



**Linnæus University**

Sweden

Master Thesis

*Illusion of symmetry between  
institutional contexts*

*A thesis of how asymmetry in managers perception on cultural and  
institutional distance affect the extent of firms' adaptation to a different  
institutional context.*



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## Abstract

Internationalization of firms has been an on-going process for many years, however, over the recent years, there has been radical changes in the business world, which has created a more competitive business environment for firms. This change in the business environment has not been an easy process nor is it anticipated to get any easier. International firms entering new markets are faced with different challenges, which could be embedded in the behaviour specific to the people living in these countries. Cultural distance is defined as complex and intangible and measured only at a single point in time. Cultural distance easily creates an “illusion” of symmetry where measures at the time of market entry might have changed by the time the performance is measured. Measuring only the cultural distance is not enough to fully understand the international behaviour and how business practices have adapted to the foreign market, to do so one needs to understand the institutional distance in order to understand the behavioural patterns existing within the foreign market and adapt its business practices accordingly. There is no support for the perception of cultural and institutional distance between two institutional contexts to be symmetric; it is an illusion of symmetry.

Therefore the purpose of this study is to describe and analyze how asymmetry in firms' perception on cultural and institutional distance affects the extent of firms' adaptation. This is by increasing understanding on how firms from different institutional contexts perceive the distance between them and to what extent they adapt their business practices to the foreign market. In order to answer this purpose a qualitative research has been conducted where managers in three firms from Sweden and three firms from China have been interviewed on their perception of distance on the opposite market.

The theoretical framework has included a presentation of the cultural distance, the institutional distance and adaptation of business practices. This has been followed by a theoretical synthesis, which has been conducted based on the theoretical concepts. Furthermore, the empirical chapter presents the findings of each case company.

In the analysis chapter, the theoretical framework has been analyzed together with the empirical data. Based on the analysis the authors have been able to conclude that asymmetry in firms' perception on distance affects the extent of firm's adaptation of business practices to the institutional context. It can be concluded that Swedish firms adapt business practices to less extent than Chinese firms and the reason behind it is the asymmetry in firms' perception of distance. Swedish firms investing in the Chinese

market is not faced with the same distance as a Chinese firm investing in the Swedish market, and thus they do not adapt to the same degree.

## Keywords

Illusion of symmetry, Cultural distance, Institutional distance, Adaptation of business practices,

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# Table of contents

<b>1. Introduction</b>	<b>1</b>
<b>1.1 Background</b>	<b>1</b>
1.1.1 <i>The third wave of Internationalization</i>	1
1.1.2 <i>Cultural and Institutional distance</i>	2
1.1.3 <i>Adaptation of business practices</i>	3
<b>1.2 Problem discussion</b>	<b>4</b>
<b>1.3 Research question</b>	<b>6</b>
1.3.1 <i>Main Research question</i>	6
1.3.2 <i>Sub questions</i>	6
<b>1.4 Purpose</b>	<b>7</b>
<b>1.5 Delimitation</b>	<b>7</b>
<b>1.6 Thesis outline</b>	<b>7</b>
<b>2. Method</b>	<b>9</b>
<b>2.1 Research approach</b>	<b>9</b>
<b>2.2 Research methods</b>	<b>9</b>
<b>2.3 Research strategy</b>	<b>10</b>
2.3.1 <i>Case study design</i>	11
2.3.2 <i>Managerial perception</i>	11
2.3.3 <i>Operationalization</i>	12
<b>2.4 Selection of companies</b>	<b>13</b>
2.4.1 <i>Company presentation</i>	15
<b>2.5 Data collection</b>	<b>15</b>
2.5.1 <i>Secondary data</i>	15
2.5.2 <i>Primary data</i>	16
2.5.3 <i>Interviews</i>	16
<b>2.6 Data analysis</b>	<b>18</b>
<b>2.7 Research quality</b>	<b>18</b>
2.7.1 <i>Internal validity</i>	18
2.7.2 <i>External validity</i>	19
2.7.3 <i>Reliability</i>	19
<b>3. Theoretical framework</b>	<b>20</b>
<b>3.1 Cultural Distance</b>	<b>20</b>
3.1.1 <i>Hofstede's cultural dimension</i>	21
3.1.2 <i>Hofstede's cultural dimension – China versus Sweden</i>	22
<b>3.2 Institutional distance</b>	<b>25</b>
3.2.1 <i>Business Network</i>	26
3.2.2 <i>Institutional network approach</i>	27
3.2.3 <i>The Basic Rules of the Business Network</i>	27
3.2.4 <i>The Basic Rules of the European and Chinese Business Network</i>	30

3.3	Adaptation of business practices	34
3.4	Theoretical synthesis	35
<b>4.</b>	<b>Empirical findings</b>	<b>38</b>
4.1	Swedish firms	38
4.1.1	Läckeby Products AB	38
4.1.2	Motoman Robot	40
4.1.3	Carrab Brake Parts	43
4.2	Chinese managed firms	46
4.2.1	Dragon Gate	46
4.2.2	Wang Advanced Consulting	48
4.2.3	Avego AB	50
<b>5.</b>	<b>Analysis</b>	<b>54</b>
5.1	Perception of Cultural and Institutional distance	54
5.1.1	Swedish Perception	54
5.1.2	Chinese perception	59
5.1.3	Swedish versus Chinese perception	64
5.2	Adaption of business practices	66
5.2.1	Swedish adaptation	66
5.2.2	Chinese adaptation	67
5.2.3	Swedish vs. Chinese adaptations	69
<b>6.</b>	<b>Conclusions and recommendations</b>	<b>71</b>
6.1	Conclusions	71
6.1.1	How do managers from two different institutional contexts perceive the cultural and institutional distance between them?	71
6.1.2	To what extent do firms adapt business practices, developed in the domestic context, to a different institutional context?	71
6.1.3	How does asymmetry in managers perception on distance affect the extent of firms' adaptation to a different institutional context?	72
6.2	Recommendations	73
6.3	Limitation	73
6.4	Theoretical implications	74
6.5	Further research	75
	<b>References</b>	<b>76</b>
	<b>Appendices</b>	<b>I</b>
	Appendix A Write title	I

# 1. Introduction

*This chapter will provide a presentation of the main concepts that conducted this study, which includes cultural and institutional distance, adaptation of business practices, and the illusion of symmetry. Furthermore there will be a discussion of the research problem on how the distance is able to create an illusion of symmetry between two institutional contexts. This chapter also presents the research questions followed by a purpose and an illustration of the thesis outline.*

## 1.1 Background

### 1.1.1 The third wave of Internationalization

Internationalization of firms has been an on-going process for many years, however, over the recent years, there has been radical changes in the business world, which has created a more competitive business environment for firms. This is driven by a third wave of internationalization of firms where the rapid growth of emerging country markets and the integration of those former centrally planned economies into the world economy creates a stronger business environment with a growing demand and competition (Jansson, 2007a; Jansson & Sandberg, 2008). Thus, companies from mature western markets have started to establish themselves in emerging country markets, such as China (Jansson, 2007a; Jansson & Sandberg, 2008; Sheth, 2011). Moreover, Grant (2010) also explains that firms seek or shifts attention to emerging markets once maturity sets in, meaning when advanced industrial countries enter their decline stage and becomes a mature market. Sandberg & Jansson (2008) argue that emerging markets are highly crucial for the international business activities.

