees solve it themselves.

The basic rules model for Åkerströms Björbo AB is depicted below in figure 5.5.
5.4.3.2 The basic rules model applied on China

In this part of the analysis, the basic rules model will be applied on the institutions of the Chinese business environment, starting with values. The major values in China are the family and their extensive focus on the relationships. The family still rules a lot of the relationships, also in the business environment; however, it is nowadays possible to enter such a relationship as an outsider of the family. Since it is the relationships that govern in China, they can easily change, but it does not affect the values in China.

Regarding the norms, there are a lot of unwritten rules that control how people are behaving. Both the people and the companies tend to follow the others' behaviour, thus if someone changes something many of the others are following. Additionally, if the government command changes, the companies in China tend to change directly to show that they are following the government’s recommendations. Even though the Chinese state-owned companies are being privatised, they still rely on the government and the help it is providing.
for the companies. China can be considered to be both hierarchical, and not, even though people still perceive the country to be very hierarchically structured. That is, once again, due to the relationships that makes the whole business environment more open for changes.

Moving on to the thought styles, one factor is the decision-making process which in China is very complex and not transparent at all. This means that the decisions are not considering the equity of all involved parties before making the decision. The thought styles in the Chinese business environment are still somewhat aligned with the government’s way of thinking and conducting business. If a company is inefficient and unprofitable, they do not lay off workers to cut down costs, instead they continue in the same way as they always have. That might be because the government still gives the companies incentives to keep the employees, which in turn also is a way of not showing how the business is going.

The enforcement mechanisms in China are shown through these incentives from the government, as well as sanctions. The incentives are for the companies to keep on the preferred track of the governments will, and the sanctions is what happens if they are not following this ultimate behaviour. However, it seems that it does not matter that much whether the principles are followed or not, since the relationships makes the environment flexible and it is hard to draw the line of what is acceptable or not when doing business.

The concept of losing face is a crucial issue when doing business in Asia; however it cannot be strictly separated into any of the above given basic rules. Instead, it can be considered as both norms and thought styles. It is a norm in the way of an unwritten rule to follow; you do not make anyone lose their face on purpose. It is also a thought style as it is a common way of thinking among the Asian people. However, it is not as crucial for foreigners to consider this issue as many perceives it to be.

The next part of the analysis is the network map where Åkerströms’ relationships and networks of are drawn up. Then also linkages will be made to how the networks will be affected by offshoring to China.

**5.4.4 Network mapping**

A network map is done to be able to see where to put the focus and effort in the existing networks. Below the network map for Åkerströms is depicted.
5.4.4.1 The vertical dimension

The vertical dimension in the network map concerns customers and suppliers. Regarding the customers, Åkerströms has both international and domestic customers which are all handled mostly through partners. The customers are mainly big Swedish industrial companies. Åkerströms has several resellers in Sweden, which are responsible for the after-sales-services and maintenance of the products, and they are the first tier of the domestic customers in the network map. Åkerströms is educating them which make it easier to handle the services, and the customers can have a close relationship with their local resellers in Sweden, instead of a weak relationship with Åkerströms directly. The customers are the second tier in the map. However, Åkerströms sometimes visits their bigger customers to help and educate them, instead of going through the resellers, but most of the contacts are through the partners.

Åkerströms have partners spread out in the world which are serving Åkerströms’ international customers at their respective home-markets, as well as the neighbouring countries. That
makes it easier to be present in many different countries since the partners are handling the
issues of language and culture. Åkerströms are educating them and they have to fulfil certain
requirements before becoming a partner. Also here, the first tier in the map is the partners, and
the second is the customers.

The partners, both domestic and international ones, are actually the ones finding new
customers for Åkerströms. That is, because they have existing relationships with businesses in
their countries and Åkerströms are not actively trying to reach out to new customers. Instead,
they are almost only depending on the partners’ ability of increasing the customer base.
However, Åkerströms are visiting the big fairs to show their products and establish new
contacts. Their sales persons are out visiting both new and existing customers, but it seems
like the partners are most successful in finding new customers.

Another way to distinguish the customers is according to the theory between public and
private customers, and between new and established ones. Åkerströms has more public
customers than private, because the products are too complex and advanced for private
customers to buy. The theory states that new customers are more profitable, but the
established ones are easier to handle the relationship with. For Åkerströms, the relationship
aspect of the customers is not that crucial, since it is done through the partners. Åkerströms’
customers and partners will not be affected by the offshoring to China because the quality of
the products will not be changed, and the lead times will not be extended too much. Though,
the products might be delivered directly from China in the future, but that should not affect
any of them.

The other aspect on the vertical dimension is the suppliers, which can be divided up into
short-term and long-term relationships. Åkerströms has an extensive network of about 200
suppliers around the world, though mostly in Europe. As mentioned in the empirical chapter,
about 15 of these suppliers are delivering 70% of the components to Åkerströms. The biggest
suppliers are Swedish companies, and the other big suppliers are from Germany and
Denmark. The requirements when choosing new suppliers are quality and price. The
relationships with the suppliers in Sweden are close and on a long-term basis, the detailed
analysis of the relationships is presented earlier in the context of purchasing. Nevertheless, as
illustrated in the network map, Åkerströms’ suppliers have in turn their own suppliers, which
are shown as second and third tiers.
When looking at the supplier relationships in China, they are indirect, buy anyway considered being long-term because of Startup’s involvement. They are handling all the contacts since they are the intermediary between Åkerströms and the suppliers, and Åkerströms is benefiting from Startup’s well-established network. Without their help, a long and time-consuming process would have started for Åkerströms to establish the necessary relationships, and to build up trust among the parties.

