

Offshore outsourcing to China: The suppliers' perspective on competitive priorities and the role of buyer-supplier interaction mechanisms

A multiple case study in China
A Minor Field Study

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Abstract

Purpose

In the global business environment, outsourcing and offshore outsourcing are strategies for firms to handle the increasing competition in their specific market segments by utilizing the capabilities of other firms in order to gain competitive advantages. China has become an important player on the global market and is an attractive country for Western firms' offshore outsourcing initiatives. Even though outsourcing and offshore outsourcing have been discussed in the literature for a long period of time, firms are still not able to reach and fulfill their strategic goals and many offshore outsourcing projects fail. The purpose of this thesis is to deepen the existing literature regarding offshore outsourcing to China by considering the Chinese suppliers' perspective on competitive priorities, which are the priorities that firms organize the production by, in order to understand how the buying firms can be more successful in the Chinese context and reach their strategic goals.

Research questions

The research questions formulated for this study are:

- What is the Chinese suppliers' view on competitive priorities?
- How can the buying firms reach an alignment between their competitive priorities and the competitive priorities of the suppliers?
- Is the suppliers' view corresponding with the existing literature?

Method

An explorative multiple case study has been conducted in China in order to collect empirical data from a number of suppliers. During the study, twelve suppliers were interviewed using a semi-structured interview technique in order to get a deeper knowledge of their

perspective and be able to answer the research questions. The study relies on a qualitative research method and due to the nature of the empirical findings, an abductive research approach has been used to generate a new theoretical perspective.

Findings

Our initial approach was to find out how the buying firms could reach a match between their competitive priorities and the priorities of their suppliers. The study shows that there are differences between the literature and the suppliers' perspective on competitive priorities. Matching the input of the suppliers with the offshore outsourcing motives of the buying firm was seen to be complex since the suppliers are operating in a different context. Therefore, the significance of the priorities for the buying firm cannot be directly transferred to the Chinese suppliers. The theories of competitive priorities show that buying firms should aim their efforts towards having suppliers whose competitive priorities match the buying firms'. However, during the interviews with the suppliers it became evident that it was not enough to just focus on an alignment between the two parties competitive priorities, but there was also a need to understand and acknowledge the "interaction mechanisms".

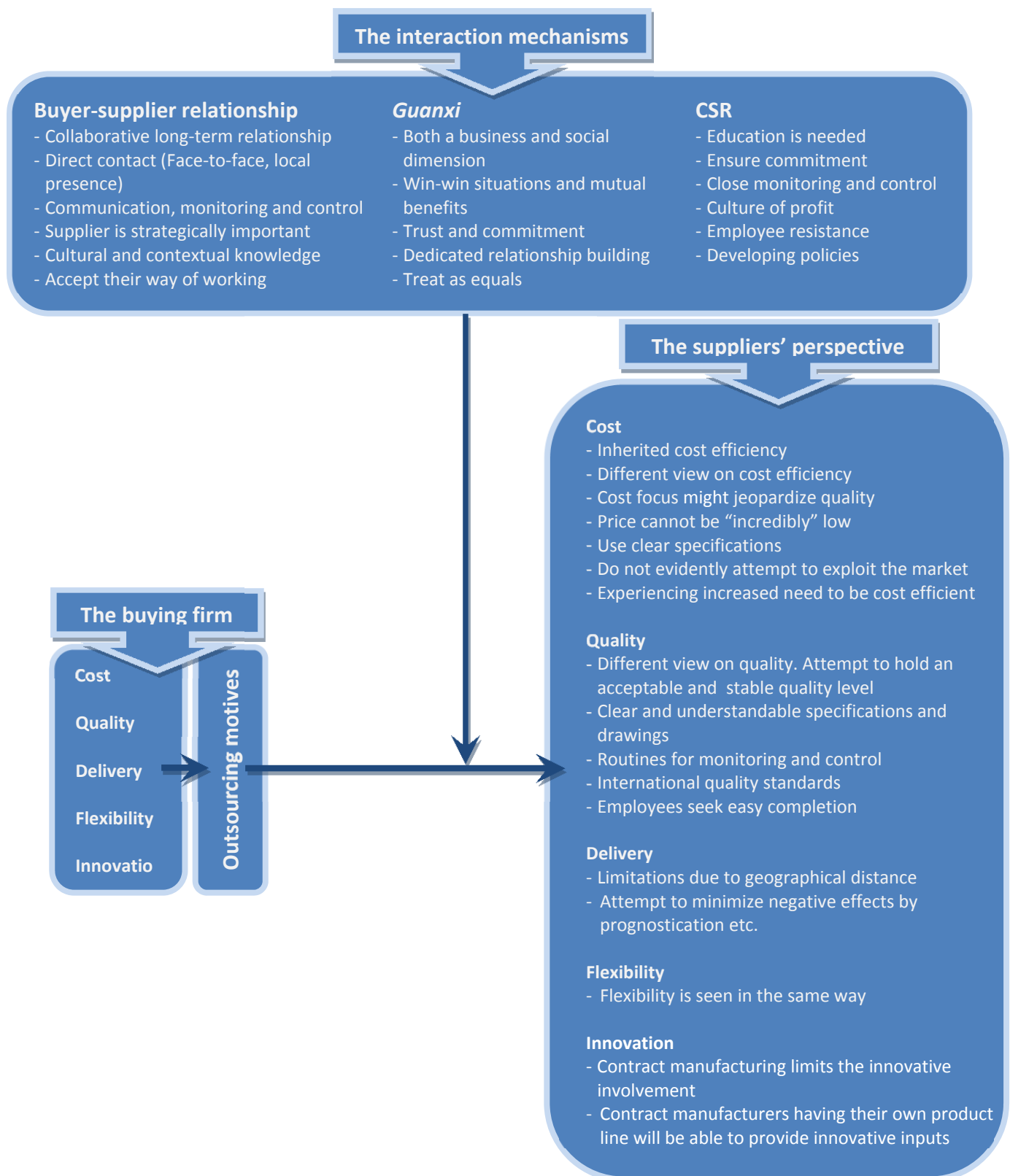
All the suppliers had a corresponding view on how the buying firms should act in order to be successful in the Chinese context. The interaction mechanisms are divided in to three key areas; formulating and establishing the appropriate buyer-supplier relationships, understanding and developing *guanxi* and acknowledging the need for corporate social responsibility, CSR, across the supply chain. Without understanding the importance of the interaction mechanisms, the buying firm will most likely not reach an alignment between their competitive priorities and the inputs from their suppliers and will consequently not reach their strategic goals. The interaction mechanisms were seen to be irrespective of the competitive priority of the buying firm as well as the strategic importance of the sourced products. These findings of the interaction mechanisms led to an abductive research approach as these findings were essential to the thesis and required additional theories covering these key areas.

Conclusions

For the Western buying firm to reach its strategic goals with offshore outsourcing and successfully interact with the Chinese suppliers, the study identifies the need to understand the suppliers' view on competitive priorities and the management of buyer-supplier relationships, *guanxi* and corporate social responsibility. The conclusion highlights the importance of cultural and contextual knowledge for bridging the different views concerning these areas between the literature and the suppliers, which can be gained through understanding and acknowledging the suppliers' perspective.

To show the managerial implications of this study, a framework based on the suppliers' perspective on the competitive priorities and the interaction mechanisms is presented. This framework shows how to manage offshore outsourcing to China covering the key areas that

need to be comprehended in order to get the right input from the suppliers and to reach a more successful outcome with offshore outsourcing to China.



The managerial framework for offshore outsourcing.

Originality

This study gives a new theoretical perspective to the offshore outsourcing business to China by considering the suppliers' perspective on competitive priorities, buyer-supplier relationship, *guanxi* and corporate social responsibility. The theoretical study conducted within this paper shows that there is a limitation in the existing literature, as most authors only recognize the buying firms' perspective (e.g. Salmi, 2006; Cousins et al., 2008; Kroes and Ghosh, 2010). This study provides a new dimension to the existing literature. These findings are important to acknowledge for the Western firms and are affecting their ability to be successful in the Chinese context.

Key words

Offshore outsourcing, China, suppliers' perspective, competitive priorities, buyer-supplier relationship, *guanxi*, corporate social responsibility



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Sammanfattning

Syfte

I den globala affärsvärlden är outsourcing och offshore outsourcing strategier för företagen att möta den ökande konkurrensen i deras marknadssegment genom utnyttjande av andra företags förmågor för att skapa konkurrensfördelar. Kina har utvecklats till en viktig aktör på den globala marknaden och är ett attraktivt land för västerländska företags offshore outsourcing initiativ. Trots att outsourcing och offshore outsourcing länge diskuterats i litteraturen kan företagen fortfarande inte nå och tillgodogöra sina strategiska mål och många offshore outsourcing projekt misslyckas. Syftet med det här examensarbetet är att fördjupa den befintliga litteraturen gällande offshore outsourcing till Kina genom att beakta leverantörernas perspektiv med avseende på competitive priorities, de priorities som företagen organiserar sin produktion efter, för att förstå hur de köpande företagen kan bli mer framgångsrika i den kinesiska kontexten och nå sina strategiska mål.

Frågeställning

Frågeställningarna formulerade för denna studie är:

- Vad är de kinesiska leverantörernas syn på competitive priorities?
- Hur kan de köpande företagen skapa en överensstämmelse mellan sina competitive priorities och leverantörernas competitive priorities?
- Överensstämmer leverantörernas syn med den befintliga litteraturen?

Metod

En explorativ multipel fallstudie har utförts i Kina för att samla in empirisk data från ett antal leverantörer. Under studien intervjuades tolv leverantörer med hjälp av en semistrukturerad intervjuteknik för att få en djupare kunskap om deras perspektiv och för att kunna besvara frågeställningarna. Studien förlitar sig på en kvalitativ forskningsmetod och på grund av det

empiriska resultatet har en abduktiv forskningsansats använts för att generera nya teoretiska perspektiv.

Resultat

Vår initiala ansats var att ta reda på hur de köpande företagen kan nå en match mellan sina competitive priorities och leverantörernas priorities. Studien visar att det finns olikheter i synen på competitive priorities mellan litteraturen och leverantörerna. Att nå en överensstämmelse mellan den input som företaget får från sina leverantörer och motivet till offshore outsourcing visade sig vara svårt på grund av att leverantörerna befinner sig i en annan kontext. Det här leder till att de implikationerna av competitive priorities har för det köpande företaget inte direkt kan överföras till de kinesiska leverantörerna. Teorierna gällande competitive priorities visar att de köpande företagen ska inrikta sig på att ha leverantörer vars competitive priorities matchar det köpande företagens. Trots detta blev det under intervjuerna med leverantörerna uppenbart att det inte var tillräckligt att enbart fokusera på överensstämmelsen mellan parternas competitive priorities, utan det behövdes också förståelse och erkännande av "interaktionsmekanismer".

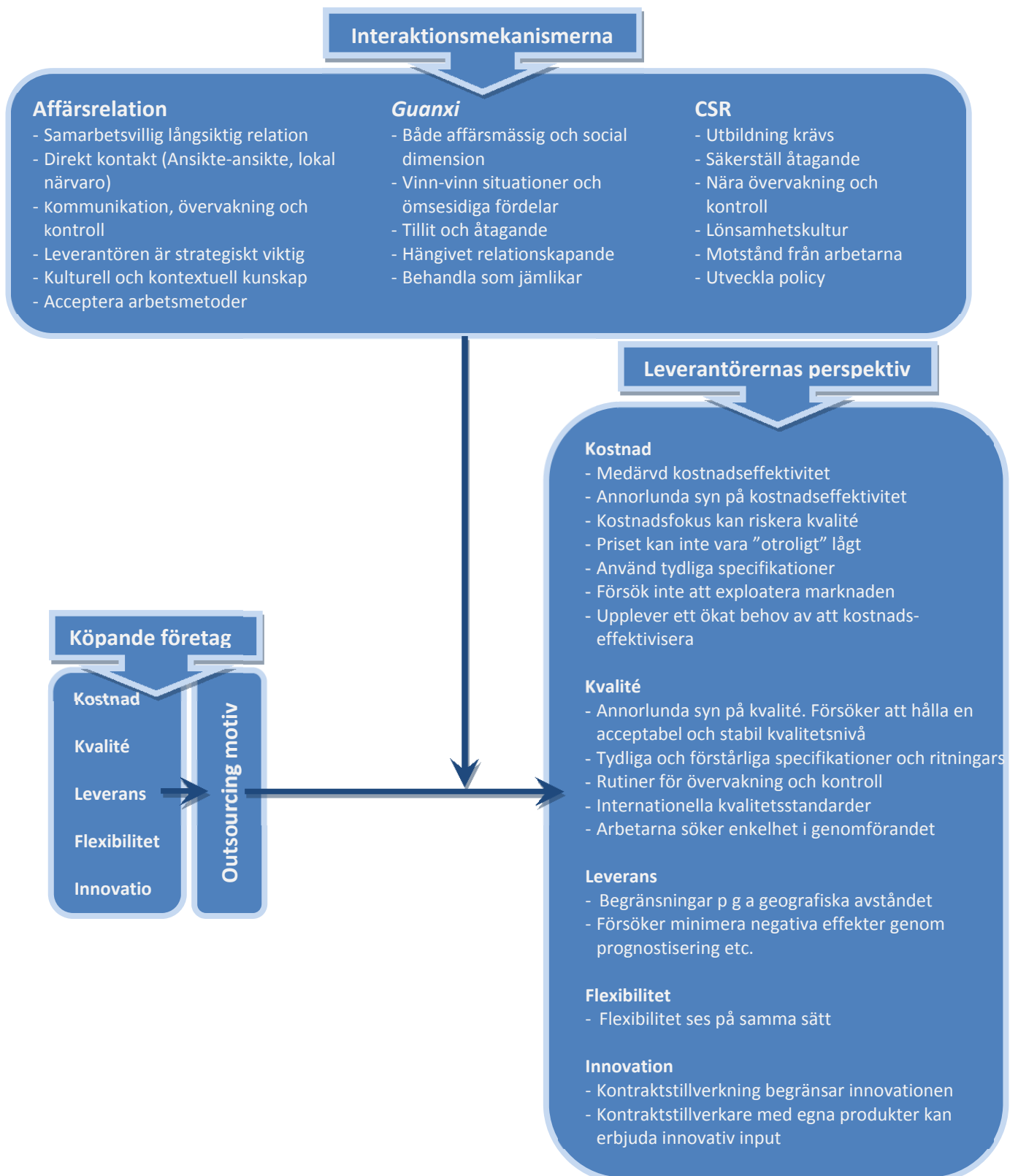
Alla leverantörerna hade en överensstämmande syn på hur de köpande företagen ska agera för att bli framgångsrikt i den kinesiska kontexten. Interaktionsmekanismerna är indelade i tre nyckelområden; formuleringen och etableringen av lämplig affärsrelation, förståelsen och utvecklingen av *guanxi* samt inse behovet av corporate social responsibility, CSR, för hela leverantörskedjan. Utan förståelse för betydelsen av interaktionsmekanismerna får det köpande företaget svårt att skapa en överensstämmelse mellan sina competitive priorities och leverantörernas input och kommer följaktligen inte att nå de strategiska målen. Interaktionsmekanismerna visade sig vara oberoende av det köpande företags competitive priority samt den strategiska betydelsen av de sourcade produkterna. Resultaten gällande interaktionsmekanismerna ledde till en abduktiv forskningsansats eftersom dessa resultat var av betydande vikt vilket krävde ytterligare teorier inom dessa nyckelområden.

Slutsatser

För att det västerländska köpande företaget ska nå de strategiska målen med offshore outsourcing och på ett framgångsrikt sätt interagera med de kinesiska leverantörerna har studien identifierat behovet av att förstå leverantörernas syn på competitive priorities och hanteringen av affärsrelationen, *guanxi* och corporate social responsibility. Slutsatsen belyser vikten av kulturell och kontextuell kunskap för att överbrygga olikheterna på dessa områden mellan litteraturen och leverantörerna, vilken kan fås genom att förstå och erkänna leverantörernas perspektiv.

För att visa hur företagsledare gynnas av studien, presenteras ett ramverk baserat på leverantörernas perspektiv med avseende på competitive priorities och interaktionsmekanismerna. Detta ramverk visar hanteringen av offshore outsourcing till Kina

med avseende på dessa nyckelområden som måste beaktas för att nå rätt input från leverantörerna och få ett mer lyckat utfall av offshore outsourcing till Kina.



Ramverket för offshore outsourcing.

Originalitet

Den här studien ämnar ge ett nytt teoretiskt perspektiv till litteraturen gällande offshore outsourcing till Kina genom att ta hänsyn till leverantörernas perspektiv med avseende på competitive priorities, affärsrelationer, *guanxi* och corporate social responsibility. Den teoretiska studien som har genomförts till det här examensarbetet visar en begränsning i den befintliga litteraturen eftersom många författare enbart fokuserar på köparens perspektiv (t.ex. Salmi, 2006; Cousins et al., 2008; Kroes and Ghosh, 2010). Den här studien ger en ny dimension till den befintliga litteraturen. Resultatet är viktigt att erkänna för de västerländska företagen och påverkar deras förmåga att bli framgångsrika i den kinesiska kontexten.

Nyckelord

Offshore outsourcing, Kina, leverantörernas perspektiv, competitive priorities, affärsrelationer, *guanxi*, corporate social responsibility

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1. Introduction

This chapter introduces the topic of this thesis. From the background presented herein, a discussion of the identified problem will be presented, followed by the purpose and the research questions of this thesis. Thereafter, the delimitations in the thesis will be presented. Finally the introduction is concluded with a thesis outline to give an overview of the different chapters.

1.1 Background

Globalization is more evident in the business environment today. One consequence of globalization is the increasing competition following the fact that many Western firms operate on both local and global markets. The technological developments are progressing at a faster pace than ever, competitors are harder to identify and the customers' expectations are higher; frequently demanding new products and shorter time-to-market (Boyer and Lewis, 2002; Cousins et al., 2008). The consequences of globalization have led to a turbulent competitive business environment that is constantly changing and characterized by hyper-competition (Kroes and Ghosh, 2010). To manage the changing business environment and the increasing competition, the firms need to evaluate their business strategies and find new sources of competitive advantages (Trent and Monczka, 2003).

According to Kraljic (1983) and Krause et al. (2009), the key for handling competition is to develop the firms' sourcing strategies. Globalization increases the competition but at the same time makes it possible for the firms to use global resources and competences. This adds a new dimension to the outsourcing strategies. A possible business strategy for Western firms in order to gain competitive advantages is offshore outsourcing to China (Trent and Monczka, 2003; Handfield and McCormack, 2005; Fredriksson and Jonsson, 2009). Offshore outsourcing is defined by Sako (2005) as sourcing from a supplier located in a different country.

The drivers which makes a firm look outside its boundaries can be derived from the perspectives of transaction cost economics (TCE) by Williamson (1975, 1981) and resource based view (RBV) by Wernerfelt (1984). This gives explanation to the offshore outsourcing motives by presenting economic incentives (TCE) and the availability of superior resources (RBV). China offers lower labor and material costs which results in lower total costs of production compared to using a Western supplier (Fredriksson and Jonsson, 2009). China also has a positive economic growth which makes the country attractive for foreign investments (Zhao et al., 2006). The development towards offshore outsourcing has resulted in an internationalization of the sourcing strategies for the Western firms (Trent and Monczka, 2003).

Sourcing strategies highlight the need for an alignment between the competitive priority of the firm and the inputs from the suppliers (Cousins et al., 2008). The management literature surrounding offshore outsourcing has identified a number of different approaches for managing offshore outsourcing depending on the strategic intentions of the buying firm and

the strategic importance of the sourced products (Kraljic, 1983; Olsen and Ellram, 1997; Cárnez et al., 2000; McIvor, 2000; Cousins et al., 2008). These approaches are intending to give the buying firm a positive outcome from their offshore outsourcing initiatives on their competitive priorities and give them a competitive advantage.

1.2 Problem

Although the literature surrounding offshore outsourcing is comprehensive, several authors have shown that numerous offshore outsourcing projects to China fail and that Western firms are not achieving their strategic goals (Fredriksson and Jonsson, 2009; Jayaraman, 2009; Mohiuddin et al., 2010).

This indicates that there are limitations in the existing literature surrounding offshore outsourcing. Most of the literature is based on the Western firms' perspective and values (Kraljic, 1983; Olsen and Ellram, 1997; Krause et al., 2001; Salmi, 2006; Cousins et al., 2008) and this might be one of the underlying reasons why offshore outsourcing projects fail. The Western firms are managing the offshore outsourcing projects based on the management theories presented in the literature as well as their own experience of such projects, but as mentioned above, some firms are not experiencing the benefits of offshore outsourcing. This indicates that there is a potential conflict between the management literature and the Chinese suppliers' perspective on how to successfully reach an alignment between the competitive priorities of the buyer and the supplier.