Furthermore, Luo & Tung (2007) states that the third wave of internationalization of western companies has benefited *emerging economy firms* due to collaboration with international actors from Western markets, where they have transferred knowledge, technological and organizational skills. Consequently, firms from emerging markets, such as China, are establishing themselves in more developed markets, such as Sweden (Luo & Tung, 2007; Cao, 2012). Moreover, Gammeltoft (2008) and Cao (2012) argue that over the recent years, the outflows from emerging economy enterprises have increased.

Gupta, et al. (2011) explains that this radical change in the business world has not been an easy process nor is it expected to get less difficult. International firms entering new markets are faced with different challenges that are “*certain types of idiosyncrasies, which could be embedded in the behaviour specific to the people living in these countries*” (Gupta, et al., 2011, p. 65).

### **1.1.2 Cultural and Institutional distance**

The concept of cultural distance relates to the country culture and is defined as “*the degree to which cultural values in one country are different from those in another country*”(Sousa & Bradley, 2008, p. 52). According to Johnson & Tellis (2008), cultural distance has a direct influence on the success on the entry into foreign markets, for instance cultural differences has a significant impact on the cooperation between partners in a joint venture. Lack of sensitivity towards the cultural distance between two countries has resulted into failures of cooperation between different cultures (Johnson & Tellis, 2008). The differences between two cultures often lead misunderstandings, which creates obstacles for the cooperation (Ambler & Witsel, 2000). For instance, *China* is characterized by a high context culture where Chinese uses a indirect communication style and more are used to capture message trough nonverbal signals such as tone of voice, facial signs and body language, thus, they are more indirect (Gassman & Han, 2004; Mooij & Hofstede, 2010). Nishimura, et al. (2008) and Gassman & Han (2004) explains how individuals from high context cultures believe and expect that during a conversation the listener should understand the true meaning of the message and should be able to comprehend the unsaid. Whereas, western countries, such as *Sweden*, are from low context cultures where the communication are more explicit, clear and delivered with words (Gassman & Han, 2004). In order to avoid uncertainty and ambiguity, it is important to be very clear and open. Gassman & Han (2004) explains that lack of knowledge, sensitivity, understanding and proper management of the differences between high and low context communication cultures can lead to misinterpretation and ineffectiveness. This can eventually create difficulties in the interaction between two different cultures (Ambler & Witsel, 2000; Johnson & Tellis, 2008). Hofstede (2014) explains how the Chinese language is full of ambiguous connotations, which can be difficult for Western firms, such as Sweden, to comprehend due to the cultural distance. Therefore, it is a necessity to understand and be attentive to the cultural distance between two countries.



By measuring cultural distance, one can explain the distance between country markets, on a national cultural level. However, in order to understand the behaviour of international firms, the concept of institutional distance would be more appropriate, which refers “*to the extent of similarity or dissimilarity between institutions of different countries*” (Hilmersson, 2007, p. 33). Thus, institutional distance is more on the aggregated level of firm behaviour (Hilmersson & Sandberg, 2011).

However, talking about only distance, it is defined as symmetric. The explanation is that distance from one point A to B is identical to the distance from point B to A. Therefore, it also argues that the same rules goes for cultural and institutional distance, were as if a Swedish firm invests in the Chinese market is faced with the same distance as a Chinese firm investing in the Swedish market (e.g., Kogut and Singh, 1988; Tallman, 1988; Pan, 1996; Shenkar, 2001). Shenkar (2001) however, argue that this explanation is false and that symmetry is only an illusion, by nature home and host country is affected differently where the home country involves the firm and the host country is within its national environment. Thus, it is necessary to understand the environment properly in order adapt to the institutional context.

According to Jansson, et al. (2007), business practices differ across different markets due the fact that an institution, which is dominating in the markets, has an impact on business practises. Different underlying values, which are conformed by firms, vary across different markets. Due to the fact that firms from different markets operate and act according to these values, they also show dissimilarity in their business practices (Jansson, et al., 2007).

### **1.1.3 Adaptation of business practices**

According to Lu & Beamish (2001), entering a foreign market is also challenging due to the importance of building business relationships, create legitimacy, and train new employees at the host market. Hilmersson (2011) explains when firms enter business networks that are embedded in another institutional context, there is a risk that they suffer from a liability for foreignness due to cultural distance. Sousa & Bradley (2006) and Theodosiou & Leonidou (2003) also states that it is important be attentive to challenges, such as differences in language, lifestyles, cultural values, customers purchasing power and demands as well as laws and regulations, norms and values.

Therefore, due to the differences between host and home markets, the internationalizing firm needs to change many of its ways of doing business that were developed at the home market (Lu & Beamish, 2001). Consequently, adaptations of firms business practices to the foreign market is necessary for a successful international business (Theodosiou & Leonidou, 2003).

In order to adapt business practices to the foreign market firms need to understand its environment properly. Institutions are perceived as a guideline for behavioural pattern, in which governs the human behaviour and action within a group, society or organization. By measuring the institutional distance between two countries, one is able to understand the behavioural patterns, such as norms, values, thought styles and rules within that country (Jansson, 2007b; Hilmersson & Sandberg, 2011). Moreover, Jansson (2007b) explains that the characteristics of the country culture help to develop other institutions, as it forms the informal rules. Therefore, culture can be perceived as a core foundation for other institutions, where culture and institutions are interconnected (Jansson, 2007b; Jansson, et al., 2007). Hence, analysing the environment from an institutional perspective firms are able to understand behavioural patterns, through a cognitive, normative and regulative perspective, within the foreign market and adapt its business practices according to these patterns (Jansson, 2007b; Hilmersson & Sandberg, 2011).

## **1.2 Problem discussion**

The cultural is a concept that is defined as complex, subtle and intangible, it is a phenomenon that is hard to conceptualize. To measure the distance between cultures is clearly a greater issue (Boyacigiller, et al., 1996; Sousa & Bradley, 2008). Cultural distance is often argued to have a negative impact on firms performance, since it is more likely for the firm to succeed at a similar market were the similarities are supposed to be easier to manage (Johansson & Vahlne 1977). However, Hofstede (2001) argues that cultural values a relatively stable characteristic and would therefore suggest that this also implies for the distance between two cultures. Stability of a culture helps to reduce ambiguity and creates more control to anticipate behavioral patterns and outcomes (Weick & Quinn, 1999). Cultural distance is measured only at a single point in time; crucial though, is to acknowledge that culture does change. Shenkar (2001) argues that cultural distance easy creates an “illusion” of symmetry and stability. Measures at the time of market entry might have changed by the time the performance is measured.

