The Art of Turning Relationships into Competitive Advantages
Managing direct customer relationships in China

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Abstract

Many firms are today established in China via intermediaries, such as distributors or agents. However this establishment is not valuable in a long-term perspective if the industry environment offers a possible higher return on investment by establishing on its own. Furthermore, when a firm establishes more committed in a foreign market, it gain control over the marketing activities and the sales channel. When entering new markets, problems occur in cases of cultural barriers, institutional distances and lack of contact with the customers within the market. The focus of this master thesis is the establishment of relationships in order to achieve competitive advantages through enhanced understanding of market specific factors and the adaptation towards the market.

The thesis is initiated by our interest for firms expanding in international markets. We have recognized the importance of the relationship establishment when entering China. Based upon the identified problem we build a theoretical framework and apply the empirical findings from our case company Dako A/S, which are about to establish in the Chinese market with more commitment.

We have for this master thesis collected data from our case company. We have, via semi-structured interviews, conducted the material within the division for the establishment in China. The purpose of the thesis is to introduce findings that will help Western firms to enhance their understanding of the importance of establishing, developing and maintaining customer relationships in China in order to gain a competitive advantage. The central phases of the thesis, is our theoretical framework, the findings from the case company and the establishment of competitive advantages through relationship and choosing the right entry mode.

Throughout our research and our seeking towards answering the above purpose we can draw the following main conclusion; it is crucial for a foreign firm to develop its capabilities in order to establish a competitive advantage. The organizational capabilities have to be addressed the market specific knowledge and the feedback towards the organization in order to exploit the competitive advantages. We summarize the findings in a conclusion, which can be applied for Western firms in different industries, in order to establish competitive advantages in China. Finally, we provide recommendations to our case company and their establishment in China, within the research area of this thesis.

Keywords: China, Competitive advantage, Customer relationship, Dako, Emerging country market, Entry mode, Guanxi, Organizational capabilities
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__________________________________________
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# Table of Contents

1 **Introduction chapter** .................................................................................................................. 7  
1.1 Background .................................................................................................................................. 7  
1.2 Problem discussion ....................................................................................................................... 8  
1.3 Research Problem ...................................................................................................................... 10  
1.4 Purpose ......................................................................................................................................... 10  
1.5 Delimitations ............................................................................................................................... 11  
1.6 Outline ......................................................................................................................................... 12  

2 **Methodology** ............................................................................................................................. 13  
2.1 Research Strategy ......................................................................................................................... 13  
2.2 Case study design ......................................................................................................................... 14  
2.3 Research Approach ..................................................................................................................... 15  
2.4 Research method ......................................................................................................................... 17  
2.5 Data collection ............................................................................................................................. 18  
2.5.1 Qualitative Interviews .............................................................................................................. 19  
2.5.2 Interviewees .......................................................................................................................... 19  
2.6 Research quality ........................................................................................................................ 20  
2.6.1 Construct validity .................................................................................................................. 20  
2.6.2 Internal validity ...................................................................................................................... 20  
2.6.3 External validity ..................................................................................................................... 21  
2.6.4 Reliability .............................................................................................................................. 21  
2.7 The Research Model .................................................................................................................. 22  

3 **Theoretical Framework** .............................................................................................................. 24  
3.1 Competitive advantage ............................................................................................................... 24  
3.1.1 Resource-Based View .............................................................................................................. 24  
3.1.2 Establishing Competitive Advantage ..................................................................................... 28  
3.1.3 Organizational learning .......................................................................................................... 28  
3.2 Entry mode .................................................................................................................................. 30  
3.2.1 Non-equity mode ................................................................................................................... 31  
3.2.2 Equity mode ........................................................................................................................ 33  
3.3 Relationships-based Entry Mode ............................................................................................... 35  
3.3.1 Triads ..................................................................................................................................... 35  
3.3.2 Dyads ................................................................................................................................... 36  
3.4 Business Relationships .............................................................................................................. 36  
3.4.1 The substance of a relationship ............................................................................................ 37  
3.4.2 The Supplier-Customer Relationship .................................................................................. 37  
3.4.3 Customers’ uncertainty and Suppliers’ influence tactics ....................................................... 38  
3.4.4 Suppliers’ uncertainties and customers’ influence tactics .................................................... 39  
3.5 Developing a customer relationship ......................................................................................... 39  
3.6 Chinese Business Culture .......................................................................................................... 41  
3.6.1 Guanxi ................................................................................................................................... 43  
3.7 Summary of the theoretical framework ..................................................................................... 44  
3.7.1 Research model .................................................................................................................... 45
4 Empirical Findings ........................................................................................................ 48
4.1 Case company .............................................................................................................. 48
  4.1.1 Product presentation ............................................................................................. 48
  4.1.2 Dako APEX ............................................................................................................. 49
4.2 Superior Product ......................................................................................................... 50
  4.2.1 Business model ..................................................................................................... 53
4.3 Entry mode ................................................................................................................ 53
  4.3.1 Non-Equity Mode ............................................................................................... 53
  4.3.2 Equity Mode ........................................................................................................ 54
4.4 Business Relationships ............................................................................................. 56
  4.4.1 Importance of Business Relationships ................................................................. 56
  4.4.2 How to setup the Chinese organization in order to establish Customer Relationships ........................................................................................................ 58
  4.4.3 Developing Customer Relationships ................................................................ 58
4.5 Chinese Business Culture ......................................................................................... 60
  4.5.1 Guanxi ................................................................................................................ 61
4.6 Summary of the Empirical Findings ......................................................................... 63

5 Analysis ......................................................................................................................... 66
  5.1 Analysis competitive advantage .............................................................................. 66
    5.1.1 Strategy formulation .......................................................................................... 67
    5.1.2 Resources and capabilities and Dynamic capabilities ..................................... 67
    5.1.3 Organizational learning .................................................................................... 68
  5.2 Entry Mode ............................................................................................................... 69
    Non-Equity Mode ....................................................................................................... 69
    Equity mode ............................................................................................................. 70
  5.3 Business Relationships ............................................................................................ 72
  5.4 Developing Customer Relationships ....................................................................... 73
  5.5 Chinese Business Culture ....................................................................................... 74
    5.5.1 Guanxi .............................................................................................................. 75
  5.6 Summary of the Analysis ......................................................................................... 77

6 Conclusion ...................................................................................................................... 80

7 Recommendations ....................................................................................................... 84
  7.1 Facilitate the relationship process .......................................................................... 84
  7.2 Intelligence ............................................................................................................... 85
  7.3 Organizational structure ......................................................................................... 85

8 Future research area .................................................................................................... 86
  8.1 Mapping of customer needs/satisfaction ................................................................. 86
  8.2 Balancing intermediated relationship alongside with own presence ................... 86
  8.3 Setting up sales subsidiary in China ........................................................................ 86

9 Bibliography ................................................................................................................. 87

10 Appendix ...................................................................................................................... 91
## List of tables

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Thesis outline</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>Relevant situations for different research questions</td>
<td>13</td>
</tr>
<tr>
<td>3</td>
<td>Basic types of Designs for Case Studies</td>
<td>14</td>
</tr>
<tr>
<td>4</td>
<td>Research approaches</td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>Systematic combining</td>
<td>17</td>
</tr>
<tr>
<td>6</td>
<td>The Research Model</td>
<td>23</td>
</tr>
<tr>
<td>7</td>
<td>Strategy interface between the firm and its environment</td>
<td>25</td>
</tr>
<tr>
<td>8</td>
<td>The links among resources, capabilities, and competitive advantage</td>
<td>26</td>
</tr>
<tr>
<td>9</td>
<td>Learning, Dynamic Capabilities and Operating Routines</td>
<td>27</td>
</tr>
<tr>
<td>10</td>
<td>Organizational Learning as a Dynamic process</td>
<td>29</td>
</tr>
<tr>
<td>11</td>
<td>The Dynamic Capabilities model</td>
<td>30</td>
</tr>
<tr>
<td>12</td>
<td>The Hierarchical Model of Choice of Entry Modes</td>
<td>31</td>
</tr>
<tr>
<td>13</td>
<td>Own model: Illustration of Triadic and Dyadic Customer Relationships</td>
<td>35</td>
</tr>
<tr>
<td>14</td>
<td>The Uncertainties and Abilities of Buyers and Sellers</td>
<td>37</td>
</tr>
<tr>
<td>15</td>
<td>Relationship Stages</td>
<td>40</td>
</tr>
<tr>
<td>16</td>
<td>Own research model</td>
<td>46</td>
</tr>
<tr>
<td>17</td>
<td>Pathology laboratory, illustrated with the process-offices</td>
<td>48</td>
</tr>
<tr>
<td>18</td>
<td>Geographical expansion strategy</td>
<td>49</td>
</tr>
</tbody>
</table>
List of abbreviations:

APEX ..........Asia-Pacific division within Dako

EQT ............Swedish Equity Fund, owner of Dako Group A/S

IHC .............Immunohistochemistry

IPR .............Intellectual Property Rights

JV ...............Joint Venture

RBV .............Resource-based View

WFOS ...........Wholly Foreign Owned Subsidiary
1 Introduction chapter

In this chapter, we aim to introduce the reader to the problems of establishing customer relationships in a Chinese context. Furthermore we identify the main research problem throughout a problem discussion based upon theory. We present the problem defined, the purpose and aim of answering it, as well as the delimitations for the framework. In the end of the chapter we present an outline for the thesis.

1.1 Background

Numerous Western firms seek towards the emerging markets to exploit their potentials and domestic competitive advantages. China is one of the most successful emerging markets because of a fast growth in the past years (Hofer & Ebel, 2007). China offers many possibilities compared to a Western firm’s domestic market, such as low-cost production and reform of foreign direct investment (FDI). A combination of the increased foreign direct investment (FDI) in China and its integration into the world economy, has made the country one of the fastest growing economies and today it is ranked as the third largest economy in the world (The World Bank, Asia, Quarterly, 2009-04-07).

Many Western firms have established themselves in China with small investments through distributors, agents or other intermediaries. In order to achieve higher profits, a firm has to commit itself more in China and make higher investments. When a firm sets up its own sales channel, it has control over the investment and is given the possibility of establishing direct customer relationships. The investments are made to enhance control over sales, increase foreign exposure and being able to identify market needs (Buckley & Ghauri, 1999).

From a marketing perspective, customer relationships are of high interest, because of the feedback and knowledge that the customer possesses. Grant (2008) identifies customer relationships as access to knowledge about the customers and thereby analyzes how the differences of individual characteristics and preferences affect the profit contribution. Furthermore, the author describes how the firm can adapt its marketing to meet the attractive customers in the local market. When a firm has an intermediary as sales channel, the intermediary establishes, maintains and develops these relationships and it possesses the knowledge about the customer. However, one dilemma if a firm chooses to establish its own sales channel in China, is how it can overtake these relationships that the distributor already has established.
For every firm in China relationships are of importance, no matter what industry the firm is in. In China these relationships are built directly between people, but they influence whole business networks (Jansson, 2007). Therefore a firm has to be aware of the importance of these relationships in order to perform and develop its business in the emerging country market. Another aspect of the relationship building in China is a firm’s adaption to local networks. Everyone in these networks have to be aware of Guanxi, which is very important for the Chinese people. Guanxi is practised in networks and goes beyond professional friendships, known from Western relationships, so in order to do business in Chinese context;

“It is typically that [...] people are distrusted until they have proven they can be trusted, therefore most often [business relationships] start with a good personal relationship: only thereafter does the business relationship start.”


1.2 Problem discussion
When a firm makes the decision to invest in a foreign market it will face different opportunities, difficulties and risks, depending on the choice of entry mode (Johnson & Tellis, 2008). The competitiveness of a firm in a foreign market is determined by its capability to deploy resources in order to become successful in a new market (Grant, 2008). A consequence of lack of resources or wrong strategy formulation will be tremendous failure and the firm is not capable of exploiting its opportunities. The mode of entry is determined by how a firm establishes itself in a foreign market; this goes back to the risk and willingness of a firm’s wish for commitment. The commitment in the foreign market reflects accessibility of different measures within the market, such as market knowledge, adaptation to the market and the establishment of relationships (Jansson, 2007).

When a firm decides to enter a market it can choose between numerous ways of establishment; sales agent, distributor, joint venture (JV) or wholly foreign owned subsidiaries (WFOS). For a firm to enter new markets a common way is to choose a low committed entry mode, such as an intermediary. When a firm uses an intermediary, it gains access to a customer group as well as a sales channel and the product portfolio is marketed in the new market. As a consequence of this entry mode the firm shares or gives away revenue because of a mark-up on the product or a contractual agreement about a shared percentage of the turnover goes to the intermediary. Another consequence is the lack of interaction between the customer and the firm, because the intermediary
holds the relationship with the customer. An intermediary’s ownership of the relationship, sales channel and distribution obstructs often a firm’s capability to exploit its potential in the market.

For a firm to enhance the control of its sales and to overcome the obvious barriers mentioned in the above paragraph, it can make heavier investments compared to the situation of having an intermediary. Heavier investment goes hand-in-hand with more commitment in the market. An investment mode that has become popular FDI in China is to establish a WFOS, with the purpose of increasing the turnovers, gaining full control over sales and marketing channels as well as to establish direct customer relationships.

Building customer relationships is crucial to successfully exploit a firm’s opportunities in the market (Jansson, 2007). Customer relationships are only of value if they are integrated into the firm, the value is only present if the firm is capable of locally adapting towards different markets. These cause two constraints when entering into China firstly does the firm have the resources and capabilities to do so and secondly, can the firm establish, develop and maintain relationships.

Establishing, developing and maintaining customer relationships in China, in order to become successful requires organizational capabilities. Furthermore, in order to build organizational capabilities, it requires different types of resources (Grant, 2008). The resources consist of tangible, intangible and human resources, which are owned or acquired by the firm. When entering a new market, a valuable capability is the ability to understand the new market and learn how to integrate with the business networks. If a firm fails in the establishment of the needed capabilities, the firm looses its chance to exploit its foreign strategy and thereby its competitive advantage. This failure can have severe consequences for the firm, as the investment is lost because of the wrong marketing strategy.

If a firm has any experience in entering other markets outside the domestic one, it can learn to develop its capabilities over time by gaining experience. This is recognized as dynamic capabilities, which are a firm’s ability to “integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Wheeler et al. 2005 cited in Grant, 2008). Another more general description emphasizes the importance of dynamic capabilities when entering new market; where dynamic capabilities are a firm’s process of modifying its operational routines (Grant, 2008). If a firm does not seek the opportunities in the market and adapt to it, new entrants or innovations will become more successful (Grant, 2008).
Establishing customer relationships is crucial in order to be competitive and successful in China. As mentioned earlier trust is of importance, but recognised in the Chinese business networks. Many Western firms presume that trust is present from the beginning of the relationship, but in the Chinese business culture trust is built gradually. Therefore the creation of successful relationships is central for firms to become successful by gradually adapt to the Chinese business culture (Yang, 2004). If a firm does not comply with the importance of trust and Guanxi, it can face severe failure in the market as well as it harms the firm’s ability to do business in other business networks.

1.3 Research Problem
The discussion above has given arise to our main research problem, which is stated as follows:

How can a Western firm gain a competitive advantage in China by establishing, developing and maintaining customer relationships?

In order to answer the above problem, we have developed three sub-problems, which are stated as follows:

1. How can a Western firm choose the right entry mode in order to establish direct customer relationships?
2. How can a Western firm establish direct customer relationships in China?
3. How can a Western firm cope with the difficulties of Guanxi in China?

Our first research problem addresses the difficulties in choosing the right entry mode for a firm in a new foreign market in order to establish relationships. Furthermore it is discussed in the context of the capabilities that need to be developed. The second research problem discusses the importance and development of customer relationships. The third research problem address the importance of Guanxi in the Chinese business culture as well as building trust between the business actors.

1.4 Purpose
The purpose of researching this subject is to give Western firms a deeper understanding of the importance of establishing, developing and maintaining customer relationships in China in order to establish a competitive advantage.

We aim to reach this purpose by:

Describing what type of entry mode is required, the establishment of crucial relationships as well as illustrating the importance of Guanxi in order to establish a competitive advantage.
Analyzing how the case company plans to penetrate the Chinese market and how they perceive the importance of building customer relationships in order to establish a competitive advantage.

Recommending how Western firms can gain a competitive advantage by establishing, developing and maintaining customer relationships in the Chinese market.

1.5 Delimitations
In order to answer the main research problem for this thesis within the timeframe, we have made some delimitations. The purpose of the delimitations is to narrow down the size of the framework and thereby answer the specific topic.

- We will restrict our research to the Chinese market. A broader research would give a more holistic view, but we will not be able to identify recommendations for the case company’s specific entry into China. This is in theory recognised as internationalization.

- Our intention is to examine the determinants for the entry mode into China. We will examine the importance of the presence of the right resources, but we will not analyze the presence of them within the case company.

- In the framework of competitive advantage the industrial key success factors are of high importance. We will not analyze the presence of these as they are taken for granted, based upon the long presence of our case company in China.

- We will not focus this study on the actual internationalization of a firm, rather the situation in China.
1.6 Outline

Chapter 1 - Introduction
Chapter one gives an introduction of the research topic through a problem discussion and the purpose of the thesis.