1.3 Purpose and research questions

The problem discussion shows that the management literature on offshore outsourcing is not giving enough support to the buying firm since only one perspective is considered. Some authors have highlighted the need for the suppliers' perspective since offshore outsourcing is an interaction between two parties (Stjernström and Bengtsson, 2004; Salmi, 2006). The purpose of this thesis is therefore to deepen the existing literature on offshore outsourcing to China by considering the Chinese suppliers' perspective and by doing so, improving the offshore outsourcing outcome so that more firms are given the ability to reach their strategic goals in the Chinese context. The firms' goals with offshore outsourcing are related to the firm's individual competitive priorities and outsourcing motives. The suppliers' perspective on these aspects together with their view on how to reach an alignment between buyer and supplier would be a valuable addition to the existing literature. Reaching an alignment between the motives and priorities of the buying firm and the input from the suppliers is a key factor for the buying firm to reach its strategic goals.

The research questions formulated for this study are therefore:

- What is the Chinese suppliers' view on competitive priorities?
- How can the buying firms reach an alignment between their competitive priorities and the competitive priorities of the suppliers?

- Is the suppliers' view corresponding with the existing literature?

The answers to the research questions will lie as a foundation for an offshore outsourcing framework that Western managers can use to handle the complexity of reaching their strategic goals in the Chinese context.

1.4 Delimitations

Offshore outsourcing is a broad concept covering many different aspects. It is therefore relevant to present the delimitations of this thesis.

- The thesis is only focusing on offshore outsourcing to Chinese suppliers.
- The thesis is concentrated to offshore outsourcing of manufacturing activities.
- Only contract manufacturers has been analyzed and interviewed in the study.
- The Chinese suppliers that have been interviewed are producing taps, mixer, fittings etc. and are acting in the same industrial segment with their main market being the building industry.
- In the literature there are different frameworks of outsourcing that handle the whole outsourcing process such as the make-or-buy decision, supplier selection and relationship management. This thesis will handle the process after the make-or-buy decision has been made by analyzing the Chinese suppliers' view on competitive priorities and how to reach an alignment between the priorities of the buying firm and the input from the suppliers.

1.5 Thesis outline

To get a better understanding of how the thesis is composed, an outline of the thesis different chapters is presented below.

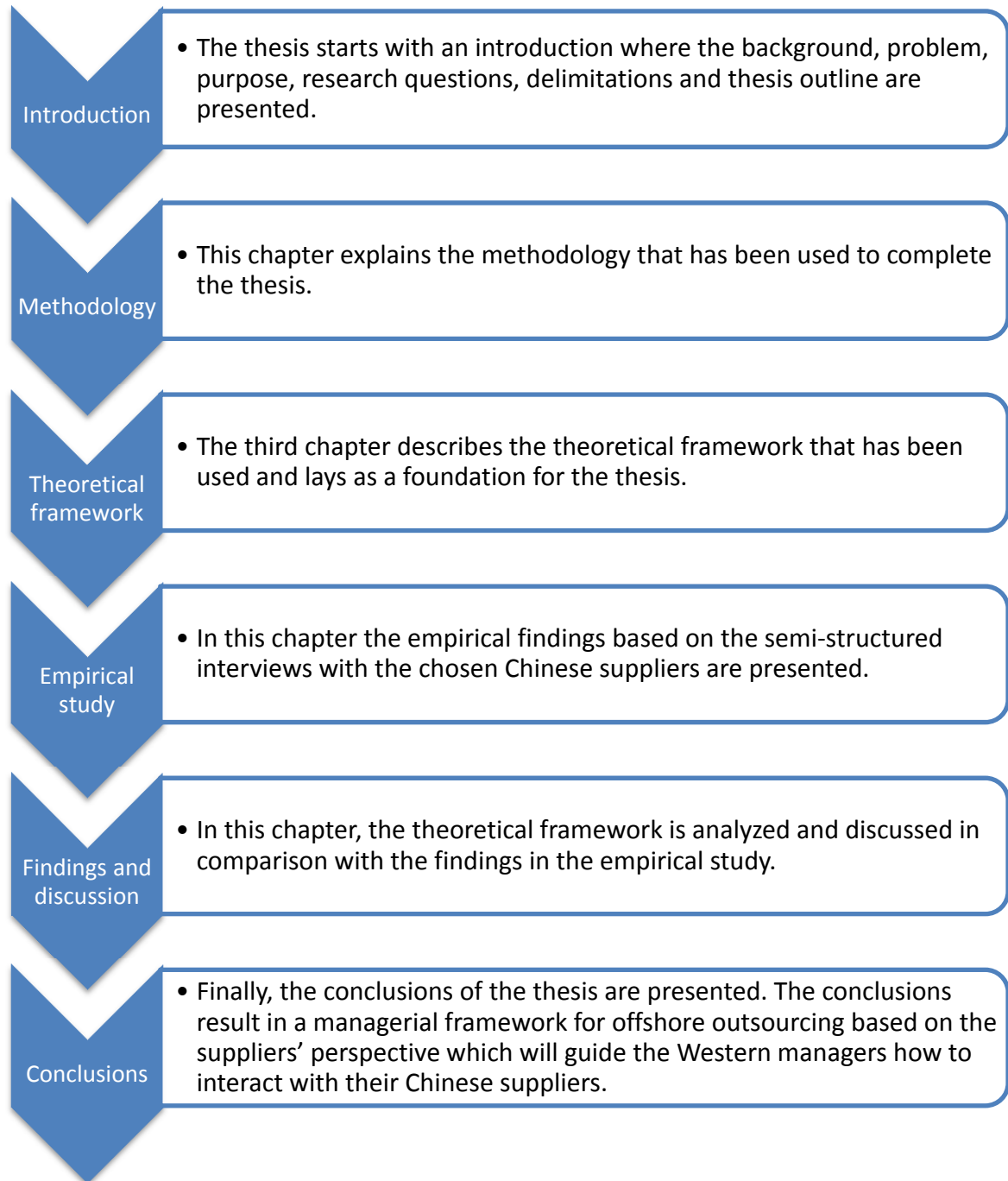


Figure 1. Thesis outline. The figure shows the thesis outline.

2. Methodology

This chapter presents the methodology of the thesis. The methodology is important due to the fact that the thesis is of scientific character which requires a certain methodology depending on the research question and the formulation of the study. The methodology is also important to create trustworthiness and compose a comprehensible thesis.

2.1 Research philosophy

In general there are two different research philosophies, positivism and hermeneutics (Eriksson and Wiedersheim-Paul, 1997). Positivism is based on the notion of certain knowledge and facts. Eriksson and Wiedersheim-Paul (1997) claim that positivism means that the researcher uses quantitative data and strives to find a description and an explanation of the truth. The aim is to create absolute knowledge that is not affected by the interpretation of the researcher. Positivism can therefore be seen as objective (Eriksson and Wiedersheim-Paul, 1997). This view of positivism is supported by Sohlberg and Sohlberg (2002), who say that positivism as research philosophy results in an objective research.

The opposite of positivism is hermeneutics. Hermeneutics strives for understanding rather than explanation as the view of positivism does. Eriksson and Wiedersheim-Paul (1997) explain hermeneutics as interpretations of the reality. The researcher has a certain problem area that he or she wants to examine. By an empirical study, the researcher interprets the empirical data and creates new knowledge (Eriksson and Wiedersheim-Paul, 1997). The interpretation is individual and therefore, the hermeneutics can be seen as subjective (Eriksson and Wiedersheim-Paul, 1997). Even Olsson and Sörensen (2007) say that a hermeneutics philosophy results in subjectivity since different researchers have different views of reality.

This thesis is based on a hermeneutics research philosophy. This philosophy is most appropriate since the purpose of the thesis is to study and analyze the Chinese suppliers' perspective on competitive priorities and the alignment in the Chinese context which can be seen as a complex social subject. The aim is to try to understand the suppliers' reality by interpretations of their answers and therefore, positivism is not a suitable philosophy for this study.

2.2 Research strategy

The research strategy explains how the research is structured e.g. the logical way from the formulation of the research questions to the conclusions. Creswell (2009) mention different strategies such as survey research, experimental research and case study. A survey research means that the researcher studies trends or opinions of a population using questionnaires or structured interviews. An experimental research examines the connection between certain event and the outcome of these. This strategy strives to find certain explanations of the causes why certain events occur. A case study is when the researcher is studying a case, a person or a group closely (Olsson and Sörensen, 2007). The researcher is following different

events and the aim is to get a deeper understanding of the chosen subject in the unique circumstance. The numbers of objects that are studied are few and depending on the subject, the methods of collecting data is different (Olsson and Sörensen, 2007).

The chosen research strategy for this thesis is a case study and can be seen as explorative and multiple. An explorative case study is according to Yin (2003) when the study is based on empirical findings which are conclusive for the theories used. The case study is multiple since the study is based on several objectives compared to the single case study that studies a single objective (Yin, 2003). The reason why an explorative multiple case study is conducted is the chosen subject and the formulation of the research questions. The study aims to achieve a deeper understanding how the Chinese suppliers view competitive priorities and the alignment between the buyer and the supplier. The suppliers' view can be seen as a complex subject and must be analyzed by using qualitative data. According to Yin (2009) a case study is appropriate to answer questions based on "how" and "why" which is the case in this thesis. Since the findings are unknown, the study can be seen as explorative. An explorative multiple-case study is therefore the most appropriate research strategy to meet the purpose of the thesis.

2.3 Research method

The research method is crucial for the collection of information (Eriksson and Wiedersheim-Paul, 1997). Sohlberg and Sohlberg (2002) mention two different research methods, a quantitative or a qualitative method. A quantitative method consists of cold figures, such as digits or calculations. This method is objective; the result is independent of the researcher (Sohlberg and Sohlberg, 2002). The quantitative method excludes explanations and speculations. Therefore, the quantitative method builds on positivism. Examples of a quantitative method are experiments or questionnaires.

The other research method is a qualitative method. This method processes soft data which is not measureable (Sohlberg and Sohlberg, 2002). The method is based on interpretations and the findings are therefore affected by the researcher. This generates subjectivity to the method. Olsson and Sörensen (2007) say that a qualitative method is based on individual interpretations. One example of a qualitative method is an interview. By interviewing different people, the researcher gets different perspectives of the subject which is then interpreted. This example shows that the qualitative method is built on the hermeneutics philosophy.

In this thesis, a qualitative method has been used. This method is more appropriate to reach the purpose of the thesis. The fundamental part in a qualitative method is to find empirical data that can explain and describe a complex subject. The Chinese suppliers' perspective on competitive priorities and the alignment between buyer and supplier is a complex subject and is hard to analyze in quantitative variables. The data can be seen as non-measurable.

Each individual has its own experience and views on different aspects. Therefore, to be able to acquire empirical data that is analyzable, a qualitative method is preferable.

2.4 Data collection

All research studies are based on empirical data. Eriksson and Wiedersheim-Paul (1997) distinguish on primary and secondary data. In this thesis both primary and secondary data has been used.

2.4.1 Primary data

Primary data is, according to Eriksson and Wiedersheim-Paul (1997), data that the researcher collects during the study. Primary data can be collected in two different ways, by a questionnaire or by an interview (Eriksson and Wiedersheim-Paul, 1997). Due to the framing of the study and the chosen research method as a qualitative method, the most appropriate source of primary data is interviews.

2.4.1.1 Interview

An interview is a method where the aim is to collect information from the respondents by asking questions. When using interviews as a source of primary data, Olsson and Sörensen (2007) say that there are three different aspects to consider:

- An interview is a dialogue between at least two persons.
- The information that the respondent leaves must be trustable.
- The interview should give the information that the interviewer is looking for.

This requires that the purpose when conducting the interviews is well established and that the questions are formulated in a way to get the right information of the respondent. An interview can be seen as quantitative or qualitative (Olsson and Sörensen, 2007). A quantitative interview is characterized by high structure and standardization; the questions are asked in the same order with the same wording and are formulated so that the respondents understand the questions in the same way. The opposite is a qualitative interview which on the other hand is characterized by low structure and no standardization.

During this study, qualitative interviews have been used which can be seen as semi-structured. A semi-structured interview is most appropriate in order to analyze the suppliers' reality and how they perceive the aspects of competitive priorities. During the study, 12 interviews were completed with different suppliers. Each interview lasted for about two hours and was based on two main areas; competitive priorities and their alignment between the buyer and the suppliers. The questions can be found in Appendix 1. To overcome the linguistic problems, our contacts were acting as interpreters.

The interviews were conducted as follows: First of all, a presentation of us, our background and the purpose with the interview was carried out. Thereafter, we started to ask the respondents about their business, their views on competitive priorities and the alignment with Western firms. As mentioned, the interviews were semi-structured. Depending on their answers, the interviews were progressing differently.

2.4.2 Secondary data

Secondary data is such that already exists; this data has been collected by other researchers for other studies (Eriksson and Wiedersheim-Paul, 1997; Olsson and Sörensen, 2007).

Examples of secondary data are books, articles and electronic resources. Secondary data is useful to get an overview of a subject and the existing theories. In this study both books and research articles have been used to present existing theories. These theories, together with the empirical findings, are the foundation to the conclusions. By comparing the existing literature with the suppliers' perspective, the study has been able to present new knowledge.

2.5 Research approach

According to Olsson and Sörensen (2007) there are three different research approaches to create theory; induction, deduction and abduction. Induction is when theory is created from different findings in the empirical study. Induction is based on discoveries in reality. The reality is interpreted from empiricism to theory. Deduction means that the researcher forms a hypothesis from previous theories, collects the empirical material and then examines if the reality correspond with the theories. The reality is interpreted from theory to empiricism which is the opposite of induction. The third research approach is abduction. Abduction is a combination of induction and deduction, meaning that the researcher moves back and forth between the theory and empiricism.

The initial research approach of this thesis was induction, as we had a clear understanding of the problem and purpose of the study and how we should collect the empirical data to answer the research questions. During the empirical study we found that there was a lot more related to the competitive priorities than just finding a match between the priorities of the buyers and the suppliers. After a few interviews we discovered that there were three key areas related to the Chinese culture and context that needed to be analyzed in order for the buying firms to be successful in China. These findings led to us having to collect more theoretical material in order to understand these areas which resulted in the thesis having an abductive research approach. We then used the empirical findings and the existing theories to generate a new theoretical perspective to the offshore outsourcing literature.

2.6 Research quality

In this chapter the methodology of the thesis is described and the methods used are presented. As Olsson and Sörensen (2007) state, all research must be evaluated by the

chosen methods and their quality. To judge the research quality of this thesis, the validity and the reliability must be analyzed.

2.6.1 Validity

Eriksson and Wiedersheim-Paul (1997) define validity as the ability to measure what the study is meant to measure. In other words, validity for a study is when the study really examines and describes the aspects of the purpose. For qualitative studies, Olsson and Sörensen (2007) state that validity is when there is a correspondence between the reality and the interpretations of the study. Validity is the most important requirement for a research study. There are two different kinds of validity, internal or external (Eriksson and Wiedersheim-Paul, 1997). Internal validity implies that there is congruence between the findings and the reality. External validity suggests that the findings of the study can be transferred to other situations.

To enhance the validity of this study, the questions have been formulated to answer the purpose. By using semi-structured interviews and keeping this in mind during the interviews, there has been no impact on the respondents. Hence, the interviews were not controlled in a certain manner. The respondents have also been chosen so they would possess the right knowledge to answer the interview questions. The study has focused on twelve different suppliers located in different provinces in China which can strengthen the validity of the study. It can be complicated for interviewers to know how the interview situation should be managed in order to receive the right information. This is a potential drawback with semi-structured interviews since the interviewer must have the ability to formulate the questions depending on the respondent's answers. As the interviews progressed, we felt that we managed the situations better. To strengthen the internal validity of the thesis, the findings have been collected without affecting or manipulating the respondents to answer the questions in a certain manner. They have been able to answer the question from their own experiences.

By interviewing twelve suppliers in the same industry segment, the study strengthens the external validity. The findings of the study can be generalized to the specific segment even if the study relies on the researchers' interpretations. Interpretations are individual and based on the way the authors understand the surroundings.

2.6.2 Reliability

Reliability means that a study should give reliable and corresponding results and a study with high reliability should therefore have repeatable results independent of the researcher (Olsson and Sörensen, 2007). Eriksson and Wiedersheim-Paul (1997) state when the research is based on interpretations it is hard to acquire high reliability. To strengthen the reliability of this study, twelve interviews were conducted with suppliers operating in the same industry. The reason for this was to see if there was a corresponding view between the suppliers in this industry. During the interviews, both authors were present in order to

ensure that no information was neglected. This is also strengthening the reliability of the study.

2.6.3 Critics of data collection

The quality of the data collection must also be analyzed to increase the research quality. During the interviews, which were the source of primary data for the study, both researchers were writing down the suppliers' answers. This increases the trustworthiness. When both researchers are writing down the answers, this can have negative effects on the interview but this was managed since the researcher had time to take notes when the interpreters were speaking Chinese with the respondents. The notes were then summarized together directly after the interviews to compile the important information as well as the researchers' thoughts. By doing this, no information was neglected. The interpreters used during the interviews have long experience of interacting and working with Western firms and also have a master's degree in engineering. This means that they have sufficient knowledge to understand both the questions that were asked and the respondents' answers.

Regarding the secondary data, the study relies on multiple sources of data. Books and scientific articles have been used, which can be seen as reliable sources. To further increase the trustworthiness of the study, the researchers have used updated sources of secondary data.

3. Theoretical framework

The theoretical framework of the thesis consists of five different parts considering offshore outsourcing:

- 1. The first part of this chapter defines offshore outsourcing and the drivers why firms look outside their boundaries to access external capabilities.*
- 2. Secondly, the competitive priorities are defined and discussed in relation to trade-offs and their implication in the offshore outsourcing context.*
- 3. In the third part, the theoretical framework presents theories of the buyer-supplier relationship including the Chinese business and culture.*
- 4. The fourth part covers corporate social responsibility, its importance and the link to offshore outsourcing to China.*
- 5. The theoretical framework is concluded with a summary describing the gap in the existing literature which enhances the need of the suppliers' perspective on competitive priorities and the alignment between buyer and supplier.*

3.1 Offshore outsourcing

Offshore outsourcing derives from the concept of outsourcing. Outsourcing became popular during the 1980s and 1990s (Khan et al., 2003) when firms started to realize the need to outsource different activities to external partners and focus on their core business (Pralhad and Hamel, 1990). Vertical disintegration, or outsourcing (Harland et al., 2005), became a strategy for firms to gain success on the market.

There is much literature covering the aspects of outsourcing and how the concept should be defined (Gilley and Rasheed, 2000). According to Lei and Hitt (1995), outsourcing is defined as “*reliance on external sources for manufacturing components and other value-adding activities (Lei and Hitt, 1995, p. 836)*”. This definition is supported by Drezner (2004), saying that outsourcing is when a product or process is subcontracted to an outside supplier. These definitions show that outsourcing is when a firm’s activities are performed by an external firm instead of being performed in-house. Which activities the firm should outsource depend on the individual firm’s focus but Prahalad and Hamel (1990) suggest that the most common strategy is to outsource the non value-adding activities and keep the value-adding activities in-house. This theory is supported by several other authors in the literature (Cáñez et al., 2000; McIvor, 2000; Cousins et al., 2008). Due to globalization, firms are now utilizing global resources to gain competitive advantage on the market. Offshore outsourcing, defined by Sako (2005) as using a supplier located in a different country, is a business strategy that Western firms use to compete on the market.

3.1.1 Drivers to offshore outsourcing

The drivers to offshore outsourcing can be derived from two theoretical perspectives, the transaction cost economics (TCE) and the resource based view (RBV). These two perspectives can help managers to determine whether to keep a process internally or to use external sources.

3.1.1.1 *Transaction cost economics*

The transaction cost economics (TCE) was first developed by Oliver Williamson (1975) and has since then been widely discussed in the literature. TCE is a useful economic tool to explain the firm's existence and scope (Holcombe and Hitt, 2007; Cousins et al., 2008). Williamson (1985) is suggesting that firms integrate production in order to minimize the transaction costs associated with opportunism and bounded rationality between the firm and its suppliers. This is also a way of managing the uncertainty and frequency of market exchange and the asset specificity that occurs with the firm's relationships. By specifying the conditions surrounding a firm's economic exchanges, TCE is able to give a better understanding of whether it is more suitable to manage an economic exchange internally or externally (Williamson, 1975, 1985). TCE suggests that certain governance mechanisms are better of handling a particular set of economic exchanges, meaning that, depending on the match between the firm's governance structure and the characteristics of the economic exchanges, there is a choice whether to keep them internally or to use the market (Williamson, 1985). Cost economizing, the firms attempt to efficiently manage the market exchanges, is strongly related to the decision to outsource (Grover and Malhotra, 2003). According to Williamson (1979), transaction costs can be divided into two groups. The costs that occur before contracts are closed, when searching, selecting and negotiating with suppliers are called ex-ante transaction costs. The costs that follow after the contract with a supplier is closed, for example monitoring costs, are called ex-post transaction costs.