The supplier network of Åkerströms might be somewhat affected by the offshoring project to China. That is because the company might choose to neglect some of the relationships in their existing network of suppliers both in Sweden and internationally, if they find new and more suitable suppliers in China. This will not be the case from the beginning, but when establishing them on the Chinese market; their networks will thereby also be changed.

5.4.4.2 The horizontal dimension

The horizontal dimension of the network map is concerning the competitors of Åkerströms. The company has no direct collaboration or relationship with its competitors, but still they are observing them mainly through published information and customers, to stay competitive on the market. The biggest competitors are two companies from Germany; HBC and NBB, because their product range is closest to Åkerströms’. Further, they have several competitors in Sweden, Norway, Spain and USA, but they are mostly competitors to only one or a few of the products and not the whole product range as HBC and NBB are. When looking at the competition from China, Åkerströms do not consider themselves to have any direct competitors there, since their products are characterised with high quality compared to the lower quality from the Chinese companies. There are no companies on the Chinese market producing any similar products as Åkerströms today, but still they feel the risk of such a company coming up, if they are entering the Chinese market.

The competitors to Åkerströms will not be affected in a short-time perspective, because they are already present on the Chinese market. However, in the longer run they will be affected by Åkerströms’ offshoring to China, since Åkerströms now are entering their market segment by producing and selling cheaper and mass-produced products. It is not possible to determine how much they will be affected; it depends on how well the products are perceived on the market and by Åkerströms’ existing customer base.
5.4.4.3 The diagonal dimension

The diagonal dimension concerns two different dimensions; financiers and government. Regarding the financiers, the theory states that there is a trend towards using financial markets as a competitive tool. However, Åkerströms does not have any network of financial organisations, others than their owners and some banks. Therefore their owner, Verdane Capital, is the most important player on this dimension. Their role is to maximise the profit of Åkerströms within a time period of 7-8 years and then sell the company again, either back to the earlier owners, or others that are interested. Though it seems to be a good way of solving money issues, it is not beneficial for all companies since they have to follow certain strategies to maximise the profit on a short-time horizon, instead of working with a more long-term thinking. Both the banks and Verdane Capital are shown in the network map as first tier.

Regarding the financiers, the banks will not be affected by Åkerströms’ offshoring to China, but their owner Verdane Capital will be. That is because Åkerströms will increase their profitability when producing in China, which Verdane Capital will benefit from.

The other player on the horizontal dimension is the government. The impact of the government has decreased during the past few years because of clearer rules and regulations. In China, the government is also decreasing in importance, but there is still necessary to have relationships and contacts for a successful business in China. That is especially because the government is changing the rules all the time, and without the experience and knowledge, it can have devastating consequences. Since Startup is experienced in doing business in China they can easily adapt to the changes made by the government, which is a big advantage for Åkerströms.

When considering the impact of Åkerströms’ offshoring process on the government, neither the Swedish nor the Chinese government will be affected. The next part of the analysis is the network strategy, which is related to the network map.

5.4.5 The network strategy

The network strategy of a company is based on the network map, and the same dimensions are included for the usage of it. The network strategy is about relating Åkerströms to their market, in terms of customers, suppliers, competitors, financiers and government, in determining where to put the focus, and to see the size of the network. It is also important to
consider the relations between the different partners in the network, in order to make sure they are not working against each other but working together. Further, Åkerströms is now also somewhat present on an emerging market which makes the issue of networking more important. The theory says that when different organisations collaborate on an emerging market, you have to work together with more parties in the network, even though you would prefer only one of them. That is another advantage for Åkerströms to use Startup since they are handling these issues for Åkerströms. Instead they can focus more on their core competencies, which they keep in-house in Sweden.

5.5 Summary of the analysis

By analysing Åkerströms’ related to the first question “What is the basis for the decision of which parts to outsource?” the following arguments can be made:

- **The strategy** is to maintain their market leader position in the Nordic countries, combined with the expansion to other nations through the offer of high quality standardised or specific customised products.
- **The perceived customer value** of Åkerströms is based on the three pillars: reliability, customisation and service function.
- **The competitive advantage** is obtained by the customisation of their products, their high product quality and reliability, their short lead time as well as their outstanding customer service and relationship management.
- **The key resources are:** brand reputation, R&D knowledge, employee commitment and high experienced employees.
- **The key capabilities are:** purchase of high quality product components, R&D and technical know-how, customised manufacturing, short delivery times, adhering safety regulations, offer of service functions, local sales services and doubtless the production of reliable and high quality products.
- **The weak points according to the capabilities are:** Chinese supplier relationship management, communication of their competitive advantages in sales strategies, production of standardised products and lack of skills among the employees.
• Åkerströms should **outsource** the Chinese supplier management for new contracts and the production of standardised products.

• The **major benefits** are the reduction of the manufacturing costs, concentration on the core capabilities, and embellishment of the financial picture. But on the other side the outsourcing decision is also combined with **threats** as the dependency on the supplier, passing on of sensible knowledge, longer lead times and changes in future price conditions.

After the decision is taken which activities will be outsourced, the company has to reflect about the supplier management. Therefore the second research question, “*How does the selection and maintenance of the Chinese suppliers look like?*” is analysed related to Åkerströms, which obtains the following results:

• The company pursues a **centralised purchasing strategy**, as a result of their employees’ specialisation on purchasing, by collaborating with other departments in the company. Further, Åkerströms pursues a combination of **multiple and single sourcing**.