The differences between two cultures often lead to misunderstandings, which create obstacles for the cooperation (Ambler & Witsel, 2000). A key issue is how international companies can adapt business practices that were developed in a domestic context to another cultural context (Jansson and Sandberg, 2014). Measuring the cultural distance provides explanation of the cultural distance. However, to fully understand the international behaviour and how business practices have adapted to the foreign market one needs to understand the institutional distance (Hilmersson, 2007; Hilmersson & Sandberg, 2011). Therefore, by analysing the environment from an institutional perspective, firms are able to understand the existing behavioural patterns that are embedded in the foreign market and adapt its business practices in line with these patterns (Jansson, 2007b; Hilmersson & Sandberg, 2011).

Distance is defined as symmetric, the explanation is that distance from point A to B is identical to the distance from point B to A. Therefore, it also argues that the same rules go for cultural and institutional distance, were as if a country invests in another market it should be faced with the same distance as if it was the other way around (e.g., Kogut and Singh, 1988; Tallman, 1988; Pan, 1996; Shenkar, 2001). However, distance is an illusion of symmetry since there are no existing studies explaining in what way the concept of distance is symmetric, therefore, there is no reason for this assumption. Actually it is the opposite, by nature, home and host country is affected differently where the home country involves the firm and the host country is within its national environment (Shenkar, 2001).

Even if by definition, the distance between two countries is the same, cultural and institutional distance could look different depending on which side of the national pairing one looks and is as a result constructed and acted differently (Chapman. et. al., 2008). For instance, according to Hofstede (2014) the cultural distance between Sweden and China is perceived as high. However, by not taking into account how the cultural distance is constructed and interpreted by the perceivers from both sides, the concept cannot provide a complete understanding of this complex issue. It is vital to show how both countries can actually perceive the “same” defined distance differently where one side can perceive it to be great while the other can perceive it to be close (Chapman, et.al., 2008). This fuels the problematization and the dynamic nature of cultural and institutional distance. As pointed out by O'Grady and Lane (1996), the relationship between perceived and ‘real’ distances is a phenomenon in crucial need of further

research.

Measuring distance from Sweden to China is important for Swedish companies when entering the Chinese market. However, the result of this measurement has no significant impact for the Chinese companies entering the Swedish market (Hemmasi & Downes, 2013). This confirms the illusion of symmetry of distance and argued that firms do not necessarily need to adapt to the same extent. Further confirming Hemmasi & Downes (2013) suggest that the influence of distance on adaptation is not symmetric, for instance a research by Selmer, et al. (2007 cited in Hemmasi & Downes, 2013, p. 77) showed that USA managers or firms in Germany adjusted less than German managers in the USA. Thus, the “same” defined distance affect home and host markets differently (Schenkar, 2001).

Based on the introduction as well as the problem discussion, it can be concluded that there is no support that the perception of cultural and institutional distance between two markets is symmetric; it is an illusion of symmetry (Shenkar, 2001). Thus, it is crucial for managers to understand the “real” distance and the environment in order to adapt its business practices to the institutional context. Adjustment of the international business is a necessity to be successful. As limited research is provided on how the “same” defined distance is perceived by managers from two different institutional contexts, this is a research gap the authors intend to further explore and analyse.

### **1.3 Research question**

#### **1.3.1 Main Research question**

How does asymmetry in managers’ perception on distance affect the extent of firms’ adaptation to a different institutional context?

#### **1.3.2 Sub questions**

##### *Sub question 1*

How do managers from two different institutional contexts perceive the cultural and institutional distance between them?

### *Sub question 2*

To what extent do firms adapt business practices, developed in the domestic context, to a different institutional context?

## **1.4 Purpose**

The aim of this thesis is to describe and analyse how asymmetry in managers' perception on cultural and institutional distance affect the extent of firms' adaptation. This by increasing the understanding on how managers from different institutional contexts perceive the distance between these contexts and to what extent the firms adapt their business practices to the other foreign market.

## **1.5 Delimitation**

- This thesis will only be investigating and analysing Swedish and Chinese firms, where Swedish firms has established a business relationship at the Chinese market and vice versa. The reasoning behind this delimitation is that firms from Sweden and China are from two different institutional contexts. In addition, these countries are selected due to the fact that China is an emerging market while Sweden is a mature market.
- In this study a managerial perception will be applied to measure the distance, and the reasoning behind it is presented in the methodology chapter.

## **1.6 Thesis outline**

There are six chapters in this thesis. The brief outline of the thesis is presented below:

**Chapter 2:**  
Method

In the **second** chapter, the methodology of the research will be presented



**Chapter 3:**  
Theoretical framework

In the **third** chapter, the theoretical framework for the research and the theoretical synthesis will be presented



**Chapter 4:**  
Empirical findings

In the **forth** chapter, the empirical findings will be presented



**Chapter 5:**  
Analysis

In the **fifth** chapter, the empirical findings will be analyzed and connected with the theoretical frameworks.



**Chapter 6:**  
Conclusion

In the **sixth** chapter, conclusions of the study will be presented.

## **2. Method**

*This chapter will provide the reader with the methodological choices of this thesis. Firstly the research approach and method is presented where a adductive approach and a qualitative research is argued for. Thereafter, the research strategy with the choice of case study and a managerial perception is motivated followed by an operationalization, which shows how the interviews questions are conducted. Moreover a selection of the companies will be presented and the data collection will be argued. Finally this chapter will discuss how the validity and reliability will be preserved through out the study.*

### **2.1 Research approach**

*Inductive and deductive reasoning are two ways to conduct the process of scientific theories (Graziano & Raulin, 2013). Elo & Kyngäs (2008) state that the formative direction of a deductive and inductive approach between theory and research is completely opposed. Deductive approach is made from previous or existing theory to observations or findings and is used when more abstract and general ideas turn into specific. Thus, inductive approach starts from researchers' observations or findings and continuously proves into theory and is identified when the researcher reasons from the particular to the general. (Elo & Kyngäs, 2008; Graziano & Raulin, 2013). However, *abductive* reasoning could be applied during a scientific research which is a combination of both inductive and a deductive approach (Alvesson & Sköldberg, 2000).*

*A *deductive approach* has been chosen for this study where existing theories such as Hofstede's cultural dimension and the institutional network approach was of great value. Based of these theories and frameworks the authors are able to develop and construct questions that collect the empirical data. As the thesis progress it also has an *abductive approach*, as the illusion of symmetry is a concept in need of further research. This approach lets the researcher go back and forth between previous theory and empirical data, which has been able to give a further depth to the study (Alvesson & Sköldberg, 2000).*

### **2.2 Research methods**

A quantitative research method intends that the information gathered shall be in context and give a clear answer to the research question which is gained by the proximity to the source the study is based upon (Holme & Solvang, 1997). A qualitative research is interested in understanding what the interpretations are at a particular point in time in a specific context. By learning how individuals experience and interact with their social world and what meaning it has for them the researcher are able to get an understanding of the phenomena (Merriam, 2002). A quantitative research focus of the understanding and interpretation of a various phenomena, also the focus is on social sciences. The social reality plays a crucial importance in the research since the social aspect is seen as something variable (Bryman, 2001). A qualitative research is an effort to understand specific situations in their uniqueness in a particular context and the interactions taking place there. The researcher is the vital instrument for data collection and data analysis and understanding is the goal of this type of research (Merriam, 2002).