3.1.1.1.1 *Transaction cost economics and the link to offshore outsourcing*

TCE has a close relationship to offshore outsourcing since it is giving a clear and structured approach to the make-or-buy decision (Cousins et al., 2008). The decision to outsource is often based on the firms attempt to better manage the cost associated with market exchanges (Grover and Malhotra, 2003). Cousins et al. (2008) define these costs as the cost of planning, adapting, coordinating and safeguarding exchange. A high level of these transaction costs makes it more likely that the firm will "make" rather than "buy" (Cousins et al., 2008; Tate et al., 2009). The decision to make or buy from the TCE perspective is based on efficiency. The choice that minimizes the transaction costs of the exchange is the one that is most efficient for the firm (Cousins et al., 2008; Tate et al., 2009). It is also based upon the risk of opportunism, the level of uncertainty and the cost of governance (Williamson, 1985). If the risk of opportunistic behavior is low and there is low asset specificity, the exchange is more likely to take place on the marketplace and the firm will buy rather than make (Williamson, 1985).

According to Tate et al. (2009) the advances in information technology have lowered the previous barriers and to some extent changed the nature of transaction costs, making it more favorable to outsource. Kroes and Ghosh (2010) mean that a firm will make an outsourcing decision when this results in a reduction of firm size which in turn reduces the overall required transaction costs. This will in turn generate a competitive advantage for the firm.

More specific, actions aimed towards offshore outsourcing are often based upon the low costs of labor and material in order to economize the exchange for the buying firm. Offshore outsourcing is however also associated with additional costs, such as increased costs of monitoring and interaction (Cousins et al., 2008). There are also a number of other risks with offshore outsourcing related to TCE. Brouthers and Brouthers (2003) are suggesting these risks to be loss of control, uncertainty in supplier behavior and performance. These additional transaction costs and uncertainties must be taken into account when looking towards offshore outsourcing and how attractive this would be for the firm (Tate et al., 2009).

3.1.1.2 Resource based view

The resource based view (RBV) is considering the resources held by a firm to be valuable assets to its market position and competitive advantage (Wernerfelt, 1984; Tate et al., 2009). Kroes and Ghosh (2010) mean that a focus on valuable resources can differentiate the firm from its competitors. RBV is also giving a contrasting view to the TCE perspective by suggesting that the resources held by a firm is generating advantages not available on the market by transactions (Cousins et al., 2008). Wernerfelt (1984) defined these resources to be brand-names, technological knowledge, skilled employees, machinery, efficient procedures, capital etc. This was later summarized by Barney (1991) to be physical capital resources, human resources and organizational resources. According to Barney (1991), in order for a firm's resources to generate a sustainable competitive advantage, the resources:

- Must be valuable in terms of exploiting opportunities and/or reducing risks in the firm's environment.
- Must be rare compared to the resources held by the firm's current competitors.
- Must be hard to imitate by others.
- Cannot have equivalent substitutes.

Immobility and heterogeneity of the firm's resources together with the features listed above and the firm's ability to recognize, develop, organize and protect its resources, makes it possible for the firm to generate a sustainable competitive advantage (Barney, 1991).

3.1.1.2.1 Resource based view and the link to offshore outsourcing

The make-or-buy decision within the RBV perspective is associated with either “making” by (1) possessing all necessary capabilities in-house, (2) having the opportunity to develop the capabilities internally, (3) acquire a firm that possesses the right capabilities, or by “buying” from an external supplier in order to produce their products and to make to most of the existing opportunities (Cousins et al., 2008; McIvor, 2009).

With the increasing globalization and the global competitive pressure, firms are forced to focus on what Prahalad and Hamel (1990) defined as the core competence, in order to sustain and develop a competitive advantage. Similar to Barney’s (1991) definition of the resources valuable to the firm for sustaining competitive advantages, Prahalad and Hamel (1990) define that the core competence:

- Is the ability to create value for its customers.
- Should be hard to imitate by others.
- Gives access to different markets.

By focusing on the core competence, the firm will offshore outsource the non-core activities and draw use from the expertise of others in order to sustain and generate competitive advantages (Porter, 1990; Prahalad and Hamel, 1990). Developing and maintaining internal capabilities (focusing on the core competence) is central to the RBV perspective and also provides indications for which activities to perform internally and which to outsource (McIvor, 2009). Offshore outsourcing may provide access to new resources where the firm can gain additional capabilities that they could not have gained by performing the same activity internally (McIvor, 2009). Driven from firms looking outside the own organization to source the non-core activities from suppliers that have superior capabilities, outsourcing strategies have become increasingly important for a firm’s success (Kakabadse and Kakabadse, 2000). The goal with the outsourcing strategy is to gain competitive advantages and seek to form a supply chain that is superior to the competition.

3.2 Competitive priorities

Manufacturing firms' overall strategies are formulated after a set of competitive priorities (Cousins et al., 2008). These priorities play an important role when offshore outsourcing since the firm's supply chain strategy must have alignment and support the overall strategy in order for the firm to generate and develop a competitive advantage.

3.2.1 The different priorities

Hayes and Schmenner (1978) mentioned these competitive priorities to be the priorities which the manufacturing firm should organize their production after in order to fulfill the overall strategy of the firm and gain competitive advantages on the market. Hayes and Wheelwright (1984) listed four important competitive priorities; cost, quality, delivery and flexibility. Ward et al. (1998) and Krause et al. (2001) later introduced innovation as the fifth competitive priority. This thesis will from this point on refer to competitive priorities as to be all of the five priorities mentioned above, as this is the accepted and most common notion in the literature (e.g. Ward et al., 1998; Krause et al., 2001; Cousins et al., 2008). To get a better understanding of the competitive priorities for the firms, general descriptions of each priority are listed below:

- *Cost* – Cost as a competitive priority implicates that the firms should produce and distribute products to low costs (Cousins et al., 2008). The total cost of production should be as low as possible and in order to keep the cost low, the firms should strive for low inventory levels and Just-In-Time production.
- *Quality* – Cousins et al. (2008) state that the aim with this priority is to produce and distribute products with high quality and performance standards. Prioritizing quality concerns both the conformance and performance quality, guaranteeing the functionality and the usefulness of the product (Frohlich and Dixon, 2001; Größler and Grübner, 2006).
- *Delivery* – Delivery means that the firms should focus on speed and reliability when distributing products (Cousins et al., 2008). To be able to meet these demands, the supply chain must be designed to be responsive (Chopra and Meindl, 2010).
- *Flexibility* – Flexibility means that the firms have the ability to change the mix and volume of the products produced with little or no impact on cost (Cousins et al., 2008). When having flexibility as the key priority, the firms are emphasizing on the ability to quickly respond to changes in customer demands (Frohlich and Dixon, 2001).
- *Innovation* – Innovation can be seen as the ability to produce and distribute new products and generate first-mover-advantage and to get access to new technologies (Cousins et al., 2008).

3.2.2 Trade-offs

A more detailed look on the different priorities reveals that it is impossible for a firm to pursue all five priorities at the same time. This was first mentioned by Skinner (1969). Skinner (1969) stated in his model the importance of understanding trade-offs amongst the competitive priorities for the firm to stay competitive. This is a general view in the literature (Hayes and Wheelwright, 1984; Boyer and Lewis, 2002; Cousins et al., 2008; Dabhilkar et al., 2009). The different priorities require different kinds of organizational and infrastructural structures which make the understanding of trade-offs essential (Boyer and Lewis, 2002).

For example, Hayes and Wheelwright (1984) and Hill (1994) suggest that there is a trade-off between cost and flexibility. Cost efficient manufacturers aim to improve productivity by having an efficient production line with fixed machinery. This reduces the manufacturers' ability to change the mix and volume of produced products. There is also a conflict between cost and delivery (Steinle and Schiele, 2008). Focusing on cost advantages require deliveries that are cost efficient in order to keep costs at minimum level. Cost efficient deliveries will most likely have a negative impact on the delivery time and the firm must choose how to dedicate its resources in order to reach their overall strategy.

In order to compete, a firm often chooses a strategy to be either cost leader, differentiator, or to be a more focused provider of either of the two (Porter, 1980). The focus on trade-offs and formulating a differentiating or focused strategy is related to the drivers (TCE and RBV) of offshore outsourcing and the trade-off situations need to be managed in order for the firm to gain competitive advantage (Cousins et al., 2008; Dabhilkar et al., 2009).

The firm should focus on one or two priorities in order to be successful (Boyer and Lewis, 2002; Cousins et al., 2008). Searching competitive advantage along all priorities will most likely fail and result in lost competitiveness (Cousins et al., 2008). Hayes and Wheelwright (1984) support this by saying:

"It is difficult (if not impossible) and potentially dangerous for a company to try to compete by offering superior performance along all of these dimensions, since it will probably end up second best on each dimension to some other company that devotes more of its resources to developing that competitive advantage (Hayes and Wheelwright, 1984, p. 141)."

This is in line with Porter's view that strategy is about focus (Porter, 1996). By ignoring the importance of trade-offs, there is a risk that the firms will lose their competitiveness if the resources are allocated to different competitive priorities. The chosen priorities should be the best-fit for the firm in order to achieve their overall strategic goals. Firms aiming to be cost leaders will more likely have a TCE perspective and will mainly focus on the cost priority in order to gain a competitive advantage (Cousins, 2005). Having a differentiating strategy is more related to the RBV perspective and the firm will focus on developing their resources and capabilities (Cousins, 2005). Related to the RBV of developing superior capabilities are competitive priorities such as cost, quality, flexibility, innovation and this can give a clue

which activities to perform internally and which activities that should be outsourced (Leong et al., 1990; Boyer and Pagell, 2000).

3.2.3 Implications of competitive priorities when offshore outsourcing

Depending on the firms' individual strategic focus, they are looking for different abilities from their sourcing partners to gain advantages on the market. In outsourcing, the key is to find a partner that complements the capabilities of the buying firm (Dabhilkar et al., 2009). Vachon et al. (2009) highlight the need for the firm to coordinate the strategy so the different actors in the supply chain pursue to compete with the same priorities. This is supported by Chamberland (2003) and Gonzalez-Benito (2007) who claim that the firms need to create an alignment between the offshore outsourcing strategy and the competitive priorities. Based on the different abilities that a supplier possesses, the buying firm can choose how to shape their supply chain by evaluating different characteristics and criteria that each competitive priority consists of in order to meet the demand from their customers and to fulfill the strategic goals (Momme, 2002). By doing so, the firm enhances its chance to stay competitive. Presented below are the implications of the competitive priorities when offshore outsourcing.

3.2.3.1 Cost

Focus on cost is often the most common reason to offshore outsourcing (Trent and Monczka, 2002; Casale, 2004). Offshore outsourcing with focus on cost savings can improve the competitiveness since the firm can exclude the non-value adding activities and put cost reduction at the center of attention. To offshore outsource manufacturing activities to a partner that offers lower total cost of production is the driver that makes the firm look outside the organization for competitive advantages (Kroes and Ghosh, 2010). This is in line with the TCE perspective of the offshore outsourcing drivers. The importance of cost when selecting a supplier involves the total cost, the supplier's willingness and ability to share cost data and unit price (Krause et al., 2001).

3.2.3.2 Quality

The decision to offshore outsource based on quality is driven by the fact that an external partner has the ability and expertise to improve the conformance and/or the performance quality of a firm's activity (Schniederjans et al., 2005). A high quality level can be reached by finding a supplier with superior quality. Conformance quality is a vital source of advantage and also enables other sources of advantage along the other priorities (Ferdows and DeMeyer, 1990). Quality is measured through the supplier's ability to provide products that are reliable, durable and that are made according to the buying firm's specifications. Quality has been a primary concern when offshore outsourcing for decades (Krause et al., 2001; Kamann and Nieulande, 2010). To secure the quality when offshore outsourcing, international quality standards can be used. The quality priority is more related to the RBV perspective with the aim to utilize the suppliers' superior capabilities in this area (Cousins et al., 2008).

3.2.3.3 Delivery

When delivery is the priority for the firm, it needs to find a sourcing partner that can perform activities with shorter lead time in order to improve the delivery speed and the on-time delivery (Narasimhan and Das, 1999; Cousins et al., 2008). A firm could also choose a partner that has a faster process capability and lower cycle times (Weber et al., 1991). This priority is measured based on the following: the ability and willingness of the supplier to rush an order, the delivery speed of the supplier, the ability to quickly develop a new part, the ability to perform Just-In-Time delivery, meeting due dates and supplier location (Krause et al., 2001). Focusing on delivery when offshore outsourcing is hard due to the geographical distance (Fredriksson and Jonsson, 2009; Kamann and Nieulande, 2010).

3.2.3.4 Flexibility

The driver to offshore outsourcing with focus on flexibility is to get an increased ability to alter production volumes and products mixes in order to meet demand fluctuations and changes in requirements (Schniederjans et al., 2005). To outsource activities to a number of different partners can improve the flexibility of the firm's production and make the firm more prepared if the market demand suddenly changes. Outsourcing also allows changes to the internal structure, where the firm can allocate resources to where it is needed when the demand changes (Kroes and Ghosh, 2010). Flexibility is based on the supplier's ability and willingness to change order volumes and mix of ordered items (Krause et al., 2001).

3.2.3.5 Innovation

Offshore outsourcing to gain innovativeness means that the firm should find a supplier that possesses greater technology, skills and expertise than what the firm has in-house (Hoecht and Trott, 2006). Outsourcing also makes it possible, as with focusing on any other priority, to restructure and free up employees in-house that can help the firm to gain innovativeness internally and reach a competitive advantage with the internal skills and expertise (Kroes and Ghosh, 2010). If the firm is searching for innovation externally, the supplier is selected based on its technological capabilities, willingness to share technological information, and ability to design new products and/or make changes to existing products (Krause et al., 2001).

3.3 Buyer-supplier relationship

Irrespective of the reason to offshore outsource as well as which competitive priorities the firm is emphasizing on, there is a need to handle the buyer-supplier relationship. Depending on the firms' competitive strategies, the approach towards supplier relationships and relationship strategies will be different (Cousins et al., 2008). Since offshore outsourcing is being used more as a competitive strategy, the management of supplier relationship and relationship strategy is becoming increasingly important for creating a maximized perceived customer value and generating competitive advantages for the firm (Christopher and Jüttner, 2000; Salmi, 2006). The competitive advantage of a firm is no longer seen to be dependent on the firm's individual capabilities and resources, but with the successful relationships with its suppliers and the ability to utilize external resources (Lewis, 1995). Therefore, the need for managing and developing supplier relationships has increased. Relationships and strategic outsourcing is formed within a social context, meaning that the firm's collaborative experience and relationship-building-mechanism are vital for succeeding with outsourcing (Holcombe and Hitt, 2007). Knowing what type of relationship that will benefit the firm and maximize the outcome of the outsourcing arrangement is hard.

When a firm steps into an intermediate market, both the direct and indirect ties with other firms create a network that is an important source of information about the reliability of current and future exchange partners (Holcombe and Hitt, 2007). The firm is also learning about the capabilities available in intermediate markets when having a good relationship-building-mechanism, allowing the firm to exploit and find new opportunities on the market (Holcombe and Hitt, 2007). Having cooperative experience and a well-developed relationship-building-mechanism also reduce the integration and coordination costs associated with using external suppliers (Holcombe and Hitt, 2007).

3.3.1 Arm's length or collaborative relationships

Cox (2004) argues that there are four types of relationships that buyers can use to manage their interactions based on the notion of either having an arm's-length relationship or a collaborative relationship (Figure 2).

Relative Share of Value Appropriation	Inequality	Adversarial Arm's-Length Relationship	Adversarial Collaborative Relationship
	Equality	Non-Adversarial Arm's-Length Relationship	Non-Adversarial Collaborative Relationship
		Arm's-Length	Collaborative
		Way of Working	

Figure 2. Relationship types. The figure is adapted from Cox (2004).

Based on the way of working together with each other and the sharing of value, Cox (2004) defines these four types of relationships to be:

- *Adversarial Arm's-Length Relationship* means having a short-term focus where the market is tested on a regular basis in order to find the best fit for the firm's intentions and to maximize the value.
- *Non-Adversarial Arm's-Length Relationship* means that the market is tested on a regular basis but the firm does not have the opportunity to maximize the value and must pay the market price. The value is therefore shared and information regarding cost of operations and profit margins is somewhat transparent.
- *Adversarial Collaborative Relationship* means sharing of operational information and adapting to the other party but the firm seeks to maximize their share of the value.
- *Non-Adversarial Collaborative Relationship* means fully transparent sharing of operational information, having long-term focus and making dedicated investments into the relationship. The value is equally shared between the parties and information about future products and technical linkage between operations are made.

Cox (2004) does not consider the type of products and their strategic importance for the firm when selecting the relationship strategy. Therefore a portfolio model approach is used, much like the ones used by Olsen and Ellram (1997), Gelderman and Semeijn (2006), Pawlak (2009) and Park et al. (2010). These models have their origin from Kraljic's purchasing portfolio matrix (1983) and are trying to establish which kind of relationship strategy that is appropriate depending on the characteristics of products that are being sourced as well as their strategic importance for the firm.

3.3.2 Kraljic's purchasing portfolio matrix

The Kraljic purchasing portfolio matrix (Figure 3) contains four quadrants, (leverage items, strategic items, bottleneck items and non-critical items) each evaluating the strategic importance of the products for the firm and the difficulties of managing the purchase (Tate and Ellram, 2009). This portfolio matrix is often used in the strategic purpose of determining if a certain product is suitable for outsourcing. However, the importance of the supplier relationship is often neglected or not seen as strategically important, which results in higher risks for the buying firm (Tate and Ellram, 2009).

In order to fully understand the importance of the relationship strategy, the firm must work through the categorizing process of its products thoroughly. By doing so, the decision-makers will have an opportunity to address the importance of products, suppliers and relationships for the firm's competitive advantage (Olsen and Ellram, 1997). The product characteristics are the basic starting point for the purchase (Salmi, 2006). If the outsourced product is seen to be closely related to the core competence of the firm, the purchase or sourcing of this item must be seen as strategically important and be placed in the correct quadrant of the Kraljic purchasing portfolio matrix (Olsen and Ellram, 1997). Therefore, the appropriate relationship with the suppliers must be developed to ensure a successful collaboration.

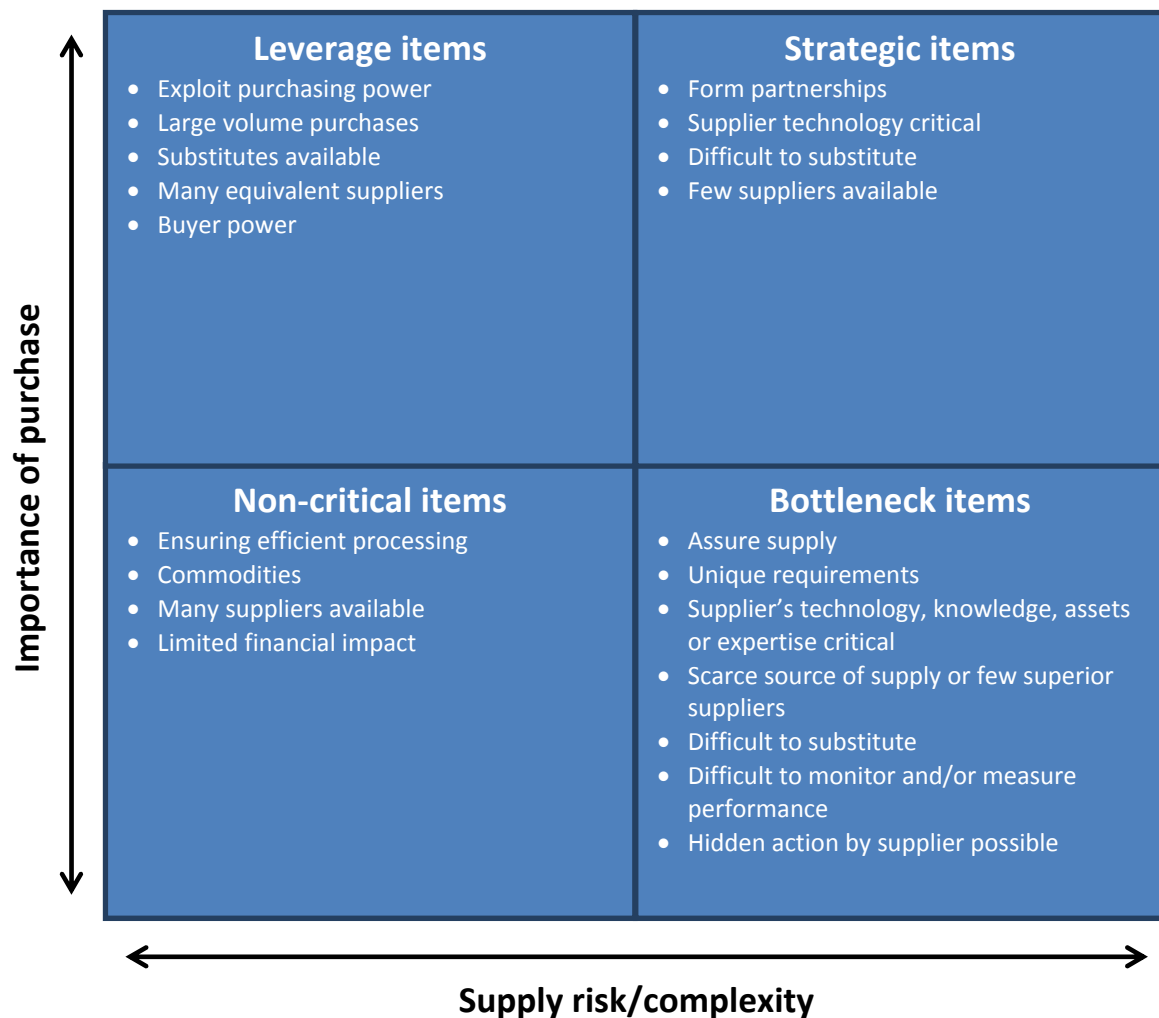


Figure 3. The Kraljic purchasing portfolio matrix. The figure is adapted from Tate and Ellram (2009).