• Due to their products, Åkerströms has a **long and complex supply chain**.

• According to the relationship the company concentrate on **15 partners** with whom they have a **long-term oriented and strong personal relationship**, in order to avoid dependency on specific suppliers.

• The information flow in the supply chain is a **two-way communication process** in order to manage the forecasting, Åkerströms uses their former sales statistics and close personal relationships of their sales persons to their customers.

• In the outsourcing process the **intermediary Startup** supports the company through selecting the right supplier for them and assuring the further maintenance process. That is a result of the fact, that the most suitable suppliers, who are meeting the requirements of Åkerströms, are located in China. Therefore, to deal with the lack of capacity and cultural awareness, they decided to cooperate with the intermediary Startup.
• The task of Åkerströms is to define the company needs, specific supplier requirements and to set the appropriate countermeasures for all involved threats and difficulties.

As mentioned earlier, the most appropriate suppliers for Åkerströms is located in China. Due to that fact, the next question is about “When offshoring to China, what needs to be considered?” During the analysis of Åkerströms the following results was obtained:

• The major reasons why Åkerströms decided to move to China are based on the facts that their competitors moved their production to China and more that the country is well known for cheaper labour costs. Especially when reducing the production costs of their standardised products, the company can gain benefits from their low manpower expenditures. Further the high-technology manufacturing makes it attractive for Åkerströms to move to China.

• The major threats for Åkerströms are that they might lose control over their production, the fear of job losses and lower staff morale. The company deals with the intermediary Startup to overcome the occurred risks when offshoring to China.

After the decision is taken to purchase from an emerging country like China, it is necessary to know about the involved relationships and networks in the process. That is done in order to figure out if they might affect the current networks of the company. Therefore the last question deals with “Does the Chinese culture affect the networks of a company?” and the analysis of Åkerströms leaded to the following results:

• The company uses the intermediary Startup to deal with the cultural issues of China, like the establishment of trust. The major benefit of the cooperation is that the intermediary already established extensive and reliable networks in China and thereby makes the entry easier.

• By analysing the different relationship stages, Åkerströms is already located in the long-term stage, meaning that the parties know and trust each other, which is a result of the cooperation with Startup.
• Looking at the basic rules model for Åkerströms and the Chinese business environment, it becomes obvious that both of them have a strong focus on relationships, both have unwritten rules which everyone follows and their thought styles among the employees follows the ones for the institution. However, the decision-making process seems to be the crucial point when comparing the two.

• By analysing the network map, Åkerströms has a large number of international customers which is accomplished by their extensive international networks with partners. Further, they put a lot of focus on their customers by trying to meet their demand and requirements. Furthermore, the competitors, government and financiers are not so influential on Åkerströms business, compared to the customers and suppliers but they anyway needs to be considered.

• The network strategy shows that Åkerströms should focus on their core capabilities since Startup is handling the other critical issues in China
6 Conclusions & recommendations

The conclusions are based on the analysis in order to solve our main research question with the aim to provide practical case specific conclusions. First of all we will answer the research questions and then go further to the recommendations.

6.1 Conclusions

SUB QUESTION 1

What is the basis for the decision of which parts to outsource?

The SMEs makes their decisions what to outsource on the basis of the strategic evaluation of their corporate resources and capabilities. Further, based on the obtained capability characteristics the management decides which purchasing strategy the company should pursue. In order to take the right decision of which parts to outsource, it is of high importance to consider all potential threats and benefits of outsourcing.

As found in the empirical research the SMEs tend to base their outsourcing decision on their competitors and the attraction of lower production costs. Nevertheless in our opinion, the outsourcing decision has to be taken from a strategic point of view, instead of emulating what the competitors are doing or the entire consideration of the cost benefits. For instance, our case company is superior in developing high quality customised systems; therefore it might not be necessary for them to compete against their competitors on the level of cheap standardised products. Due to their company structure and resources it might be tough for them to sell the same quantity of products. Thus, companies have different strategies and capabilities that must be considered. Moreover, it might even be cheaper for an SME to outsource core-capabilities if one of the threats, affects their competitive advantage or perceived customer values. Then the whole company would suffer tremendously. As a consequence, the arising costs could never be substituted by the cost savings of sourcing from externals. In the right outsourcing decision the maintenance of the competitive advantage and the awareness of the perceived customer value must be included in the process, as well as the possible threats and benefits. When deciding to outsource, it is necessary to think about the
specific requirements and characteristics of the SME, which is also recommended in the outsourcing literature. Thus, the developed outsourcing decision model combines the strategic aspects, which have to be considered in that context. Specifically, SMEs are often confronted with a lack of sources and strategic outsourcing knowledge. In order to overcome that problem the management can use this model. The model is not related to the specific case company, leading to the benefit that the model and conclusions can be further extended to other SMEs.

However, when the outsourcing decision is taken, it is of high importance to think about the sourcing strategy and the question of how the suitable suppliers can be found, to reach the company’s aim of outsourcing which is covered in the second sub question.

**SUB QUESTION 2**

*How does the selection and maintenance of the Chinese suppliers look like?*

The answer to this question is the developed outsourcing process model, which includes all components and aspects which are essential when selecting and maintaining the Chinese suppliers. Furthermore, a detailed explanation follows regarding which components and aspects that is included in the outsourcing model.