Chapter 2 - Methodology
Chapter two presents which type of research method and approach that are used and how the data is collected.

Chapter 3 - Theoretical framework
Chapter three presents the theoretical framework chosen for this study in order to answer the research problem.

Chapter 4 - Empirical Findings
Chapter four presents the empirical findings from interviews at the case company’s headquarter and telephone interview.

Chapter 5 - Analysis
Chapter five is a comparison of the empirical findings and the theoretical framework as well as the researchers’ analysis.

Chapter 6 - Conclusion
Chapter six presents the researchers’ conclusions based on the analysis.

Chapter 7 - Recommendations
Chapter seven consists of the researchers’ recommendations to the case company.

Chapter 8 - Future research areas
Chapter eight gives rise for future research areas for the study of establishing competitive advantages in China.

Figure 1 - Thesis outline (own)
2 Methodology
The objective with this chapter is to explain and describe how we have conducted our research. We describe which research method and approach we have used and how we have collected the data. In the end of this chapter we discuss validity construction, internal and external validity as well as reliability in order to gain trustworthiness in the thesis.

2.1 Research Strategy
According Yin (2003) five different research strategies can be used, and they are identified as experimental, survey, archival, historical and case study analysis. The choice of research strategy for this thesis is based on the comparison of the different research strategies listed in Figure 2 below.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of Research Questions</th>
<th>Requires Control of Behavioral</th>
<th>Focuses on Contemporary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td><em>How, Why?</em></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td><em>Who, what, where, how many, how</em></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival</td>
<td><em>Who, what, where, how many, how</em></td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td><em>How, Why?</em></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td><em>How, Why?</em></td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Figure 2 – Relevant situations for different research questions

In a case study research, a qualitative approach is used for the investigation of different individuals, groups, social, political and hereby extend our knowledge an understanding of the particular environment (Yin, 2003). Gummeson (2000) emphasizes the use of case study research in social science due to two identified characteristics, namely generalisation and conclusions based on a specific topic. This is of interest because it enables the researcher to focus on one specific problem, situation or environment, which can be solved for one particular situation or one particular study, such as a case company.
We have chosen case study as research strategy for this thesis, as we seek an in-depth understanding of a specific phenomenon for our particular case company. We have chosen this research strategy, as it is the most suitable for the explanation of the complex situation of our case company Dako.

2.2 Case study design

According to Yin (2003) a case study can be designed based upon a matrix and hereby he identifies four different design types. He makes one distinction between single and multiple cases and another one between holistic and embedded analysis. The number of cases studied determines the first distinction and the second is determined by whether the case is holistic or a unit is embedded within it.

For a single case study to be of relevance Yin (2003) has identified several rationales that should be present in the case. Firstly the case has to be critical towards existing theory and by challenging it, we can confirm, challenge or extend the theory. Secondly the case has to be unique for this problem or circumstance and as we are not in the business environment of the case company, we can stay
objective. Thirdly the case should capture or represent a situation in an everyday situation of the specific environment, as regular theorising and empirical analysis is broad and do not have the same experience as a particular case company. Fourthly, the case should bring something new in its research, by accessing previously inaccessible sources.

According to Yin (2003) the second decision to take is whether the case study should be embedded or holistic (Figure 3), where we determine whether we study one unit of a larger case study or study one case as a single unit, a distinction between an overall global occurrence or on several sub-units. The view has different purposes, where the holistic design is advantageous when sub-units cannot be identified (Yin 2003). The single-embedded design is advantageous when a single or several units clearly are identified. The unit can be an individual, an experience, an event or an organisation (Rowley 2002). One has to indentify the boundaries for the unit for the analysis, as one can only collect data for a unit within the boundaries of the unit and its sub-units. When determining between the two designs one has take the following aspects into consideration; accessibility of data, resources for the data collection and how much time is available.

We argue that our case study is a single case with a holistic view since we study an overall perspective regarding the whole case company. This decision is based upon the amount of time available combined with the data sources available. We are given access to one region within the case company and we seek to give a broad understanding for the particular case. Every individual within the division could be regarded as a single unit, but they are very co-related and cannot clearly be divided into individual units of analysis.

2.3 Research Approach
For creating beneficial arguments, one has to be cogent towards the research approach. Many researchers have for a long time claimed that they endorse either an inductive or a deductive approach (Fisher, 2007). They are dedicated to research within the field of social science. Induction is when research takes off in a particular case or occurrence and then applies the empirical findings to theory and previous research. The deductive approach explains by theory for general solutions or occurrences how an empirical problem in one case can be described.
In reality they are both used coherently and therefore several researchers have identified abduction as another research approach (Pierce cited in Fisher, 2005; Dubois & Gadde, 2002)(Illustrated in Figure 4). The abductive approach is a way of theory-forming, but often used when, an inference is going from data description of a topic to a hypothesis that best explains or accounts for the data (Josephson, 1996). Further, Suddaby (2006) argues that abduction is the forming process of a hypothesis, where new ideas can be introduced into the operations. Abduction gives the researcher the ability to add and increase the framework for the case, as other relevant theory or previous cases can be of relevance in the exploration of the specific research (Josephson 1996).

Dubois & Gadde (2002) argue that the abductive approach could be extended with a systematic combining process.

“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 (2002:554).

The systematic combining is done in two processes, namely the matching of reality and theory and the other process is the direction and redirection, which is an enabler for the overall matching. The framework of the systematic combining is illustrated in Figure 5.
In this thesis we have based our research upon an abductive approach. This is identified throughout the theoretical framework, empirical fieldwork and analysis which all evolved simultaneously during our research process. Our point of departure was the contact with the case company where we decided upon the research topic. Thereafter we studied literature and decided on relevant theory for our topic. The next step in our research was to investigate the chosen theories in our case company. We applied these empirical findings in a framework and linked it to theory. We went back and forth in the process of matching the empirical and theoretical findings within the subject. Throughout these processes we have changed and modified the hypothetical pattern that we initially identified. The process has enhanced our understanding of the project as well as the research field. This has been an enabler for the framing of the process, as it has broadened and narrowed it continuously, by enhancing our decision-making capability for the process.

2.4 Research method
According to Alvesson & Sköldberg (2008), there are two different research methodologies available; quantitative and qualitative research method. The quantitative approach is, according to Yin (2003) often used when a firm has to be described or compared; such as number of employees, turnover, return on investment, salaries etc. The measures are often standardised and are only of use when a predetermined response in these categories is of interest.
Dubois & Gadde (2002) argue that the qualitative approach offers the researcher a more varied compilation of information, in terms of how subjective or objective the collected data are. This research method is recognised as more open and gives the researcher the possibility to acquire in-depth data within the research area. The authors have further recognized the benefits and increase usefulness when having an interaction between a given phenomenon and the context of if, often enhanced by an in-depth study. Furthermore the openness of the research method is said to enable the respondents to be more relaxed and comfortable in the dialogue.

Both of the approaches are useful and suitable for studying social science. Beyond the differences of the two approaches, a researcher can benefit from integrating the two approaches as it can advance the researcher understanding of the phenomenon of investigation (Andersen, 2005).

For this study, we have applied the qualitative research method. We find this approach to be of greater use for us since it gives us a broader understanding of the topic. We also aim to obtain a deeper picture of our problem and wish that it will result in detailed conclusions. Our choice of research method is supported by Merriam (1998) who stresses that the qualitative research method is most suitable when doing a case study.

2.5 Data collection
According to Merriam (1998) data collection is distinguished between primary as well as secondary data or the combination of both types. We have used both primary and secondary data in this thesis.

Primary data is data collected by the researcher for the specific study (Andersen, 1998). We have collected primary data in form of interviews with four different persons at our case company. We chose to do personal interviews since that enables us to meet with the interviewees face to face, to interpret body language as well as the surrounding environment. We also believe that doing personal interviews increase the validity of the respondents’ answers.

Secondary data is, according to Bryman & Bell (2005), data that already has been collected and studied by other researchers in other specific studies. We have used secondary data in form of articles, course information, Internet information as well as internal firm-specific documents.

According to Thurén (2005) the researchers must take the time aspect into consideration. The author further explains that the more time that has gone since the publication of the data, the more critical the researcher has to be. In order to avoid using old and irrelevant data, we have tried our best to find up-to-date data. We are also aware of the fact that the data we have collected is not written for our specific subject and we have been critical when looking for sources.
2.5.1 Qualitative Interviews
Patel & Davidsson (2003) argue that the researcher should have knowledge about the topic during qualitative interviews since the respondent possesses good knowledge within this specific field. According to Bryman (2001), the interviewer either can ask open or closed questions. Open questions give the respondent the possibility to answer freely whereas closed questions conducts the interviewee in a certain direction. Qualitative questions offer the interviewee the option to develop the answer in the direction that he/she wishes. Furthermore, it gives the interviewer the opportunity to ask additional questions and to have further discussions.

In advance of the interviews, we prepared semi-structured questionnaires, which were the base for the collection of the primary data. We used the questionnaire as a starting point during the interviews, but we focused on asking additional questions that could contribute to our study.

In order to obtain a broad view, we chose to interview four persons at our case company. Three of them are situated in Copenhagen, Denmark within the APEX region. We spent a whole day at our case company and conducted three interviews with three different persons face to face. The interviewees were provided with the same questionnaire, in order to give us three different inputs of the subject. In order to get a deeper understanding and more details of the specific subject, we also chose to conduct a telephone interview with the Chinese Business Director, located in Singapore.

2.5.2 Interviewees
Ulrik Cordes is Vice President for Dako APEX. He has been working for Dako since 2002 and is located at the Dako Headquarter in Copenhagen, Denmark. He has the overall responsibility for the subsidiary establishments in the APEX region. The interview with Ulrik Cordes was conducted on 27th of April 2009 at the Dako Headquarter in Copenhagen, Denmark.

Rikke Rytter is Sales Director in China, located at the Dako Headquarter in Copenhagen, Denmark. She has been working for Dako for about one year. Her task is to make the turnkey for the coming General Manager in China together with Malene Krstensen and Henrik Nygaard. The interview with Rikke Rytter was conducted on 27th of April 2009 at the Dako Headquarter in Copenhagen, Denmark.

Malene Kvist Kristensen is Business Development Manager, located at the Dako Headquarter in Copenhagen, Denmark. She started to work for Dako on 1st of April 2009. She is responsible for the establishment of the Chinese subsidiary in 2010. She has lived and travelled around in Asia, studied
Chinese and is familiar with the Chinese culture. The interview with Malene Kristensen was conducted on 27\textsuperscript{th} of April 2009 at the Dako Headquarter in Copenhagen, Denmark.

Henrik Nygaard is Business Director for Dako China, located at the Asian representative office in Singapore. He has been working for Dako since 2006. Within the APEX region, he has the sales responsibility for China, Hong Kong, Korea, Taiwan and India. Henrik has worked in China for many years; he has a deep understanding of the culture and speaks the language fluently. The interview with Henrik Nygaard was conducted on 14\textsuperscript{th} of May 2009 via telephone.

2.6 Research quality
Yin (2003) introduces four types to test the quality of the designed method and case. The four tests are described and applied in the case of this thesis. The tests are; validity construction, internal validity, external validity and reliability.

2.6.1 Construct validity
In order to construct validity for the case studies, Yin (2003) suggests three tactics, namely using multiple sources of evidence, establish chain evidence and have key informants reviewing draft of case study report. By taking these tests into account, one enhances the establishment of correct measures within the data and concepts investigated.

In our case, we built the main research framework upon published and acknowledged theory. For the resource-based view we build it upon Grant (2008), and complement the concept with different sources within the field in order to match the establishment of a competitive advantage. The framework for choosing entry mode is based on Pan & Tse (2002), complemented with Jansson (2007) in order to focus on the market that the case company is about to enter. In order to explored the establishing and developing of relationships, we use Ford et al. (2003, 2006). However we have left out the parts introducing internationalization processes as it will make the study more complex and the focus will not be on the entry mode. Guanxi is used as a framework based upon several studies, mainly Lou (2007).

2.6.2 Internal validity
Internal validity is associated with to what extent the research findings match reality (Merriam, 1994). Further, the author discusses how to measure the validity in different types of researches. The researcher must be aware of that collected information is translated and refined. Therefore, the validity must be judged by analyzing the researcher’s previous knowledge and experience.
We have interviewed four different persons within the same organization in order to increase the internal validity and to get different inputs and point of views on the subject. We are well aware of that the sources have different backgrounds, experience and knowledge.

2.6.3 External validity
External validity is related with to what extent the empirical findings from one research can be applied to other situations than the studied situation, with other words how generalized the results are (Merriam, 1994). Furthermore, it is important that the research has internal validity since it is unnecessary to analyze and discuss useless information. To increase the external validity and the possibility to generalize the case study, the researchers should describe the case in details. This makes it easier for the identifier to find similarities in the specific case and to decide if the case is useful or not.

The case company has previous experience in China and we have taken that into consideration when writing this thesis. Our empirical findings are to a large extent based on and related to their previous experience in the Chinese market.

2.6.4 Reliability
Reliability is about to what extent the result of the research can be repeated with the same result if the research is replicated. Since the human behaviour is non-static, reliability is a problematic term when social science is studied (Merriam, 1994). Yin (2003) describes reliability as how similar the same research would be if it the study was repeated. Furthermore, (Merriam, 1994) states that in order to increase the reliability, the researcher should use the same template as far as possible and use static methods.

We believe that the reliability in our thesis is high since we have interviewed four different persons in different positions. The respondents are involved in the business and have therefore given believable answers. The same answers would probably be given to another independent researcher. Furthermore, theoretical terms were not used during the interviews since that can confuse the respondent. In order to enhance the credibility we tried to conduct all our interviews face to face. We managed to get three interviews when visiting the case company in Copenhagen, Denmark. However, we had one interview via telephone, with a person located in Singapore.

We sent the empirical findings and questions for clarification by email to the respondents after the interviews in order to complement and clarify the answers. To send it by email could be a weakness
since the respondents might misunderstand the questions and we cannot explain and develop the question. This is a factor that might decrease the credibility of our research.

One of our interviewee is well familiar with the Chinese society. We believe that this could have affected the results of the interviews since his view might be a little angled because of his circumstance of life. We have also interviewed persons with less experience of China and its business culture, which might have given a more general Western view. We believe that this combination is valuable as we get a broader perspective on the subject.

All interviews were held in English, which is not our, nor the respondents’ mother tongue. The language factor could have affected the answers. But since our respondents as well as ourselves have a good understanding of English, we do not believe that the language influenced the outcome of our interviews. In order to increase the reliability, we recorded the interview to reflect what was highlighted and discussed.

2.7 The Research Model
We have created our own research model (Figure 6), in order to illustrate how our thesis is conducted. As noticed in the model, the abductive research approach influences the theoretical framework, the empirical findings and the analysis. The main research problem guides the whole thesis down to the conclusions and recommendations.
The Research Model

Main Research Problem
How can a Western firm gain a competitive advantage in China by establishing, developing and maintaining customer relationships?

Research Problem 1
How can a Western firm choose the right entry mode in order to establish direct customer relationships?

Research Problem 2
How can a Western firm establish direct customer relationships in China?

Research Problem 3
How can a Western firm cope with the difficulties of Guanxi in China?

Theoretical framework
- Resource-based view
- Entry mode
- Relationship establishment
- Chinese business culture

Empirical findings
The data is collected through interviews in the case company.

Analysis
The collected empirical data is discussed in the context of the theoretical framework.

Conclusion and recommendations
Based upon the theoretical framework, empirical findings and the analysis of the results.

Figure 6 - The Research Model (Holmqvist, Nørkjær & Ullmark)
3 Theoretical Framework

In this chapter we will present our theoretical framework. The chapter is built on different areas: competitive advantage, organizational learning, entry mode, customer relationships and finally, the importance of Guanxi in China. We conclude the chapter with a summary of the theoretical framework in order to answer our research problem with the chosen theories.

3.1 Competitive advantage

A competitive advantage occurs, according to Grant (2008), when a firm generates such an advantage that it earns superior profit. A competitive advantage is often market-specific and based upon market-specific strategies, whereas the attractiveness is determined by the industry. A competitive advantage is present when a firm leverages superior performance compared to their competitors. Grant (2008) defines an obtained competitive advantage as:

“When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit.”

-Grant (2008:205)

Further, Grant (2008) argues that a competitive advantage can develop from two sources of changes, either via external or internal changes. The external source is directly related to the customers and their buying behaviour and possibilities. The internal sources of change are mainly determined by a firm’s ability to innovate and thereby to become superior compared to the competitors.

3.1.1 Resource-Based View

During the 1990s the basics in strategy formulation shifted from a view on the external environment as source of profit towards firms resources and capabilities as the main source of competitive advantage. This recognition gave birth to the term resource-based view (RBV), where every single firm, by theory, would seek for different marketing strategies based on the firm’s specific resources and capabilities (Grant, 2008).

The formulation of a competitive strategy determines how a firm can act differently within a market and thereby deliver a unique set of marketing activities and add value to its customers. The durability of such a strategy based on a firm’s resources and capabilities, has been of greater success compared to previous long-term strategies based on market focus. Grant (2008) defines
strategy as the link between a firm and its industrial environment, where he emphasizes the use of resources and capabilities Figure 7.