Leverage items are of significant strategic importance for the firm, but are relatively easy to source since there are many suppliers available on the market. The relationship with the suppliers should build on mutual respect with a goal of reaching low total costs (Olsen and Ellram, 1997). The buying firm should try to exploit their buying power, therefore having an arm's length relationship and frequently testing the market to lower costs (Cox, 2004). If the supplier is able and willing to contribute to the competitive advantage of the firm (supplier possesses superior technology etc.), an establishment of a collaborative relationship is more appropriate (Caniëls and Gelderman, 2005).

When sourcing *Strategic Items*, Olsen and Ellram (1997) suggest forming a partnership/close relationship with the supplier as there are few suppliers available and the product is of important strategic nature. A close relationship is likely to limit the supply risk (Caniëls and Gelderman, 2005) and is characterized of long-term focus, early supplier involvement in decisions, joint product development projects and focus on lowering costs (Olsen and Ellram, 1997). This is supported by the work of Pawlak (2009) who suggests close friendship between buyer and supplier in this category by sharing benefits, risks and strategic planning.

Close relationships can lead to significant benefits such as improved quality, product design, product development and delivery (Tuten and Urban, 2001). Caniëls and Gelderman (2005) also propose a locked-in relationship situation where the buying firm has to use a certain supplier due to the supplier holding patents and/or inability to find a substitute. In this situation, the involvement in the relationship will be lower but still of strategic importance to the firm.

The *Bottleneck items* have similar nature as the strategic items as there are few suppliers on the market and the purchase is difficult to manage. The difference is that the bottleneck items have lower impact on the firm's profit, hence the lower level of importance of purchase. Olsen and Ellram (1997) suggest forming some sort of relationship with focus on standardizing products and joint efforts to lower operations costs. The involvement in this relationship can either be arm's length or collaborative depending on if the buyer is accepting a dependence on a certain supplier or is looking for substitutes (Caniëls and Gelderman, 2005). Accepting dependence means that the firm is trying to minimize negative effects and as Olsen and Ellram (1997) suggest, they should try to standardize and focus on lowering costs with some sort of joint relationship. When the firm is searching for substitutes, the relationship is more likely to be an arm's length relationship, were the firm is not getting locked-in on long-term contracts which is ensuring the possibility to quickly change supplier (Caniëls and Gelderman, 2005).

Non-critical items are easy to source and have low strategic impact on the firm. It is therefore suggested to work towards standardization of products, reduction of supply base and reach a relationship that manages itself (Olsen and Ellram, 1997). The goal of sourcing non-critical items is to lower the administrative costs of purchasing and thus using systems contracting or purchase cards (Olsen and Ellram, 1997; Caniëls and Gelderman, 2005). The involvement in the relationship is low and the market should be tested frequently in order to lower costs which mean that an arm's length approach to the relationship is appropriate (Cox, 2004).

3.3.3 Factors surrounding the buyer-supplier relationship

Besides the strategic importance of the sourced products, there are a number of factors that need to be considered when approaching a buyer-supplier relationship. By evaluating these factors, the buying firm can achieve a better fit when interacting with suppliers. Olsen and Ellram (1997) mention different factors that affect the relationship and its strength. These factors create a link between the buyer and the supplier and are presented in Figure 4.



Figure 4. Factors describing the strength of the relationship. Adapted from Olsen and Ellram (1997).

Depending on how these factors affect the relationship, the firm must establish the most appropriate relationship in order to create an effective collaboration. These factors must be considered and managed and as Gadde and Snehota (2000) say:

“Companies make different use of supplier relationships, depending on the nature of their business, the kind of technology used and the context in which they operate (Gadde and Snehota, 2000, p. 307).”

3.3.4 Buyer-supplier relationship in China

The factors mentioned above have great impact on the buyer-supplier relationship. Salmi (2006) mentions distance as a crucial factor when managing supplier relationships in China. The geographical distance is one concern that could increase costs and delivery time, but with the help of today's communication tools and logistic arrangements the firms are able to manage this complexity (Tate et al., 2009).

More evident when interacting with Chinese suppliers is the psychic distance (Salmi, 2006), defined by Evans et al. (2000) as differences in culture, language, business practices, political and legal systems, education, economic development, industry structure and infrastructure. In the Chinese context, the key factor that affects the psychic distance is the Chinese culture (Salmi, 2006). The Chinese culture cannot directly be translated into Western business behavior as it has a rich body of concepts and features that needs to be learned in context

(Salmi, 2006). It is therefore necessary to describe the Chinese culture and its impact on buyer-supplier relationship.

3.3.4.1 Chinese culture

When describing the Chinese culture, Hofstede (1980) is a good starting-point. Hofstede's cultural model explains five different dimensions of culture:

- *Power distance* shows the degree of injustice of power. High power distance in the society means that it is acceptable that the powerbase is unfair.
- *Individualism vs. collectivism* shows how the individuals act and how they are treated by the society. Individualism means that the people are responsible for their own success and are acting in self-interest. Collectivism, on the other hand, is when the people are more group orientated and integrated together in networks.
- *Masculinity vs. femininity* reflects the values and the behavior of society. Masculinity includes bureaucracy, hierarchy and formal positions. Femininity is the opposite; the main aspects are to create relations and harmony. Equality is important.
- *Uncertainty avoidance* means that individuals are avoiding situations that are insecure and unknown.
- *Confucian dynamics* deals with the time perspective in the society which can either be short or long-term.

By using these five dimensions, Chinese culture can be described. In the literature there is a general view of what the characteristics of Chinese culture are, see Figure 5.

View of Chinese culture	References
High power distance	Fan (2000), Leung (2008), Zhao et al. (2008)
Collectivistic	Fan (2000), Leung (2008), Zhao et al. (2008)
Masculine/Feminine	Fan (2000), Sun (2008)
High uncertainty avoidance	Chimezie et al. (1993), Fan (2000)
Long term view	Hofstede (1994), Salmi (2006), Lockström (2010)

Figure 5. The view of Chinese culture. The table lists the characteristics of Chinese culture.

The literature review above shows that the Chinese culture is based on high power distance, collectivism, masculinity, high uncertainty and long term perspective. But Lockström et al. (2010) believe that the cultural model of Hofstede is insufficient in showing the

idiosyncrasies of Chinese culture. To understand the behavior and values, it is necessary to look into how the Chinese culture has evolved. Fan (2000) states that Chinese culture derives from Confucianism, Taoism and Buddhism, where Confucianism has had the greatest influence. It is therefore necessary to introduce the tradition of Confucianism to get a more graduated understanding of Chinese culture (Fan, 2000; Ip, 2009a).

3.3.4.1.1 Confucianism

Confucianism can be seen as the foundation of Chinese culture (Han and Altman, 2010). Confucianism derives from the philosopher Confucius who lived in China during the Zhao dynasty (Luo, 2009). Confucius highlighted the importance of a harmonious life and introduced five virtues of humanity: benevolence (ren), righteousness (yi), proper conduct (li), wisdom (zhi), and trustworthiness (xin). These aspects have formed the Confucian tradition which highlights harmony, group orientation and relationships (Hofstede, 1984; Han and Altman, 2010).

It is important for the individuals to create harmony, both in the personal and social life (Ip, 2009a). Leng (2005) suggests that harmony should be present on different social levels such as in the family, on the workplace and in the society. The consequence of harmony in the Chinese society is that the people are trying to avoid conflicts and focus on collaboration (Liu, 2003). For the Chinese people, social harmony and order is important. Harmony should not be seen as individual; in Confucianism the aim is to achieve a collectivistic harmony in society. This shows the collectivistic characteristics in the Chinese culture. Han and Altman (2010) suggest that this view of a collectivistic society leads to an interdependence amongst the individuals. All people want to be seen as a member of a group and their actions are aimed towards the interest of the group.

The aspects mentioned above, such as the interdependence amongst Chinese people, highlights the importance of relations in the Chinese culture where all relations are summarized within the concept of *guanxi* (Bian, 1994).

3.3.4.1.2 Guanxi

To understand the implications of *guanxi* the definition of Park and Luo (2001) is used. They define *guanxi* as “the concept of drawing on a web of connections to secure favors in personal and organizational relations (Park and Luo, 2001, p. 455)”. This shows that *guanxi* is important on both the individual and the organizational level and that the main aspect of *guanxi* is the exchange of favors. *Guanxi* can be seen as a unique concept and behavioral outgrowth of Chinese culture (Lee et al., 2001).

To establish *guanxi*, a base for *guanxi* must be existent (Tsang, 1998). A *guanxi* base means that the individuals share social or other aspects that are important for them. Tsang (1998) says that the *guanxi* base is either based on heritage between the individuals or by social connections such as education, workplace or having the same hometown. This shows that

the *guanxi* base is dynamic and can be broadened under certain circumstances. When *guanxi* is established between two individuals, there will probably be an exchange of favors if they have the ability to offer something back (Wong et al., 2010). Wong et al. (2010) also state that *guanxi* is reflecting the Confucian tradition since it highlights the harmony between the individuals in their relation.

Since *guanxi* considers relations between individuals, Tsang (1998) presents three important aspects to establish and develop *guanxi*. These aspects are closeness, trust and the meaning of face. Closeness is decided by the degree of affection or *ganqing*. A high level of *ganqing* in combination with a *guanxi* base is a prerequisite to establish *guanxi* (Tsang 1998). *Ganqing* is generated by interactions between individuals in the daily life. Trust is another important aspect of *guanxi*, which implies that the individuals keep their promises to each other. By doing this, they avoid conflicts, create harmony and can develop their *guanxi*. Finally it is important to consider the notion of giving face (Tsang, 1998). Face is seen as a person's public image and reflects the individuals' social roles. By giving face, the individuals respect their social status (Han and Altman, 2010). This is supported by Wong et al. (2010) who claim the importance of not losing one's face which means acting according to the cultural and behavioral guidelines of the Chinese society is important.

3.3.4.2 Chinese business culture

The Chinese culture described above reflects the characteristics of Chinese business and its behavior. Chinese business is based on relations and networks amongst individuals and Chinese firms (Park and Luo, 2001). This highlights the importance of *guanxi* and the need to establish *guanxi* with the business partners. Tsang (1998) says that for foreign firms, *guanxi* and its aspects (closeness, trust and face) are essential to succeed in the Chinese business.

Lockström et al. (2010) state that that importance of relationships has resulted in a static society in China. The relations must be in a state of harmony where changes are undesirable. This is also evident in the Chinese business culture (Lockström et al., 2010). The view of a static society has resulted in that Chinese people are resistant to different transformation processes (Chen and Lu, 1998). They appreciate a social order. Therefore it is also important with the long-term perspective when doing business (Fan, 2000; Luo, 2009). Another characteristic of the Chinese business that supports the social order is that the business is based on hierarchy (Fan, 2000). The knowledge and power are concentrated to the management teams of the firms. Fan (2000) believes that the power distance, well established in the Chinese culture, is the underlying reason for the hierarchy.

Other cultural aspects also affect the Chinese business. As Liu (2003) said, the notion of harmony leads to an avoidance of conflicts. Liu (2003) also stated that the group orientation in China results in that the workers classify their workplace as a family. Since the Chinese culture emphasizes power distance and hierarchy as well as close personal relationships and

social connections, the Chinese business culture cannot be said to be either masculine or feminine (Fan, 2000; Sun, 2008).

3.3.4.3 Buyer-supplier relationship when offshore outsourcing to China

Salmi (2006) found in his study that firms generally source standard products or components from China, which in the Kraljic matrix most likely are placed in the non-critical or leverage quadrant. Salmi (2006) also noted that the firms in his study have not yet formed any type of strategic relationship even though the experiences from the firms have shown that this bridge cultural differences and help to ensure efficient sourcing. Salmi (2006) states that a long-term view on sourcing arrangements to China is necessary as the business culture in China highly emphasizes on long-term business and personal relationships that cannot be reached in the short-term.

To overcome the cultural distance, there is a need for establishing a close relationship with the suppliers where Handfield and Nichols Jr (2004) mention the human factor to be crucial for forming an efficient supply chain. The social contacts can help reduce the cultural distance and establish trust and adaption between buyer and supplier (Salmi, 2006). According to Holcombe and Hitt (2007) relationships are formed within a social context and therefore, the firm's relational capability-building mechanisms, such as the skills of interacting personnel, are important for ensuring efficient supply, especially in the Chinese context (Salmi, 2006).

Wang (2007) makes a distinction between business relationships and personal relationships, or *guanxi*, but in the Chinese context, the skill of managing and using personal relations is crucial for enhancing business as it can overcome distances in communication, build up trust, maintain harmony and mutual respect (Salmi, 2006).

One other issue when dealing with Chinese suppliers is the technological distance. The results of Salmi's (2006) study show that there is a need for communicating technical specifications in a very simple manner to ensure that everything is understood. However, the need for communicating specifications, product quality and delivery issues does not necessarily mean that the suppliers lack in knowledge or skill, but may lack in the understanding of customer needs and wants, due to the cultural differences. Personal relations and integration opens up the possibility of discussing difficult issues and problems and having this type of close relationship makes it possible to communicate with personnel in different levels of the Chinese suppliers' hierarchy (Salmi, 2006).

When making business in China, there is also a risk of opportunistic behavior from the supplier. There might be suppliers that are willing to cheat Western firms in order to gain own advantages (Salmi, 2006). Showing commitment, interest in being involved, willing to establish long-term relationships and creating win-win situations are things that reduce the risk of opportunistic behavior (Salmi, 2006).

In order to overcome the cultural distances the buying firm needs to have social skills and interest in learning the Chinese culture. Allowing time for proper partner screening, being patient in building relationships with frequent visits and establishing close cooperation will lead to a high level of trust and commitment from the supplier (Salmi, 2006). This will also enhance the sharing of information, efficient management of quality control and other managerial activities. Establishing tight links to the Chinese partners will result in openness in the relationship and help overcoming cultural and psychic distance (Salmi, 2006). For efficient supply chain management and buyer-supplier relationships in China, there is a need for long-term focus, close cooperation, understanding and willingness to learn the Chinese culture and acknowledging the importance of personal relationships and *guanxi* (Salmi, 2006).

3.4 Corporate social responsibility

Andersen and Skjoett-Larsen (2009) believe that an important aspect that the Western firms must consider when using suppliers located in a developing country is the view of sustainability. Sustainability is becoming increasingly important and is being seen in a more strategic manner (Carroll, 1991; Sharma and Henriques, 2005). Handfield and McCormack (2005) state that Western firms that source from China should pay attention to humanitarian and environmental problems. Thus, the Western firms must ensure that the Chinese suppliers are acting accordingly to the policies of the firms' corporate social responsibility, CSR. Corporate social responsibility is a concept to create sustainability.

3.4.1 Definition

Corporate social responsibility, CSR, is a concept that is widely discussed in the literature (Carroll, 1991; Smith, 2003; Darigan and Post, 2009; Wang and Juslin, 2009). CSR and its importance derive from the Brundtland commission of sustainability (Brundtland, 1987). Brundtland (1987) stated that the firms must perform their activities in a sustainable manner and not consume the scarce resources. Carroll (1991), who was one of the first to introduce the concept of CSR, defines it as:

"The total corporate social responsibility of business entails the simultaneous fulfillment of the firm's economic, legal, ethical and philanthropic responsibilities. Stated in more pragmatic and managerial terms, the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen (Carroll, 1991, p. 43)."

The implication of CSR for the firms is about taking an economic, social and environmental responsibility (Wang and Juslin, 2009). All these different aspects of CSR must be fulfilled to stay sustainable as a firm. CSR can be linked to the drivers of offshore outsourcing. Hart (1995) stated that CSR could lead to a competitive advantage which is in line with the RBV perspective mentioned earlier. CSR can be seen as a resource that the firms rely on to create a competitive advantage.

3.4.2 Stakeholders' pressure

Gugler and Shi (2009) mean that the civil society has great impact on the Western firms and their CSR-activities. Today people in general are more aware about the environment, human rights and ethics and morals. The increased awareness has also highlighted that people should be treated equally and that the human rights must be respected. The governments also have implemented stricter regulations for the firms' activities (Porter and Kramer, 2006). This means that the firms cannot ignore the consequences of their activities. Wang and Juslin (2009) also say that media and its ability to spread news have had a big impact on the firms CSR-issues since the society is informed if the firms' activities are performed irresponsibly. The pressure from society results in higher requirements of CSR from the firms' stakeholders such as owners, investor, customers and business partners. Therefore, to perform activities in line with Carroll's definition has become more important for the firms.

3.4.3 Implications of CSR in strategy

Sharma and Henriques (2005) claim that sustainability is becoming more strategically important and integrated in the firms' strategies and their strategic goals. Thus, the literature suggests that CSR should be included to the competitive priorities of the firm (de Burgos Jinenez and Lorente, 2001; Porter and Kramer, 2006; Shahbazzpour and Seidel, 2006; Krause et al., 2009). By integrating CSR in the firm's strategy and performing the activities thereafter, the firm shows responsibility according to Carroll's definition. Porter and Kramer (2006) state that many firms are still not formulating CSR-policies that are connected to the strategy and therefore these policies have no positive impact on the society or help strengthen the firms competitiveness.

3.4.3.1 Impact on the competitive priorities

By the strategic importance of CSR, CSR must be integrated with the firm's other competitive priorities. The complexity with CSR or sustainability is that it is not evident in a product or service (Krause et al., 2009). The other competitive priorities cost, quality, delivery, flexibility and innovation are easier for the firm to manage compared to CSR. Integrating CSR to the other priorities result in a new dimension of positive and negative effects that the Western firms must manage (Shahbazzpour and Seidel, 2006). How CSR affects the other priorities is being presented below.

CSR vs. cost: CSR can result in expensive investments for education, certification, structural changes and monitoring and control. Thus there is a trade-off between CSR and costs. Shahbazzpour and Seidel (2006) point on other costs that are more related to the product. Environmental friendly materials can in some cases be more expensive. From another perspective, CSR can be beneficial. CSR can enhance the firm's brand and make it more attractive on the market (Graafland, 2002). Shahbazzpour and Seidel (2006) also say that investments in energy efficiency have a short payback time.

CSR vs. quality: CSR has a positive effect on quality since it requires different quality standards such as ISO (McAdam and Leonard, 2003). Shahbazzpour and Seidel (2006) say that there can be a trade-off between CSR and quality since some CSR-activities requires structural changes in the production which can results in defect products for a short period of time.

CSR vs. delivery: There can be a trade-off between CSR and delivery. CSR requires an environmental friendly supply chain which excludes some delivery options such as airfreight. This reduces the firms' ability to offer fast deliveries to their customers.

CSR vs. flexibility: Shahbazzpour and Seidel (2006) identify that there can be a trade-off between CSR and flexibility since volume and mix flexibility might result in an increasing waste and energy usage.

CSR vs. innovation: CSR can be seen as a source to innovation and the development of new products (McWilliams and Siegel, 2000). Porter and Kramer (2006) have the same view and mention the Japanese car manufacturer Toyota as an example. CSR incentives are often related to innovation since it often requires changes to products or processes. Firms not able to cope with changing requirements might experience a negative effect due to the fact that they cannot adjust to the demands.

3.4.4 CSR and the link to offshore outsourcing to China

By formulating a policy for CSR and organize the activities thereafter, the firms establish a balance between business and society (Darigan and Post, 2009). The development towards offshore outsourcing to China highlights the importance of CSR as the Western firms must include the whole supply chain in their CSR-activities (Andersen and Skjoett-Larsen, 2009).

Before the development of globalization, the Western firms did business with firms that were operating in the same business environment. These firms shared the views on CSR regarding the importance of the environment, the working conditions and the business ethics since they were located within the same context. Due to globalization, the Western firms nowadays interact with suppliers located in China where CSR is a new concept (Kolk et al., 2010).

3.4.4.1 CSR in China

CSR in China is a new concept and a new way of working. According to the literature, CSR-activities in China are inadequate and underdeveloped (Darigan and Post, 2009; Gugler and Shi, 2009; Ip, 2009b; Wang and Juslin, 2009). This highlights the fact that there are challenges that the Western firms need to manage when offshore outsourcing to China.

3.4.4.1.1 The culture of profit

During the regime of Mao Zedong 1949-1976, China and its business were strictly controlled by the government using a planned economy, which meant that all firms were state-owned (Wang and Juslin, 2009). After the death of Mao Zedong in 1976, the big transformation of China started by succeeding Premier Deng Xiaoping (Handfield and McCormack, 2005). The planned economy was replaced with a market economy which changed the prerequisite of Chinese business (Darigan and Post, 2009; Ip, 2009b). Chinese firms could now be privatized and were for the first time responsible for their own wellbeing. Ip (2009b) states that this resulted in a “culture of profit” where the mentality of Chinese business owners intend to maximize their profits at any cost.