The answer was found by analysing the purchasing process combined with the selection of suppliers. By having a centralised purchasing activity, all the processes regarding purchasing are kept in-house to make it easier to allocate the resources. If the employees are specialists and working only with purchasing, the selection of suppliers will be more successful due to their competence. The selection of suppliers is crucial since more and more companies rely on a few suppliers instead of cooperating with a large number of different suppliers, and then each supplier has to fulfil the company’s requirements. However, one strategy is to combine single with multiple sourcing in order to gain the major benefits from both strategies and overcome the weak points. Particularly when companies produce customised products, it is important to think about suitable partnerships. When focusing on purchasing, companies gain important information and appropriate supplier criterion, which are essential in the outsourcing process model. Furthermore, the management has to consider how to integrate the
suppliers into the company’s activities, how the communication and information process will look like, which further leads to the supplier maintenance. If the suppliers are properly integrated into the company’s purchasing process, the maintenance and the relationships with the suppliers will be easier.

Additionally, the study showed that the lead times of the products will be lower when having a close relationship with the suppliers, because then planning of future demands are easier to estimate. Besides, the usage of an intermediary is beneficial when offshoring to China since the needed networks of suppliers exists, and the intermediary does the evaluation of quality and reputation, as well as the maintenance of the Chinese suppliers. The company can instead focus on the selection and maintenance of suppliers in the other networks.

Therefore, an outsourcing decision model was developed to show how the different departments of the company are integrated with each other. The aim was to come up with a model that combines the purchasing strategy and supply chain aspects, since many companies are using an intermediary when offshoring, which is not considered in the existing models.

**SUB QUESTION 3**

*When offshoring to China, what needs to be considered?*

It has to be taken into consideration “why” the company particularly wants to offshore to China, as well as all potential threats and opportunities when choosing that emerging country.

The management has to think why China is more suitable for the offshoring process then other rising emerging countries like India or South America. Because, the analysis of the offshoring country, according to their possible benefits for the company and threats, is essential in order to utilise the highest potential of the whole offshoring project. Moreover, the SMEs can integrate the benefits of purchasing from China in the corporation and think about suitable countermeasures to cope with the problems.

As stated in the theory and determined through the empirical study, China presents one of the most popular offshoring countries, based on their low labour costs and high-technology manufacturing. Mainly smaller companies, which are not able to produce at a comparable low cost level through the lack of capacity and capabilities might benefit from offshoring to
China. Nevertheless, it is important to think about all the relevant risks involved with offshoring to China. During the conduction of the empirical and theoretical study, it was stated that the companies are mainly worried about the quality, IP issues, political risks and rising labour costs in the future. In the theoretical study it was found that the fear of labour cost increase is to some extent overrated, due to the high demand of employees, it is assumed that they will remain low at least the next 7-8 years. One major concern is the importance of relationships in emerging countries in order to establish profitable business partnerships. As mentioned, SMEs can cope with the lack of international experiences or relationships through the cooperation with an intermediary, who possess the necessary knowledge as well as ties and networks in the offshoring country, which has also be considered when offshoring to China.

Therefore the next research question will in detail answer “Does the Chinese culture affect the networks of a company?”.

**Sub Question 4**

Does the Chinese culture affect the networks of a company?

To response to the fourth and last sub question, the networks of a company have been described and analysed to find out the important characteristics, which might affect the networks when offshoring to China. The networks affect all the activities of a company since it is reliant on the networks’ performance. However, networks are not stable or in balance, which makes timing an important aspect since activities affect all the players in the network in some way.

When taking such a big step as outsourcing a business activity or function to an offshore location like China, the networks are immediately affected in different ways. Besides, they increase in importance since they are essential to make business at all, and the need to enter new networks arises on the offshore market. China is an emerging market with a high focus on close and long-term relationships within its networks, and with big cultural differences compared to Western markets. Therefore, the offshoring company has to put a lot of focus and effort in understanding and adapting to these differences, which indirectly affects its existing
networks. To overcome the risk of sacrificing the established networks, once again the usage of an intermediary is a good solution. Although using an intermediary, the networks will be affected, however not necessarily in a negative way, because then the company enters directly into a network in the long-term relationship stage.

If looking more into the different possible affections, the theory presents models which distinguishes and pictures the companies’ networks and relationships. They are also used to relate the companies’ internal environment with the external, and how the institutions are affected. The values, norms and thought styles of the company have to be interpreted and aligned with the networks and involved institutions. When seeing the whole picture of the company’s networks it is easier to decide where the focus is needed. This is particularly important when operating in an emerging market since in these markets; the relationships do not only include one specific organisation, but all the related organisations as well.

To see if the Chinese culture affects the company’s networks, an analysis of the characteristics of the Chinese business environment is needed. That is to see what the similarities and differences are between the company and the offshoring country in terms of doing business. If the differences are big, the usage of an intermediary can make the transfer easier. Furthermore, the intermediary enables the company to maintain the existing networks and thereby not lose any relationship because of the offshoring. However, the network of customers and partners will not be affected because the quality of the products outsourced will not change. Moreover, the suppliers might be affected since the company established new relationships and might thereby chose to neglect some of the existing ones. The competitors will be affected by the offshoring because the company might increase the possibility to compete on the market for different reasons. If the government or financiers will be affected is up to the specific cases and how the relationships with them looks like for the company. Hence, the actual affects the offshoring to China has on the networks depends on the specific situation, though it is clear that the networks will be affected.