![Diagram showing the relationship between firms, strategies, and industry environments.](image)

**Figure 7 - Strategy interface between the firm and its environment (Grant, 2008:125)**

The core competencies of a firm is said to provide a profound basis and direction of growth. The core competencies, which involve collective learning and which are based on knowledge, will enhance them (Peteraf, 1993). Grant (2008) has made a distinction between industry attractiveness and competitive advantage, where the latter is based on a firm’s superior resources. By applying the RBV, a firm can determine its uniqueness for exploiting differences. To exploit the uniqueness a firm has to formulate strategies based upon the availability of resources and capabilities within the firms, as illustrated in Figure 8.
3.1.1 Resources and capabilities

In general, the resources constitute the foundation for creating organizational capabilities and the resources can be characterised as tangible, intangible and human resources. Financial statements and physical equipment can determine the tangible resources. The intangible resources are more difficult to access and determine as they consist of owned technology, firm culture as well as brands and reputation. The last resources, human resources, are the know-how the firm posses through its employees, how good the firm communicate in order to exploit them, as well as to motivate them.

For the resources to be of any value they have to be combined to perform a specific task. Together they will constitute an organizational capability, seen in the layer above the resources in Figure 8. In order to so, Helfat & Lieberman (2002) define resources as stocks of available factors that are owned or controlled by the firm, and capabilities as the firm’s capacity to deploy resources for a desired end result. Grant (2008) determines that there are numerous capabilities available in a firm, but only the ones contributing to the creation of competitive advantages are of interest. Therefore the capabilities should be identified for their contribution for a competitive advantage. If not, a firm should consider its ownership of them.
3.1.1.2 Dynamic capabilities

As industry environments of firms are continuously changing, a firm needs to be able to reconfigure its capability profile. With the introduction of dynamic capabilities, the RBV is challenged as organizational capabilities are to be changed. Especially when business environments change, as emergence of new technology, entry into new markets and when institutional circumstances changes such as the on-going financial crisis (Dr. Joachim Timlon, lecture 2009-02-10, Baltic Business School). Teese et al. (1997) define the concept of dynamic capabilities as;

“The firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. The main reason for introducing dynamic capabilities is for a firm to sustain its competitive advantage, developing new resources and learn how to exploit existing resources”.

- Teese et al. (1997:541)

Zollo & Winter (2002) link the dynamic capabilities to a firm’s ability to learn and thereby develop operational routines, see Figure 9.

![Figure 9 - Learning, Dynamic Capabilities and Operating Routines](zollo&winter2002)

The authors describe dynamic capabilities as arising through a learning mechanism within a firm, and thereby develop the modes of operational routines. The operational routines will systematically generate and modify them towards an improved effectiveness, through a learned pattern in a firm. The learning mechanism is said to consist of three layers of experience accumulation, knowledge articulation and knowledge codification (Zollo & Winter 2002). Experience accumulation is based on past behaviour through trial and error learning as well as emphasizing tacit knowledge. Knowledge articulation is of high importance as each individual have own experiences, and therefore articulation of this knowledge can give understanding and contribute to a strategy of organizational change the recognition of organizational routines. For articulated knowledge being valuable, this cognitive knowledge has to be codified. The knowledge codification can contribute
tremendously to a supportive mechanism for the development of organizational routines as well as future knowledge development in an organization.

“The firm’s learning process might be central to create and renew existing dynamic capabilities”.

-Easterby-Smith & Prieto (2008:237)

3.1.2 Establishing Competitive Advantage

The appropriation of profit is, according to Grant (2008), determined by the following three factors for the resources and capabilities within the firm. Firstly “how capable is the firm to establish a competitive advantage”, secondly “how well can the firm sustain this competitive advantage” and thirdly “can a firm appropriate the returns on that competitive advantage”.

Before the resources and capabilities can constitute a competitive advantage, the capabilities have to be identified and mapped for a firm, so as the activities within the firm can be carried out as well as the resources have to match to each activity (Grant 2008). The competitive advantage is the determinant of the leverage of profit for a firm. This is determined by a firm’s capability to establish, sustain and appropriate the competitive advantage. In the establishment of a competitive advantage an analysis of the industry market shall determine the scarcity and relevance of the resources and capabilities. If a competitive advantage is achieved, it is important to determine its sustainability. How sustainable the competitive advantage is, increases by the durability as well as if competitors can buy the resources and capabilities. Finally, the sustainability increases if a firm builds its competences on complex organizational routines, as replicability decreases. The last aspect of the competitive advantage is who the owner of it is. This is due to the fact that the competitive advantage is built on the organizational capabilities and resources of a firm.

3.1.3 Organizational learning

When organizational learning is successfully implemented and employees commit to it, a firm will receive superior future success (Senge, 2006). When a firm grasps the capacity and encourage organizational learning in every level of the organization the outcome will be knowledge, which is the most important source for sustaining competitive advantage. Therefore knowledge is recognised as an important resource.

“Organizational learning is seen as a means to develop capabilities that are valued by customers, are difficult to imitate, and hence contribute to competitive advantage.”

-Crossan & Berdrow (2003:1089)
Since organizational learning is identified as a key factor to success, Timlon & Hilmersson (2009b) suggest two different learning capabilities, namely operational leaning and conceptual learning. This distinction is made due to their linkage of dynamic capabilities to organizational learning. They develop this distinction and relate it to single-loop learning and double-loop learning.

Crossan & Bedrow (2003) introduce an organizational learning framework named ‘The 4 I Organizational Learning Framework’, referring to the four processes where learning is connected. These four processes are the ones giving the name, the four I’s; intuiting, interpreting, integrating and institutionalizing. The processes occur in different levels within an organization, recognized in the individual learning, group learning and organizational learning, illustrated in their framework below (Figure 10).

For a firm to be competitive in a volatile environment, the 4 I framework identifies the importance of continuously adapting to the environment. A firm is capable of that when it has integrated feedback loops in its working flow between the individual, the group and the organization. These feedback loops constitute the renewal of a firm’s strategy in a volatile environment. For a firm to
exploit the learning within these loops, it has to manage the differences of institutionalized learning and the processes, which enable exploration. The processes recognized as intuiting, interpreting, and integrating and referred to as feed-forward and feedback processes of learning (Crossan & Bedrow, 2003). Timlon and Hilmersson (2009b) stress that the feed-forward and feed-backward processes take use of what has previously been learnt recognized as the exploitation as well as learning new things, namely the exploration.

![The Dynamic Capabilities model (Åkerman, 2009) adapted from Zollo & Winther (2002) and Winther (2003)](image)

A notion is made between dynamic and organizational capabilities, as dynamic capabilities are the main driver for new organizational routines. By encouraging organizational and dynamic capabilities, a firm enhances its potential for coping with new situations based upon present resources. Namely the presence of the resources is of importance and a firm’s ability to modify them as well as routines achieves the dynamism in dynamic capabilities (Niklas Åkerman, lecture 2009-02-10, Baltic Business School) (Illustrated in Figure 11).

### 3.2 Entry mode
According to Pan & Tse (2000), a firm can enter an emerging country market by choosing between numerous entry modes, which can be distinguished between non-equity mode and equity mode. When a firm has decided to establish abroad or commit itself more in a foreign market, firstly the
management has to decide the amount of resources the firm can commit. As an outcome of the first managerial decision for the entry mode is whether to establish in a non-equity mode or an equity mode (Pan & Tse, 2000). One factor that distinguishes the different entry modes from each other is the level of control over its key marketing resources (Johnson & Tellis, 2008). Other factors that influences are how to gain market knowledge, how committed the firm can be in the market and what kind of risks that they can handle (Herrmann & Datta, 2006).

![Diagram](image.png)

**Figure 12 - The Hierarchical Model of Choice of Entry Modes (Pan & Tse, 2002)**

The entry modes can be seen in the above model (Figure 12). Whether a firm enters in a non-equity mode or in an equity mode affects the marketing strategy in the foreign market (Johnson & Tellis, 2008). After deciding how much investment the firm can and needs to do, the manager has to consider a more specific mode.

**3.2.1 Non-equity mode**

The reason for looking into the non-equity mode is the rationale of low resource commitment, which is to be considered in the choice of entry mode (Nakos & Brouthers, 2002). The non-equity mode consists of different levels of export modes and contractual agreements (Pan & Tse, 2000).

The reasoning for a non-equity mode is based on a firm’s consideration of the following parameters and determines their importance for the firm. The parameters are the amount of resources the firm will commit, how risk willing the firm is, how much of the potential return will the firm obtain and finally how much control do the firm want over the foreign activities. The resource commitment is limited to the modes of entry without direct equity placement in the foreign country (Pan & Tse, 2000).
The next step in the decision process is then to consider a more specific mode of entry and this process is recognised as the second level in Figure 12. The second level of entry modes is divided into exporting and contractual agreement when entering through a non-equity mode.

3.2.1.1 Export mode

Export mode is the mode with the slightest commitment of resources and is often used when a firm enter an overseas market, mainly through an intermediary. This mode is often chosen because of the significantly low amount of deployed resources and if a firm does not possess any knowledge about the market. The export mode can take place in different ways with different commitment, such as direct or indirect export, which offers a lot of flexibility to the firm. A firm that use export as an entry mode, does not control the marketing activities and it has no or very little access to knowledge about the customers (Nakos and Brouthers, 2002).

The export mode offers a great introduction to a foreign market and a firm can thereby determine whether it can deploy additional resources, to reach higher profits in the market. The mode is also often used for firms with few deployable resources to gain access to distribution and marketing channels (Nakos & Brouthers, 2002).

3.2.1.2 Contractual agreements

Likewise export mode, contractual agreements can be executed in different ways, identified as licensing, contracting and alliances. A contractual agreement is somewhat with the same purpose as exporting, but it offers significantly more direct marketing and market specific knowledge (Nakos and Brouthers, 2002).

The first mode in the contractual agreements level is to license out its product portfolio, so that a foreign firm has the intellectual property rights. Oppositely of exporting, this mode offers an exchange of intangible assets (Hutt and Speh, 2007). This mode is often limited in time and has its downside because the firm with the intellectual property rights can later on become a competitor due to the acquired knowledge through the license.

The second mode is to establish a contractual agreement; this can be carried out as a contract on a turnkey solution, developed by the domestic firm but hosted by a foreign firm in distant market, is used when equity placement is of no interest. The benefit of such a contract is that it allows a firm to commercialize its superior skills by participating in the international markets (Czinkota and Ronkainen, 2006).
The third mode is to establish an alliance with the purpose to share resources and acquire knowledge and technology from the counterpart. An alliance is a committed mode of establishing in a foreign country, where a firm evaluates a potential partner based on reputation, capabilities and business culture. An alliance is often based on relationships and therefore this mode is a challenge for the management to constantly administrate the relationships. Due to the changes in the business environments the alliances are often short-termed because the partner firm is not of interest as the environment has changed (Pan & Tse, 2002).

3.2.2 Equity mode
Non-equity modes benefited from a low resource commitment as well as enabling a process of knowledge accumulation within the local market. Oppositely; the equity mode offers a firm high commitment in the local market and it can control, manage and execute local, national and international marketing strategies (Nakos & Brouthers, 2002). As seen in Figure 12, the choice of equity entry can be divided into Greenfield investment or JV, identified as the second decision level.

3.2.2.1 Joint Venture
JV is defined as:

"shared ownership of an entity in a host country by two partners, one located in the home country and the other located in the host country"

(Johnson & Tellis, 2008:2).

The control over foreign operations and decision-making is shared when a firm enters a new market in a JV mode. Shared control results in lower profit since the firm must share the revenue. Furthermore it is possible that JV includes coordination problems. One main reason to enter an emerging country market in a JV mode is that the foreign firm possess knowledge about the environment in the foreign market, which reduces risks when making decisions (Herrmann & Datta, 2006).

Risks are shared between the two companies in the JV. The firm in the host market reduces the risks of the entering firm since it possesses knowledge about the market. The governmental and societal hostility identified against foreign firms are reduced by the establishment via local firms (Herrmann & Datta, 2006).
One advantage for the foreign firm of establishing in a JV is the access to knowledge for instance market knowledge, competitive conditions and culture, which is bridged by the local firm (Herrmann & Datta, 2006).

Similar, the JV contributes capability wise to the firm and offers more useful relationships with local government and customers, which enhances the trust of the firm in the country. The downside is large managerial challenges, due to the collaborative strategy as well as the deployment of resources (Nakos & Brouthers, 2002).

JV is not of same interest as previously. Firms are only establishing these contracts if they need to acquire crucial knowledge (Anderson & Buvik, 2002). A German study of more than 5,000 entries indicates that internationalization through JVs is challenged, as it does not reduce uncertainty in the extent that was thought, and therefore JV is not a useful intermediated step towards full ownership (Fisch, 2008).

3.2.2.2 Wholly owned subsidiary
This type of mode needs high level of resource commitment and the resources cannot easily be redeployed and therefore limits the firm’s flexibility (Herrmann & Datta, 2006). A firm that enters a new market by setting up its own subsidiary possesses the control of the activities in the foreign market. To have entire control requires higher investments, but results for instance in higher profit from the new market and less coordination problems. A firm must take decisions in a market, which it might not have sufficient knowledge about (Herrmann & Datta, 2006). A firm has better chances to succeed in the new market when it has the control of its own resources and also have the chance to develop these. By controlling the resources, especially in emerging country markets, the firm hinders the resources to be stolen or imitated by other firms. Another important factor is to control the distribution channels to success in the new market (Johnson & Tellis, 2008).

To enter an emerging country market by establishing a WFOS involves different kinds of risks. If firm establishes on its own, it has to handle all the risks on its own, but gives the firm more control over its operations (Agarwal & Ramaswami, 1992). Political risks, such as governmental and societal hostility are high in this mode, since the firm is new in the market and does not have the intangible assets as employees with local know-how knowledge. It is also a higher risk that the firm do mistakes due to lack of knowledge about the country culture (Herrmann & Datta, 2006).

Access to knowledge is a fundamental factor in order to become successful in a new market. But a firm that establishes on its own has limited knowledge about the country market, competitive
conditions and culture, which is crucial to success. The firm needs to engage great resources to acquire needed local-specific information (Herrmann & Datta, 2006).

### 3.3 Relationships-based Entry Mode

When a firm enters a foreign market the entry mode is very often the determinant for how relationships are established. Therefore this topic is explored and taken into account when choosing the entry mode. According to Jansson (2007) this is identified as the choice of entry node when creating a foreign entry strategy. Entry node settles the relationship in a network, based upon the links between customer and the seller, where the seller can be identified as an intermediary or the firm itself. The establishment will take place either as a third-party network or a two-party network, which by Jansson (2007) are named as triad and dyads, illustrated in Figure 13.

![Figure 13 - Own model: Illustration of Triadic and Dyadic Customer Relationships, Adapted from Jansson (2007) (Holmqvist, Nørkjær & Ullmark, 2009)]

#### 3.3.1 Triads

Triads bridge two types of relationships, namely customer and culture (Jansson, 2007; Pan & Tse, 2000), through an intermediary. The customer relationship established in a triad is not directly with the customer in the foreign country and the intermediary executes the marketing in this particular market. The intermediary has the control of the activities and possesses the knowledge about the customer. In this three-party relationship the firm becomes dependent on knowledge transfer from the intermediary for the development of its business marketing opportunities (Timlon & Hilmersson, 2009a).

This has become an obstacle for many foreign firms, to bridge the gap of sufficient knowledge transfer from the customer to the firm (Jansson, 2007). This entry node is efficient when a firm has no previous experience in the market and hereby it can be present with a little amount of resources. By being present a firm exploits local market opportunities and it can later on commit itself more in the market (Timlon & Hilmersson, 2009a).
3.3.2 Dyads
Oppositely of triads, dyads are relationships established directly between the firm and the customer, which enables the firm to accumulate knowledge and thereby gain experience in the foreign market (Jansson, 2007). The establishment of social linkages in the relationship is crucial for the firm in order to retrieve essential knowledge that enables the firm to adapt both in the relationship as well as in its business marketing strategy (Jansson, 2007).

Establishing a dyad requires more resources partly because of the increased commitment in the foreign market and partly because of the adaptations in the organization. The organization is the main barrier for the development of the relationships, together with the social linkages, which are the carriers of information (Jansson, 2007).

3.4 Business Relationships
According to Johanson et al. (2002), firms entering foreign markets should carefully consider establishing and developing long and close relationships to important customers. Forsgren et al. (2005) stress that firms shall create and put effort into a couple of close business relationships with customers, suppliers and other actors. The authors also emphasize on the fact the all business markets are structured as networks with several actors that are inter-related to each other. According to Johanson et al. (2002) business relations are created through interaction. At first, the firms interact through inquiries, test deliveries and evaluations. The communication between the parts develops when problems and suggestions for improvements arise, which results in an increased commitment. This leads to an enhanced dependence on each other, which can result in an improved efficiency in the way that the two parts eventually can coordinate their activities. Johanson et al. (2002) further state that the creation of business relations between actors in a network is very time consuming and requires a lot of work, commitment and involvement. Since these relationships in fortunate cases leads to long lasting and valuable relations, firms shall definitely invest in developing, strengthening and preserve them.