With this new culture of profit, China and its firms experienced a rapid economic growth, but as Wang and Juslin (2009) mentioned, many firms performed their activities in an irresponsible manner. A consequence of China’s economic growth was the negative effect it had on the resources and the environment (Gugler and Shi, 2009). The ignorance of a sustainable production was first discovered during the 1990’s when Western firms started to invest in the Chinese business and many environmental and humanitarian scandals became

evident (Ip, 2009b). China's conflict between the economic growth and sustainability resulted in a bad reputation on the global market which highlighted the importance of implementing CSR (Ip, 2009b). A step towards improving the Chinese business sustainability was China's entry in World Trade Organization, WTO, in 2001 and as a member of WTO, Chinese firms were forced to follow the rules and regulation of the global market (Ip, 2009b).

3.4.4.1.2 China's attitude towards CSR

As mentioned above, offshore outsourcing to China aggravates the Western firms' CSR-activities. Even though the literature argues that CSR-activities are inadequate, the Chinese government has started a reform to implement CSR. Gugler and Shi (2009) say that the developing countries react differently towards CSR depending on the size of the country and the willingness and ability to conduct export business (Gugler and Shi, 2009). China is an important player on the global market and has realized the importance of CSR. Gugler and Shi (2009) say that the Chinese government has formulated CSR-standards in order to increase their competitiveness on the global market.

The new China strives for a society in harmony where the businesses are organized after the CSR-policies (Darigan and Post, 2009). China's government is working hard to establish CSR in the Chinese business. A big challenge the Chinese government must handle is the different development of CSR between the different parts of China (Gugler and Shi, 2009).

3.4.4.1.3 Order-winning factor

The attitude towards CSR among Chinese firms is also improving and they have started to realize the importance and the meaning of CSR (Gugler and Shi, 2009). Porter and Kramer (2006) mean that there is a link between CSR and competitive advantage. This view is shared by Shahbazpour and Seidel (2006). They mean that CSR can be viewed as an order-winning factor in developing countries. For the Chinese firms, integrating CSR gives them permission to act on the global market. This will also give a good national and international reputation (Darigan and Post, 2009) and make the Chinese suppliers more competitive towards other firms in China and other developing countries.

3.4.4.2 The importance of CSR for Western firms

The theoretical framework highlights the importance of CSR for the Western firms when offshore outsourcing to China (Darigan and Post, 2009). Porter and Kramer (2006) believe that CSR is the tool for managing the economic and social development. These two aspects are dependent of each other and the firms must manage this to stay competitive (Porter and Kramer, 2006). CSR becomes more strategic important, especially when offshore outsourcing. Western firms that want to gain benefits of using suppliers in China cannot ignore CSR. One problem is that the concept of CSR is based on Western values (Gugler and Shi, 2009; Wang and Juslin, 2009). Wang and Juslin (2009) say that CSR is hard to adapt to the Chinese physical reality, values and cultures. There are higher standards for CSR in West

compared to China (Gugler and Shi, 2009) which creates greater challenges for the Western firms.

3.4.4.2.1 Order-qualifying factor

For the Western firms, CSR should be seen as an order-qualifying factor (Krause et al., 2009). The stakeholders demand CSR due to the pressure from the society and when offshore outsourcing, the concept of CSR must be present across the whole supply chain. Handfield and McCormack (2005) claim that the Western firms must examine the second and third tier suppliers to ensure that the CSR-activities are being followed. This highlights the view of including the whole supply chain and a transferring of the CSR-policy to the suppliers' organizations (Andersen and Skjoett-Larsen, 2009). By applying CSR, the Western firms ensure sustainability according to the three perspectives in Carroll's definition, see definition page 30.

Sharma and Henriques (2005) state that the stakeholders are identifying the importance of the suppliers having the same view on environmental and social aspects. Gugler and Shi (2009) show how the requirements of CSR are being transferred from stakeholders to suppliers, see Figure 6.

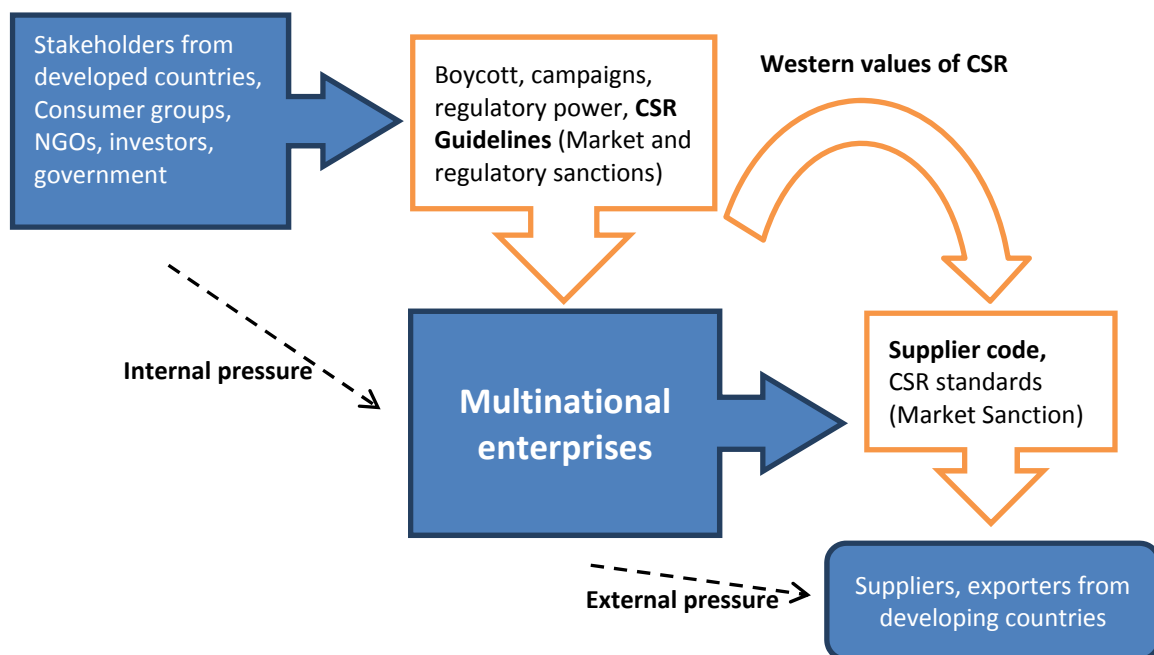


Figure 6. Stakeholders' pressure. The figure shows how the CSR-policy is being transferred from the stakeholders to the suppliers, adapted from Gugler and Shi, 2009.

3.4.4.2.2 Ignorance of CSR

Ignorance of CSR as an order-qualifying factor can cause negative consequences when offshore outsourcing which several Western companies have experienced (Handfield and

McCormack, 2005). One example of this is the Swedish furniture company IKEA. During the 1990's IKEA experienced negative publicity after the discovery of child labor in their factories in Pakistan (Bartlett et al., 2006). IKEA was criticized for the management of CSR which harmed their reputation. The solution for IKEA was to formulate a Code-of-Conduct which resulted in higher requirements for the suppliers that wanted to be business partner with IKEA. This is a real proof of what the consequences of an inadequate CSR-policy can be. As Krause et al. (2009) claim:

"... a company is no more sustainable than its supply chain leads to the conclusion that supply chain management is insufficient; instead, sustainable supply chain management must become the norm (Krause et al., 2009, p. 19)."

3.5 Summary of the theoretical framework

The theoretical framework presents the theories regarding competitive priorities, buyer-supplier relationship including Chinese business culture and corporate social responsibility. With this being said, there is however some limitations in the existing literature. Most of the literature is focused from the buying firms' perspective. This is also supported by different authors in the literature (Stjernström and Bengtsson, 2004; Salmi, 2006). This gap in the literature can be the underlying reason why some offshore outsourcing projects fail.

Håkansson and Snehota (1995) claimed that no business can be performed without its suppliers. When participating in offshore outsourcing there are two parties involved and both perspectives must be considered to succeed with the business. To overcome the limitation in the literature, the suppliers' perspective on competitive priorities, buyer-supplier relationship including Chinese business culture and corporate social responsibility must be considered. By analyzing the suppliers' perspective on these aspects, the study will identify if there is a match between the literature and the suppliers' perspective (see Figure 7). This will generate an additional dimension to the offshore outsourcing literature that Western managers can use when they interact with the Chinese suppliers.

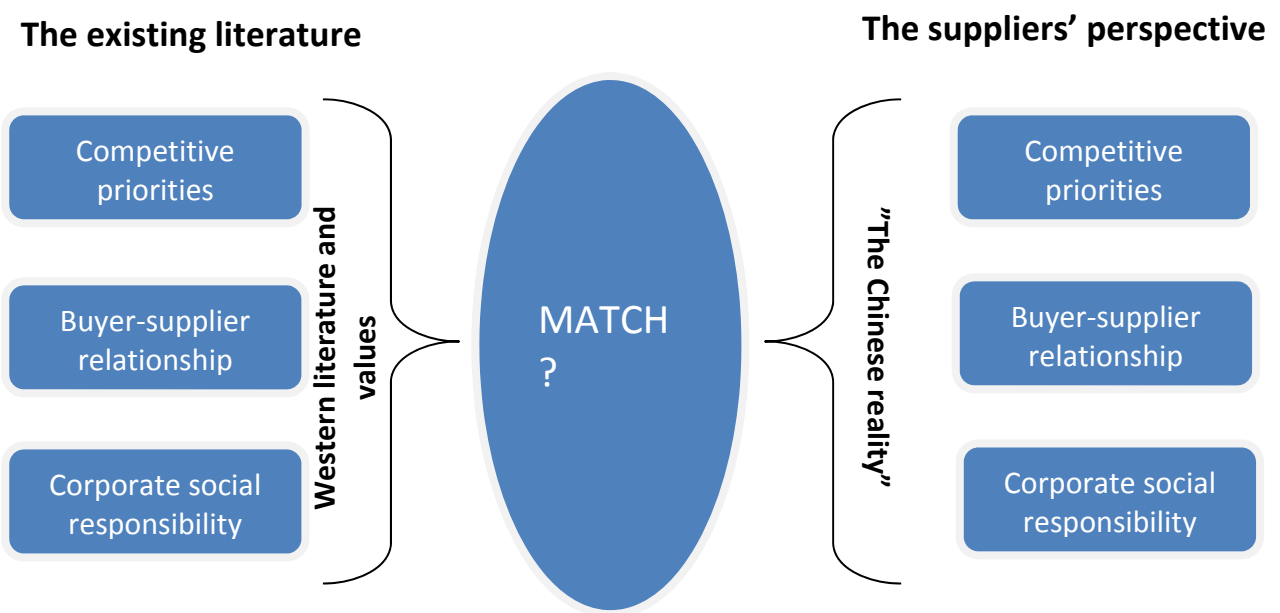


Figure 7. The literature gap. The figure illustrates the gap in the literature.

4. Empirical study

The empirical study was conducted in the city of Shanghai and in the provinces of Zhejiang and Guangdong. A total of twelve suppliers were visited and interviewed. Shanghai, Zhejiang and Guangdong are located on the Chinese East coast which is the more developed part of China and the suppliers in these areas are facing the current environmental changes with increasing salary levels and harder requirements from the government. Since most of the Western firms that are currently sourcing products from China are using suppliers from the East coast it was found to be more relevant to visit this part of China as this would give a better view of the current and future situation of offshore outsourcing collaborations.

To get relevant answers to the research questions, the suppliers were selected based on them having previous or current experiences of contract manufacturing and export business to Western companies. The suppliers were also involved in the same market segment, producing components and finished products for the building industry such as taps and mixers. Since the suppliers were all involved in the same segment, the answers to the interview questions could be compared without having to consider too many variables such as different markets which can affect their experience of the interaction with Western firms. All suppliers were contract manufacturers, but some of them had developed their own brands in order to get access to new markets. Production processes at the suppliers' facilities were different types of casting, injection molding, welding, polishing and assembly.

While focusing on one market segment, it was also relevant to see if the size of the supplier had some importance to their experience of the collaboration with Western firms. Thus, the interviews were made with two suppliers which had over 1000 employees and the rest of the interviews were conducted at small to medium size suppliers with a number of employees ranging from 10 to 200.

At the suppliers, interviews were made with the general manager. Attending to the meeting were also other persons, such as export managers, quality managers or supply chain managers. It was important to get the view of the general manager at all of the suppliers so that the answers could be compared and it was also seen to be relevant to get other persons opinions to see if they differed from the view of the general manager.

4.1 Unexpected findings

After interviewing three suppliers we found that there were three key areas that were closely related to the competitive priorities, the alignment between buyer and supplier and the success of business in China. Due to the nature of the empirical findings, which gave a whole new approach to the research, we had to alter the initial questions that were asked. This led to us having to go back and ask these new questions to all of the suppliers so that we would get a better reliability to the study and to see if there was a corresponding view to these areas from all suppliers. These findings are presented in Table 2, 3, 4 and 5 in Appendix 2.

The questions that were asked were formulated to be semi-structured so that the respondents were able to evolve their reasoning and give detailed answers. The questions can be found in Appendix 1.

Table 1, in Appendix 2, is showing what the suppliers think of their own production processes in terms of competitive priorities. Questions were also asked about what implication that they think each priority has and what it means for them.

In order to understand why the suppliers are emphasizing on certain priorities, questions were also asked regarding their thoughts on why Western firms offshore outsource to China, what difficulties and challenges they might come across in the Chinese context and how these could be managed (see Appendix 1).

5. Findings and discussion

In this chapter the existing literature presented in the theoretical framework is compared with the empirical study and the suppliers' view on competitive priorities and the alignment between buyer and supplier. The "buyer's perspective" in the figures presented herein (Figure 8, 10, 11, 12, 13 and 14), is the combined view of both the literature and the Chinese suppliers' perspective on how the buying firms operate within each priority and the alignment between buyer and supplier. The findings show that the suppliers either confirm or contradict the literature which will contribute to a new theoretical perspective regarding offshore outsourcing to China.

5.1 Competitive priorities

5.1.1 Cost

According to the suppliers, cost is the most common priority that the Western firms seek when offshore outsourcing to China which also is the view that most authors have in the existing literature (Fredriksson and Jonsson, 2009; Kamann and Nieulande, 2010). The empirical study shows that there are a shared view on what the concept of cost means between the literature and the Chinese suppliers. S1, S3 and S9 all explain cost as the aim to reduce the production costs.

But although there is a shared view on what cost means, the study shows that there are differences how the suppliers work with cost efficiency compared to the Western firms. Figure 8 shows the similarities and differences on the view of cost.

Cost	
Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none">• Most common priority• Focusing on cost efficiency• Expects a cost efficient production• Expects very low costs	<ul style="list-style-type: none">• Most common priority for Western firms• No priority on cost, inherited cost-advantage• Focus on cost can risk the quality. Cost-quality paradox• Increasing cost level → can't produce to very low costs → shifting view on cost

Figure 8. The views on cost. The figure summarizes the similarities and differences associated with the cost priority between the buyer's perspective and the Chinese suppliers.

5.1.1.1 Implications of cost

The most important aspect regarding the cost priority is the “inherited cost efficiency” that the Chinese suppliers are experiencing due to the context they are operating in. According to the suppliers, the Chinese business environment is perceived to be cost efficient compared to the Western counterpart. China has a cost advantage due to the fact that it is still considered to be a developing country where the cost of labor and material is lower. Due to the inherited cost efficiency, the total cost of production is lower in China compared to the Western countries which triggers the driver for offshore outsourcing from the TCE perspective.

According to the suppliers, the Western firms find that the Chinese context is enhancing their cost efficiency and is not depending on the individual priority that the suppliers are focusing on. The suppliers are often not seeing cost as their main priority. Instead, the suppliers are in most cases focusing on quality, since there is a general awareness that quality issues is one of the biggest problems when offshore outsourcing to China (Mohiuddin et al., 2010). Thus, there is a mismatch between the priorities of the buyer and the supplier. Due to the context of low costs in China and the perceived cost efficiency of the suppliers, the Western firms still achieve a match between their cost priority and the input of the suppliers. To illustrate this, see Figure 9.

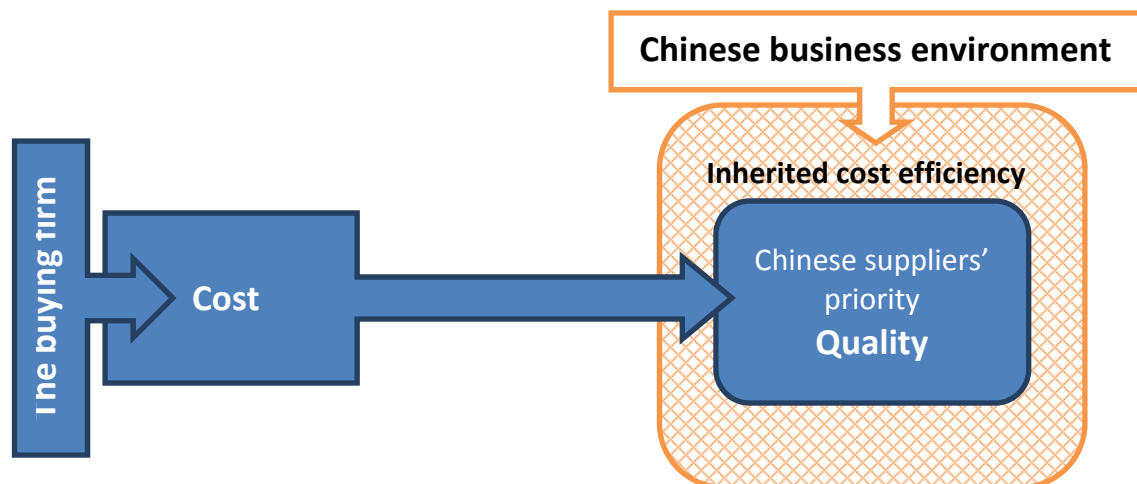


Figure 9. The inherited cost efficiency. Showing the mismatch between the Western firms cost priority and the suppliers' individual priority.

If the Western firms would seek cost efficient suppliers in the Western business environment, there would probably be a more corresponding view on the competitive priority.

5.1.1.2 Trade-offs for the Chinese suppliers

The suppliers say that cost focus will most likely have a negative effect on quality. Since they have inherited cost efficiency, they will prioritize quality in order to gain a competitive advantage and satisfy their customers. The competition on the Chinese market is tough and insufficient quality will risk the business with Western firms. Therefore, a trade-off between cost and quality occurs. The suppliers prioritize stable quality to be able to meet the customers' demands but at the same time the suppliers acquire the inherited cost efficiency from the Western perspective since they operate in the Chinese context, see Figure 9.

The empirical study shows that the trade-off between cost and quality is evident in the suppliers' production processes which are not organized after the principles of cost efficiency mentioned in the theoretical framework. Many suppliers have large inventories of raw material, finished products and much work-in-process. The suppliers are willing and able to carry larger inventory costs due to low costs of doing so and these inventories are increasing the suppliers' ability to deliver products on time and their volume and mix flexibility. The suppliers are accepting trade-offs between cost and delivery/flexibility in order to meet the demands of their customers. Even though their costs are higher, they are still meeting the expectations of being cost efficient from the Western firms' perspective.

5.1.1.3 Increasing cost levels in the Chinese context

An important aspect regarding the inherited cost efficiency became evident during the study. Lately, the inherited cost efficiency and the ignorance of prioritizing cost in the production process have caused problems for the Chinese suppliers. The costs on the Chinese market have increased due to increasing levels of raw material prices and wages, changing exchange rates and governmental regulations. This has resulted in increasing production costs which have had a negative effect on the inherited cost efficiency that the Chinese suppliers rely on for the offshore outsourcing business. The consequence of the increased production cost is increasing prices for the Western firms since the suppliers cannot maintain the same price level. Western firms are expecting very low prices and have an optimistic view on the Chinese cost level but this is not the reality according to S2, S4 and S10 and is not understood by the Western firms.

The increasing costs have resulted in a different view on the inherited cost efficiency from the suppliers' perspective. They have realized the need to operate more cost efficient but this has created a paradox for the suppliers were increased focus on cost efficiency is perceived by the suppliers to affect the quality level in a negative way. Since quality is seen to be a big issue when offshore outsourcing to China, both in the literature and from the suppliers' perspective, there is a need to manage this paradox. The suppliers need to find a balance between cost and quality to compete on both the local and global market. On the global market, the suppliers rely on their perceived cost efficiency but needs to improve the cost efficiency of their production whilst still maintaining an acceptable quality level to meet the demands of their customers. On the local market, both price and quality is important but

the suppliers generally believe that quality is their main source of competitive advantage in order to differentiate and attract Western customers. To achieve a more cost efficient production, maintaining their cost advantage and quality level, many suppliers are moving towards a more machine-intensive production which can both lower the costs and help them to reach a stable quality level.

5.1.2 Quality

The previous section highlighted the importance of quality for the suppliers in their interaction with Western firms but the empirical study has shown some differences in the view of quality between the parties. Figure 10 illustrates the main view from the literature and the empirical study.