**Main Research Question:**

*How does a SME offshore to China?*
To be able to give a final answer to this main research question, the conclusions from the sub questions will be related to each other to draw the final conclusion. The main research question is based on four pillars; outsourcing, purchasing, offshoring and relationships in networks, which are the base for the sub questions. This knowledge is needed to answer how an SME is offshoring to China, and it will be presented in this last part of the conclusions.

To figure out how SMEs offshore to China, the first step is to evaluate which parts of the company that should be outsourced by evaluating the competitive advantages and perceived customer value, as well as the strategy of the company. The activities that are considered less important for the company’s business can be outsourced. Further, the strengths and weaknesses are distinguished to define the company’s capabilities, in order to be able to find the suitable purchasing strategy. Besides, an analysis of benefits and disadvantages of outsourcing is a good complement before making the decision. The decision to outsource or not is not just a simple make-or-buy decision, more it is embedded within the whole company and therefore it is essential as well to consider the strategic aspects. Thus, it is of high importance to look at the company’s capabilities related to the competitive advantage, which is conducted in the thesis with the capabilities model. The aspects are combined in our outsourcing decision model in the theory chapter. It is a combination of the company’s capabilities, the sourcing strategy, as well as the advantages and disadvantages of outsourcing, leading to the outsourcing decision. The focus when deciding what to outsource has to be based on the strategic impact, and not on the short term cost savings, because that is the most common reason for failing when outsourcing.

Moving on to the question about how the selection and maintenance of the Chinese suppliers look like, it is needed to analyse the purchasing process in combination with the selection of suppliers. The first step here is for the outsourcing company to analyse how purchasing is conducted to get a picture of the requirements when deciding on the supplier. The study determines the importance of defining how the suppliers are integrated into the company to see their impact on all the activities of the company. Therefore, companies shall define the pursued purchasing activity and make it a specialisation inside the company to benefit from successful supplier selections. By defining how the supplier relationship management is pursued and how the supplier communication process is conducted, it is possible to decide which suppliers to select, as well as how the maintenance activity should be pursued. Smaller
companies do often not have enough capacities or capabilities to deal with the issue of finding suitable suppliers in the offshoring country, which can be solved by using an intermediary in that country. Therefore, the intermediary is added in our outsourcing process model. Furthermore, the model includes all steps necessary to come up with suitable suppliers as well as maintenance of the relationships, all in order to achieve potential benefits from offshoring. However, there are other things that the company has to think about when offshoring to China and these aspects are brought up in the next sub question.

First of all, the company has to determine why they want to outsource to an offshore location, and what they will gain from it. Furthermore, if choosing China to be the offshore location, they have to consider why they want to move there and to consider the threats and benefits from choosing an emerging country. China is one of the most popular offshoring countries because of their low labour-costs, combined with high-technology production, and the willingness to learn. The biggest threats however, are issues about quality, IP as well as political risks and possible rising labour costs. The findings after considering all benefits and threats determine the level of integration and strategic change within the company. That is because the purchasing strategies are mainly distinguished through that level of integration. The case company determines that smaller companies can overcome the mentioned problem when considering offshoring by cooperating with an intermediary. Furthermore, the culture needs also to be considered since it differs a lot from the Western cultures. That is why the fourth and last sub question takes up how the networks will be affected by the Chinese culture.

In order to find out how the networks can and will be affected, the company has to figure out how their current network and relationship structure look like. By using models designed for these issues, the company sees where to put the focus regarding the existing networks, and which new ones that needs to be established to enter the new market. Moreover, the company can distinguish the differences and similarities between their values, norms and thought styles, and China’s. When going to China it is crucial to build up a network of relationships as well as to enter existing relationships in China. However, it is a time-consuming and costly step for many small companies to take, and therefore a good solution is to take usage of an intermediary. Since trust is such an important aspect for the Chinese, and very hard to achieve, small companies should enter existing networks through an intermediary.
As offshoring to China is such a big step for small companies, the existing networks and relationships will be at least somewhat affected by it. However, this study shows that it is not in a negative way, if the company uses an intermediary. That is because then they can still focus on the existing networks and thereby not lose any important relationship while offshoring to China.

Offshoring seems to be attractive for many companies to reach short term cost saving, but as recognised in this thesis, it is a highly complex decision, especially due to the fact that it involves strategic as well as cultural aspects. Thus, the management has to think beyond the monetary intentions to avoid painful and expensive failures. If the SME uses an intermediary when offshoring a business function to China, they will be able to reach higher goals in shorter time, without sacrificing or giving up any relationships.

6.2 Recommendations

In this part of the chapter, the recommendations for the company Åkerströms Björbo AB will be presented and discussed. The recommendations given below are based on the empirical study combined with the analysis, and more specifically directed towards the company, compared to the conclusions which are general.

- **Improvement of the decision process regarding outsourcing to China**

Åkerströms is pursuing their outsourcing strategy mainly to save costs, which is the most common reason for outsourcing in general. Apart from that reason, the company also emphasises that they have to go to China because their competitors are already producing there. As mentioned before, due to several factors, it is too expensive for them to produce the standardised products in-house. However, from our point of view, Åkerströms has to keep their product range consisting of both standardised and customised products, to stay competitive on the market. But, we recommend Åkerströms to keep the focus on its core competencies, and not make decisions based only upon what their competitors are doing. Though when offshoring the production of the standardised products to China, Åkerströms can focus more on their capabilities in-house and enhance innovations. We think that they shall work with their competitive advantages by doing what they do the best; providing its
customers with totally customised high-technology products, through their know-how inside the company. Their expertise is also shown through their extensive services with everything from installation to after-sales services and maintenance. It is possible to focus more on these activities when outsourcing less important parts to an offshore location. But the decision to offshore to China should not be based on their competitors, since there might be another country which is more aligned with the specific requirements of Åkerströms. Summarised, Åkerströms’ competitors are producing cheaper products, but we believe it is important for the company to remember and focus on what they do best, because their knowledge does not belong in the same segment as their competitors.