The authors have chosen a *qualitative research* approach where the essence and value of the findings has been put on words rather than numbers. Also a qualitative research method is more suitable where it has started from an explorative purpose. There have been personal, in-depth interviews with sex different companies with open and semi-structured questions in order to fully understand the phenomena of the specific context.

### **2.3 Research strategy**

There are different types of research strategies such as, experimental, survey, archival analysis, history and case study. These strategies have own distinctive characteristics, however there are overlaps among them. Thus, in order to decide which strategy that is most suitable, there are three conditions that need to be considered; the type of research question, the degree of control one has over behavioural events and the focus on contemporary event (Yin, 2009).

A case study is a research described as intensive empirical studies that are limited in time and space as well as highlights contemporary phenomenon within real-life frames. A case study has its foundation within a specific case, organization or event that is associated with a qualitative research (Andersen, 1993). A case study is of most use when the researcher wants to create a greater understanding of a specific area. The most



common way to collect data in a case study is through observations or interviews (Yin, 2009).

The research strategy for this thesis is a case study. The reasoning behind this decision is due to our research question and purpose, which is an exploratory purpose with a focus on `how`. Using case studies one cannot influence the behaviour that might occur and colour upcoming findings. Also, a case study is an appropriate choice when choosing a qualitative research that will provide the reader with a deeper understanding of the complex phenomena.

### **2.3.1 Case study design**

When the researcher is designing the case study it needs to make a decision on whether using a single or multiple-case design to address the research questions (Yin, 2009). A multiple case study is more preferable to individual case studies; the reason for this is when a study is more viable. If more than one case supports the same theory, it shows a better demonstration of the results that research provides. In a single case study, the researcher must instead go deeper and create stronger arguments in order to strengthen the final result (Yin, 2009; Kvale, 2010).

A multiple-case study has been chosen for this thesis. If more than one firm is interviewed, a stronger and more grounded result could be provided. Since the purpose of the thesis is a phenomena not well researched the authors find a multiple-case study more appropriate to reach higher credibility with the result.

### **2.3.2 Managerial perception**

To measure the cultural and institutional distance, Drogendijk & Slangen (2006) suggest the use of individual-level perceptual measures due to the fact that the managers' perceptions of the environment influence the strategic decisions and the behaviours. This goes in line with Daft and Weick (1984) statement; strategy formulations and decision-making may be associated with interpretation modes. Managers' interpretation and perception of the environment is more important than the environment itself (Daft & Weick, 1984; Drogendijk & Slangen, 2006; Hilmersson & Sandberg, 2011).

This thesis aims to analyse how asymmetry in managers' perception on cultural and institutional distance affects the extent of firms' adaptation to a different institutional context. Thus, it is essential to understand how managers perceive the environment as it can explain their strategic decisions, behaviour as well as how they adapt their business practices to a different institutional context. Hence, a managerial perception will be applied to measure the cultural and institutional distance.

### 2.3.3 Operationalization

When an interview is conducted and carried out it is crucial that the respondents understand what the researcher asks and search for. To be able to use the questions in a real environment it is found essential to operationalize theoretical concepts and make them understandable (Hartman, 2004). The structure of an operationalization intends to make different elements empirically measurable, which is beneficial for a qualitative method and provides an advantage (Wall, 2011). Hartman describes the operationalization as the method which is the operation itself, is tied together with the definition that explains a particular phenomenon, and together the researcher is able to determine that the phenomenon exists. Necessary to take in consideration in this particular method is validity and reliability in order to make the conclusions relevant (Hartman, 2004). The questions conducted for the interviews have been the same for all case companies but has been moulded during the interview depending on answers the respondents has given. Below a matrix is presented where the reader is able to get an understanding of how the theory is combined with the questions as well as an interview guide is available in the appendix in order to get findings that will answer the phenomena chosen.

<b>Theory</b>	<b>Theory parts</b>	<b>Theory info.</b>	<b>Nr.</b>
	Power distance	How people view and accept as legitimate that individuals in the society are not equal and power in the society are unequally distributed.	Q 9,
	Individualism vs. Collectivism	Relates to whether people's self-image is defined in terms of 'I' or 'we'. Addresses the issue if a society is characterized by an individualistic or collectivistic society.	Q 1,2,3,7,10
		Masculine, society is driven by	Q 4,9

Hofstede's cultural dimension	Masculinity vs. Femininity	achievement, assertiveness and competition. Femininity stands for relationships, modesty and caring for the weak.	
	Uncertainty avoidance	The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these.	Q 7,13
	Pragmatism vs. Normative	Addresses the issue on how people relate to the fact that many situations or occurrence in the society cannot be explained.	Q 7,
	Indulgence vs. Restraint	Concerns the issue on the extent to which people try to control their desires and impulses.	Q 9,10
Institutional approach	Thought styles	Relates to peoples thought styles, meaning how individuals think and the decisions and actions they make due to their thought style.	Q 1,2,3,4,8,10
	Norms and Values	Consists of values and norms. Supports and authorizes activities and action. Provide guidelines and resources for acting and restraining different actions.	Q 4,5,6,11
	Enforcement mechanisms	Concerns reward and punishment, surveillance and assessment systems to control enforcement. Enforcement mechanisms can be either formal or informal.	Q 12,13,14,15

Figure 1: *Operationalization - Matrix*

## 2.4 Selection of companies

When selecting case studies they need to be based on the relevance to the practical problem or that the theoretical issue is covered and is of high importance to the researcher (Denscombe, 2010). In order to select the most appropriate cases one must establish criteria that will act as a guide to follow (Merriam, 2009). There are practical considerations a researcher could bare in mind when selecting cases. Convenience sampling is a method that limits to time and resources which could be based on the least amount of traveling involved, least difficult gaining access to, time spent etc. Crucial

though, is that a matter of convenience only should be used when selecting between equally suitable alternatives (Merriam, 2009; Denscombe, 2010). Also, if the researcher itself find a case be specially exiting it is likely that the study reaches a broader audience (Denscombe, 2010).