Quality	
Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none"> • Match of input from suppliers • Highest quality level possible • Chinese suppliers have limited knowledge regarding quality • Clear specifications • Importance of quality • International standards secure quality 	<ul style="list-style-type: none"> • Quality most common priority for suppliers • Acceptable level is good enough • Different view on quality due to cultural dimension • Employees tend to seek the easiest way, which can jeopardize quality level • Importance of quality • Illegal international standards

Figure 10. The views on quality. Comparison between buyer's and supplier's perspective on quality.

5.1.2.1 Match between buyer and supplier

It has become evident that when the Western firms are seeking quality as competitive priority, the suppliers also are organized after the same priority. There is congruence between the individual priorities of the parties which was not the case when prioritizing cost. As mention in the previous part, the Chinese suppliers generally see quality as their main competitive priority and believe that quality generates competitive advantage both on the global and local market. There is however a trade-off and a need to find a balance between cost and quality.

5.1.2.2 The view on quality

The main difference in the view on quality that was found in the empirical study is that when the Chinese suppliers state to focus on quality as their competitive priority, the aim is not always to improve the level of quality, but to maintain and reach a stable level of acceptable quality for their customers. In the literature, a stable quality level is often seen as the main issue when offshore outsourcing to China and was also seen as the most important priority for most of the suppliers in the study.

Chinese suppliers generally have labor-intensive processes which are sensitive in terms of quality and therefore the main objective for the suppliers is to improve the reliability of their processes so that the expectations of their customers can be met. In contrast, Western firms are using automatic and machine-intensive production processes which have high reliability and stable quality level. When focusing on quality from the Western firms' perspective, to differentiate from competition in terms of quality, there is a need to reach the highest level of quality that generates additional value to the end-customers rather than accepting a "lower" stable quality level.

5.1.2.3 The suppliers' limited knowledge

The study has identified different views on quality but according to S3, S4, S7 and S12 this does not mean that Chinese suppliers lack in knowledge as often stated in the literature (Mohiuddin et al., 2010); it just indicates the difference in how quality is viewed as a competitive priority. The suppliers in the empirical study state that they have never come across a quality level that they have not been able to reach in their processes. As mentioned above, the challenge is not reaching the peaks, but staying on the same level. The main reason for the perceived lack of knowledge is more related to the cultural difference in how quality is viewed, the labor-intensive processes and the organization of production which in some cases can lead to difficulties in maintaining one quality level.

5.1.2.4 Specifications

The cultural aspect also has an impact on the way of working with quality. Some suppliers mean that the employees try to alter the work process for easy completion. This might jeopardize the quality level and it is important for the Chinese managers to constantly monitor and control the firm's processes and employees to make sure that the work is conducted towards meeting the customers' expectations. Supplier S1 mentioned a case where one of their customers wanted to change the specification of their product, adding a bit more rubber into a plastic component. This was communicated to the employees when the general manager was away on other business which resulted in the whole component being made out of rubber as this was easier for the employees. With management back in place, exercising control and monitoring the work process, the component was made after of customer's specification and continued to be so. This highlights the importance of frequent communication with the supplier to establish that the products are being made according to specifications and at the right quality level. Close collaboration and good

relationship with the supplier helps to solve quality issues as the supplier is more committed to these products.

5.1.2.5 Importance of quality

Although the different views on quality, there is a shared view on the importance of quality between the Western firms and the suppliers. The geographical distance and the long delivery lead-time put additional pressure on the suppliers to maintain a stable quality level. Quality control is carefully conducted by all the Chinese suppliers in the study, both on finished products and in critical areas of the production process. The labor-intensive production means that quality control is even more important for early recognition of quality issues. This is more complex for the suppliers compared to the Western firms due to the higher need for individual judgment, lack of advanced instruments and the fact that the products may have greater variation in quality. The current development towards a more automated and machine-intensive production in an attempt to bridge the increasing costs that the suppliers have to carry, will inevitably lead to better quality.

5.1.2.6 International quality standards

One attempt to bridge the different views on quality is using international quality standards such as the ISO-standards. Almost all of the suppliers in this study are working with international standards and see this as important for building trust with their customers and for creating formal processes for quality control. However, S2 and S11 both state the importance of being careful when choosing a supplier based on them following international standards. A supplier that holds a certificate for an international quality standard does not necessarily mean that their processes are certified. There are suppliers that forge, buy or even steal these types of documents so conducting careful due diligence when analyzing suppliers' quality standards is important. For instance, visiting the facilities, checking up on previous customers and following the products way through the production process can give an indication if this supplier is being honest or not.

5.1.3 Delivery

Due to the geographical distance from China and the complexity that this brings, the empirical study shows that delivery is not a prioritized competitive priority when offshore outsourcing to China. Delivery is seen as a hygiene factor when it comes to offshore outsourcing and the suppliers are focused on meeting the delivery dates. Frequent communication and planning between the parties secure the deliveries and can have a positive effect on the lead time from order to delivery. By their ability to keep stock without tying up to much capital, some of the suppliers have the ability to rush orders but the delivery time will not be affected if the customer is not willing to pay extra for air freight.

5.1.4 Flexibility

Figure 11 shows that there is a shared view between the literature and the empirical study on flexibility and its implications in the production process.

Flexibility

Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none"> • Volume and mix • Flexible production • Over-capacity in the production 	<ul style="list-style-type: none"> • Volume and mix • Have a large work force with ability to perform almost all tasks in the process • Ability to keep stock of raw material, work in process and finished goods increases flexibility

Figure 11. The views on flexibility. The figure lists the different views on flexibility.

5.1.4.1 View on flexibility

Flexibility is mainly about being able to alter the produced volume and mix of products which does not leave much space for interpretations. The main aspect of flexibility is how the suppliers are organized towards meeting flexibility demands. As the production processes are labor-intensive, the suppliers have a large work force which can be organized and moved according to demands from their customers.

The study made at the Chinese suppliers shows that most of them have organized production to have some sort of volume and/or mix flexibility. A common sight at the Chinese production facilities were storage areas with raw materials, much work in process and finished products which gives a level of flexibility if needed. The suppliers have the opportunity to keep stocks due to the low costs of labor and material which means that even though capital is tied-up in the process, it is not as evident as it would be in a Western firm.

5.1.5 Innovation

Innovation is a limited priority due to the fact that the suppliers in the study are contract manufacturers. Figure 12 lists the views on innovation.

Innovation

Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none"> • Contract manufacturing • Access to new technology • Can be found, but with the risk of suppliers integrating vertically 	<ul style="list-style-type: none"> • Limited innovation • Limitations to the available technology • Development towards an own brand → Vertical integration

Figure 12. The views on innovation. The figure lists the views on innovation.

5.1.5.1 Contract manufacturing

The case firms are contract manufacturers and only have small R&D departments. This limits the focus on R&D since the suppliers' task is to produce after the samples and drawings that the Western firms have presented for the suppliers. According to S5 and S12, in some cases there can be small R&D projects where the aim is to modify the Western products and make them suitable for the production process. If they can improve the products, this is communicated to their customers. Some suppliers have technical limitations and lack of knowledge in the innovation area. It is therefore hard for the Western firms to find new competences and technologies in China.

The empirical study identified some cases where the Chinese suppliers both were contract manufacturers and manufacturers under their own brand. These suppliers are more developed regarding innovation. According to S2 and S6 many Chinese firms strive to establish their own brand to reach markets and increase their revenues. The suppliers on the Chinese market can be divided into three groups:

- Contract manufacturer
- Contract manufacturer and own brand
- Own brand

For the suppliers that have developed their own brand, innovation plays a much more central role. One of the case suppliers was for instance considered to be world leading within their production area and had developed a unique set of products. This shows that it is possible for Western firms to find innovation on the Chinese supplier market if this is sought after. However, innovations require sharing of product information and there are a risk of opportunistic behavior, where the suppliers are taking advantage of confidential information to promote their own interests and integrating vertically into the buyer's market.

5.2 The interaction mechanisms

During the empirical study it became evident that there were additional aspects closely related to the competitive priorities and the alignment between buyer and supplier. In order to reach the right input from the suppliers it is not only important to understand their perspective on the competitive priorities, but also to understand how to interact with the suppliers. These findings were unexpected but of great importance since they were seen to be essential for the success of buying firms approaching the Chinese context. By just looking at the existing literature surrounding competitive priorities it is not clear that these “interaction mechanisms” are needed in order to reach an alignment between the buyers and the inputs from the suppliers.

The interaction mechanisms between buyer and supplier in the Chinese context was seen to be; establishing the appropriate buyer-supplier relationship, realizing the importance of *guanxi* and acknowledging the need for corporate social responsibility throughout the supply chain. Having the right approach to the interaction mechanisms was seen to be crucial for reaching the strategic goals for the buying firm. The suppliers emphasized that without the right buyer-supplier relationship, *guanxi* and corporate social responsibility efforts, the buying firm will most likely fail to gain any positive effects from their offshore outsourcing initiatives. The interaction mechanisms were also seen to have a positive effect on the competitive priorities since the suppliers are more willing to commit to the buying firm if they are acting according to the Chinese culture and context. The suppliers essentially said that without understanding the interaction mechanisms, it would be impossible to reach success in China. The mechanisms and their significance are discussed below.

5.2.1 Buyer-supplier relationship

The empirical study shows that all Chinese suppliers have similar views on the success factors when it comes to buyer-supplier relationships. Figure 13 below shows the views on the buyer-supplier relationship in the existing literature and the findings of the empirical study.

Buyer-supplier relationship

Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none"> • Arm's-length or collaborative relationship based on the importance of sourced products and complexity of supply • Direct / indirect contact • Face-to-face • Social and cultural knowledge • Expects production to be organized in the appropriate way 	<ul style="list-style-type: none"> • Collaborative relationship → long-term focus • Direct contact • Direct contact → Face-to-face • Important for buying firms to understand the Chinese culture and context • Accept the way of working

Figure 13. The views on buyer-supplier relationship. The figure shows the views on buyer-supplier relationship.

5.2.1.1 Arm's-length or collaborative

The theoretical framework in this thesis suggests two main relationship strategies of either having an arm's-length or collaborative relationship (Cox, 2004) and is basing this on the strategic importance of the sourced products, willingness to share information and profit and the buyer-supplier power (McIvor, 2000; Cox, 2004; Cousins et al., 2008). The empirical study shows that there is in fact one best way to handle the buyer-supplier relationships in the Chinese context and that is to establish a collaborative long-term relationship. This is true, regardless of the type of product that is being sourced and its strategic importance for the buying firm. This is somewhat contradicting the approach in the literature, where different types of relationships are recommended depending on the aspects mentioned above. For instance, when sourcing non-critical and leverage products, the literature is suggesting an arm's length approach to the buyer-supplier relationship, which in the Chinese context would most likely fail. The Chinese suppliers are not willing to commit to a short-term relationship where they cannot gain increased experience or establish other win-win situations. This was also pointed out in the study of Salmi (2006) as he noted that the experiences of firms sourcing standard products and components from China showed that close collaborative relationships or strategic partnership was most favorable. Even though the firms had this experience, none of the firms had entered in these types of relationship with their suppliers. Having a long-term focus when sourcing to China is essential as this enables the building of both business and personal relationships which in the end is necessary to ensure efficient and successful sourcing arrangements with Chinese suppliers.

All the suppliers in the study said that collaborative long-term relationships were preferred as this increased the trust and commitment from both parties which is essential aspects of the Chinese culture.

5.2.1.2 *Direct or indirect interaction*

Irrespective of the type relationship, the interaction between the Western firms and the Chinese suppliers can be either direct or indirect. The study of Salmi (2006) showed that the Western companies are organized differently. Some firms use agents when interacting with Chinese suppliers while others are exercising direct contact with the Chinese suppliers.

The empirical study shows that the suppliers prefer direct interaction with their customers since this creates a personal relationship between the parties and facilitates the management of differences in culture and business practices. Chinese culture highlights the importance of face-to-face interaction and thus direct interaction is favorable. Indirect interaction with the suppliers through agents can also be effective if the agent possesses a good personal relationship with the suppliers. In this study however, most suppliers had negative experiences of agents.

Communication was also said to very important by the suppliers to bridge cultural differences and to achieve a successful collaboration. With a direct contact, the communication is more effective and it is easier to manage the possible problems that occur. The suppliers' experience of interacting with customer through an agent showed that communicating became more complex which resulted in misunderstandings and misinterpretations that created problems for all parties.

The language difficulties was said to be an issue when offshore outsourcing to China, meaning that communication must be clear and understandable. For instance, there is a need for establishing that drawings and specifications is fully understood by both management teams and workers in order for the buying firm to get what they ask for. Communicating this type of information requires technical knowledge from both parties and the general view of the suppliers was that some agents did not possess the adequate technical and cultural knowledge that the business required. This made it harder for the suppliers to solve issues with customers that use agents and is another reason why direct contact is preferred.

For the monitoring and control of CSR, S2 thinks it easier for both the Western firms and the suppliers to manage the CSR-policies with a direct contact. It is easier to secure that the policies are followed. S9, who has experience of both direct and indirect contact with their customers, say that the agents sometimes have ignored to communicate the CSR-policies to the suppliers.

The literature suggests that firms that do not have experience of doing business in China should use indirect contacts to ensure the efficiency of their sourcing arrangements. However, as the empirical study has shown, the suppliers prefer direct contact. But if the buying firm wants to use an agent, there is a need to ensure that the agent is committed to aid the supplier and that they possess the right technical and cultural knowledge so that any issues can be resolved. With the right agent, business arrangements can still be successful.

5.2.1.3 Approaching the Chinese business context

According to the suppliers, the Western firms' approach to the relationship is important. It is important that the suppliers are treated as equals and not seen as undeveloped. As S7 says, China has developed differently compared to the Western countries, which has resulted in different ways of working. This different view on how the production should be managed must be accepted from the Western firms. S12 believes that many Western business partners question their competence due to their different methods but as S12 said:

"It does not matter which production methods we use, since the most important aspect is the quality of the end product. It should meet the customers' expectations (General Manager at S12)."

5.2.2 Guanxi

All suppliers in the study mentioned that the main issue when offshore outsourcing to China is to bridge psychic distance such as the cultural differences. To overcome these issues, the suppliers all stated the need for long-term focus and highlighted the importance of establishing good personal relationships or *guanxi* with the suppliers. Figure 14 shows the views on *guanxi*.

Guanxi	
Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none"> • Exchange of favors, primarily in a social context • Social interaction is generating <i>guanxi</i> • Close collaboration • Important for the business 	<ul style="list-style-type: none"> • Misinterpretation of the dimensions of <i>guanxi</i> • Mutual benefits on the business level → foundation of <i>guanxi</i> in business relationships • Establish trust and commitment • Positive effect on operations and problem solving. Allows for improvement within all competitive priorities

Figure 14. The views on *guanxi*. The figure shows the views on *guanxi*.

5.2.2.1 Misinterpretation of *guanxi*

Personal relationships or *guanxi* is an essential part of the Chinese culture and will help to ensure smooth operations and solve any problem that might occur. This view is shared between the literature and the suppliers but some important aspects were identified in the empirical study. Misinterpreting *guanxi* was common according to the suppliers, meaning that buying firms thought that they had good *guanxi* but in reality all they had was a shallow friendship which did not help their business in the way they intended for it to do. Western firms sourcing from China often misunderstand *guanxi* in practice and believe that in order to establish *guanxi* with a supplier, you should buy them dinner and participate in social arrangements outside of work. But to get good *guanxi* according to the suppliers, business must be good for both parties. This means that, in order to create a foundation to build *guanxi* upon, the business arrangements must contribute to the supplier's development in some way. The key is to create a win-win situation for both the supplier and the buying firm. When the supplier recognizes that the buying firm is willing to share some sort of value, there will be a good base for creating good personal relationships and *guanxi*. Of course, the social aspect of *guanxi* is important, but the business relationship is what gives *guanxi* the ability to grow. As supplier S8 said during the interview:

"Business is business also for the Chinese people. If I have a customer that see business the same way that I do, it is much more likely that we will establish a good personal relationship and guanxi. I will be much more committed to help a customer with any issues that they might have if I feel that they are giving something back to my company. Guanxi is about favors, if their business with my company is favoring me and my company I will do everything in my power to help them solve any problems that might occur (General Manager at S8)."

5.2.2.2 Development of *guanxi*

Guanxi is, as mentioned in the theoretical framework for this study, a complex concept that has been an important part of the Chinese culture for centuries. Setting off time to develop a good business relationship and also nurturing the personal relationships is a key success factor mentioned by all suppliers. Frequent visits, communication, treating the suppliers with respect and seeing them as equals together with trust and commitment was said to be the key in order to improve the *guanxi*.

Building *guanxi* takes both time and effort and it is therefore natural to have a long-term focus when sourcing to China. By showing commitment to the Chinese market and establishing close collaborative relationships, most of the difficulties with offshore outsourcing to China can be eased.

5.2.2.3 Positive effects of *guanxi*

Many suppliers also mentioned that the firms that they had good *guanxi* with would get a lot better services such as flexibility, quality and delivery as they were important to them on a personal level and at business level. Thus, ensuring that the buying firm will reach the intended quality level and the possibility to change produced volume, mix of products and

timely delivery is much easier when having good *guanxi*. The supplier will prioritize those products of customers which have shown interest in their production, commitment, trust and have established a good business relationship and good *guanxi*. The Chinese suppliers' organizations are based on a hierarchical structure and for Western firms this means that most of the interaction takes place with top management. With good *guanxi* the hierarchy can be broken down and information and issues can be discussed on a more operational level directly with the involved workers.

One cultural aspect of communication that has been recognize is that Chinese people never say "no" which means that they will never say that they do not understand or say that something is impossible even if this is the case. For instance, if a supplier has limitations in its production process which means that a certain type of product cannot be produced, they will not explicitly say "no". Having good *guanxi* and a personal relationship with the supplier will enable a discussion of problems and increase the probability of reaching a compromise and the suppliers will most likely be honest with their limitations.

5.2.3 Corporate social responsibility

There is a shared view on CSR between the literature and the Chinese suppliers that CSR is of big importance when offshore outsourcing. Some important aspects have been identified which are listed in Figure 15.

Corporate social responsibility	
Buyer's perspective	Supplier's perspective
<ul style="list-style-type: none"> • Order-winning factor for the Chinese suppliers • Order-qualifying factor for Western firms • CSR-policies in China are inadequate • Complicated monitoring and control 	<ul style="list-style-type: none"> • Order-winning factor for the Chinese suppliers • Order-qualifying factor for Western firms • CSR-policies are inadequate – resistance, culture of profit and limited knowledge • Complicated monitoring and control

Figure 15. The views on CSR. The different views on CSR.

5.2.3.1 Order-winning/order-qualifying factor

The literature suggests that CSR is an order-winning factor for the suppliers on the local market and is a prerequisite to operate on the global market and conduct export business with Western firms. This is confirmed by the empirical study, where 8 of 12 case firms believe that CSR differentiates them on the Chinese market and makes them more attractive for Western firms. CSR can therefore be seen as an order-winning factor for the suppliers on the local market and is an important resource to gain competitive advantage. Hart (1995) suggests that CSR can be related to the RBV perspective since it is a capability held by a firm that can differentiate them from their competitors. Due to the global development and the pressure from stakeholders, the Western firms have implemented and developed CSR for a long time. This means that they are more or less expecting their suppliers to have the same view on CSR as themselves and thus, for the Chinese suppliers, CSR is an order-qualifying factor when conducting export business and interacting with Western firms. The suppliers are aware that their operations must follow the CSR-policies formulated by their Western customers.

5.2.3.2 Inadequate CSR-policies in China

But although the importance of CSR for the Chinese suppliers, both the literature and the empirical study show that the CSR-policies are inadequate. Several suppliers have a policy for CSR formulated by their Western customers but the suppliers are not always able to fulfill these policies.

For instance, since CSR is a new concept based on Western values, there is a lack of knowledge on how these policies should be fulfilled. Many employees often have a negative attitude towards the guidelines of working conditions such as working hours and safety equipment. The general point of view from the Chinese employees is that you should work as much as possible and safety equipment is by some workers seen as hindering to their ability to perform their tasks. Many suppliers in the study say that irresponsible activities related to environmental issues are a common problem in the Chinese business. For instance S5 mentioned several cases of pollution and misuse of natural resources.

The view of CSR as an order-winning factor has increased the interest of CSR in China. As S6 says, CSR is a fact and the firms must act responsibly. The Chinese government has implemented stricter restrictions for the Chinese suppliers regarding work conditions, pollutions and other environmental issues. They are aware that China is an important player globally and the aim is to increase China's competitiveness and make China more attractive for foreign investments. However, even though there is an increased awareness from the government and the suppliers, the policies are still not living up to the Western standards.

5.2.3.3 Culture of profit

The study showed that the limitations to CSR lay within the Chinese culture of profit, where both local governments and suppliers are aiming to increase their revenues. The local

governments and the suppliers are aware of the importance of CSR but ignore this since they are focusing on profit; the suppliers for their survival on the market and the local government because they strive for a positive economic result to present for the main government. This leads to ignorance of CSR and the consequences of this is that CSR policies are hard to implement and are not always being followed. This indicates that the culture of profit still remains in the Chinese business environment and that the problems regarding CSR are based in the cultural dimension.