- **Invest more into the marketing department**

By analysing the company’s capabilities and resources we figured out that the company is not entirely aware of their perceived customer value and competitive advantages. Furthermore, by evaluating Åkerströms’ marketing strategy there is a lack of powerful persuasive communication towards their customers. Therefore we recommend Åkerströms to give more attention and resources to their marketing-department. That is by appreciating the advantages of using the right marketing channels to communicate their perceived customer value, and thereby reach more customers both domestically and internationally. Today, only one person is working with this and they are only marketing themselves through their web-site and attending the biggest fares. Compared to the observation of their competitors, and the increasing pressure by the worldwide globalisation, the company has to think about possible solutions to solve this issue. One improvement would be to hire one more person, preferably someone with education in the marketing area, and to set up a market-plan to make more people aware of their company and products. Particularly for SMEs, it is often hard to accomplish the same requirements than their bigger competitors, due to the lack of resources and capacity within the company. Because, even though they are the market-leader in the Nordic countries, it is of high importance to be visible among the potential customers to keep that place, as well as to establish a better reputation in Europe.

- **Change the sales-department of the company**

The company has to take into consideration that the standardised products are sold on a lower margin level; therefore it is necessary to sell higher volumes of the products. Mainly when
outsourcing the production of Sesam 800 to China, higher volumes have to be produced to make the process profitable, which in turn leads to the need for more sales. Thus, another department inside the company that deserves more attention due to the outsourcing is the sales department. Because, according to the low number of sales persons, there is an apparent lack of human capacity in order to expand their number of sales. Further, without adequate sales forces, it will be hard for Åkerströms to accomplish their stated vision and strategy. However, it might not be necessary to employ more people but it is essential to increase the brand awareness among the customers. This product might help them with this since it is easier to sell and to attract new customers with a cheaper product. According to the improvement of the sales department, the company should implement a kind of forecasting tool in order to be able to know how the supply and demand looks like for the coming future, especially regarding these standardised products.

- **Improvement of the information flow within the company**

When analysing the information flow within the company in the context of supply chain management, we found out that Åkerströms would benefit from clearer job-descriptions. The job-description should show the responsibilities and the clear task of the employees within the departments. By defining the tasks, the information-flow among the departments could be efficiently improved, leading to major advantages like synergy effects or a faster access to needed information. Furthermore, the knowledge about the different important departments inside the company will be improved, which might enhance the understanding of coherences between departments or the whole business concept.

- **Establishment of trust with the Chinese suppliers**

Since Åkerströms is offshoring to China, the relationship and trust aspect is very important because it is deeply embedded in the Chinese culture. Nevertheless, we experienced the general conception about China among the employees to be somewhat negative, which we think have to be changed. It is obvious that they have to educate the Chinese manufacturers and check all the products in the beginning, but as the project evolves, it is important that this conception changes. Otherwise this project might fail due to too high costs related to all the follow-ups of the product quality and the lost of trust from the Chinese suppliers. Even, they solved the initial issues by employing an intermediary who handles the risks and relationships
in the beginning, it is necessary to make the employees aware of the different cultural attitudes of the business partners.

- **Delegation of tasks to their Chinese suppliers**

Moreover we recommend Åkerströms to let the Chinese suppliers handle all the steps related to the standardised products in the future, from raw material to deliver directly to the customers. Then, even more time, money and effort can be placed on the core competencies which are kept in-house in Björbo. China’s capabilities should not be underestimated, because they are highly skilled in the manufacturing of technology products. Instead, Åkerströms should establish long-term relationships with the suppliers to gain mutual trust. This will lead to even more efficient and profitable offshoring projects, in combination with exchanging of knowledge among the two cultures.

From our point of view, Åkerströms made the right decision to outsource the production of their new standardised product to China, because it is essential for them to focus more on their core capabilities to serve their customers and meet the customers’ demands. The usage of an intermediary was a good step to start up the manufacturing; however it is important for them to build up trustful relationships with a long-term perspective to be able to take real advantage of the outsourcing decision.

**Summarised we recommend to the company to improve;**

- The decision process regarding outsourcing by neglecting the strategic steps of their competitors, because they might have different requirements then Åkerströms.

- The marketing department by focusing on the communication of their perceived customer value and competitive advantage in appropriate channels to reach their target customers.

- The structure of the sales department, either by enlarging the number of human resources or developing an appropriate sales strategy to cope with the issue to increase the number of sales.
• The information flow within the company by implementing a clear job-description to clarify the responsibilities and tasks of the employees in the different departments. Further, the implementation of a forecasting tool would enhance the prediction of future product demands.

• The trust among the employees for the Chinese suppliers accomplished by a better and updated explanation of the Chinese manufactory skills. Further, the company should illustrate the major benefits the company obtained through offshoring to China.

• The delegation of tasks towards to their Chinese partners is essential in order to create the mutual trust among the business partners, as well as to increase the profitability of the entire outsourcing process.