Furthermore, probability and nonprobability are two other helpful sampling methods of selecting cases. Probability sampling allows the researcher to generalize results of the study, which is a rare method to use since generalization is not a usual goal in a qualitative research (Merriam, 2009). More common is probability sampling, or purpose sampling, where the sampling reflects the purpose of the study. It is based on the assumption that the researcher aims to understand and discover and therefore selects an information-rich case were most is to be learned and found. (Chein 1981; Merriam, 2009)

A convenience sample was crucial to use were we had to take the time aspect into consideration when selecting the case companies for the study. Based on this method, the criteria in selecting the population to collect case study data were; first and for most Swedish firms who has established a business relationship in the Chinese market and vice versa and the responding managers' responsibilities within the organization are directly related to the established business, secondly the identified managers' willingness for a face-to-face interviews, and lastly the organizations' geographical location in Sweden which is a distance aspect to survey object. Primarily the authors chose firms who have established a business relationship in China and are located in Småland because they are closer to Växjö and Kalmar for the efficiency of communication to collect the case study data. Further considering the time constraint we limited our case study to six companies selecting three companies from each country. In addition two of three companies, which are representing the Chinese aspect in this study are Swedish. These companies started their business in Sweden and are Swedish, however they are Chinese managed firms. Therefore they can still give a Chinese prospective and perception of the cultural and institutional distance. Thus, these firms are still suitable for this thesis.

A purposeful sample has been made were the sample reflected the purpose of the study, the authors have chosen three Swedish firms established in China and vice versa in order to probably investigate the perceived distance. Criteria's are defined and set up where we utilized the Regionsförbundet' (Regional Council) in Kalmar and Växjö in

selecting the case study companies. Managers who are responsible for the companies' business involvement with China are also selection criteria. Last but not the least is the interviewees' willingness to meet the authors in person, which would increase the quality of the collected survey data because the interviews can be conducted interactively.

### 2.4.1 Company presentation

<b>Company/ Country</b>	<b>Industry</b>	<b>Location</b>	<b>Interview person</b>	<b>Date of Interview</b>
Motoman Robot / Swedish	Robotics	Kalmar	Johnny Jarhall, Executive Sales Director	2014-05-09
Läckeby Products AB / Swedish	Water treatment and biogas production	Kalmar	Robert Holm, Area Sales & Process Improvement Manager	2014-05-12
Carrab Brake parts / Swedish	Car – Brake parts	Kalmar	Göran Hallberg, CEO	2014-05-13
Dragon Gate / Chinese managed	Retailing, Hotel and Restaurant	Älvkarleby	Kenny Li, CEO	2014-05-12
Avego AB /Chinese	Packaging and isolation materials	Växjö	Dick Konradsson, CEO/Sales & Ying Gao, CFO/Purchase	2014-05-14 2014-05-26
Wang Advanced Consulting / Chinese managed	Consulting	Kalmar	Yunfeng Wang, Owner	2014-05-15

Figure 2: *Company presentation*

## 2.5 Data collection

### 2.5.1 Secondary data

When using secondary data, the researcher itself does not collect the data directly from the primary source; it uses and analysis data that is collected by other researchers. Thus, secondary data are reports or information of a phenomenon, which has often been

collected, by others, for another reason than the phenomena of interest (Jacobsen, 2002; Merriam, 2009; Yin, 2009). The authors have been using secondary data when collecting information about the selected firms for the thesis where the explanation of the company itself was not coloured by the respondents' subjective opinion, this data were gathered from the selected companies websites.

### **2.5.2 Primary data**

Primary data is when the researcher itself collects the data directly from the primary source and where the investigator is recounting first-hand experience with the phenomena of interest. The collection of primary data is suited for a specific research, which is often collected by different methods such as, interviews, observation or surveys (Jacobsen, 2002; Merriam, 2009).

The authors have chosen to use primary data for this study. By only using and collecting primary data the authors will gain more specified information to answer the purpose. The primary data has been collected through personal interviews with suitable managers from sex different companies who could provide with useful answers for collecting of the empirical data.

### **2.5.3 Interviews**

The interview is one of the most important sources in a case study where one of the main advantages with a *personal interview* is the opportunity to ask different types of questions relevant for the study (Yin, 2009; Trost, 2010). In a qualitative interview it is of great value to have two or more people interviewing the respondent, if these are working well together it raises the chances of a successful interview with greater information gathering. It is also important to keep notes during the interview to strengthen the reliability of the information. Furthermore, it is crucial that the respondent feels comfortable during the interview to get significant response, therefore the interview should be held in an environment where the respondent feels secured (DiCicco-Bloom & Crabtree, 2006).

In an interview the respondent is asked to propose his/her own insights into certain occasions to get a further in depth answer, the interviews are guided conversations, which is a consistent stream of questions (Yin, 2009). A semi-structured interview is a

qualitative research method where the respondent is asked a series of questions but not necessarily asked in a specific order. The interviewee has much freedom to design the answers and they can also be clarified with supplementary questions. By asking open questions the respondent is provided with the space to develop their answers with their own words, also it leaves room for unusual responses that possibly could be of benefit (Blee et al., 2001). To get the most successful result an interview should be designed with initial questions and follow-up questions, in addition to the initial questions the used follow-up questions help the respondent to describe a specific happening or event (Kvale, 2010).

The authors has chosen to collect empirical data through interviews, this because the people interviewed has experience working at the host market and therefore possess knowledge which will provide a greater understanding of the phenomena that is under research. The interviews has been held at the respondents working place were the respondents feel the most comfortable, furthermore the interviews has been recorded in order to make sure all valuable information is captured. An interview guide was conducted through research about the phenomena chosen in order to ask relevant questions, which gain sufficient information that answers the research questions. Also, the authors have chosen to use a semi-structured interview where a structured but open questions were conducted to get a discussion started and to have a security that answers will follow the purpose of the thesis. Open questions are asked to get fuller and more in-depth answers, which also provide chances to ask follow-up questions that further will provide the authors with valuable information. It is also important to point out that one of the interviews was conducted through e-mail, which can affect the result. The interview with Ying Gao, the CFO of Avego, was conducted through e-mail, whereas the interview with Dick Konradsson, the CEO of Avego, was face-to-face and conducted in Swedish. All face-to-face interviews were approximately 45 – 60 minutes long. The interview with Motoman, Dragon Gate, Läckeby, Carrab Brake and Avego, with Ying Gao, were conducted in English, whereas the interview with Wang Consulting was held in Chinese.

Due to the fact that the interviewees from Avego were both from China and Sweden, one could argue that this could affect the result. However, the authors mainly used the Chinese interviewee for the empirical data. The Swedish interviewee mostly talked from a Chinese perspective and has been working and living in China for more than 15

years, which gives him an insight of the differences between Sweden and China. Therefore, the Swedish interviewee was more used as comparison in the empirical data.