According to Ford et al. (2003) business relations are about how firms act towards each other. All firms have relationships but they can vary in content, strength and durability. Relationships can fail or succeed depending on how firms handle them. Every firm has a nest of customers, suppliers and other actors that interact with each other and which together form the core of the business. It is within the relationships that firms can access, provide and exchange resources with each other. Ford et al. (2003) highlight that the relationships are the assets that connects the firm’s other assets and
convert them into economic value. Once a firm has adapted to the relationship behaviours, the problem is to manage the relationships that the firm has and to make the best out of them.

3.4.1 The substance of a relationship
Relationships contain of actor bonds, activity links and resources ties. Buttle (2008) defines actor bonds as the result of interpersonal communication and the following development of adaptation, commitment and trust between the actors involved in the relationship. The actor bonds grow stronger over time, along with the development of the relationship. Further the author describes activity links as the connections that are formed between the involved parties, such as the commercial, technical, administrative and financial connections. These connections can merge many aspects of the parties’ operations. Finally Buttle (2008) defines resource ties as the mutual adaptation of resources in the relationship of the two parties. They are formed when the resources are deployed along with the performance that links the supplier and customer.

3.4.2 The Supplier-Customer Relationship
According to Ford et al. (2006), relationships can be used as tools to influence suppliers and customers on the problems and uncertainties by abilities of the two parties. The customer’s problems and uncertainties can perhaps be solved by the supplier’s ability to provide a solution to that problem. The supplier also faces problems and uncertainties, which can be solved by abilities of the customer. Figure 14 below, developed by Ford et al. (2006) shows the links between the uncertainties and abilities between the supplier and customer and how they can influence one another.

![Figure 14- The Uncertainties and Abilities of Buyers and Sellers (Ford et al., 2006)](image-url)
3.4.3 Customers’ uncertainty and Suppliers’ influence tactics

In this following paragraph, we discuss the customer’s need, market and transaction uncertainties and how the supplier can influence them with its problem solving and transfer ability.

*Need uncertainty* is when a customer has difficulties in specifying what it requires in order to be able to solve the problem. This is common when the requirements are new to the customer or of complex character, such as high-technological products. If the customer has a high need uncertainty, it is likely that it will choose a firm which it already has a relationship with or one that seems to have high abilities or good reputation. In this case, there is a possibility that the customer will choose a solution that extends beyond its requirements (Ford et al., 2006).

*Market uncertainty* is when a customer is uncertain about what supply market it faces and when there are several possible solutions to the customers’ problems. An example of this could be if the supply market is changing rapidly and offerings are become quickly outdated. A customer with market uncertainty has to examine the supply market and choose several suppliers to whom to keep distance (Ford et al., 2006).

*Transaction uncertainty* appears when a customer is faced with a supplier it does not know or trust. The customer can be concerned about the quality, quantity as well as receiving the deliveries on time. A customer with transaction uncertainty will to verify the supplier’s skills in order to maintain the local marketing strategy (Ford et al., 2006).

There are two available strategies in order to take advantage of the customer’s uncertainties. First, the supplier can manipulate the customer’s uncertainties by increasing the need uncertainty and direct it in a specific direction. Secondly, the supplier can apply its abilities in order to influence the customer uncertainties. For this, there are two types of abilities:

*Problem-solving ability* is a supplier’s the ability to design and construct an offering that provides a solution to the customer’s problem. It can influence the customer when it has a high market or need uncertainty. Further, the use of this ability enables the supplier to charge a higher price for the offering than if the customer would have chosen it by itself (Ford et al., 2006).

*Transfer ability* is a supplier’s ability to influence the customer’s transaction uncertainty. It allows the supplier to offer a solution to the customer’s problem easily, quickly, consistently and at the agreed cost (Ford et al., 2006).
3.4.4 Suppliers’ uncertainties and customers’ influence tactics

In this following paragraph we discuss the relation between the supplier’s capacity, application and transaction uncertainties and how the customer can influence them with its demand and transfer abilities.

**Capacity uncertainty** is a supplier’s uncertainty about the amount it will be able to sell in the future. This type of uncertainty is likely to be high if the supplier has high fixed development and operation costs or if the customers are few and large. In order to lower the risk of reduced sales in the future, the supplier can establish close relationships with its customers to guarantee continuous order volumes. **Application uncertainty** is about a supplier’s uncertainty about how the customer best can use the offering provided by the supplier. It can change quickly and move into different directions. The supplier can, in this case, monitor its customer relationships as well as the changes that the customers face. **Transaction uncertainty** is a supplier’s concern that the customer will not pay for the ordered volume as well as if the customer actually needs what it ordered. This type of uncertainty is significantly high when the supplier has one or few customers. In order to manage the transaction uncertainty, the supplier can either focus on building strong and stable relationships with few customers or limit its dependence by having low-involvement relationships with several customers (Ford et al., 2006).

The customer has two possible strategies in order to take advantage of the supplier’s uncertainty; first, the customer can manipulate the supplier’s uncertainties by reducing its capacity uncertainty. The customer can also increase the supplier’s application uncertainty by influencing the supplier in price negotiations. Secondly, the customer can apply its abilities, as described below:

**Demand ability** is a customer’s ability to advice the supplier on what to produce. If the supplier has a high application uncertainty, the customer can have a powerful influence on it. **Transfer ability** is the customer’s complement in the relationship with the supplier. It is its abilities and reliability to inform the supplier on order volume as well as time for delivery. This ability is especially important if the supplier has a high transaction uncertainty (Ford et al. 2006).

3.5 Developing a customer relationship

The Figure 15 below illustrates how the relationship between a supplier and a customer can be created. The development of the relationship occurs in four stages: the pre-relationships stage, the exploratory stage, the developing stage as well as the mature stage. (Ford et al., 2003; Ford et al. 2006)
Figure 15 - Relationship Stages (Ford et al., 2003; Ford et al., 2006)

The **pre-relationship stage**: To find new suppliers and customers as well as evaluating them, demands a lot of time and effort from a firm (Ford et al., 2006). During the pre-relationship stage, the value of the potential relationship is evaluated as well as to which extent investments should be made. The two parties also discuss the level of commitment and what knowledge they need to possess in order to complement one another. Trust is also an important factor for a possible relation. These aspects are difficult to form an opinion of in the pre-relationship stage, due to insufficient knowledge and distance that reduce the two parties’ understanding of each other.

The **Exploratory Stage**: In the exploratory stage, the customer and supplier engage in a discussion or negotiation about a potential first purchase. The two parties have a need in obtaining knowledge about one another since it is their first purchase among them. The relationship is, in this stage, expensive for the two parties as well as the future is uncertain. There is also a tendency to a lack of confidence and a concern whether the other part is committed enough. Both parties’ commitments are of high importance if the relationship is to develop further from the stage of exploration (Ford et al., 2006).

The **Developing Stage**: The relationship between the customer and supplier has reached this stage when the business between them is growing in volume or positively changing in character. An example of the developing stage in practice is when continuously purchases are made or when contracts are signed for a major capital purchase. The actors bonds are growing between the parties and as a consequence the distance and uncertainty is reduced. Nevertheless, the relationship and
trust within it cannot only be built on social interactions. At this point, the trust should be built on actions. It is in this stage that the parties’ start to adapt to each other which results in activity links and resource ties. Despite the collaboration so far, the relationship between the customer and supplier has not yet reached a stable stage. It is possible that the relationship will decline and that the parties go back to the first stage and start to collaborate with another party (Ford et al., 2006).

The Mature Stage: Ford et al. (2003) stress that the two parties attain this mature stage when they have reached a certain stability in the learning about one another. An example from practice can be when a certain offering has become routine. This stage has many positive advantages for firms; it can lead to the establishment of common norms and trust. As a consequence of this, the uncertainty among the parties will be low as well as the costs for maintaining the relationship will reduce. Despite this, the mature stage can also be problematic for the firms involved; the relationship will become a routine with low costs and low managerial input, which might not be questioned. Therefore, the parties’ evolving requirements will not be processed.

Finally Ford et al. (2003) states that most of the well-established relationships surely have gone through several periods of development and maturity. But it is of high importance to know that not all relationships will reach a stable stage. Some relationships will not develop because one party lacks resources or only has a temporary need. In the case when one of the parties is not satisfied with the other, the relationship can end abruptly. Even if one party realizes the importance of the other one, it could be too late to save the relationship. In order to avoid this, it is essential that the two parties involved continuously nourish and maintain the business relationship. Relationships between firms build on five central key concepts; learning, adaptation, trust, commitment and distance. According to Ford (2003), firms should have above-mentioned factors in mind throughout all the stages in the relationship development process.

3.6 Chinese Business Culture
According to Fang (2005) the Chinese businesspeople are very relationship-focused. What characterizes relationship-focused people is that they seldom do business with strangers. Further the author points out the importance of getting to know and build up a strong relationship with the business partner. In China, business is conducted with a business partner and not with a firm. In other words, if the business partner leaves the firm, the relationship will most probably be vanished. This is appreciably differentiated to the Western business culture, which is characterized as a contract-based one.
Chinese people put a lot of time and energy in developing personal relationships with potential business partners before they start a formal business process. Focus is on building up confidence before a business conversation can take place. According to Fang (2005), the human relation is the key to the formal business process. Bergstedt-Sten (2003) states that negotiations are conducted differently in various parts of the world. Chinese people are skilful negotiators and have several hundred years of experiences in strategic manoeuvres in order to achieve their goals. Although they possess some superior beliefs about their own moral intelligence in comparison to that of other cultures. According to Hofer & Ebel (2007), the Chinese delegation is failing in important technological, economic and legal expertise. Instead emphasis is on personal relationships and trustworthiness to their partners. To nurture and maintain a business relation are both partners’ responsibility. Even if the two business partners are not doing business with one another anymore, they meet and socialize in order to be able to revitalize the business relation for a later occasion. In order to be successful in China, a high level of commitment is required as well as ones private life will be dominated by business.

It is of high importance that Western firms are familiar with certain norms before doing business in China. Bergstedt-Sten (2003) stress that gifts are part of the Chinese business culture and are seen as a way to maintain strong relations. At certain occasions nice gifts are delivered, however the receiver of the gift will be expected to do/give something back to the sender. Fang (2005) states that business dinners are large part of the negotiation process. To be inebriated during these dinners is rather seen as something positive instead of negative. This is a proof of honesty and that one has nothing to hide. According to Bergstedt-Sten (2003), positions and titles are of high importance in negotiations and it is important that the Western titles are equal to the Chinese ones. The speed at which negotiations in China are taking place is very slow and it is extremely important not to loose face even though discussions and argumentations can take place. Since the government is involved in a lot of companies in China, it is possible that the final decision-maker is not present. Another important aspect is the language, since Chinese differs a lot from Western languages. It is therefore recommended to have an interpreter present, which sometimes can be demanding. If the firm chooses to use an interpreter, it is of importance to in advance describe what they are interested in accomplishing so that the interpreter is well familiar with the subject and can present/deliver the firm’s opinions.
3.6.1 Guanxi

"Guanxi is one of the major dynamics of Chinese society. Guanxi has been pervasive part of the Chinese business world for the last few centuries. Any business in this society inevitably faces Guanxi dynamics”

-Luo (2007:1)

Yang (2004) defines Guanxi as relations or links, the concept is generally used to define all sorts of relations between individuals, business and phenomenon in a long-term perspective. Guanxi is a way of living and acting for both individuals and companies in China. According to Luo (2007), Guanxi is a key determinant to business success in China. It is impossible for both local firms and foreign investors to go far unless they have an extensive Guanxi network. Gu et al. (2008) state that the use of Guanxi also is a common way to help firms to avoid institutional barriers. The establishment and development of Guanxi is not a fast and instant process, rather it requires a lot of effort and patience. Trust, understanding and personal knowledge are vital factors of the Guanxi relationships.

Luo (2007) emphasizes on six principles that are of high importance in Guanxi cultivation, utilization and maintenance. Guanxi is.

- Transferable; if person A has Guanxi with person B who is a friend of person C, then B can introduce and recommend A to C. The likeliness that A would get to know C if it weren’t for B is small.

- Reciprocal; if a person does not follow the rules of reciprocity by not returning, he/she will lose face as well as be seen as unreliable.

- Intangible; an expectation when establishing Guanxi is to be able to do unlimited exchange of favours. Guanxi is sustained between the different actors involved through an unspoken and unwritten commitment consisting of trust, patience and equity. The person who disregards the commitment can damage its social reputation.

- Utilitarian; Guanxi is rather something practical than emotional, consequently the exchange of favours is what bonds the actors involved, not the sentiments.

- Long-term-oriented; Guanxi is established and reinforced through long-term interactions. The relationship, or the meaning of it, may not always be current but is brought up when needed.
• Personal; all Guanxi relationships are personal, even those between organizations. If a person with a Guanxi connection leaves a firm, it is very probable that the firm will lose that Guanxi.

3.7 Summary of the theoretical framework
In this chapter we have identified theories that can help us to answer the main research problem. In order to do so we have created a theoretical framework, which encompasses the main subjects of our main research problem. In the following paragraphs we have answered our research problems by subtracting the key findings from the theories presented in the framework. Afterwards the relatedness of the theories is presented in our research model.

*How can a Western firm gain a competitive advantage by establishing, developing and maintaining customer relationships in China?*

• The resource-based view will answer the problem by identifying the competitive advantage of the firm and helps it to exploit opportunities in other markets. It will further establish a strategy based upon the resources and capabilities available in the firm.

• The resources and capabilities are described in order for a firm to be aware of the importance of competitive advantages as well as to sustain them. The better the firm is to deploy its resources, the better performance the firm will have.

• Dynamic capabilities and organizational learning will engage a firm in the process of continuously renewing and redeploying its resources to sustain its competitive advantage. The firm will develop organizational routines based upon the knowledge that it acquires.

*How can a Western firm, in order to establish direct customer relationships choose the right entry mode?*

• In order to establish abroad a firm has to choose an entry mode, based on the interests that the firm has in the foreign country. Establishing via intermediaries or via Greenfield investments determines the firm’s commitment as well as the contact with the customer.

• In order to establish direct customer relationships a firm has to choose an entry mode where the contact is dyadic. The only mode where you own the relationships and have 100 percent control of them is by establishing a subsidiary.

*How can a Western firm establish customer relationships in China?*
• Before establishing any customer relationship, a firm has to determine its substances within the relationships. Such as the amount of information the different parties can access and who carry the resources for the established relationship.

• For establishing customer relationships it is essential for a firm to understand the differences in the customer. The exchange between a supplier and the customer is hampered by the uncertainties from both sides.

• When relationships are established, a firm has to develop them as well as re-wise the relationship strategy in order to engage and take part in the relationships giving value to the firm.

How can a Western firm cope with the difficulties of Guanxi in China?

• The differences between European and Chinese business culture is great. In China people emphasize personal relationships, in order to establish trust between the parties. When building trust, a firm enhances its capability to become successful in the Chinese market.

• The established Guanxi framework helps us to understand the Chinese business culture and the possibility to face overwhelming barriers in the relationship establishment. Guanxi is visible in many different ways; the most regular is the personal representation.

• A Western firm has to be well aware of the exchange of gifts and favours in China, as the legislation is not the same on the subject.

3.7.1 Research model
The summary shows theoretical wise how we will accomplish and answer the different research problems identified earlier. For every research problem, we have indentified obstacles in carrying it out, by answering the research problem with theory we will try to overcome the possible barriers. The co-relation between the different theoretical themes and the problems is illustrated in our research model (Figure 16).
3.7.1.1 How the different theory is related

To answer the main research problem “How can a Western firm gain a competitive advantage by establishing, developing and maintaining customer relationships in China?” we apply the resource-
based view in order to explore the advantages of having or gaining a competitive advantage. It is discussed in terms of establishment, sustaining and how to make returns on it. In relation to the main research problem we discuss the advantages of establishing relationships.

This led us to the first research problem "How can a Western firm, in order to establish direct customer relationships choose the right entry mode?”. The entry mode is explored to the extend where it can answer how a firm should enter a foreign market with a given purpose. The theory is explored in term of how a firm can establish, what the benefit with the different modes can be obtained and finally how many resources are needed. The entry mode can be a determinant for how the customer relationships are established and therefore we explore that as well in terms of entry mode.

The link between the entry mode and the establishment of customer relationships is obvious as we identified it as a determinant for the establishment. In the second research problem we discuss theory answering; “How can a Western firm establish customer relationships in China?”. Firstly we create a framework for the establishment between supplier and the customer. The theory explores how the two parties exchange within the relationship. The framework is added to the context the development of relationships over time, where a firm enhances its knowledge about the customer. As an outcome a firm posses crucial knowledge about its customer and it can then be applied into the organization of the firm.

In relation to the relationship establishment we identified differences within the relationship establishment in different cultures, which is “How can a Western firm cope with the difficulties of Guanxi in China?”. We explore the Guanxi aspect within the Chinese culture and how it affects the establishment of relationships. Furthermore the theory explores what is needed for a firm to comply with the difficulties of bridging two different business cultures within important relationships.

The different theories explored are all co-related in different aspects illustrated by the arrows in the research model. In the end we relate it all to the RBV in order to establish a competitive advantage in China, so a firm can exploit its opportunities in yet another market. The resources and capabilities and the establishment of a competitive advantage in the model illustrate the RBV.
4 Empirical Findings
The empirical findings are based on the theoretical framework. We have mainly used primary data in form of three personal interviews as well as one telephone interview. We have chosen to integrate the four interviews in order to get a holistic perspective. Finally, we conclude the chapter with a summary.