5.2.3.4 Monitoring and control

It is hard for Western firms to manage CSR in China due to the culture of profit. Another problem is the fact that the country's provinces are developed differently. Eastern China is well-developed while Western China is underdeveloped in terms of both economical and social development. This makes it hard to monitor and control the CSR-activities, for both the Chinese government and for the Western firms.

6. Conclusions

Offshore outsourcing to China is a business strategy for Western firms to manage the increased competition on the market due to globalization, but as the literature shows, this strategy challenge managers and many projects have failed. These failures indicate that the Western firms' approach when entering China is not always successful. Their approach is often based on the existing offshore outsourcing literature, which mostly focus on the buyers' perspective. The offshore outsourcing failures and the fact that the buyers' perspective is at the center of attention is a limitation in the existing offshore outsourcing literature and may be the underlying reason why many Western firms fail to reach their strategic goals with offshore outsourcing to China.

With this being said, the purpose of this study was to examine the Chinese suppliers' perspective on the competitive priorities that the Western firms seek when offshore outsourcing and the alignment between buyer and supplier. This generates a new perspective to the existing literature, fills the gap in the offshore outsourcing literature and will help Western firms to reach more successful offshore outsourcing outcomes.

It was found that some of the competitive priorities had different implications in the Chinese context which needs to be understood in order for the Western buying firms to get the right input from their suppliers and reach their strategic goals. Besides the different views on competitive priorities, the study also identified three interaction mechanisms which are of great importance for the buying firm in order to get the right input from their suppliers. The identified areas are ***buyer-supplier relationship, guanxi and corporate social responsibility***. These findings were seen to be true irrespective of the size of the supplier as well as the strategic importance of the sourced products.

The cultural dimension in China has a big impact on the suppliers' perspective and is the underlying reason why the Chinese suppliers' view differ from the existing literature and the Western values. Misunderstanding of the differences in culture and working methods can affect the offshore outsourcing outcome in a negative way. Thus, it is necessary to possess the right cultural knowledge to maximize the positive aspects of offshore outsourcing to China and to reach a better outcome. The study also acknowledges the importance of recognizing and understanding the factors that affect the suppliers' business, such as competition and changes in their business environment. This requires contextual knowledge in order to understand the changing forces on the Chinese market. Many Western firms that come to China are not aware of the high competition amongst the Chinese firms and how this affects their operations. Understanding the market conditions under which the suppliers are operating is crucial.

Therefore, the conclusion of the study is that cultural and contextual knowledge is crucial for succeeding with the interactions with Chinese suppliers and managing the suppliers'

different views on competitive priorities and the key areas concerning the interaction. To show how Western managers can bridge the differences, a managerial framework for offshore outsourcing based on the findings of this thesis and the existing literature will be presented and discussed in the next section.

6.1 Managerial framework for offshore outsourcing: The suppliers' perspective

The findings in the empirical study showed that there were three major key areas that needed to be managed in order to reach an alignment between the competitive priorities of the buying firm and the input of the suppliers. These areas were the buyer-supplier relationship, *guanxi* and corporate social responsibility which are all highly influenced by the Chinese culture and context. This shows the need for getting the suppliers' perspective in order to find a solution for bridging the differences and reaching a successful offshore outsourcing collaboration.

The managerial framework aims to address how managers should approach the buyer-supplier relationship, the Chinese business and culture and the corporate social responsibility as well as showing how to bridge the different views on the competitive priorities based on the experience of the suppliers.

The framework (Figure 16) is showing how the competitive priorities are related to the offshore outsourcing motives of the firm which have its origin from the TCE and RBV perspective. It also shows how the three identified key areas, the interaction mechanisms, should be managed in order to approach the Chinese suppliers in the best way and reach the input that is sought after.

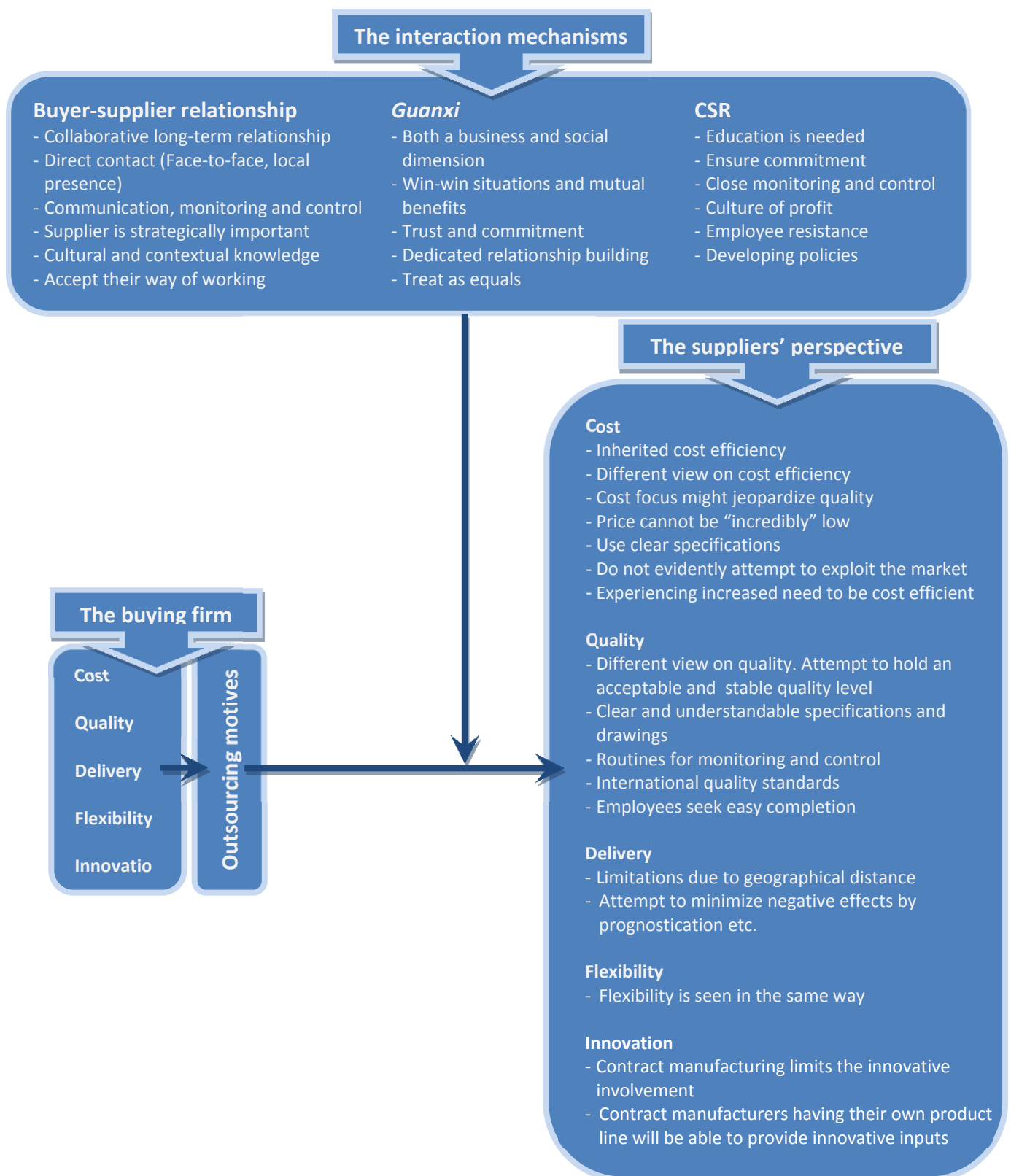


Figure 16. The managerial framework. The figure shows the important aspects that need to be managed in order to get an alignment between the offshore outsourcing motives of the firm and the input from the suppliers.

To get a better understanding of how these aspects should be managed, they will be broken down and presented below.

6.1.1 Managerial implications: Interaction mechanisms

The empirical study showed that all suppliers had similar views on buyer-supplier relationships, the importance of *guanxi* and the need for developing CSR. They emphasized the importance of having a close collaboration and long-term focus in order to gain full advantage of the offshore outsourcing. This collaborative relationship approach was seen to be true irrespective of the size of the supplier and the type of products that was being sourced. Effective management of the buyer-supplier relationship was seen to play an essential part in overcoming differences in culture and the way of working. In order for the Western firm to reach an alignment between their competitive priorities and the inputs of the suppliers there are a number of aspects related to the interaction mechanisms that need to be considered. The following section will present how to approach offshore outsourcing and explain how to effectively treat the interaction mechanisms in order to reach the right input from the suppliers.

6.1.1.1 Establishing the relationship

The study showed a convincing result were all suppliers shared the view on how Western firms should approach the buyer-supplier relationship in the Chinese context. This was to **establish a long-term collaborative relationship**. Establishing a long-term collaborative relationship was seen to **be true irrespective of the size of the supplier**, the type of products being produced and thus also **irrespective of the strategic importance of the sourced products for the buying firm**. Since the literature is suggesting different approaches to the buyer-supplier relationship depending on the availability of potential suppliers, the strategic importance of the sourced products and the complexity of supply, following these guidelines will most likely fail when interacting with Chinese suppliers. The Chinese supplier market is highly competitive which gives buying firms the incentives to test the market regularly and to exploit their buying power by putting the suppliers' offers up against each other in order to maximize the buying firm's benefits. This approach requires short-term and arm's length relationships with the suppliers which in the Chinese context will most likely fail and result in higher costs for the buying firm. **The Chinese culture is promoting personal relationships and guanxi**, which can only be gained through a long-term collaborative approach, meaning that managers must treat the business to China as a long-term commitment. The suppliers in the study mentioned *guanxi* to be of crucial importance if the buying firm should reach a successful outcome of the offshore outsourcing collaboration. **Having direct contact with the suppliers is essential** for nurturing and building the personal relationship as well as the business relationship. Make sure to **visit the production facilities of potential suppliers**, both to get an indication of their capabilities and to **show face** which is an important cultural aspect when interacting with Chinese suppliers.

Some suppliers in the study said that Western managers and technicians did not approve with their way of working, but there is a need to understand that **China is still a developing country** which means that they have not developed the same kind of production facilities as Western firms. Therefore, managers must **accept their way of working**, as long as the price is low, quality is stable and at the right level and the production is compliant with the CSR policies.

6.1.1.2 Establishing guanxi

Guanxi is a quite complex concept in the Chinese culture and has been seen to bridge the interaction between Western firms and Chinese suppliers. Western managers must therefore be prepared to **put a lot of effort into building personal relationships with the suppliers. Building guanxi requires both contextual and cultural knowledge** and thus the Western managers must be aware of the many dimensions of *guanxi*. Since the interaction between buyer and supplier primarily is focused on business, **the base for building good guanxi lays in the business interaction, as well as in the social interaction** between the parties. By **showing willingness to commit to a long-term relationship** with the supplier, the supplier will feel that they can benefit from this relationship and this will then lay as a foundation for building the personal relationship. If the buying firm can **offer some sort of mutual benefits and win-win situations**, this will greatly improve the *guanxi* with the supplier and can be very beneficial for the buying firm in the long run. **Managers and firms that have good guanxi with their Chinese suppliers will get a lot better service** in terms of quality, delivery and flexibility. Good *guanxi* can also help to lower costs and give access to potential customers etc. since the suppliers want to help their friends. **Guanxi will also enable a better discussion with the supplier regarding problems and issues that might occur** and will help to solve them more easily.

It is also important **to treat the suppliers as equals** when negotiating terms and discussing future business as this shows that the buying firm is seeing them as an important business partner and are trusting them to fulfill their tasks. This also helps the building of good *guanxi*. **To be successful when negotiating with Chinese suppliers, managers need to have contextual knowledge** and be aware of the current changes in the Chinese business environment, such as increasing salary levels and changing laws.

By laying a foundation for *guanxi* in the business interaction, it is still important to pay frequent visits to the suppliers, showing face and interacting on a social level as well. The more time and effort put in to relationship building, the better the outcome from the outsourcing collaboration.

Even if *guanxi* is important, **managers should not underestimate the need for communication, monitoring and control**. It is necessary to establish a clear and understandable communication and answer to correspondence as soon as possible to avoid potential problems. **Establishing documentation, check-lists and clear specifications** for all

parts of the suppliers operations as this will help both the supplier and the buying firm to reach the goals with the offshore outsourcing collaboration.

If it is possible for the buying firm, they should try to **establish a local presence and/or direct contact** as this will make communication, monitoring and control easier. It will also help to nurture and build the personal relationship and *guanxi* with the suppliers.

6.1.1.3 Managing CSR

CSR was found to be one of the most important factors that managers need to handle when offshore outsourcing to China. Even though most of the suppliers that we visited had guidelines for employee safety, working conditions, social benefits and so on, there is still room for improvements.

It is important to **realize that CSR is a somewhat new concept in the Chinese context** and has not had the same breakthrough as it has in the Western firms. There is **a need to educate the suppliers** and show that CSR do not have to bring additional costs and can in fact lead to improvements in areas such as product quality, which should act as an incentive for the suppliers to implement the policies in their processes. The suppliers' employees showed some resistance to using safety equipment and wanted to work more hours than allowed which can be related to the culture of profit. It is **therefore important to get the suppliers' management team to see the positive effects that CSR-policies** have on their production.

Making sure that CSR-policies are being followed requires **monitoring and control** from the Western firm and one easy way to make sure that policies are being followed is to use some sort of documentation such as checklists. This gives a visual tool for the suppliers to follow. **Ensuring that CRS-policies are being followed requires a lot of time and effort**, but is important.

Once again, **guanxi can help to ease the implementation** and the willingness to monitor and control these efforts and can hopefully lead to the second and third-tier suppliers applying these kind of policies though the incentives of the first-tier supplier.

The Chinese government is working with national environmental and social policies to improve the working conditions so the awareness of the need of CSR is increasing but Western firms cannot assume that the suppliers are working in an ethical way without seeing this with own eyes.

6.1.1.4 Additional conclusions when approaching the Chinese suppliers

Firms must see offshore outsourcing as strategically important and aim at reaching an alignment between the overall strategy, the sourcing strategy and the input from the suppliers. In order to reach the right input from the Chinese suppliers there is a need for managers to put both time and effort into **attaining cultural and contextual knowledge** and **educate all employees involved** and in direct contact with the suppliers on these matters

before approaching the Chinese supplier market. By doing so, the probability of succeeding with interactional efforts and getting the right inputs will increase as well as the likelihood of implementing and developing the appropriate relationship strategy.

Selecting amongst Chinese suppliers is a complicated task since the Chinese market is incredibly large and the number of suppliers greatly outnumbers the buying firms in almost every market segment. It is therefore important to ***conduct careful due diligence*** and ***allow the selection process to take time*** since finding the “right” supplier is much harder than to find “a” supplier. When selecting suppliers it is important to ***acknowledge the price-quality balance*** which means that managers need to clearly specify the acceptable price and quality that best fits the buying firm’s purpose. Finding cheap products in China is not a problem but only focusing on the price alone, will most likely give a lower quality which in the long run could be more costly than paying a higher price to a supplier with a higher quality level. Thus, make sure to get samples from a number of potential suppliers and compare them based on price and quality and exclude the ones that are not up to standards. The study showed that the price-quality balance is a crucial aspect for both the buying firms and the suppliers.

Another aspect that became evident during our study was the ***experience of the supplier’s management team***. When selecting a supplier it is of great importance to analyze the supplier’s management team in terms of how long they have been working together, how long they intend to stay at the firm ***and the level of personal relationship and guanxi that exists amongst them***. It is also important to ***get a clear view of the supplier’s current and future potential*** and how they see themselves developing. This can give an indication if this supplier would be a good business partner.

It is also important to ***recognize the risks of opportunistic behavior*** and dishonest suppliers. To minimize the risk of engaging in business with an opportunistic supplier, managers need to ***check up on the supplier’s previous customers*** and ask around about how business with them has been flowing.

Since the Chinese culture greatly encourage long-term relationships and close collaboration, the ***selection process is of importance*** so that the buying firm does not get tied up in a relationship with a supplier that is not able to give the right inputs.

6.1.2 Managerial implications: Competitive priorities

The interaction mechanisms need to be managed in order to approach the suppliers and align the inputs so that they fit the purpose of the buying firm. Effective management of these mechanisms will allow the buying firm to look deeper into the suppliers’ operations and from that, ensure that they are getting inputs from the suppliers that will help them generate a competitive advantage and reach their strategic goals with offshore outsourcing. The priorities were seen to have some different implications for the suppliers compared to

the literature which often are based in both the cultural and contextual dimensions of China. The following section will present how to approach each priority to ensure a successful offshore outsourcing collaboration.

6.1.2.1 Cost

When having cost as a competitive priority it is important to be aware of the differences of working with cost efficiency between Western firms and Chinese suppliers mentioned in the findings and discussion part of this thesis. The aspects of cost mentioned below needs to be taken into account when prioritizing on cost.

Firms looking to get a low-cost input from their suppliers will not have any problem finding this is China, but there has to be an awareness of the fact that **Chinese suppliers do not see cost efficiency in the same way as the Western firms**. This also means **accepting that there is a big difference in working with cost efficiency between Western firms and Chinese suppliers** since the suppliers have an inherited cost efficiency due to the context they are operating in. As mentioned earlier, the suppliers state that cost reduction efforts can jeopardize the quality level. This means that there are two aspects that managers of buying firms need to be aware of. First, managers must **be aware of the cost-quality paradox that Chinese suppliers are experiencing**. Secondly, they must **balance cost and quality** from their own perspective so that they get the right input from their suppliers. This means recognizing that the price cannot be incredibly low without receiving low quality products. The Chinese suppliers are recognizing the need to improve their cost efficiency and if the buying firm can **help the supplier with cost efficient improvements**, these efforts will **benefit the guanxi**. This can help the supplier to maintain and improve its quality level and deal with the cost-quality paradox, which would also benefit the buying firm.

It is also important for managers to **be aware of the additional cost that occur when offshore outsourcing**, such as costs of monitoring and control, delivery etc. These must be taken into account in order to make sure that the strategic goals of the buying firms can be reached. **Using clear specifications and transparency in bill of materials for products** and clearly stating what is expected from the supplier will help keeping costs down and ensuring the right quality.

6.1.2.2 Quality

Inconsistent and poor quality is according to the literature, the main issue when offshore outsourcing to China. It was also shown in the study that quality is the main priority of almost all suppliers since they are aware of the importance of quality for their customers. Quality is also seen as the main source of competitive advantage for the suppliers on the Chinese market.

Western managers need to understand that **Chinese suppliers have a different view on quality** due to cultural differences. **Suppliers that prioritize on quality will most likely aim**

for a stable and acceptable quality level rather than reaching a superior level of quality, which means that they aim to meet the expectations of their customers and reach a reliable production process in terms of quality. It is therefore important for managers to ***use clear and understandable specifications, documentation, and check-lists*** and ***establish routines for monitoring and control*** to make sure that the suppliers are meeting the required quality standards.

A cultural aspect that became evident in the study is that the ***suppliers' employees will seek to complete their tasks in the easiest way***, which in some cases means that specifications and quality requirements will not be followed. The Western managers must therefore make sure that the suppliers' management team has the competence to perform their own monitoring and quality controls so that quality issues can be addressed as soon as possible.

Most suppliers have ***labor-intensive production*** which is more sensitive in terms of quality. If possible, buying firms and managers that seek a higher and more reliable quality level should try to find a supplier that has developed a more ***automated production***. This is depending on the complexity of the products and the tolerances.

There is also a need to ***ensure that suppliers that state that they are following international quality standards really are doing so*** and that this is evident in their production process. Suppliers in the study mentioned that there are evidences of firms that state to have international quality standards but have just bought the license.

If the buying firm is able to ***help the suppliers to improve their quality level and increase the stability of their production process***, this will help to create *guanxi* and will be beneficial for both the buyer and the suppliers in the long run. ***Good guanxi can help to improve the quality*** since suppliers will be more committed to help customers that have built a good business and personal relationship. This means that the suppliers might lower their margins to improve the quality or invest in new equipment in order to satisfy the customer.

6.1.2.3 Delivery

Efficient delivery is probably the hardest priority to find in China. Due to the geographical distance and the delivery alternatives available there is no cost efficient way to reach a shorter lead time.

To minimize the negative aspects of the geographical distance, Western managers must be willing to ***share information about order volumes and prognoses*** on an early stage so that the supplier can alter their production to meet the required due date. By having good prognostication it is possible to receive products at the right time and at the right price but there has to be some sort of safety stock if a sudden change in demand should occur.

Guanxi can help the buying firm to rush an order and will also increase the probability of reliable deliveries since the suppliers do not want to disturb the personal relationship that

has been developed. This means that the supplier is willing to prioritize the products of firms that has developed a good *guanxi* and is also willing to carry a larger inventory of both raw material and finished products to meet sudden changes in demand for their customers.

6.1.2.4 Flexibility

The view on flexibility is shared between the literature and the suppliers. In the study, most suppliers said that they had the ability to change the volume and mix of products if needed.