## **2.6 Data analysis**

There are five different types of analytic techniques that can be used or applied to analyse the collected data via pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis (Yin, 2009). The authors have chosen to use pattern matching as a technique for this study, which is one of the most common techniques for a case study. When using this analytical technique the researcher compares empirically observed patterns with theoretically predicted patterns (Yin, 2009). In this study the authors has conducted interview questions based on the theoretical framework, later the empirical data has been compared and analysed with the theory.

## **2.7 Research quality**

It is important that the research is credible, trustworthy, confirmed and valid, thus, it is crucial that the quality of the research design is criticized and judged (Yin, 2009). According to Jacobsen (2002), the quality of the collected data and findings of a qualitative study must be criticized in terms of the validity and reliability.

### **2.7.1 Internal validity**

The *internal validity* is referred to ask whether the evidence within the research is true or valid (Thomas, 2004). Yin (2009) also argues that internal validity is mainly focusing on the explanation of case studies and its inference. In a qualitative research the understanding of reality is how the researcher interpret the respondents interpretations or understanding of the phenomenon of interest, these interpretations are gained through observations and interviews, which makes it closer to reality (Merriam, 2002). The most common strategy to use is *triangulation* were the researcher use multiple investigators, sources of data and methods to strengthen the validity. Finally it is of value that the researcher is engaged in the data collection over a long enough period of time to secure an in-depth understanding of the phenomenon (Merriam, 2009). In order to strengthen the internal validity there are three researchers conducting the thesis, a multiple methods



have been used and six interviews have been made to secure the findings of the study. Also, the authors have had personal interviews for about an hour each to get the in-depth knowledge needed conform the purpose of the thesis.

### **2.7.2 External validity**

The *external validity* is concerned with whether the research can be generalized or not (Thomas, 2004). The question of the matter is to which extent the findings of the study can be applied to other situations. But since a qualitative research often is smaller and purposely selected to a specific phenomena one cannot generalize the findings statistically (Merriam, 2002). There is a limitation of generalization when qualitative research is conducted, however if the researchers studies several cases, it could be concluded in a generalized way (Creswell, 2009). Denscombe (2010) also argue that it is possible to generalize a study if the cases are somewhat similar. Therefore the authors are able to generalize the findings to some extent since the cases chosen are active in the opposite institutional context the authors are able to generalize the findings to some extent.

### **2.7.3 Reliability**

*Reliability* is another aspect of assessment in a research. It demonstrates that the operations of study can be repeated with the same results where the goal is to minimize errors in a study (Yin, 2009). Merriam (2002) argues that reliability could be problematic in a qualitative research since the human behaviour is never static. Thus, this is of more important if the results are consistent with the data collected. Thomas (2004) argues that if the methods of data collecting are objective rather than based by observers preferences and beliefs the result is more reliable. It is important to keep evidence within the thesis where one is able to repeat the research, this by documenting as much as possible and conduct this in a way that would make it possible to replicate the study. If the methods are reliable, the descriptions of a phenomenon from a later investigator are the same as the descriptions from earlier investigator (Yin, 2009). The authors has transcribed the interviews as well as created an interview guide. Furthermore, a matrix has been created where the reader is able to understand how the theoretical framework is used as a core basis for the interview questions. Also, the authors have provided the reader with descriptions of how the data has been collected. By taking these measures the authors find the thesis to be replicable.

### **3. Theoretical framework**

*This chapter will present the theoretical framework. Firstly, there will be a presentation of the Cultural distance, which is based on Hofstede's cultural dimension. Secondly the Institutional distance will be brought to light which will emphasize on the Institutional network approach and the basic rules of network, this will be followed by a presentation on the adaptation of business practices. Lastly the theoretical synthesis will be presented.*

#### **3.1 Cultural Distance**

Culture is defined as *"the collective programming of the mind that distinguishes the members of one group or category of people from others"* (Hofstede, 2011, p. 3). Hofstede (2014) continues by explaining that this "programming" has an impact on individuals' way of thinking or their thought styles, which can be showed in different parts of their life that later on becomes a pattern in the institutions of the society. White (1959) explains that culture is a complex phenomenon, which contains of habits or behavior of an individual in the society, such as beliefs, knowledge, art, law, customs, norms and values. However, cultural values differ from country to country meaning that it is a cultural distance between countries (Sousa & Bradley, 2008).

The concept of cultural distance refers to a cultural-level of the country. Sousa & Bradley (2008, p. 52) defines the concept as *"the degree to which cultural values in one country are different from those in another country"*. This definition of cultural distance concept goes in line with Moon & Park (2011, p. 20) explanation of the concept: *"CD is the extent to which the cultural norms and values of one nation differ from those of another nation"*. Complex, subtle and intangible, culture is a phenomenon that is hard to conceptualize. To measure the distance between cultures is clearly a greater issue (Sousa & Bradley, 2008; Boyacigiller, et al., 1996). However, the concept of cultural distance aims to provide a tangible and quantitative measure of cultural differences by reducing the uncertainty, complexity and difficulties of culture (Moon & Park, 2011).

Hofstede's dimensions on national culture are often used or applied in order to measure the cultural distance between countries.

### **3.1.1 Hofstede's cultural dimension**

Hofstede's cultural dimensions differentiate cultures according to six dimensions: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, pragmatism/normative and indulgence/restraint (Mooij & Hofstede, 2010; Hofstede centre, 2014). "*The model provides scales from 0 to 100 for 76 countries for each dimension, and each country has a position on each scale or index, relative to other countries*" (Mooij & Hofstede, 2010, p. 88).

***Power distance:*** This dimension relates to how power in the society is not distributed equally. In addition, this dimension addresses how people view and accept that individuals in the society are not equal (Gouveia & Ros, 2000; Jansson, 2007a; Mooij & Hofstede, 2010; Hofstede centre, 2014)

***Individualism versus collectivism:*** relates to whether individuals are 'I'- or 'we'-conscious. This dimension addresses the issue if a society is characterized by individualistic values with a loosely-knit social framework or collectivistic society with a tightly-knit social structure (Mooij & Hofstede, 2010; Hofstede centre, 2014).

Mooij & Hofstede (2010) argues that people or members in a individualistic society are characterized by a low-context communication cultures with clear and direct communication. On the contrary, collectivistic societies are high-context communication cultures where messages are delivered with unclarity and indirectness (Nishimura, et al., 2008; Mooij & Hofstede, 2010). In a collectivistic society, the social framework or in-group creates the individuals identity. In order to gain loyalty it is important to take care of the people within that social framework or in-group (Jansson, 2007b; Mooij & Hofstede, 2010; Hofstede centre, 2014).

***Masculinity / Femininity:*** According to Hofstede (2014) and Jansson (2007b), the masculine society is driven by achievement, assertiveness, competition, heroism and material success, whereas femininity, as dimension, stands for relationships, modesty, caring for the weak and the quality of life.