4.1 Case company
Dako A/S are an old family-established business, which today are owned by a Swedish equity fund. Dako has its Headquarter in Glostrup, Denmark, with around 550 employees of totally 1,100 employees worldwide.

Dako are mainly focused on anatomic pathology and the laboratories behind. The business is carried out in more than 70 countries around the world, represented by subsidiaries and distributors.

4.1.1 Product presentation
Dako focus on anatomic pathology and the laboratories behind. The business is carried out in more than 70 countries around the world, represented by subsidiaries and distributors. The main industry for Dako is the product supplied for Immunohistochemistry (IHC), which is a tissue-based diagnosis process done in the case of cancer diagnostics. This process is in the hospitals handled by the pathology laboratory, to whom Dako sell the products.

The “tissue” is a term used for a piece of flesh or even cells retrieved from the patient. The tissue is then studied in several smaller “laboratories” or working places within the laboratory, as illustrated in Figure 17.

Figure 17 - Pathology laboratory, illustrated with the process-offices
Dako invent, produce and market product for the whole process of the diagnoses done within the pathology laboratory. In the domestic, European and US markets the sell the facilities or machines for a low price, and then they charge a higher price on each reagent that is used for each tissue in the diagnosis. In the foreign markets, where a distributor is the main sales channel, they sell the machines and reagents independently.

In 2008, Dako introduced a new strategy for their international operations. It aims to expand Dako’s operations worldwide, with focus on the world outside Europe and North America. The strategy extends until 2010 and is shown in Figure 18 below.

![Geographical expansion strategy](image)

**Figure 18 - Geographical expansion strategy**

By entering the three markets as shown in Figure 18, Dako APEX needs a 25 percent yearly increase in sales, to reach the goal in 2010. Derived from that, the Chinese market, together with the Brazilian and Indian markets are of strategically importance for Dako.

### 4.1.2 Dako APEX

Dako APEX are the organizational sales division, which have the responsibility for Dako’s products and sales within the region. Today, they has 70 employees but in 2010 the number of employees intends to expand to 110 after the expansion into China, Brazil and India. Dako are currently exporting to China through a distributor. They have been active in the Chinese market for more than a decade, although it has had totally three distributors.
4.2 Superior Product

Dako have for several decades been market leader in the European market, as well as they have a good presence in the American market. The success is grounded in the long history of Dako and the entrepreneurial spirit of the founder. Dako’s mission has always been to improve health of life, and this is also reflected in today’s mission statement:

“We connect to fight cancer”

-Cordes

Dako are bringing groundbreaking research continuously in the strive for helping to fight cancer. Some of this research is said to be new paradigms in this industry.

“[Dako introduced] the possibility to make personalized medicine, and when introduced it opened a new paradigm, which made Dako a spearhead within the industry and helped them to build a good brand in the pharmaceutical industry.”

-Cordes

Dako are supplying high quality products, which were new to the industry and which gave Dako brand recognition within the industry. The quality of the products gave Dako the opportunity to change the business model towards integrated sales solutions. As mentioned above, Dako sells their products based on the “Coca-cola-model”-within the mature markets. This business model reflects Dako’s integration of long-term relationships with its customers. The relationships and the business model have given Dako a leading position as they can code the need as they are present in the laboratories. This has furthermore given Dako an opportunity to make a focused product portfolio supporting all functions within the laboratories.

In the Chinese market, Dako have a market leading position today, as they was the first to enter the market. According to Nygaard, Dako have 40 percent of the market in China. The business model used in the mature markets is not implemented in China, since they entered the market through an intermediary. The intermediary sells and distributes the products of Dako, which is done in the same way as mail orders. The customer asks for a specific product and then the distributor charges the customer for the delivered product. This is because of a short-term view from the distributor.

“We sign short-term contracts with our distributors, because then we have the possibility to cut them off immediately. This means that the “coca-cola-model” is much more difficult to implement.”
In 2007, Dako were acquired by EQT, which turned the focus towards financial performance, but it gave Dako more resources to invest in further development of markets. The fund hired a new CEO in the beginning of 2009. The CEO has previous experience with the same profession within the medico industry. Further he has what Cordes states as:

“...a really good understanding of this kind of business. This has made my job easier, as it is good to have the CEO to understand the importance of the different models, and he has had tremendous success in this before, in the context of seeking new business opportunities outside the domestic markets.”

Inside the organization of the APEX division they reorganize themselves continuously, to reveal resources for new tasks within the organization. This is partly to increase the financial outcome and performance for the EQT, but it is also to increase presence in new markets. Cordes illustrates this with the following example:

“For the price of one Danish employee, I can have ten sales people in India. So we have lowered our operating expenses dramatically the last two years. So all in all we get more and more effective, but also I reconfigure people.”

Nygaard mentions that Dako have a representative located in Singapore, with the purpose to secure that the budgets are met by the distributor as well as for Dako’s own goal in the region.

“I’m measured on the sales for each of these countries. We have a sales budget for each country, and my main task is to reach the target for each month, quarter and year. At the end of a year, the distributor and I create a budget, which is divided into months, quarters and years as well as it is divided into product. We try to reach the given figures, and then we measure the performance of the distributor.”

This focus has not given the business in this region the full potential to growth. As mentioned earlier Nygaard stresses that Dako’s distributor have a hard time to commit itself in the market.
“The distributor represents several companies and they are not dedicated to Dako products only. But you can use a distributor to develop a customer base and sales to a certain level.”

-Nygaard

When working on a distant basis, Nygaard emphasizes the importance of having direct and regularly contact with the division and organisation of Dako in Denmark. Nygaard’s presence in the Asia-Pacific region is mainly aimed for reaching the budgets and targets for the sales. As Nygaard visits the distributors, customers and people in the laboratories he grasps the trends and needs for increasing, adjusting and renewing Dako’s product portfolio in China.

“I visit China every second month and take the opportunity to visit several key accounts, to have an understanding of what is happening in the labs, what are they doing, the key trends and what kind of business could be implemented as well as new business deals. This gives us an understanding of the changes in the business environment.”

-Nygaard

Nygaard shares the information to Rytter, often through phone meetings, where they discuss for example new business opportunities. To see if the identified trends are of any value as well to see if they are plausible based on the existing product pool of Dako, Rytter brings in relevant product and business managers. It is then discussed how the next step should be and how the group should progress. Very often they separate again for a while; Nygaard creates a sales forecast, Rytter will look for the needed resources and the product manager will look for the feasibility of adapting the product to the market. This process will be done within one week and then they will meet again, either via phone or direct presence. If the group finds the problem plausible, then a strategy for the introduction will be made and relevant people will be invited to the representative office. Then it is up to the CEO, when presented, to determine the future decision for the introduction. With the recruitment of the new CEO the processes of such decisions has become much faster, which is appreciated by Nygaard:

“We didn’t see the former CEO here in China, so this is definitely a new approach. Lars is going to China again in June, so this is his second visit within the six month of his employment., Lars Holmqvist, will come over in a months and have the plans presented.”

-Nygaard
4.2.1 Business model
Dako have in the domestic, European and US markets build a business model around its products that supports a strong and continuously relationship with the customers. The business model concept is said to be built around a “Coca-Cola-vendor machine”, here named the “Coca-cola-model”. The idea is to offer a high quality product to Dako’s customers and then continuously ship “products/material” and thereafter charge the customers continuously. This enables Dako to take higher prices as the customer buy the products for a small amount, but as a service concept is built in, the customer will pay a higher price for each product.

“In the case of Coca-cola, they offer the vendor machine for free and charge each customer for every single buy.”

-Cordes

4.3 Entry mode

4.3.1 Non-Equity Mode
Dako have been present in China for 12 years. They have chosen to enter the market via a distributor. This has, according to Rytter, given them some benefits and some disadvantages. The benefits of having a distributor in China are that Dako have had a cheap way to get into the market and learn about the demands there. There are a lot of things that they have not had to deal with themselves, such as the import rules and other practical things. At the same time they were given the chance to get a quick entrance into the market and to see how fast the market is developing.

Rytter argues that the main disadvantage of using a distributor in China is that they are not in control of the market. In order to access customers and obtain critical market knowledge Dako need to go through the distributor and that is something that they do not do today. Dako have, to a certain degree, a feeling for who the customers are and how they act. Rytter states that the firm tries to help the distributor to build relationships. But in the end, the firm who owns and is responsible for the relationships is not Dako, it is the distributor.

“In a certain time you will reach a plateau for the development of your distributor’s capability and then you will have to build your own relationships and go from the distributor’s way of working into the Dako way.”

-Rytter
Kristensen supports Rytter’s statement and adds the fact that Dako have done the internationalization in a natural way by using a distributor, who possesses knowledge about the country and helps to bridge the major obstacles. But she claims that if Dako are to grow in the Chinese market, they have to make the decision to set up a subsidiary.

“When you have reached a certain level, the distributor is just not the best alternative especially in Dako’s types of products, which requires some investments from the distributor in terms of developing the market, and developing the customers because you have to educate the customers to understand why Dako are better than local low quality products.”

-Kristensen

Cordes argues that when Dako establishe on their own, they have a more direct organization and the finance is in place, whereas if they have a distributor, it is always short sighted. They have a contract with the intermediary for three to six months, because then they have the possibility to cut them off immediately. This is a cash constraint for the distributor as it has to buy products from Dako and then they add their revenue to the price. But Cordes questions how much the distributor will buy from them when the contract only lasts for a couple of months. Further, Kristensen agrees with Cordes and explains that it can be difficult to get the distributor to perform because it knows that it can be discharged within three to six months. Few distributors would be interested in making these big investments because they may not ever get the investment back. Furthermore Kristensen states that the distributor does not dedicate enough time and resources to educate the market, which is crucial for Dako’s high technological products.

“We have reached a certain level of sales in China so feasible to have our own sales office. We also have the type of products that require investments, therefore it is better to have our own people and make our own investments for the long-term instead of using a distributor which is short-term oriented.”

-Kristensen

**4.3.2 Equity Mode**

Cordes emphasize on the fact that Dako recently employed a new CEO who has previous experience of international business activities. He has introduced a financial strategy with the aim to enhance Dako’s growth with about five percent. In order to achieve this goal, Dako need to make some strategic changes. They will revise and accelerate the strategy, as the money in the market is
tremendous. One way to do this is to increase the market commitment in China. Cordes highlights this with the following example:

“If we sell something for 100SEK to the distributor, it will mark it up and sell it for 200SEK to the customer. But if we sell directly to the customer in China for 200SEK, then we, Dako, will get the total revenue”

-Cordes

Today, Dako have chosen to establish a sales office in the Chinese market. Some of the main reasons for this are that Dako will not have minorities, shareholders or anyone else to pay special attention to. Furthermore Cordes stresses that Dako will have full and clean control of their finance and business in China.

Kristensen claims that Dako now are choosing to establish in the Chinese market on their own. Many companies change mode when they have reached a certain level of sales. Dako’s education needs to be done in China because the products are expensive and the Chinese people have a totally different thinking about quality and the use of that, so therefore education is critical.

Rytter claims that the top management at Dako recently have implemented a new strategy and decided to move quickly into the Chinese market. There are several reasons why the management has chosen to do this. First of all Dako have reached a plateau with the distributor. Secondly, the speed of growth is not satisfactory. Dako still gets some growth in the area but it is not as fast as they would like it to be. Thirdly, Rytter believes that since Dako wants to sell solutions they need to have a broad understanding of their clients and their demands. If they are not able to build those relationships then Dako will not be able to sell solutions, they would still continue to sell products.

Finally, Rytter believes that the market is ready for it, because they are not the only firm having this thought. As Ventana, their biggest competitor was acquired by Roche, they can expect pressure on markets where Ventana has not been present before. But now it is crystal clear that they have a plan to move in to Latin America and the Asia Pacific, including China. Dako can see that Ventana are building up relationships with key opinion leaders in China and from there they start to understand how they can enter the market. What Dako knows so far is that they simply place out the instruments to the clients for free and they do not tie them up for any reagent sales. Ventana just shows the customers how it works and then if they already have a system in place, one day they will start to use the reagents of Ventana and Dako will be out.
Cordes also emphasizes the increased competition from Ventana in Latin America and Asia-Pacific and realizes that a fast move into the Chinese market is crucial for Dako at the moment to prevent that the competitor becomes market leader.

“It is evident if you go 10 years back, Dako had about 60 percent of the market share in these markets. If we can preserve that, then Ventana can say good-bye to the markets. It is very important for us to grow at the same time so that we won’t end up as the looser.”

-Cordes

Rytter argues that their Chinese distributor will see Dako’s establishment in China as a potential possibility for further collaboration. Dako will move in, they build up collaboration to a certain level with the distributor and then they decide whether that should continue or if they should go on their own. She further claims that being a distributor is a risky business. That is always part of the reason why to enter a market through a distributor is good enough as a beginning. But since the distributor’s business always will be risky, they are not willing to provide the establishing firm with crucial knowledge about the market and especially the customers.

“Information is power.”

-Rytter

Rytter further states that Dako currently are investigating the market potential since Ventana is penetrating the market. They need to find out how this will affect their opportunities in the market. Dako will evaluate the potential of keeping the distributor to a certain extent as well as going in completely on their own and establish a sales office. Rytter closes the discussion by saying that Dako needs to balance the costs to see what would be most profitable for them.

Rytter believes that one risk by establishing a subsidiary in China is if they think too small. Dako have to think more than one year ahead, they need to have a long-term view. At the same time they have to be aware of what risks they are running. Part of entering a market would be to have a risk assessment, where Dako measures the risks during their first years in the market.

4.4 Business Relationships

4.4.1 Importance of Business Relationships

According to Cordes, the main customer in China is in the public and private health care sector. Nygaard stresses that Dako have used its distributor to build up a critical mass of customers, which
The Art of Turning Relationships into Competitive Advantages

has provided Dako with a clear picture of the market. Dako have made a strict segmentation in the market, and this has given Dako a clearer picture of it. Today Dako implement a key account plan for each customer within the A and A+ segments. The plans are integrated through the distributor as they possess the valuable knowledge within each customer relationship. Dako have categorized their customers in different levels of key accounts, namely A, B and C- accounts, where the A-accounts are of most importance for Dako and further divided into A and A+. Rytter explains that Dako currently have 56 A-accounts in China, and out of them they have 11 A+-accounts, which are the major ones. 70 to 80 percent of the sales in the market derive from the 56 A-accounts.

Currently, Dako are trying to get the distributor to give them a feeling for how the Chinese customers act and what they want. Rytter further stresses that the relationships established by the distributor with specific accounts are at a very low level. The distributor has just reached the level where they can get the orders and sell the reagents. Dako need to develop the Chinese organization to understand that more effort is required in the relationships in order to sell big solutions. It is not sufficient to have a distributor that only sells reagents; in that case Dako will never grow in the Chinese market. Rytter states that it is all about the decision making process and to have that in control. Dako need to develop the relationships with the accounts and build up a business with them instead of only selling products.

“How can we build relationships with the accounts so that the opportunities for sales will come automatically? Because that is really critical.”

-Rytter

Dako will help the distributor and their sales organization to understand that they need to build relationships. As a result, sales opportunities will automatically come because they will start to learn more about the customer. The distributor and the sales organization will start to understand what the customer needs and which critical points the customer has problems with today. It is from this point that the sales will increase. This is not the case of today since Dako’s distributor is just paid for the amount of sales.

According to Cordes, there has been a change in the health care market. Traditionally Dako acted in a monopoly market, so for ten or fifteen years ago they were the only supplier in tissue-based cancer diagnostics. They did not have to put much effort in the relationships since the customers came to them automatically. Nowadays there is an increased competition and the industry has become mature. Even though the strong and well-recognized brand of Dako helps them a lot, they
have to invest in building strong relationships. Cordes further stresses that relationships play a more important role today since the sales are much more complex.

4.4.2 How to setup the Chinese organization in order to establish Customer Relationships

Cordes states that Dako have not yet set the final organization in China but they will do that nine months in before the launch. The framework of the Chinese organization is a General Manager, which will be able to establish a sales force as well as all the support functions. They will run their organization on their own and Cordes will assist as their supervisor. Human resource-wise, Cordes believes that they can find the right people for the job since they are setting up the subsidiary in Shanghai. Shanghai is a developed region with many international firms and universities and has therefore also a well-educated labour force.

Rytter states that Dako currently have a Business Manager in China, Henrik Nygaard, who is located in Singapore. He has worked in China for a long time and has a deep understanding of the country culture and speaks fluently Chinese.

Rytter further explains that this is a functioning setup as long as they have the distributor. But the day when Dako establish in China, they need to have a different strategy. They have discussed different possibilities; the first alternative is that Henrik Nygaard can assist the new General Manager for Dako to establish in China with finding a team. Dako will help them with support functions for the first years to get them up running with information about customers and the way they should do business from a Dako-perspective. Thereafter, when the new sales organization have proven to Dako that they have everything in control and can handle the Chinese market activities on their own, Dako will leave the full responsibility for them.