The last part of this chapter presents suggestions of areas for future research.

6.3 Areas for future research

The study of literature determined that the outsourcing decision models are mainly based on the cost perspective while neglecting the strategic impact. By developing our model, which is based on the analysis of the company’s capabilities related to their competitive advantages, we tried to close this gap in the literature. Moreover, particularly due to the complexity of outsourcing and the need of several resources, the offshoring theory is major tailored for bigger international companies, leading to that various literature models are not applicable for SMEs. Therefore, our developed outsourcing process model copes with that issue by including an intermediary to support them. As a result, this approach makes it possible for SMEs to utilise the benefits of outsourcing or offshoring in order to stay competitive against their bigger international competitors.

Furthermore, another study could be done on a bigger company, to state the differences and similarities between SMEs and bigger corporations. Two other aspects to research would be to look at another industry, or when offshoring to another emerging country than China.

Additionally, there is a lack in the research regarding offshoring of SMEs. Thus, further academic research should be conducted in the field of how a SME should pursue offshoring
even they are confronted with a lack of resources. In this thesis, the solution is the involvement of an intermediary, but there might be other or better solutions to deal with that issue. Further, the outsourcing literature should be specifically modified for SMEs, because they have to fulfil different requirements compared to their bigger international competitors. Another future research area is which the major differences in the outsourcing process between a SME and a MNC are, especially when considering going abroad to an emerging country.
7 References

7.1 Articles


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McIvor, Ronan (2008). ‘What is the right outsourcing strategy for your process?’, *European Management Journal*, vol. 26, pp 24-34


7.2 Books


### 7.3 Internet sources

http://www.startup-consulting.com/ (2009-02-07)


http://www.verdanecapital.com (2009-04-14)

7.4 Interviews

Interview with Lars-Olov Liss, President, Åkerströms Björbo AB, 2009-04-06

Interview with Erika Ryttare Bergman, Marketing Director, Åkerströms Björbo AB, 2009-04-06

Interview with Björn Quickers, Development Engineer, Åkerströms Björbo AB, 2009-04-06

Interview with Jan Forsgren, R&D Manager, Åkerströms Björbo AB, 2009-04-07

Interview with Göran Rälg, Sales Area Manager Locomote, Åkerströms Björbo AB, 2009-04-07

Interview with Bengt Jonsson, Production Manager, Åkerströms Björbo AB, 2009-04-08

Interview with Conny Jakobsson, Managing Director, Startup China Based Solutions Ltd, 2009-04-22 (Skype)

E-mail questions to Lars-Olov Liss, President, Åkerströms Björbo AB, 2009-05-06

E-mail interview with Joe Li, Project Manager, Startup China Based Solutions Ltd 2009-05-20
8 Appendix

8.1 Interview questions Åkerströms

Personal background

- Can you please tell us about your education and background
- How many years have you been working at Åkerströms?
  - How long have you had the position you have today?
- What are the major changes you have done during the time at Åkerströms?
- What is your goal and aim with your work?

Company facts

- How many employees do you have?
- How many of them are working with the production?
- How many employees are working as administrative staff?
- Where are your employees located?
- What kind of education or internal training do you offer your employees?
- What is your opinion about product specialists among the production staff?
- Which kind of non-monetary incentives can you offer your employees?
- How do you handle production peaks versus downturns in production, regarding the number of employees?
- How does the organisational structure of the company look like?
- Do you have any collaboration with external organisations?
  - Universities?
  - Government?

Products

- How many products do you have in total?
- How many product groups?
- What are the differences between them?
- How many products in each group?

- Which is the biggest product group in terms of
  - Number of products?
  - Sales?
  - Number of customers?

- How expensive are your products?
  - Compared to competitors?
  - How do you differentiate your products from your competitors?

- Are the products standardised or customised?
  - If standardised:
    - How are the orders handled?
    - How long are the lead times?
  - If customised:
    - How are the orders handled?
    - How much can the customers decide on their own?
    - Do you have a number of options to choose from or can the customers decide completely on their own?
    - How long are the lead times?
    - How do you set the prices?
    - How do you handle the production and design when customised?

- Do you have a R&D-department in-house or are you cooperating with externals?
  - Who is designing the products?

- How do you handle the installation of your products?
  - What kind of education do you offer your customers?
  - How does the maintenance look like for your products?

- What kind of after-sales-services do you have?
  - What kind of spare-parts do you have for your products?

- How do you plan to develop or expand the product lines in the future?
  - How do you cope with innovations?
  - How do you incorporate customer requirements in the future product development?
- How do you cope with innovations regarding product development?
  - What is your opinion about visiting product exhibitions?
  - What kind of contact do you have with your customers?
  - What kind of relationship do you have with your competitors?

Customers

- Who are your customers?
  - In which industries are your customers?
  - Which are your key customers?
    - How do you handle the relationship with them?
    - How do the relationships with your customers look like?
- Which marketing channels do you use to reach new customers?
  - In which way do you try to find new customers?
- How much do you export?
  - To which countries do you export?
  - Which is your biggest market?
- Why do you think that your customers choose you instead of your competitors?