***Uncertainty avoidance:*** This dimension addresses the issues on how individuals of a society feel about uncertainty and ambiguity, whether they feel more or less threatened by unknown situations. Country cultures, with a high score on uncertainty avoidance, have a tendency to create institutions that give them certainty and control and as a result they can avoid ambiguous situation (Gouveia & Ros, 2000; Mooiji & Hofstede, 2010; Hofstede centre, 2014). Country cultures as such, believe that rules, regulations and laws as well as formality is essential in order to structure the society. Therefore, they have a tendency to search for truth and beliefs in experts. Individuals of low uncertainty avoidance are open to change and innovations whereas people of high uncertainty avoidance are less open to innovations. Country cultures with high uncertainty avoidance do not accept unconventional behaviour or ideas (Mooij & Hofstede, 2010; Hofstede centre, 2014).

***Pragmatism versus Normative:*** This dimension addresses the issue on how people relate to the fact that many situations or occurrences in the society cannot always be explained. In societies characterized by a normative orientated preference, individuals have a tendency and a need to explain everything that happens in the society, conforming conventions and do things correctly (Jansson, et al., 2007; Hofstede, 2014). On the contrary, individuals in a pragmatic orientated society understand that everything that happens in the society cannot be explained due to the complexity of life and therefore they do not have a strong need for explaining everything. Pragmatic cultures accept contradictions and can easily adapt to different situations and are more result-oriented (Hofstede centre, 2014).

***Indulgence versus Restraint:*** this dimension concerns the issue on how people try to control their desires. Cultures can be described as either indulgent, where individuals has a relative weak control, or individuals can be restraint with relative strong control of their desires and impulses (Hofstede centre, 2014).

### **3.1.2 Hofstede's cultural dimension – China versus Sweden**

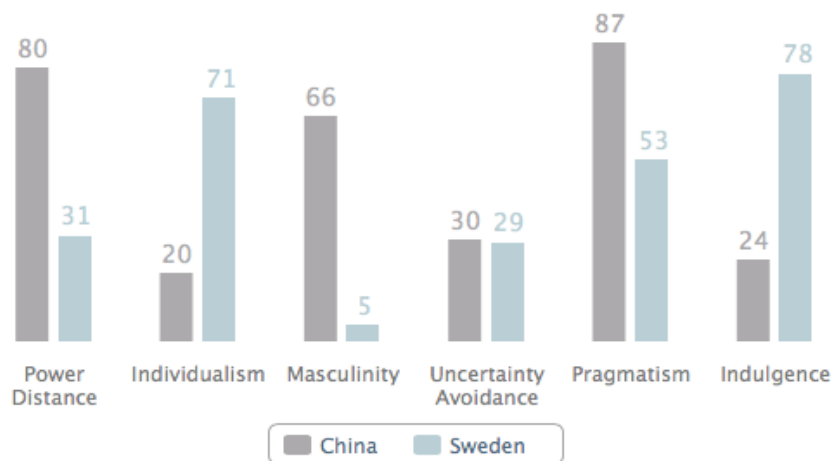


Figure 3: Comparison of Hofstede's cultural dimension model between China and Sweden

The figure is taken from the website of The Hofstede Centre, and it demonstrates the descriptions of Hofstede's six cultural dimensions and the scores of both China and Sweden. A more detailed explanations of scores will be compared and presented below:

**Power distance:** Sweden scoring 31, which means that the society is characterized by low power distance. Hofstede (2014) explains that the distinctive features among people are: being independent, equal rights, hierarchy for convenience only etc. Moreover, decision-making and power is decentralized and communications as well as attitude between managers are often informal, direct and participative. Employees do not appreciate when ideas are implemented without any discussion and therefore would rather be consulted (Hofstede centre, 2014).

On the contrary, China scored 80 in this dimension and is a high power distance society, meaning that they accept unequally distributed power in the society, which also indicates that the Chinese society is characterized by a hierarchical structure. As a result, decision-making is centralized (Hofstede centre, 2014). Furthermore, the authority and sanction system have a significance impact and control on individuals' behaviour and action in the society and there are no protections against power abuse by superiors (Hofstede centre, 2014).

**Individualism vs. collectivism:** Sweden, scoring 71, is characterized by an individualistic society, with a high preference for a loosely-knit social structure. Consequently, in individualistic societies one takes care of themselves and their own family. It is also common that relationships between the employee and boss are based

on a contract with mutual understanding and benefit. Individuals usually get hired or promoted based on their personal merit and performance (Hofstede centre, 2014).

As the figure reveals, the score of this dimension of China is 20, thus, is a highly collectivist culture. People are more used to work within the group and not by themselves. Promotions and hiring are often based on in-groups favouritism, i.e. there is a tendency of favouring members, such as family. Consequently, employees have a low commitment to the firm. While, the relationship among employees within in-groups is cooperative, they are the opposite towards people outside their group. Personal relationships are a dominant factor in the organization and society (Hofstede centre, 2014).

***Masculinity vs. femininity:*** As Sweden scored 5 on this dimension it is dominated by values of a feminine society. Individuals in a feminine society believe that it is crucial to keep a balance between life and work. Decision-making is decentralized in the Swedish society and there should be a mutual decision making where not only one individual makes the decision. Individuals within a feminine society, values equality in their working lives. Compromising and negotiating usually resolve conflicts that arise (Hofstede centre, 2014). Individuals in a feminine society prefer motivations or inducements, such as leisure time and flexibility in work hours and place. The Swedish society or culture is built around the word lagom, which is defined as “*something like not too much, not too little, not too noticeable, everything in moderation*” (Hofstede centre, 2014).

China, scoring 66, is characterized by a masculine society, where success is a driven factor among the individuals. Many individuals within the Chinese society priorities work before family and free time, which indicates how driven and oriented they are towards success (Hofstede centre, 2014).

***Uncertainty avoidance:*** Sweden, with a score of 29 on this dimension has a low preference for avoiding uncertainty. Societies with low uncertainty avoidance usually prefer practice than principles. Rules that are not practical or ambiguous should be either changed or abandoned and there should not be more rules than what is essential. Individuals feel less threatened by unknown situation and therefore, they tend to be more open to innovation (Hofstede centre, 2014).

China, scoring 30, has a low preference of uncertainty avoidance and do not feel threatened by uncertainty and ambiguity. The Chinese language consists of ambiguous meanings, which can be difficult to understand for people from a different culture. Moreover, obedience of laws and rules can be flexible to fit different situations and the society is characterized by pragmatic values (Hofstede centre, 2014).

***Pragmatism vs. normative:*** Sweden, scoring 53, do not express a clear preference on this dimension (Hofstede centre, 2014).

China, scoring 87 in this dimension, is dominated by a pragmatic culture where individuals believe that truth is mainly based on situation and time. Societies with a pragmatic culture have less difficulty when it comes to adapting to different situations. In addition, individuals have a tendency to save and invest and are result-oriented (Hofstede centre, 2014).