The second alternative is to hire people from the distributor. In this case, Rytter emphasizes the importance of closely evaluating the skill-set of the people at the distributor. She further stresses that Dako only can hire one or two people from the distributor, but they cannot build up a whole organization from it. Rytter believes that it is crucial to employ people who are trustworthy and who can easily adapt to Dako’s way of working. She highlights this with the following statement:

“We like to have people who are dedicated to Dako.”

-Rytter

4.4.3 Developing Customer Relationships

Cordes states that Dako most likely will continue to work in China with their distributor in certain geographical areas. 88 percent of the current sales in China derive from the three biggest cities in
China, namely Shanghai, Beijing and Guangzhou and that is where they want their sales people. Kristensen agrees with Cordes and adds that it is great to have a distributor in small cities and in the western part of China, as you cannot see China as one big market. She further claims that it would be too expensive to have their own sales people there. By following this plan, Dako can focus on establishing relationships with the most important customers in the biggest cities and let the distributor cover the rest of the sales. Finally, Kristensen explains that Dako are aware of that it is a time-demanding process.

Rytter emphasizes that if Dako continue to work with the distributor, they will change the contract with them. They will in that case try to successfully take over the distributor’s business in the Chinese market. She highlights the importance of being straight forward and clear with the distributor and says the following:

“We will carefully specify which relationships the distributor owns and which relationships we should take over.”

-Rytter

Rytter discusses that one possibility could be to start off by overtaking the 11 A+ accounts and put effort in establishing close relationships with them. In order to succeed in doing this and in order to be able to sell total system solutions, Rytter believes that Dako probably need to know more people than those they know today.

She further explains that it is crucial that Dako find out who the decision makers and the implementers are for a specific account in order to establish relationships with the right contacts. But in between the decision makers and the implementers, Rytter emphasizes that Dako need to find the evaluators, who are the people giving recommendations and advices to the decision makers. Further Rytter explains that these evaluators can be difficult to find since they are not always part of organizations, since they are not always there. The evaluator could be a family member, a friend or even someone who is not present in China.

Rytter claims that in order for Dako to really understand that kind of setup with the evaluators and the different customers will be very time consuming. A good start would be to establish relationships with the 11 A+ accounts during the first year. Nygaard shares Rytter’s opinion and adds that it is very important to have the key opinion leaders within ones pen. Nygaard further explains that Dako most likely will look into education of new customers, using their key accounts. Another task is to set up an education system for Dako’s technology, because they do not do as
many tests in China as in Europe and the United States. Therefore they will educate the customers to increase the amount of tests.

After having taken over the most critical accounts, Dako could during the second year once again change the contract with the distributor and focus on establishing relationships with the 45 remaining A-accounts. Dako could in this case still use the distributor in their business by using them as a distribution channel and pay them for what they deliver.

Rytter sees both a barrier and an opportunity in taking over existing customer relationships from the distributor. Dako need to find the right people to help establishing the relationships. She stresses that Henrik Nygaard has been involved in building those customer relationships over the years, which is positive.

Rytter also states that it is important that Dako buy the relationships to a certain extent. She suggests that Dako should make an assessment of who the key opinion leaders in China are and try to hire the people who already have those relationships and possess knowledge about the customers. Looking at the distributor in China today, they rate their relationships with the implementers as good. But in the relationships with the decision makers, there is room for improvement. Finally, Rytter stresses that when you have that picture in your mind, it is about buying the relationships to the decision maker level.

4.5 Chinese Business Culture
Rytter discusses that culture involves many factors. There is everything that is visible, such as different looks, different clothes etc. Underneath there are the invisible factors, which are fundamental. This is unchangeably; it is in people’s hearts and how they act.

“So that is what we are facing here, different cultures, different personalities and different natures…”

-Rytter

Kristensen claims that Chinese people are very proud and nationalistic, they are very proud of what they have done and proud of what the country has achieved. They are also a little bit superior, but they know that they need help to get to that stage where they can show the world that China is a great nation.

Rytter states that the business culture in China is characterized as relationship-focused and that Chinese people work in a long-term perspective. This is in contrast with the Western European
business culture; where it is more task-oriented and the businessmen can work just as well in short-term perspectives as in long-term. Henceforth, Rytter stresses that the sales approaches vary in different countries depending on the culture. Each country has the approach that is linked to the specific need in that culture. That is also the reason why it is so important to have people in China who know the culture.

“Even though I try to understand the Chinese culture, there are some things that I will never, never be able to understand.”

-Rytter

Rytter believes that it is of importance to have knowledge about the Chinese business culture in Dako Denmark, in order to understand what it requires. Dako will probably need some training on culture and on how the Chinese culture differs from the Western one. Rytter finally highlights the value of employing Chinese people who are familiar with the business culture in China.

“We need to set up a Chinese team, because then we buy the culture into the organization. And that is very important.”

-Rytter

4.5.1 Guanxi

On one hand, Kristensen believes that Guanxi is of importance in China, but states that relationships and general trust building is important everywhere. Relationships are required in Denmark as well, but it is perhaps more fundamental in China. It is more about your friends and family in China, where it is of significant value to take care of ones inner circle. In Denmark you have to proof your product but in China it’s more about trust.

“If you know someone that can open a door for you and who knows someone that knows someone, that will definitely make it easier.”

-Kristensen

On the other hand, Kristensen explains that it is getting easier to do business in China as the country is becoming more westernized. Chinese relationships are not important to the same extent as they used to be. Previously, when Western firms established in China, they had to do a joint venture because a Chinese partner was crucial in order to succeed in the market. Nowadays foreign firms
are not as dependant on the local actors as before, but if the government is involved, firms will most likely need to establish contacts in the market.

Rytter emphasizes the value of making sure that the change of distributor or the phase out of the relationship with it, is done in a good way in order not to get a bad reputation in the market. This could affect Dako’s Guanxi with other actor within the business network.

Rytter argues that one of the reasons why Dako has not chosen to establish in the Chinese market in an earlier phase is due to certain aspects in the Chinese business culture that firms have to adapt to in order to stay competitive. Using a distributor is a way to bridge these cultural differences and thereby keep them at a distance from Dako. Rytter further explains that it is important to state what is acceptable and not acceptable before moving in to a new market.

“In different cultures, different things are acceptable.”

-Rytter

Rytter clarifies the above statement with the following example about gifts in different cultures; in American companies for example this is prohibited. But it is different in European as well as Chinese companies. Therefore, Rytter believes that it is important to have an overall firm policy about gifts and favours that we do accept, but then we have to have individual policies for each country where we have a direct relationship with the end-customer.

According to Rytter, this firm policy has not yet been set for Dako, but she would like to see a policy from the firm’s view and thereafter implement it in China. Rytter is well aware of that these policies will differ between the countries since all markets are different. Something that is not acceptable in one market can be well accepted in another. Dako has to do this in order to stay competitive and to not close down opportunities in the Chinese market.

Nygaard highlights that Guanxi does not encompass a bribing aspect. Guanxi is more just about building the relationship with an important customer. However, he emphasizes that corruption is a big issue in the healthcare industry in China and clarifies that Dako might face the same issue. Today Dako are selling through a distributor and it is on the distributor’s desk, Dako do not know how and if bribes take place.

Nygaard states that Guanxi in China in general is important, just as relationships. But they are more important in business relationships where the counterpart has a financial interest in the relationship.
So the more financial interest, the more important the Guanxi aspect is. In Dako’s business, Guanxi is maybe not that important but it does not mean that a good customer relationship means that the customers will buy products from them.

Hospitals in China are, according to Nygaard, run as businesses with little governmental support. They have to finance their own operations to a large extent, so they are focused as a regular business where they buy cheap and sell expensive. For Dako, it means that the hospitals buy Dako’s products that they subscribe to their patients at a low price and charge their patients a high price for the tests they do.

“This means that basically the Guanxi is less important.”

-Nygaard

However, Nygaard stresses that Dako still spend time visiting key opinion leaders, heads of pathologists from the biggest accounts and they invite them to VIP-trips to Denmark. Nygaard further states that they have to bridge the importance of Guanxi. Dako develop customer relationships in order to increase the value and commitment between the parties, it helps them in the future discussions and negotiations.

4.6 Summary of the Empirical Findings

In the following paragraph we have chosen to sum up the empirical findings.

*How can a Western firm, in order to establish direct customer relationships choose the right entry mode?*

- The benefits of entering a new country market via a distributor are that it is a cheap way to get into the market and to learn more about it. Firms do not have to deal with certain things themselves, such as import rules and other practical things. At the same time Dako have had the chance to get a quick entrance into the market and to see how fast the market is developing.

- Dako’s main disadvantage of using a distributor in China is that they cannot control the market. Moreover, in order to access customers and obtain critical market knowledge Dako needs to go through the intermediary.

- By establishing on their own in the Chinese market Dako will have a more direct organization and the finance in place, while using an distributor is always short-term.
• One reason why Dako want to establish a sales office in China is that the firm has reached a certain plateau with the distributor and the speed of growth is not satisfactory. One way to increase the sales in China is to increase the market commitment. Dako need to have full and clean control of their finance and business in China.

• Since Dako want to sell solutions they need to have a broad understanding of their customers and their demands. Therefore it is even more important that they establish close relationships.

• Dako will most likely keep the distributor to a certain extent as well as completely entering on their own and establish a sales office.

How can a Western firm establish crucial relationships in China?

• Since Dako have been present in China, through distributors for 12 years, they have a feeling for who their customers are. Dako have classified the customers into different categories in order to find out which the most important customers are.

• Dako plan to overtake the relationships from the distributor step-wise, starting with the category with the most important customers. Dako will focus on building up strong relationships with the customers in order to be able to sell larger solutions to them instead of only reagents that the distributor sells today.

• Dako will focus on trying to understand what the customer needs and which critical points the customer has problems with today and from there build up a strong relationship.

• Dako are aware of the importance of establishing relationships with the decision-makers and the evaluators, not only the implementers.

• Dako will most likely “buy” the relationships into the organization to a certain extent, by employing people from the distributor who already have established relationships with important customers.

How can a Western firm cope with the difficulties of Guanxi in China?

• Dako will most likely do some cultural training on how the Chinese culture differs from the Western-European one and in order to find out what it requires.
• Dako will hire local employees in order to bridge the obvious cultural differences and in order to be able to adapt to the Chinese business culture.

• Dako will set up a China-specific policy regarding gifts and favours that they accept. They see the importance of adapting to certain Chinese norms in order to establish direct customer relationships.

• Dako will do what is needed in order to adapt to the Chinese business culture and Guanxi, but they claim that China is becoming more Westernized and that relationships are not as important as they previously were.
5 Analysis
The collected empirical findings will in this chapter be analyzed and compared with the theoretical framework in order to answer our research problems. Finally, we conclude the chapter with a summary of the key factors.

5.1 Analysis competitive advantage
As determined in the theoretical framework a competitive advantage is what a firm performs superiorly compared to the competitors. This is recognised in the resource-based view, where a firm has to map and analyze its resources and organizational capabilities. When this is done a firm should determine how skilled it does the different processes, and then abolish the ones that do not contribute to the superior performance of the firm. The above processes are in theory described as the main determinants for formulating a competitive strategy.

The mapping of resources and organizational capabilities is not noted in the empirical data collected and the strategy for entering China is not based upon one specific competitive advantage. However they allocate resources and redeploy them within the organization when entering new markets. It is also recognised that Dako for decades have launched products that have been epoch-making for the industry. The researcher and developers at Dako invent products, which are valuable for the sector but also exploitable in the industry. This had made Dako market leading within the industry for decades and made it build up very strong brand recognition. The brand recognition and the high quality of the products have made Dako very competitive within the mature markets, such as the European and the US. The success of Dako’s product are ascribed to the implemented business models, whereas in distant markets it has not been possible, mainly in the APEX region.

We identify that the competitive advantage of Dako within the mature markets, is based on their capability to bring the knowledge about the customer towards the business manager and the product developers in the Dako Headquarter. Dako bridge the customer supplier relationship very well by the introduction of new groundbreaking products to the industry. The implemented business model secures a continuously flow of product orders. The business model is identified as a major advantage for Dako as the solutions are differentiated from those of their competitors. The business model focuses on an ongoing marketing and sales process for Dako and this has turned the customers’ focus away from prices and towards quality and service. We have identified Dako’s competitive advantage to be superior in listening to the customer’s need and make the invention in
the research centre and finally integrate it in the product portfolio. However, we cannot identify the exploitation Dako’s competitive advantage outside the European and US markets.

5.1.1 Strategy formulation
Strategy is recognized theoretical wise as the link between the industrial environment and a firm. For a firm to become successfully within one industrial environment it has to take advantage from its access to different resources and capabilities. The resources and capabilities have to constitute differential strategy for the firm compared to the competitors. When entering a new market one has to find the uniqueness of the firm to exploit it in a new market.

In the empirical findings it is very evident that Dako are aware of if their capabilities and competitive advantages in the mature markets. Dako will exploit the same competitive advantage in China. Dako will build the foreign success on the resources and capabilities based on the European and US markets. Dako believe, if they can overcome the obstacles of the short-term view caused by their distributor, they will have superior success in the Chinese market.

We believe that Dako have to build the same organizational capability for the Chinese market as they have for the European and US markets. Dako have for a long time had a market leading position in China, but have not been able to exploit the business model and the turnover for the Chinese market. For Dako to develop their competitive advantage from other markets into superior performance in China, they have to develop a similar organizational capability. The capability should consist of high integration in the market, being customer-centric and establishing long-term relationships with the customers of Dako.

5.1.2 Resources and capabilities and Dynamic capabilities
Derived from the theoretical framework, for creating an organizational capability a firm has to appropriate the needed resources namely tangible, intangible and human. With interplay of these resources a firm is about to establish an organizational capability specified for an important task. This is recognised in the above paragraph as well. However its in theory emphasized how a firm has to adapt to the changes within its business environment. To overcome this obstacle, theory suggests the development of dynamic capabilities where the firm learn how to reconfigure the internal and external competences into responsiveness towards changes within the business environment. When doing so, the firm formulates a strategy with a broader scope, as it can easily and fast adapt to new challenges in the business environment.
In the empirical findings we do not see an evident proof for such integrated dynamic capabilities or learning mechanisms. In the case of Dako’s operations in China no capabilities is established yet. Today Dako exploit the potential in China due to their presence, being the first one to enter. Dako have not developed their strategy and thereby operations in China since the entrance, besides changes in the choice of distributor.

We see a gap between the theoretical and empirical findings, as no development of organizational capabilities is identified. If Dako does not emphasize the importance of dynamic capabilities, it could cause Dako a defeat within the Chinese market, as those of their competitor with the strong dynamic organizations will become the most competitive within the market. However we have identified some knowledge transfer between the different organizational levels and divisions within Dako as explored in the following paragraphs.

5.1.3 Organizational learning

Frameworks for organizational learning is, if successfully implemented, a way of enhancing the capabilities of a firm, which will contribute to the competitive advantage. The learning occurs both as operational and conceptual learning, meaning that a firm learn from what has previous been experienced and what can analytical and logic be adapted in the strategic context of the organization. Another learning aspect introduced is feedback and feed forward loops, where three different levels within a firm codify knowledge. First the individual acquire or recognise, then it is forwarded to the group via interpreting, for finally ending in the organizational context through integration and institutionalising. And then the different levels will, if successively implemented, receive feedback.

In the empirical findings we identify some of the same pattern, where the sales director placed in Singapore identify an important customer need. He will then forward it the group of the division for developing the knowledge further. Then they will give feedback within the group to the different individuals, for a later meeting. Then they will get together again and develop new knowledge for finally integrating it in the organization.

This process is today not institutionalised, Dako are only capable of this process due to strong individual within the specific group. As an outcome the learning possibility is present, but is not implemented in other relevant groups where the strong individual are present. If Dako emphasized this process it will approach the development of dynamic capabilities and hereby become more competitive within the Chinese market, and if institutionalised use it for other foreign markets.
5.2 Entry Mode

Non-Equity Mode
Low resource commitment is the main determinant for choosing a non-equity entry mode in a foreign market, as shown in our theoretical framework. Other parameters that a firm takes into evaluation is risk-willingness, how much of the potential return the firm will obtain as well as how much control the firm wants and needs over the foreign activities.

Further we can identify in the theoretical framework that export mode through an intermediary is the slightest commitment of resources in a foreign market where the intermediary possesses critical market knowledge. Advantages of the export mode are the flexibility offered to the firm, introduction to a foreign market and the firm can thereby determine whether it will deploy additional resources, to reach higher profits in the market. Firms with few deployable resources can also take advantage of an intermediary’s distribution and marketing channels. A disadvantage with exporting through an intermediary is that the firm does not control marketing activities and has no or low knowledge about the customers and the market.

Dako chose to enter the Chinese market 12 years ago through a distributor. There were a few reasons why Dako chose this type of entry mode. One reason was to get acquainted with the Chinese business environment and to bridge the most obvious distances between the markets. Another reason was to see the market potential. Dako realized that it would be very cost-full to establish an own subsidiary in China if the market was not big and mature enough for Dako and their cancer diagnostics products.

The major disadvantage that Dako have experienced by having a distributor in China is that they are not in control of the market activities. In order to obtain knowledge about the market and customers, Dako needs to go through the distributor. But the distributor is not willing to provide them with that information. Another drawback that we identify from our empirical findings is that the distributor does not fully engage in selling and investing in Dako’s products because it fears of being discharged when the contract expires. Nor does the distributor put enough effort in educating the market about Dako’s high-technological products. Furthermore, the distributor and Dako share the revenue in the Chinese market, which is not beneficial for Dako.