Competitors

- Who are your main competitors?
  - From which area/country are your competitors?
- What are your main competitive advantages related to your competitors?
- What are your weak points compared to your competitors?
  - How do you try to overcome the weak points?
- What do you think about the future competition?
- How do you observe your competitors?
- What do you think about cooperating with your competitors?
- What is your opinion about the rising competition from low-quality companies?
Markets

- Which markets are you present on?
- Which is your main market?
- Which markets do you consider to enter in the future?
  - What is your specific entry strategy for new markets?
  - How does your marketing strategy look like related to the specific markets?
  - What do you think about entering a new industry in the future?
- When is your intention to enter next new market?
- In which countries do you have sales offices?
  - Which nationalities are represented in the sales offices?
- Who is responsible for the different markets?
- What kind of forecasts do you use regarding the demand from the different markets?
- Which selling strategy do you pursue on the different markets?
  - How do you adapt your products to the markets?

China

- Why did you decide to move some parts of the production to China?
  - Who is making the decision about this?
- When did you start to produce in China?
  - How much do you produce in China right now?
  - Which products are produced there at the moment?
  - Are these products standardised or customised?
  - How does the order handling look like?
  - How long are the lead times for the products produced in China?
  - Who is delivering your products to the customers, you or suppliers?
- Which products/product groups do you want to move the production of to China?
  - What is your opinion about moving the whole production to China?
  - When will you move the next part to China?
  - How do you measure the benefits of moving production to China?
- What is your strategy about keeping sensible product parts in Sweden?
  - Who will assemble the products?
- Who will design your products?
- Who will develop the products?
- Which are, according to you, the risks involved with moving production to China?
  - How do you deal with the risks?
- What are your experiences from producing in China?
  - Which cultural differences did you recognise while working with Chinese people?
  - How do you deal with quality issues?
  - To what extent did you reach your goals related to producing in China?
- Do you have own suppliers in China or do you handle everything through Startup?
  - If you have own suppliers:
    - How many Chinese suppliers do you have?
    - How do you find new suppliers?
    - What kind of education do you offer your suppliers?
    - How do you ensure the reliability of your suppliers?
    - How do you manage the follow-up of your own suppliers?
  - If everything is done through Startup:
    - How does the contact look like with the suppliers?
- How does your relationship with Startup China Based Solutions Ltd look like?
  - How are you managing the orders?
  - How is the information-flow between you?
  - How does your contract look like?
  - How does the intermediary selection process look like?
- What is the main benefit working together with Startup?
- Do you want to establish a long-term relationship with your Chinese suppliers or do you prefer short-term relationships?
- How do you transfer the product requirements to China?
- What is your opinion about opening an own factory in China?
8.2 Interview questions Startup

- Personal background of the respondent
- Company facts
  - number of employees
  - year of foundation
  - business concept (their product)
  - where are the employees located
  - organisational structure of the company
  - what is your competitive advantage
- Customers
  - how many customers
  - who are your customers
  - key customers
  - where are the customers located
  - which marketing channels are used to find new customers
  - focus market
  - how does the relationship look like
  - how is the contract written
    - payment
- Suppliers in China
  - how do you find them
  - how many
    - how many for each customer
  - how does the relationship with the suppliers look like
  - is it possible to change supplier
  - how do you check the quality of the suppliers
  - are there certain requirements that the suppliers need to fulfil
    - cost, quality, lead time
  - is it possible for one supplier to have many of your customers
    - even though they are competing with each other
  - what happens if something goes wrong
    - is it only your responsibility
- Åkerströms
  - how did you get in contact
  - for how long have you been working together
  - how does the relationship look like
  - how is the information flow handled
    - orders
  - how is the contract written
  - how many products do you produce for Åkerströms
  - have you offered Åkerströms more services
  - is anyone of your employees specifically focused on working with Åkerströms
  - how does the future look like for your collaboration with Åkerströms
  - can Åkerströms influence which suppliers they want
  - is it one supplier assembling the product or many
    - how many suppliers is it “under” that supplier
- Competitors
  - who are your competitors
  - which is your biggest competitor
  - where are they located
  - what differs you from your competitors
  - what are your weak points compared to your competitors
  - do you observe your competitors
  - do you collaborate with your competitors
- China
  - how do you cope with the cultural differences between your customers and the suppliers
  - what is your experience regarding helping Western companies in to China
  - what do you see as the biggest misconception Western companies have when wanting to move to China
  - what is the biggest and most common mistake that Western companies do when entering the Chinese market
  - how do you help them
  - how do you handle the IP
• how to you check the quality of the products produced by your suppliers
• what do you think about the future, is there a rising demand for your services

8.3 E-mail interview with the President at Åkerströms

• Where are your purchasers located?
• How many employees are working with the purchasing?
• Are the purchasing department collaborating with any other department of the company?
• The employees of the purchasing department, do they as well have other responsibilities in the company?
• Do you have more than one supplier per product?
• Do you have any supplier delivering a whole group of products, or components?

8.4 E-mail interview with the Project Manager at Startup

• What is your perception about institutions’ ability to change in China?
• Are they, in your opinion, flexible?
• Can you, as a business man, feel the changes China’s economy is pursuing?
  o The privatisation of companies?
  o Command economy towards market economy?
  o Can you see that the economy is opening up for new/foreign businesses entering China?
• Does China have a goal that is obvious also for you?
  o What has been done to reach this goal?
  o How long will it take?
• Is it hard to enter already existing networks?
  o Is it possible to enter if you are not family?
  o Have you had any experience of this?
• How do you perceive the decision-making in China?
• Have you experienced them as being unstructured?
• Can you tell us more about the issue of losing face?
• How hard is it to establish a trustful relationship with Chinese people?
• Is China hierarchically structured?
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