Guanxi will enhance the flexibility as suppliers are more willing to alter and change production if this is required from a customer which they have good *guanxi* with. They are also willing to reduce their margins and keep a larger inventory.

Managers searching for flexibility in the Chinese context should emphasize on developing *guanxi* but should also try to find a supplier that explicitly state to have a flexible production.

Flexibility is somewhat limited by the geographical distance since the efforts to alter production at the supplier will not be directly evident at the buying firms' facilities.

6.1.2.5 Innovation

The study was conducted by looking at ***contract manufacturers*** which means that they produce to specific orders from their customers and according to their product specifications. Some of the suppliers that were visited had however developed their own brands.

Suppliers with their own brands have their own R&D departments and can help customers to develop new products and can thus be seen as innovative. However, since China is a developing country, ***the availability of new technologies is limited***. Access to new technology is often seen to be important for buying firms when they seek innovation from their suppliers. This is however depending on the complexity of the products and Chinese suppliers have the ***ability to act as innovative suppliers for less complex and mature products*** with some exceptions.

Most of the suppliers in the study said that they had enough competence to help their customers with product modification and design for manufacturing, as well as to develop a new product series from samples. This requires that ***Western managers are willing to share information about the products*** and by doing so, there is a risk of opportunistic behavior. But having developed ***good guanxi will greatly reduce the probability of the supplier acting opportunistic***.

6.2 Limitations

There are of course limitations in the study. First, the methodology is based on interpretations and can therefore be seen as objective. This is a limitation since the findings are depending on the researchers' interpretations of the empirical results and on the theory presented herein, and can therefore only be generalized for the area that the study covers.

Another aspect is that the study was performed by interviewing twelve case firms. All the case firms were located on the Eastern coast of China which can be seen as a limitation, but it would have been difficult to perform the study in Western China due to its undeveloped business. The suppliers were also active in the same industry segment so the findings can only be seen to be true for suppliers in this specific segment. Another limitation is that the study only has focused on the suppliers' perspective, it would be valuable to consider both the buyers' and the suppliers' perspective in the study. As a reminder, "the buyer's perspective" in the findings is based on the suppliers' perspective on how the Western firms are acting in the Chinese context.

We have not been able to select the respondents at the suppliers that we have interviewed. To get a deeper understanding of the suppliers' view on Chinese business, it would have been interesting to perform interviews with employees outside of management positions. But the experiences of the case studies show that this would have been complicated. Chinese firms are based on hierarchy where the general manager and a few others at high levels within the organization are the only ones who possess the knowledge to answer the interview questions. For instance, an export manager that we interviewed was not able to explain their interaction with their Western customers or did not feel that she had the mandate to explain it to us. This is a limitation to the study, that only the general manager and other employees at management positions have been able to answer the questions.

6.3 Future research

This study has been comparing the suppliers' view and the existing literature. It is known that practice differs from theory so future researchers could focus on comparing the perspectives of the Western firms and their Chinese suppliers by conducting interviews with both parties.

During the study, it became evident that corporate social responsibility is a concept that needs to be more developed and implemented in Chinese business. It would be interesting to perform a study investigating exactly how Western firms approach CSR issues in China and how they are working with their Chinese suppliers. This study gives the view of the suppliers and their experience of Western CSR work, but is their experience corresponding with the actual work of the Western firms?

Another interesting study would be to investigate whether Western firms working in a similar way that has been presented in the managerial framework actually are experiencing improved interaction and outcome of their offshore outsourcing.

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Appendix 1: Interview questions

These questions were asked during the interviews with the Chinese suppliers. Some of the questions were come upon during the interviews and were written down so that they could be asked to the other suppliers. The questions were not asked in the exact order as they are presented in this appendix, but all questions were asked to all of the suppliers. Questions that we came upon during the interviews were asked to suppliers in retrospect so that if these questions were seen to be of importance to the study, all suppliers were given the ability to answer them.

Supplier introduction

- How long have you been with this firm?
- What is your background?
 - Education
 - Other employments
- How many employees does the firm have?
- Annual turnover
 - How much of this is export business?
- What type of business are you involved in?
 - What type of products are you producing?
 - Have you developed your own brand or are you only acting as a contract manufacturer?
- For how long have you been involved in this market segment?
- What is the future of your business?
 - What is happening in the next few years?
 - Will the costs increase? E.g. increasing salaries
 - Will there be any governmental regulations that could affect your business?
 - Do you think that the export business will increase?
 - Will you try or have you developed your own brand?
 - How are you aiming to stay competitive?

Competitive priorities

- What is your main competitive advantage?
- Is this why Western firms chose you as a supplier?
- What is your perception of;
 - Cost
 - Why?
 - Do you think that Western firms see cost in the same way?
 - How are you working with cost?
 - Quality
 - Why?
 - Do you think Western firms see quality in the same way?
 - How are you working with quality?
 - Delivery

- Why?
 - Do you think Western firms see delivery in the same way?
 - How are you working with delivery?
- Flexibility
 - Why?
 - Do you think Western firms see flexibility in the same way?
 - How are you working with flexibility?
- Innovation
 - Why?
 - Do you think Western firms see innovation in the same way?
 - How are you working with innovation?
- Do you think that the Western firms are reaching an alignment between their priorities and what they get from your firm?
 - Why?
 - Why not?
 - How can this be improved?

Interaction with Western firms

- How long have you been involved with export business?
- What are your experiences of business with Western firms?
- Have you experienced any failed business with Western firms?
 - Why do you think some Western firms fail when they try to do business in China?
- What are the most important aspects for you when interacting with Western firms?
 - Why?
 - Is this the same things as when interacting with Chinese customers?
- Is the business with Western firms important for your survival?
- Do you think that Western firms are approaching the Chinese context in the right way?
 - Why not? What could they do differently?
- Why do you think Western firms are looking to offshore outsource production to China?
 - Is this the only reason?
 - Do you think that this is their main competitive priority?
- How big of a problem is the language difference?
 - How can this be issue be bridged?

The Chinese culture and context

- How has the Chinese business evolved over the last years?
 - How has this affected the Chinese people?
- What is currently happening in terms of development in China?

- How is this affecting your business?
- Have you recognized any general business trends?
- Is it hard to find skilled employees?
 - Is it hard to keep them at your firm?
 - What are you doing to keep them from changing workplace?
- What types of governmental regulations of importance for your business?
 - Is it important for the Western firms to have knowledge of these regulations when doing business in China?
- In what way to you think that knowledge of China as a country can help Western firms to do better business in China?
 - Why?
- What aspects of the Chinese culture are affecting the way you do business?
 - How important is it for Western firms to know a bit about Chinese culture?
 - Can knowledge about the culture help Western firms to be successful in China?
 - In what way?

Buyer-supplier relationship

- What type of relationships do you want with Western firms?
 - Is this the same type of relationships that you would want with Chinese customers?
 - Why is this type of relationship best?
 - How is this improving the business with Western firms?
 - Is this the type of relationship that you have with your Western customers?
- Do you want some kind of support from you Western business partners?
 - Technical support?
 - Investments?
 - Education?

Guanxi

- What is *guanxi*?
 - How is *guanxi* developed and how can it be gained by a Western person?
- Why is it important?
- How can *guanxi* help Western firms do business in China?
- Is *guanxi* important for you when doing business?
- Do you think Western persons understand what *guanxi* is?
 - Which are the general misinterpretations?
 - How should it be interpreted?

CSR

- Do you have any policies regarding CSR?
 - Is there a pressure from your Western customers to have this?

- Pressure from the government?
- How are these policies affecting the way of working?
 - Is this negative/positive?
- What do you think that the employees' experience of CSR is?
 - Do they think it is something good for them?
- Do you think that CSR is important?
- How do you think that CSR can be implemented in the Chinese context?
- How long will it take before China has caught up with the Western firms regarding CSR?
- Do you think Western firms rather choose a supplier that has a well-developed CSR-policy?

Appendix 2: Empirical findings

In this section, the empirical results are presented in a number of tables. Table 1 shows the suppliers view on their own production arrangements and their view on the competitive priorities. Tables 2,3,4,5 and 6 show the suppliers' view on the interaction mechanisms and why they think that Western firms want to offshore outsource to China.

Supplier	Cost	Quality	Delivery	Flexibility	Innovation
S1	<ul style="list-style-type: none"> - Focus on saving money and lowering costs - Balance cost and quality 	<ul style="list-style-type: none"> - Competitive advantage - Maintain stable level of quality - Cultural impact on specifications 		<ul style="list-style-type: none"> - Possible to alter production - Inventories positive effect on flexibility 	
S2	<ul style="list-style-type: none"> - Competing with price - Inherited cost-advantage - Increasing prices 	<ul style="list-style-type: none"> - Maintain stable quality level, meet customer expectations - Illegal ISO-standards 		<ul style="list-style-type: none"> - Wide product range, easy to change production - Mobile workforce 	<ul style="list-style-type: none"> - Developing their own product line to expand their market, 3 stages
S3	<ul style="list-style-type: none"> - Main competitive advantage - Can risk quality 	<ul style="list-style-type: none"> - Meeting expectations - Different views - Cultural impact 	<ul style="list-style-type: none"> - No important priority 		<ul style="list-style-type: none"> - Forced innovation due to government regulations - Impact of contract manufacturing
S4	<ul style="list-style-type: none"> - Maintaining low cost level - Balance cost and quality 	<ul style="list-style-type: none"> - Competitive advantage - Good level enough 			
S5	<ul style="list-style-type: none"> - Cost efficient production - Inherited cost-advantage 	<ul style="list-style-type: none"> - Focus on meeting customer demands and develop quality level 	<ul style="list-style-type: none"> - Shortening lead-times 	<ul style="list-style-type: none"> - Have a very flexible production and can easily change mix of products 	<ul style="list-style-type: none"> - Involved in product development
S6	<ul style="list-style-type: none"> - Cost efficient production, highly automated - Risk quality 	<ul style="list-style-type: none"> - High-end quality products 		<ul style="list-style-type: none"> - Automated production which can alter production easily - Inventories 	<ul style="list-style-type: none"> - Focus on R&D - Patents - Development on the Chinese market
S7	<ul style="list-style-type: none"> - Maintaining low-cost - Balance cost and quality 	<ul style="list-style-type: none"> - Quality is the competitive advantage - Important - Cultural impact 	<ul style="list-style-type: none"> - Shortening lead-times as much as possible 		<ul style="list-style-type: none"> - Contract manufacturing obstruct innovation
S8	<ul style="list-style-type: none"> - Have lowered operations and overhead cost - Increasing cost-level 	<ul style="list-style-type: none"> - Higher quality than competition - Clear specifications 		<ul style="list-style-type: none"> - Quick response to requests - Small and flexible production 	
S9	<ul style="list-style-type: none"> - Well developed and experienced → lower costs - Inherited cost-advantage 	<ul style="list-style-type: none"> - Quality advantage compared to Western firms - Important 			<ul style="list-style-type: none"> - Highly innovative production - First mover advantage
S10	<ul style="list-style-type: none"> - Low costs - Increasing cost level - Balance cost and quality 	<ul style="list-style-type: none"> - Most important for competitive advantage - Employees can jeopardize the quality level 			<ul style="list-style-type: none"> - Contract manufacturing has negative effect
S11	<ul style="list-style-type: none"> - Cost efficient, low overhead costs 	<ul style="list-style-type: none"> - Quality is at highest priority - Different view - Illegal standards 			
S12	<ul style="list-style-type: none"> - Cost efficient - Increasing cost-levels - Balance cost and quality 	<ul style="list-style-type: none"> - Focus on reaching a stable quality level - Different view - ISO-standards not reliable 		<ul style="list-style-type: none"> - Investing in machines that are flexible to meet demands 	<ul style="list-style-type: none"> - Some R&D-projects, modifications

Table 1. Empirical results for all suppliers regarding their competitive priorities.

Supplier	Motives	Relationship	Cultural implications	Chinese business	CSR	Other success factors
S1	- Cost	- Very important	- Supplier's employees will deliberately interpret work process for easy completion	- Quality is most important for competitive advantage	- Order-winning in Chinese context	- Find balance between cost and quality. Too much focus on price will effect quality level
	-	- Good relationships increase flexibility and quality	- High level of guanxi within the supplier's management team	- Large and mobile work force	- Inadequate policies	- Set clear targets with the supplier
	-	- Guanxi will help securing smooth operations if problems occur	- Important for judging attractiveness of supplier	- Employees tend to change work regularly	- Influence by the Western firms	- Conduct careful due diligence
	-	- Long-term relationship	- Communication needs to be addressed	- Increasing salary levels	-	- Smaller firms should use agents to lower price, but need to pick the right agent with good guanxi and technical knowledge
	-	- Collaborative	- Employees are not loyal to the supplier, loyalty lies with family ties etc.	- High level of competition	-	
			- Beginning to see the importance of written contracts			
S2	- Cost	- Establish good relationships with guanxi	- More and more firms knows more about China and this is important for succeeding with business	- Increasing salary levels is a major concern, wants to increase level of automation	- Chinese policies are undeveloped compared to Western	- Careful due diligence
	- Quality	- Show interest for production	- Communication is important	- Good business makes it easier to keep employees, everyone wants to earn money	- Hard to monitor and control	- Get samples from different suppliers and compare
		- Frequent visits, show face	- Guanxi helps to establish win-win situations and smoothens communication and understanding of needs	-	-	- Find best fit between price and quality
		- Long-term relationships	- Have friendship with government which make business easier (Guanxi)	- Expanding their own market in order to stay competitive in price	- Cultural impact – Chinese culture and culture of profit	- See with your own eyes, it is easy to produce a good sample, but what happens next?
		- Win-win situation, show willingness of giving something back		-	- Regulations	- Don't go to China expecting the price to be incredibly low, this will jeopardize quality
		- Direct contact (communication, CSR)		- Competition is very high, lot of suppliers can perform the same type of products	-	- Direct business is preferred as it enables guanxi and makes it easier to communicate technical problems

Table 2. Empirical results for suppliers S1 and S2.

Supplier	Motives	Relationship	Cultural implications	Chinese business	CSR	Other success factors
S3	- Cost	- Conducts export business to secure payment	- Understanding the culture is important	- Understanding the business climate	- Inadequate policies	- Be observant on the changes of governmental regulations
	- Environmental regulations	- Relationship is not primary focus at first but good <i>guanxi</i> will eventually help	- Communication is a problem but most suppliers have some English speaking employees	- Increasing costs both labor costs and price of electricity	- Important for both Western and Chinese firms	- Be prepared to compromise on price due to changes in exchange rates and increasing costs for suppliers
	- Quality	- Direct contact		- High level of competition		
S4	- Cost	- Relationships is important with smaller firms	- Trading companies have a primary focus on lowering price which results in not understanding cultural issues and business environmental issues.	- Easy to find new employees and offer high salaries to make them stay	- The key to the global market	- Easier to exchange ideas directly with producing firms as they understand the technical issues
	- Quality	- Product complexity determines how difficult it will be to manage the relationship	- Direct business is preferred	- Regularly develop employees	- Problems in China	
		- Collaborative long-term		- Competition is high	- Hard to monitor and control	
S5	- Quality	- Relationship is important	- Having formal processes is good as it makes it easier and clear what is expected	- Price has increased on raw material and labor	- Important when doing business	- Pressure from customers will help to develop CSR-policies
	- Flexibility	- Establish trust and <i>guanxi</i> for better business	- Helps to bridge cultural differences	- Exchange rates have also increased price	- Inadequate in Chinese business (pollution, misuse of resources)	
		- Face-to-face meetings	- Having a good relationship and high level of trust makes it easier to solve technical issues by e-mail (for both parties)	- Competition is high	- Must include the whole supply chain	
		- Collaborative			- Monitoring important	
		- Direct contact	- Better communication with good relationship (<i>guanxi</i>)			

Table 3. Empirical results for suppliers S3, S4 and S5.

Supplier	Motives	Relationship	Cultural implications	Chinese business	CSR	Other success factors
S6	- Quality	- Long-term, high involvement relationships	- Working with a number of big Western and Japanese companies have made it easier to understand and bridge differences in culture	- Highly automated production to cope with future increases in labor costs and other costs	- Inadequate New concept	- Looking at which customers the supplier have, can help in judging the attractiveness of the supplier
	- Innovation	- Trust and commitment	- Trust and commitment is important for communication	- High competition but have a lot of important "image" customers and advanced manufacturing	- Important, must act responsible	
		- <i>Guanxi</i>			- Low requirement, following customers code of conduct and government regulations	
		- Must have the characteristics of Chinese culture				
		- Face				
S7	- Cost	- Long-term relationship	- To bridge cultural differences, try to think as a Chinese person	- Delivery is a problem, but not with good prognosis	- Must be a part of the Chinese business	- Treat your supplier the same way as you want to be treated
	- Quality	- Seen as equals	- Communication is important and becomes easier when seen as equals with trust and <i>guanxi</i>	- and some help from good <i>guanxi</i>	- Differentiate the firm on the market	- You are important for your suppliers, but you need to show that your suppliers are important to you
		- Trust and commitment	- Respect and friendly behavior last a life-time		- Some policies	
		- <i>Guanxi</i> is important			- Miss the right knowledge	
	- Accept our way of working					
S8	- Quality	- The relationship must be nurtured	- West must know about Chinese culture, this makes communication easier	- Learn the market and understand the limitations	- A new concept, no knowledge	- Direct business should be preferred for experienced firms
	- Cost	- Seen as equals	- Good communication is a must	- Try to develop their employees		- Use the "right" agent that has good relations and technical knowledge
		- Show that you care	- Answering on requests fast			- Sending down expertise depends on the product complexity and the experience of the supplier
		- Long-term focus	- shows that you care and helps building trust and commitment from your supplier			
		- <i>Guanxi</i>	- Be aware of language problems			
		- Win-win situations	- Chinese persons talking loud do not mean that they are upset or disagree; it is just the way they talk!			
		- Collaborative				

Table 4. Empirical results for suppliers S6, S7 and S8.

Supplier	Motives	Relationship	Cultural implications	Chinese business	CSR	Other success factors
S9	- Cost	- Honesty and being sincere	- Communication is very important	- General development towards automation	- Hard to follow the Western policies	
	- Quality	- Close collaboration	- Keep promises, open discussion	- Labor-intensive production	- Some policies	
	- Innovation	- Long-term relationships	- Accept and understand cultural differences	- Thanks to the open-door reform, innovation and management skills are developing fast	- Hard to monitor for both Chinese and Western firms	
		- Business-is-business but <i>guanxi</i> is still important	- The way of thinking is slowly getting more like the “west”	- Cost increase is evident but China still have an advantage		
		- Prefer direct contact with their customers		- Harmonic and stable society means that China is a good country to invest in. Nothing unexpected will occur, like strikes etc.		
S10	- Cost	- Long-term	- Western firms interpret <i>guanxi</i> in the wrong way.	- China is very open for investments and doing business	- Inadequate policies	- Let the Chinese deal with the Chinese. This makes business easier
	- Quality	- Close collaboration	- Important to see the cultural differences	- Most suppliers that do export business are contract manufacturers. This is changing and more suppliers have their own products to cope with increasing cost and to widen their market	- Needs to be more highlighted	- Having good Chinese colleagues is essential
		- <i>Guanxi</i>	- Confucianism is hard for western people to understand		- Access to global market	- Find the balance between cost and quality
		- Culture important	- Trying to avoid confrontation		- Follow regulations from the government	
			- Communication is very important			
			- <i>Guanxi</i> helps to create benefits			

Table 5. Empirical results for suppliers S9 and S10.

Supplier	Motives	Relationship	Cultural implications	Chinese business	CSR	Other success factors
S11	- Cost	- Build trust, commitment and <i>guanxi</i>	- Understanding and bridging cultural differences is very important	- Understanding the context of the suppliers helps to understand how to approach them	- Miss the knowledge about the concept	- Make sure to perform careful due diligence
	- Quality	- Long-term	- Building <i>guanxi</i> is often misunderstood. Creating win-win situations in the business enables the building of <i>guanxi</i>	- Competition is high	- Wants education from the Western customers	- Sending down expertise is only necessary if the product is complex
		- Open communication	- Communication is very important			- Use checklists for code of conduct to show clear targets with this
		- Direct contact (face-to-face, CSR, communication)	- Show that you care about your supplier			- Let the Chinese deal with the Chinese
		- Collaborative close relationship	- Chinese culture has many dimensions			
S12	- Cost	- Long-term	- Important to understand the culture and try to adapt to it	- Big difference between eastern and western china. Western china is competing with even lower prices	- No comparable standard to the Western firms	- Don't take quality standards for granted. These can be bought and forged!
	- Quality	- Close collaboration	- Misinterpretation of <i>guanxi</i> is common. Building good business relationship and win-win situations enables development of <i>guanxi</i>	- Eastern China is 10 years ahead of western China	- Some policies	- CSR is important for China as a county and for the suppliers to be seen as a responsible business partner
		- <i>Guanxi</i>	- Recognize that Chinese suppliers see things differently such as quality but this does not mean that they are less skilled	- High competition on the market	- Must improve their way of working	
		- Trust and commitment			- Important	
		- Seen as equals			- Access to global markets	

Table 6. Empirical results of suppliers S11 and S12.