The “Coca-cola-model” has not been implementable in the markets where Dako’s establishment or presence is achieved through an intermediary. This is recognised due to the lack of resources committed from the intermediaries in their investment in products. Another aspect recognised is the
pricing strategy, as the distributor will try to achieve a profit as high as possible for every single product sold due to the contractual short-term perspective.

Dako have quickly been able to enter and adapt to the Chinese market as well as the major barriers have been bridged by the distributor. Handling the distributor has been easy and flexible for them since Dako sign contracts with the distributor for three to six months, in order to be able to cut them off immediately if they do not achieve the set expectations.

We can state, from above discussion, that our theoretical framework supports our empirical findings to a large extent. The advantages that Dako experience of using a distributor are identified in the theories: it is a quick way to enter the foreign market and the firm does not have to deploy a large amount of resources.

Although, we can see a gap between the theoretical framework and the empirical findings regarding the disadvantages with using a distributor. The few disadvantages identified in the theories are present in Dako’s case: the firm is not in control of the marketing activities and has no or low knowledge about the customers and the market. But we can identify further disadvantages in the empirical study that are missing out in the theories.

Firstly, the distributor’s unwillingness to commit itself to selling and market Dako’s products because of a fear of being discharged. The outcome of this is that Dako will not reach highest possible sales since the distributor is not fully dedicated to Dako and fears loosing their contract with them if the sales reach a certain level. Moreover, Dako might then want to establish in the market themselves and the distributor will be dismissed. Secondly, the distributor will not engage in establishing close customer relationships with the end-customers as recognized in the above discussion. As a result, the distributor will not be able to sell larger solutions to Dako due to the low-involvement relationships. Thirdly, the shared revenue reduces the firm’s profit. If Dako are to sell larger solutions in China, they need to enter themselves in order not to share the turnover with the distributor.

**Equity mode**

Our theoretical framework shows that the equity mode involves a high degree of commitment for the firm in the foreign market as well as control, management and execution of international marketing strategies. Establishing a subsidiary in a foreign market results in total control of the marketing activities. A major outcome of this is increased chances for success, since the firm
controls the resources and thereby they have the possibility to develop them. Resources that can be developed are for instance the marketing and the brand.

Dako is a strong brand within pathology and have been market leaders in China for a long time with approximately 40 percent of the market. Although in our empirical studies we can derive that the industry that Dako act in is very small in China, but there are possibilities for further growth. By establishing in China, Dako can promote their brand further and develop the market. By educating customers in Dako’s equipment and by being present in the market, China is full of opportunities for them. Furthermore establishing a subsidiary in a market and by being present shows an interest from Dako and signalizes to the customers that Dako are there to stay in a long-term perspective. This could increase trust and confidence between the different actors in the market.

Further we can identify risks, from our theoretical framework, in establishing a subsidiary in a foreign market. The firm must handle and control the risks that they face in order to survive in the foreign market. The firm must be able to overcome the barriers with the governmental and societal hostility. Furthermore they need to adapt to the market-specific factors such as competition, customers and culture, which requires know-how about the local environment. These are critical factors to success in a foreign market.

Our empirical results show that there are several reasons why Dako want to establish a subsidiary in China. A major reason is the fact that Dako have reached the maximum outcome of the distributor where the opportunities for further growth are limited. Another major reason in order to sell large solutions, is that Dako need better understanding of the customers and what they need. The distributor possesses that knowledge today, but they are not willing to share it with Dako. Therefore being present in China and building relationships with the important customers is a prerequisite for reaching the desired growth targets.

Another reason why Dako want to establish a subsidiary in China is because they want full and clean control over the finance and business in the market. Today’s situation with the distributor limits Dako’s profit since they share the revenue of sales. The future establishment would result in Dako getting the total revenue. What we also recognize from our empirical findings is an increased competition in China from Dako’s largest competitor Ventana; a fast move into the Chinese market is critical for Dako in order to prevent Ventana from gaining a large market share.

We identify the establishment of a subsidiary as a major advantage for Dako as they will have higher return on investment and do not have any interests in other foreign firms entering China in
this moment. If they were to establish a joint venture, which also could enable them to establish a direct-relationship with the end-customers, they would have to take another firm into consideration as well as the interest would be shared.

Establishing a subsidiary is a cost-full process before everything is set and before the firm has acquainted itself in the foreign business environment. Dako can overcome the most significant costs if they succeed in disengaging some of the employees at their current Chinese distributor and employ them directly in the Dako subsidiary. By doing this, Dako can quickly enter the Chinese market with people that are familiar with the Chinese way of doing as well as Dako’s products.

5.3 Business Relationships
According to our theoretical framework, firms should put much effort in establishing and developing relationships with important customers. This can be a very time-demanding process and requires commitment, engagement and a lot of resources. In fortunate cases these relations can be beneficial for the firms involved, therefore they should put effort in the development and maintenance of these relationships.

Our empirical findings show that Dako are aware of the importance of building relationships with key-accounts. One of their major plans when establishing a subsidiary in the Chinese market is to focus on building relationships with the most important accounts, classified as A and A+ accounts, that stand for 70 to 80 percent of the sales. Furthermore, Dako plan to establish relationships with the key opinion leaders within these accounts. The distributor currently has a low-involvement relationship with these accounts. The distributor currently has a low-involvement relationship with these accounts.

A firm’s core business is formed from the surrounding actors such as customers, suppliers and competitors. By establishing relationships with these actors, the firm can access and exchange resources with other firms within the network. Well-established relationships with actors and especially customers are a firm’s major asset and are what brings economic value into the firm, if they are established to the point that the customers actually buy.

In our empirical findings, we can identify that Dako’s distributor has low-involvement relationships with the existing customers. Dako are planning to take over and develop these relationships further, once they enter the market themselves. Dako need to develop the relationships with the accounts and build up a business with them instead of only selling products. By developing these relationships, they will increase the turnover for every single product and they will get valuable first-hand knowledge about its customers.
We see a problem here, since Dako are not the owner of the existing relationships in the Chinese market today, the distributor is. Dako does not know how the customers will approach the fact that Dako “kick-out” the distributor and take over those relationships.

The fact that the distributor has low-involvement relationships with the customers could also be of advantage for Dako. One solution could be if Dako focus on building up strong relationships with the customer and create business with them by delivering total solutions including for instance service and education. This would be more valuable for the customer since Dako will be more involved in the relationship by offering superior value to the customer. Consequently, it will be easier for Dako to take over and develop the customer relationships.

All of the above-mentioned problems could be eliminated or diminished if Dako choose to keep the distributor in certain areas of China. In that case, the distributor might be willing to help Dako to enter China and provide Dako with market-specific as well as customer knowledge. Furthermore, the distributor can take advantage of Dako’s presence in the Chinese market by providing resources that the distributor has not been able to benefit from before. Dako and the distributor could combine their resources and capabilities and thereby offer more value to themselves and the end-customer.

5.4 Developing Customer Relationships

The theoretical framework illustrates that the development between a supplier and a customer evolves in four steps. These steps are identified as the pre-relationship stage, the explanatory stage, the developing stage as well as the mature stage. The level of learning, trust, adaptation, distance and commitment increase in each step as well as the supplier and customer gain knowledge about each other.

The relationships that Dako have established, via the distributor in China, are at a low level of commitment. It is just enough established to be able to get orders and deliver products. Dako will probably focus on taking over the most important relationships from the distributor and let it handle the area outside the three main cities.

We identify the relationships that the distributor possesses today as in between the exploratory and the developing stage. A certain level of trust, adaptation and commitment is created between the distributor and the customers. We believe that the outcome of this is beneficial for Dako and that they can take advantage of the established relationships. Dako will not have to invest resources in selling a product to the customers since that already has been done by the distributor. Although, they will have to invest resources in the further development of the relationships.
The worst scenario would be if the Chinese end-customers do not have the same confidence for Dako as for Dako’s current distributor. If the customers doubt the quality of Dako’s products, it is possible that the established relationship will terminate. In that case, Dako need to invest resources in trying to re-establish it in order not to lose the customer.

We believe that by already “possessing” the customer relationships and knowing who the customers are, are great assets before Dako’s own establishment in China. It gives Dako a good gateway into the market. The customer already possesses knowledge about Dako’s products, which gives Dako the opportunity of establishing a good relationship with the customers in order to sell larger solutions to them.

Both our empirical findings and our theoretical framework support the fact that the relationship establishment is vital in order to do business in China. Ford’s model about developing a customer relationship identifies the developing relationship in four stages where the two parties start to do business and make a first purchase somewhere in between the exploratory and the developing stage. Although what we can derive from our study is that this is not applicable in the Chinese society. We believe that the first purchase is not made until the mature stage.

5.5 Chinese Business Culture
As shown in our theoretical framework, the Chinese and Western business cultures differ a lot. The Chinese culture is dominated by relationship-oriented whereas the Western business culture is more focused on agreements, while relationships are secondary.

The fact that Chinese businesspeople are very relationship-focused implies that they rarely do business with strangers. Therefore it is of importance to get to know the business partner and to build up a strong connection with it. The business partner and the interpersonal connection is of higher value than the organization that it represents.

In our empirical findings, we can identify that Dako are aware of the value of finding right people for the establishment of customer relationships in China. Dako have, through the Chinese Business director Henrik Nygaard, some interaction with the key opinion leaders in the market, mainly A and A+ accounts. Dako see the possibility of “buying” the important relationships with opinion leaders, by employing Chinese people who already have established these and who have the required customer knowledge. These can be people from the distributor as well as people from other competitive firms as long as they possess knowledge about the industry and already have a well-established relationship with Dako’s customer. Since relationships are of high importance in China
and since they are personal, it is valuable for Dako to find the people who know the opinion leaders in Dako’s important accounts.

Further, what we can derive from our empirical studies is Dako’s awareness of finding the evaluators, and not only the decision-makers and implementers, and to try to establish connections with these.

Dako are aware of that it is critical to build relationships in China and therefore we believe that they have the correct strategy regarding the establishment of relationships. Buying relationships is what we believe to be the most effective way of bridging the major difficulties when Dako establish on their own in the Chinese market. It can be more resource and time consuming to create the customer relationships instead of buying them directly into the organization. Furthermore, the Chinese know-how and know-who is merged with Dako’s organization.

As a result, Dako might be able to grow faster in China and will not have to engage a lot of resources on establishing the relationships. Furthermore, the people that Dako employ will already possess the customer knowledge. The fact that Henrik Nygaard to some extent has been involved in the relationships with the key accounts is very valuable for Dako because it becomes an integrated routine for Dako and they adapt slightly to the culture. He already knows how to do business the “Dako-way” as well as he is familiar with the Chinese environment and how business is conducted there. We see that Dako has taken a step further regarding the relationship establishment with the Chinese customers. Instead of only focusing on the direct-relationship with the decision makers and implementers, they see the importance of connecting with the evaluators and try to influence them.

Dako had a first-mover advantage when they entered the market 12 years ago. They were the first in the industry to enter China and have sustained that until today with their 40 percent market share. It is important that Dako try to maintain the first-mover advantage by establishing direct customer relationships. We believe that this is required in order to be able to outcompete Ventana and their other competitors, which have had significant growth in the Chinese market lately. Dako are leaders in the market today, but we see the need of a fast entrance and penetration of the market in order to sustain their leading position.

5.5.1 Guanxi

Our theoretical framework shows that there are a few critical aspects of the Chinese business culture that Western firm should be aware of. One fundamental underlying factor is the giving of
gifts and exchange of favours. The receiver of the gift or favour is expected to give something back in return, which is against European business law, ethics and culture.

Dako are well aware of these China-specific norms and that is part of the reason why they entered China through a distributor, to bridge these differences in the business cultures and to keep them away from Dako. They plan to create one firm policy regarding gifts and favours as well as separate ones for individual countries. China is one of the countries that will be provided with an individual policy.

We consider that it is good that Dako are aware of certain variations in the Chinese and Western way of doing business. To adapt to a foreign business culture is crucial in order to be able to succeed there. Therefore, we believe that creating a firm-specific and a China-specific policy, is a good way to avoid possible bribe scandals. By introducing a certain policy in China with more liberal thinking of gifts and favours, Dako will possibly be able to increase sales opportunities in the market. Since Chinese firms regard gifts and favours as vital factors in business, Dako will need to adapt to it in order to establish close direct-relationships with them.

We can, from our theoretical framework, derive that Guanxi is a vital aspect in the Chinese business culture and that every firm and every individual need to adapt to Guanxi because it is a way of living.

In our empirical findings we can identify that Guanxi is a very important aspect of the Chinese business culture, but that it differs in importance depending on the counterparts financial interest in the relationship. The current Chinese Business Director for Dako, Henrik Nygaard, clarifies that Dako’s customers do not have a financial interest in Dako and therefore Guanxi is not that important for Dako.

Even though Guanxi is not as important in Dako’s industry as in other industries where the customers have a larger financial interest, Dako are aware of the importance of building up a close relationship with their customers. It is highlighted in our empirical findings that it is important to show appreciation to the customers, by for instance inviting them on business trips.

We can see a gap between the empirical findings and the theoretical framework, where the latter show that Guanxi forms the entire Chinese society while Nygaard argues that it is important, but crucial if there is a financial interest in the relationship. We believe that it is critical to adapt to Guanxi and to really focus on establishing close and interpersonal relationships with the customers.
Even though Guanxi is not of high importance in Dako’s industry, we think that it lies deep within in each individual. Further, we think that it is rooted in the Chinese culture and in the way that people act and behave towards each other. Finally, we consider Guanxi to be critical in Dako’s case, since they are a Western firm and might have to work harder for gaining trust and confidence from the Chinese customers.

5.6 Summary of the Analysis

How can a Western firm gain a competitive advantage in China by establishing, developing and maintaining customer relationships?

- Dako possess a competitive advantage in the mature markets, however it is not exploited in the Chinese market as the advantage is built on their capability to bring the knowledge about the customer towards the business managers. Dako are not capable of bridging the customer supplier relationship in the Chinese markets as the distributor has the direct contact.

- The business model that makes Dako exploit the fully potential for continuously growth is not implementable through a distributor. Furthermore the business model enhances the relationship between the two parties through a high service level, which turn the customers’ focus towards quality instead of prices.

- However Dako have not been capable of establishing a competitive advantage within the Chinese market. In order to do so, Dako have to develop their organizational routines in order to retrieve the information from the Chinese market as well as they have to implement their business model within the Chinese market.

How can a Western firm choose the right entry mode in order to establish direct customer relationships?

- Dako have a very strict contracting policy with its distributor, so they can “close down” the contract within six months. We have identified that this gives Dako major disadvantages in executing superior marketing activities. This is mainly due to the low commitment and effort the distributor put into the selling of Dako’s products.
Yet another outcome is the limited relationship establishment between the actual customer and Dako, as the distributor is the one possessing the relationship. This is identified as a major disadvantage for Dako as they have no possibilities to adapt the product portfolio to the demands in the market, as well as the possibility to sell system solutions.

However, the distributor very well bridges the culture barrier, and it gave Dako the possibility to watch out for opportunities in market before entering in a highly committed mode. It helps Dako to gain a market leading position, and furthermore it enables them to enter when the market potential is the biggest and the market has become more mature as it has adapted the products.

The distributor has failed miserable in the education of the customer, as an outcome the market is not well aware of the solutions. By educating your customer one can create a need that was not present earlier, and this gives an increased demand/sale in the market. Another advantage by educating the customer is that you show awareness and it makes the customer feel more safe.

**How can a Western firm establish direct customer relationships in China?**

- A major determinant for entering in equity mode via own subsidiary is the access to market specific knowledge. This knowledge is very important for the case company and can be seen as an enabler for a long-term investment plan. The long-term perspective is interesting for Dako as it give rise for more committed marketing. As soon as a firm is established on a foreign market it can determine its strategy for future commitment within the market.

- The main difficulties for Dako in establishing their own is recognised to be the bridging of the different cultures and the establishment of relationship. For Dako, this is in focus, and is taken into consideration. Another aspect of the bridging of different cultures is the solving through relationship building, as both parties adapt towards each other in such a relationship.

- In order to be successful in the Chinese market Dako have to build up confidence with the end-customers, as it is of important to have a relationship to the supplier. Dako have to emphasize the relationship establishment with the existing customer of Dako’s products, in order to satisfy the customer.
Dako’s establishment via a distributor has given a good introduction to the Chinese market and helped them to map their future customers. The customer knows the products of Dako and the distributor has bridged the establishment of customer relationships.

**How can a Western firm cope with the difficulties of Guanxi in China?**

- The importance of Guanxi in the industry is not present to the same extent as in the regular business cases. However the awareness of Guanxi is by Dako bridged via the distributor and the work that Henrik Nygaard does.

- Even though Guanxi is not recognised as a strong parameter in the industry due to large financial interest from the parties, it is of high importance when establishing the relationships. So a deep understanding of the Guanxi is needed in order to bridge the two different business cultures.
6 Conclusion

In this chapter, we present our findings and the results from the analysis which are summarized, as well as we answer our research problems.

How can a Western firm, in order to establish direct customer relationships choose the right entry mode?

We have found out that in order to be able to establish direct customer relationships in China, a Western firm needs to have local presence in the market. The local presence can be obtained via triadic or dyadic relationships. In order to make direct customer relationship a firm have to establish in a dyadic entry node, without any intermediary. The firm can do that by either establishing in a joint venture mode or establishing their own subsidiary. In order to take the right decision whether it should enter in a joint venture mode or establishing on itself, the firm must take several factors into consideration. It is of high importance to have market knowledge and preferably previous experience of Chinese business before establishing in the market.

Furthermore, we have found out that the major reason why a Western firm establishes a JV is that the risks are reduced and shared with another firm. It is also a quick way to enter an emerging country market in order to gain market knowledge and get access to customer relationships. Since shared revenue is a big disadvantage of a JV, it is important that the firm equilibrates the reduced risks as well as the shared revenue. It is of high importance that the management of the firm evaluates if they can take advantage of previous experience or not.

A major issue of establishing a wholly foreign owned subsidiary it that the firm must establish the relationships on their own, which is both time consuming and involves high resource commitment. Therefore, it is valuable and critical to have previous knowledge and experience from the market to reduce these factors.

If the firm does not have previous experience and knowledge about the market and have not been present, it is critical that they employ local labour force that possesses knowledge about the industry and potential customers in order to reduce above discussed disadvantages.

How can a Western firm establish customer relationships in China?
In order to establish direct customer relationships in the Chinese market, a firm needs to be present in the market, as stated in the above paragraph. The firm needs to hire local employees who possess knowledge about the Chinese market and how the business is conducted there.

Establishing customer relationships in China is a resource and time demanding process, therefore depending on the firm’s resources one approach is to establish relationships with the vital customers as a take off. It is also of importance to classify the customers into different categories depending on their importance and value to the firm. This is important in order to prioritize the most vital customers and focus on establishing relationships with them. Thereafter, when the firm has gained trust and confidence from the most important customers and strengthened its brand in the market, it can focus on the next category of customers.

As the relationship development is a long time and resource demanding process, it is of value to know who the implementer, decision-maker and evaluator are, in order to establish the right relationships. These three people are vital to build relationships with, especially the decision maker and evaluator, who assists the decision maker with recommendations and guidance. The evaluators can be hard to find, since these are not always within the organization, it is possible that he/she is a friend or a family member.

This study also points on the importance of buying certain relationships into the organization, such as an employee from a competitive firm. As the establishment of relationships in China is a long and demanding process, it can be more effective to employ the people who already possess the customer relationships.

*How can a Western firm cope with the difficulties of Guanxi in China?*

Guanxi is a vital aspect in the Chinese society and characterizes the business culture to a large extent. It is of high importance to be familiar with the aspects of Guanxi before a Western firm establishes in China. The Western firm needs to adapt to the Chinese way of doing business in order to be successful in the market. The level of adaptation needed depends on which industry the firm acts within. The more financial interest in the relationship, the more a Western firm needs to adapt to Guanxi and all that it involves. This is a major finding, that Guanxi to a large extend is determined by the financial aspects between the two parties, and can therefore be of significance importance, however this is not recognised within the medical industry.
There are certain aspects in Guanxi that differ from the Western way of doing business. One major difference is the Chinese contra Western way of looking at gifts and favours. In China, gifts and favours are seen as vital factors in the business culture and are critical when establishing a customer relationship. The relationship establishment is a long procedure involving many formal dinners, business trips and other gifts before a first purchase is made. In the Western world, this type of gifts can be seen as bribes and are, in many countries, prohibited. As it is more or less impossible to succeed in China without making certain adaptations, it is critical to have knowledge and preferably experience of Chinese business before establishing in the market.

In order to bridge the crucial aspects of Guanxi and to avoid striving against the laws of the home country, it is important to carefully specify what the Western firm will accept and not accept. Therefore, it is valuable to create a firm policy regarding the entire firm and specific policies for countries such as China where the business climate is significantly different from the Western one. By setting up such policies, it is possible to reduce the risk of striving against the law but at the same time adapting to Guanxi.

**How can a Western firm gain a competitive advantage by establishing, developing and maintaining customer relationships in China?**

In order to establish a competitive advantage, a firm needs to establish organizational capabilities. A competitive advantage in the home market is not necessarily a competitive advantage when establishing in a foreign market. The major obstacles of establishing a competitive advantage in a foreign market are lack of market knowledge as well as insufficient knowledge and undeveloped relationships with customers.

In order for a foreign firm to establish direct customer relationships in China, it needs to have local presence in the market. Chinese businesspeople seldom do business with an unfamiliar person. When a foreign firm establishes a wholly foreign owned subsidiary in China, it illustrates long-term commitment in the market. This increases the credibility towards the customers, which increases the chances of developing relationships. Thereby, the probability of achieving a competitive advantage is enhanced.

In order to exploit a domestic competitive advantage, one firm has to adapt towards the foreign market where the exploitation is to be settled. These adaptations will have to be bridged by the development of organizational routines, in order to bring the foreign market specific knowledge
backwards in to the organization. If these adaptations are successfully implemented, one firm can exploit its established business models and system solutions in a foreign market.

In order to establish the customer relationships, the firm needs to identify the needed resources and deploy them for the creation of an organizational capability. When the resources are present one can build a capability upon them and thereby adapt towards the market specific needs. Based on our study, we can conclude that the most effective way for a foreign firm to establish customer relationships in China is to buy them. With other words, by employing local labour force possessing the required know-how and who possess the customer relationships. Thereby, they acquire the needed resources into the organization.

By establishing close relationships with the customers in China, the chances of obtaining a competitive advantage is increased since relationships are crucial factors in the Chinese business culture.
7 Recommendations

In this chapter we present our recommendations for our case company Dako, in order for them to establish competitive advantages based on customer relationships. The recommendations are based upon the empirical evidence collected, the analysis and the previous established conclusion.

We recognized in the conclusions, the importance of developing competitive advantages based on renewed organizational routines. In order for Dako to exploit their domestic competitive advantage in the foreign market China, we will recommend how Dako can work in favour of this exploitation. In accordance to our research we recommend Dako to focus strategically on the acquiring and development of the needed resources and capabilities in order to reach their targets in the market. In order to reach the potential for growth within the industry in China, Dako must exploit existing organizational strengths as well as develop and overcome organizational weaknesses.

7.1 Facilitate the relationship process

As Dako’s main competitors are about to establish in the Chinese market, we recommend a fast entrance for Dako, in order to keep the existing customer relationships so they do not have to build new ones in the beginning. Dako have to take over the relationships established via the distributor, within the main areas for Dako’s entrance.

It is of high importance for Dako to develop their relationship with their distributor in order to take over the existing relationships, as the distributor possesses them. We recommend Dako to keep the distributor and develop a common strategy for the Chinese market in order collaborate and divide the market. Specifically we suggest Dako to keep the distributor in rural areas in China, and in the beginning only establish subsidiaries in the main cities of interest namely; Shanghai, Beijing and Guangzhou.

Via such collaboration, Dako can develop their regional capabilities by benefitting and appreciating the knowledge the distributor posses about the market and the customers today. Further more Dako can deploy resources to the education of existing customers in order to increase their knowledge about the products of Dako. This education should also be headed towards the distributor in order to enhance their marketing capabilities.

This two-way collaboration will foster a long-term relationship between the two parties, Dako and the distributor, and thereby they will build trust. The trust building is crucial for Dako in order to
share resources and extract the knowledge from the distributor, only when then distributor commits in the relationship the resource exchange is in place.

7.2 Intelligence
It is crucial for Dako to establish a competitive advantage in China based upon a successful entrance into the market. The development of such a competitive advantage is said to be based upon the organizational capabilities. However we will emphasise that Dako continuously develop their capabilities in order to sustain their competitiveness in the market. In order to do so Dako have to develop their capabilities in subtracting market specific knowledge and thereby integrate it into the organization.

7.3 Organizational structure
In order to exploit Dako’s competitive advantage it is of high importance that the Chinese organization is locally supported with a person who is familiar with the business strategy of Dako. We suggest that the person has previous experience within the organization of Dako in order to develop organizational learning mechanisms. We believe that the employees in China should be of same nationality in order to code/map the market specific need, and then a Dako-experienced businessman can facilitate the feed-forward process of the knowledge. He will also facilitate the feedback adapted towards the local organization present in China.
8 Future research area

In this chapter we will give suggestions for future research areas in order for Western firms to establish competitive advantages in China. The areas are recognised through the study of the thesis subject, however the case study would be too extensive if the areas were taken into account.

8.1 Mapping of customer needs/satisfaction

The first suggestion for a future research area is the study of customer satisfaction in a Chinese context. We emphasize the importance of customer relationships and the subtraction of knowledge about market specific factors. However we suggest integrating and building continuously feedback loops from customers into the organisation in order to develop the capabilities of the organization as well as renew the strategy.

Furthermore the integration of the knowledge codification process should be clearly formulated and motivated in the organization. As the better the firm can codify the unsatisfied needs and take care of these, the better performance the firm will have. And it can enhance a firms possibilities to integrate larger solutions as a sale and marketing strategy, as the customers are getting more committed in the relationship between the two parties.

8.2 Balancing intermediated relationship alongside with own presence

The solution recommended for the case company to keep the distributor alongside the establishment of subsidiaries is not recognised in the research of the thesis. However studies have been made on the balancing of intermediaries in emerging markets. By further research in this topic, we believe that it will boost a firms capability to exploit its competitive advantages in foreign markets as its presence will increase the legitimacy of the products and the distributor can serve the smaller local and rural areas where the business culture is not developed or as compliable to western business culture.

8.3 Setting up sales subsidiary in China.

We recommend the case company to establish in China, by hiring a company-experienced person, in order to exploit and bridge the capabilities abroad. The actual establishment of the sales subsidiary’s organization is of high importance in order to make the learning organization effective. We would like to study the strategic perspective of the organizational and managerial establishment in order to establish and exploit competitive advantages.
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Appendix

Questions for meetings at Dako 2009.04.27

Introduction

The main research question of our thesis is “How to gain a competitive advantage in China by establishing, developing and maintaining customer relationships?” This question will be answered by developing theory of how to strategically bridge the gap between the environments of the foreign market with the business environment of Dako. In order to answer the main question we have identified three research problems;

- How to choose the way of entry?
- How to establish and develop relationships with the end-customers?
- Importance of Guanxi -trust and legitimacy in China.

We have for the following questions and research problems described the theoretical perspective to emphasize the importance of if, but also to clarify the spectre of answering. Please notice that there is not a correct or incorrect answer to any of the questions. All the meetings will be recorded to secure our material; the material will be handled confidential and not forwarded on to second hand.

Introduction questions

- Who is Dakos’ main customer and what is the main product?
- Is the customer generally private or public?
- Is it the tissue-based products or is it the turn-key-solutions?
- Is it different from market to market?
- Does Dako have an expansion strategy?
- Is it made for a specific region or is it an international strategy?
- In how many countries is Dako operating?
- How is the general establishment of subsidiaries/offices/agents?
- What is the strategic purpose of establishing a Dako subsidiary in China?
The Art of Turning Relationships into Competitive Advantages

- Why have you chosen a sales subsidiary?
- Why does Dako not keep the intermediary?
- When did Dako establish this contact/intermediary?

Confidentiality

The thesis will be published on the Swedish Educational Website for future research purposes.

Problem 1 - Choice of entry mode

This problem is of interest as it can explore and thereby determine the success and difficulties in establishing in an emerging market, such as China. When a firm makes up its choice on the entry mode it has to bridge the gaps between the differences in the markets as well it has to be plausible with the resources and capabilities the firm possesses.

- Why did Dako choose China as the next market to enter?
- What is the purpose of the establishment in China?

Found in theory, we assume that firms’ resources determine the choice of entry mode. Whereas; larger firms tend to have larger economic and managerial resources for the investments demanded for own representation in the market of entry than smaller firms. Direct exporting (e.g. sales subsidiary) and wholly owned subsidiaries are internalized or non-contractual entry modes. Firms pursuing such entry modes are supposed to focus on which country to enter, and are thus likely to use a traditional approach.

- What determined the entry mode? (Equity instead of non-Equity)?
- How and who choose the mode of Entry (from distributor to Sales office)?

In theory, when a firm controls its own resources, especially in emerging markets, the firm hinders the resources to be stolen or imitated by other firms. Another important factor is to control the distribution channels to success in the new market.

- How much control and which organizational routines will Dako-HQ posses?
- Who took the decisions about the market activities in China when Dako used an agent?
The level of commitment to the market increases the more a firm invests in a market. Both acquisitions and greenfield investments typically involve much greater levels of resource commitment compared to JV.

- What resources are available and thereby how much can Dako commit itself in the market?

To establish a wholly owned subsidiary in an emerging country market involves very different levels of risk exposure, compared with for example joint ventures. By establishing in a Joint Venture mode, a firm eliminates or reduces the risks that might occur i.e. the government and societal hostility against foreign firms. It is well documented that if a firm acquires a foreign firm, it can get access to factory and logistics systems, as well as e.g. employees with local knowledge. This reduces the risk of making mistakes caused by lack of knowledge of the country’s culture and business practices.

- How is the risk-willingness in the establishment in China?

- Can the risk be shared?

- How will you try to overcome/eliminate the risks of governmental- and societal hostility?

If a firm establishes a JV, the local firm provides the foreign firm with knowledge related to the country, market, competitive conditions, legal and social norms, and cultural idiosyncrasies. This is not recognized in cases of wholly owned subsidiaries.

- How will Dako gain market knowledge? How will Dako take advantage of previous knowledge? Can Dako access any knowledge from the distributor?

- Have you decided for a specific entry mode (e.g.: JV, WHO Sub.)?

In theory, a well-know obstacle in entering China is to bridge the different managerial styles. Therefore, capability management is an important process where information management empower the firm, e.g. the firm’s ability to acquire, evaluate, assimilate, integrate, diffuse, deploy and exploit knowledge.

- How have you changed the management to overcome the distances between the markets?

- Has Dako re-organized parts of the organization to cope with the differences?

- Has Dako decided for a managerial pattern in China?
• Which resources and capabilities are needed for Dako to overcome the gap?

• Will you acquire or develop the capabilities to overcome the barriers?

• How is the competitive situation in China?

• Do you believe that it is possible to establish and to be competitive in the Chinese market without setting up a research and production unit?

Problem 2 – Development of customer relationships

This problem is of interest due to the recognized importance of personal relationships within different business environments. Furthermore we have identified that business in China is loosely structured in business networks, where numerous relationships and actors constitute the networks. As an outcome a foreign firm has to recognize the importance and through interaction develop its own relationships within the networks.

• How do you use customer-relationships, in general (e.g. customer feedback)?

• How much effort do you usually put into your customer relationships?

• Do the customer relationship have different “demands” in different countries (the amount of resources Dako has to spend on the establishment and development of relationships)?

Relationships consist of actor bonds, activity links and resource ties. The actor bonds are the establishment of impersonal communication. Activity links are the commercial, technical and financial connections between the two parties. Resource ties, is the sharing and exchange of resources within the relationship.

• How will you establish customer relationships in China?

• Overtake existing ones?

• How can Dako build relationships?

• What is your main reason to choose a direct connection/relationship with end-customer?

• Do you have any previous experience in establishing/building relationships in China?

Problem 3 – Development of trust in China
When a firm enters China, many barriers are identified. In order to be able to build relationships, a firm, the management and the employees have to create trust. In China trust is recognised and practised through Guanxi. Guanxi is built on personal interactions, meaning that business relationships easily can collapse if there is a change in the organization.

- Are you aware of the importance of Guanxi?
- What have you done to retrieve information about Guanxi?

The exchange of favours and gifts are part of the Chinese business culture and an important part of Guanxi. How do you look upon that? In the Western business culture, it can be seen as bribes…

- How will you set up the Chinese organization - local employees, expatriates?

FUTURE

- What are your future goals in China?
- How do you look upon your business in China in 10 years?
Phone interview.

Henrik Nygaard, May 14\textsuperscript{th} 2009.

Presentation of us, the university, the thesis and our work so far.

1. Will you Henrik, please introduce your self?
   a. Name, profession etc
   b. Where are you located, Singapore?
2. What is your main task
   a. What do you do for Dako?
3. What is your role in this establishment of Chinese sales subsidiaries?
4. Do you have contact with the distributors?
5. Do you have direct contact with customers
6. The knowledge you posses/identify (e.g. market specific knowledge) how do you use that?
   a. Individual level
   b. Group/locally level
   c. Organizational level
7. How is the knowledge distributed within Dako
8. How do you describe Dako’s product (I case of capabilities/comp. adv.)
   a. Especially for china (brand, service, quality, price)
9. How do you think of the importance of Guanxi?
10. How do you usually build up relationships with Chinese customers? Is it any difference in
The University of Kalmar

The University of Kalmar has more than 9000 students. We offer education and research in natural sciences, technology, the maritime field, social science, languages and humanities, teacher training, caring sciences and social service.

Our profile areas in research are: biomedicine/biotechnology, environmental sciences, marine ecology, automation, business administration and informatics, but we have research proceeding in most subject areas of the University.

Since 1999, the University of Kalmar has the right to accept students in postgraduate studies and to examine doctors within the subject area natural sciences.

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