***Indulgence vs. restraint:*** Sweden with a score of 78 is dominated by a culture of indulgence, where individuals emphasize on leisure time and do not have much control of their desires and needs. Individuals in such societies tend to be very optimistic and have a positive approach (Hofstede centre, 2014).

China, scoring 42, is a restrained society, where individuals tend to be cynical and pessimistic. People in a restrained society do not see the importance on free time. Actions and behaviours of individuals are often restrained by social norms and values (Hofstede centre, 2014).

### **3.2 Institutional distance**

According to Jansson (2007b), regular behaviour differs throughout the society; hence society is divided into various social groupings based by different rules or regularities. This kind of grouping forms an institution of its own. Institutions are perceived or seen as a guideline for behavioural patterns, in which governs the human behaviour and action within a group, society or organization. According to the institutional approach the society is based and organized in terms of cognitive, normative and regulative structures (Sandberg, 2012). Like cultural differences or distance, there are similarities or dissimilarities between institutions of different countries, and this notion can be

referred to as the concept of institutional distance (Hilmersson & Sandberg, 2011). One definition of institutional distance is “*the degree of difference and/or similarity between the regulatory, cognitive and normative institutions of two countries*” (Sandberg, 2012, p. 40). The institutional distance is more on an aggregated level of firms’ behaviour and therefore measuring institutional distance do not only cover the national level regarding institutional differences between countries, but also the rational level. By measuring institutional distance, one can understand actors’ behaviour at the market (Hilmersson & Sandberg, 2011; Sandberg, 2012). Moreover, institutional approach perceives the market or country as a business network, which consists of different institutions (Sandberg, 2012).

### **3.2.1 Business Network**

Since the 1970’s, a so-called IMP (industrial marketing and purchasing) research has been made where European industrial firms has been studied. The main result of this study and other similar marketing researches is defined inter-organizational approach to business marketing (Jansson, 2006). A business network could be defined as sets were two or more connected business relationships exchange relation in between the business firms (Emerson, 1981). Marketing takes place through these relationships; intertwined with economical and social structures they together create a network. The market structure is embedded within strong co dependence between firms organized in networks; the bonds created insinuate continuous and strong relationships (Jansson & Sandberg, 2014).

However, not all relationships are stable and they tend to change. A key issue is change, which is related to connectedness in time were dynamics are constantly present in the network (Anderson, et al., 1994). Stable relationships give a platform for change of other relationships such as termination and establishment (Håkansson 1987). Networks can be viewed as institutions, where interaction takes place and is continuous in an interacted environment. Stability is a factor common among firms in a network. Institutions also promote a stable behaviour, which also is valid for relationships (Jansson, et al., 2007). Ford (1980) states that the strength of relationships are seen as a consequence of adaptation, investment and/or other commitments as such. The more intense a process of exchange becomes, the stronger reasons for making adaptations at the market network. Different types of networks also provide different types of



functions. The type of function creates an important part of the identity building process in the business network (Anderson, et al., 1994). The investments put into a relationship also creates the behaviour of parties involved (Jansson & Sandberg, 2014)

### **3.2.2 Institutional network approach**

Jansson (2007b) argues on how institutions consist of cognitive, normative and regulative structures and these pillars, together, can be perceived as the basic rules to the institutional content. The three pillars: (1) Cognitive pillar, the basic rule of thought style: symbols such as words, signs and gestures, (2) normative pillar, the basic rule of norms and values, (3) regulative pillar, the basic rule of enforcement mechanisms based on formal and informal rule systems. These three pillars are spread through culture, routines and structure, which are found at different levels (Jansson, 2007b; Sandberg, 2012). Jansson (2007b) illustrates this by presenting a basic institutions model, which consists of three levels of description for the basic rules: micro institutions, meso institutions, and macro institutions. The basic institutions model illustrates the common institutions, such as culture, legal and political system (societal factors) and products/services, government and financial markets (organizational field) in emerging country markets (Jansson, 2007b).

By analysing the institutional environment, meaning the institutions, one is able to understand the behavioural patterns and the basic rules; norms, values and thought styles within that country. As behaviour is repeated over time, behavioural regularities are valid for future situations and as a result, uncertainty is decreased and the predictability is increased, in international business (Jansson, 2007b). By analysing the institutional environment, meaning the institutions, one is able to understand the behavioural patterns and the basic rules; norms, values and thought styles within that country. As behaviour is repeated over time, behavioural regularities are valid for future situations and as a result, uncertainty is decreased and the predictability is increased, in international business (Jansson, 2007b).

### **3.2.3 The Basic Rules of the Business Network**

#### **Thought styles**

This dimension relates to peoples thought styles, meaning how individuals think, why they think in a certain way, the way they do it as well as the decisions and actions they

make due to this thought style (Jansson, et al., 2007) An individuals identity and the structure of their mind is developed by the thought styles that is embedded in the institutions. Moreover, due to the fact that behavioural patterns are repeated over a period of time, thought styles can be perceived as “*the crystallization of history in the minds of people in the network*” (Jansson, et al., 2007, p. 958). Individuals from similar culture have a tendency to behave in a certain and common way due to their mentality (Jansson, et al., 2007).

Furthermore, cultural models such as Hofstede’s cultural dimension, which relates to the cognitive dimension, can be applied in order to describe different thought styles of the institution (Jansson, 2007a; Jansson et al. 2007). The cognitive dimension or the basic rule “*thought style*” is conceptualized or understood through three aspects: *self*, which addresses the issue on how people mentally identify themselves to the social framework, for instance whether people’s is more ‘I’- or ‘we’-conscious (Redding, 1980; Mooij & Hofstede, 2010; Jansson & Sandberg, 2014). According to Jansson, et al. (2007), concerning the business network, *self* can be defined as how people in a firm identify or relate themselves with other firms and people. *Time*, refers to individuals perception on time, if it is linear or circular. Redding (1980) explains that time can be perceived in terms of its shape, importance and uniformity. When it comes to the business network, *time* is perceived as a limited area for continued existence (Jansson, et al., 2007; Jansson & Sandberg, 2014). *Causality*, relates to peoples mental process, meaning if connections or decisions are logically made. This dimension also refers to the relationship between cause and affect. *Causality*, regarding the business networks, refers to firm’s decision-making and how they perceive the consequence of that certain (Redding, 1980 ; Jansson, et al., 2007; Jansson & Sandberg, 2014).

### **Norms and values**

This dimension consists of values and norms, which supports and authorizes activities and action as well as providing guidelines for how one should act and restraining different actions (Scott, 2001; Jansson, et al., 2007). It also effects how firms develops and establish relationship. Values are can be perceived as guidelines for ones behaviour, for instance, the significance of business values such as discipline, honesty, common

goals and personal achievement (Jansson, 2007b; Jansson, et al., 2007). Scott define values as: “*conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behavior compared and assessed. Norms specify how things should be done, they define legitimate means to pursue valued end*” (Scott, 2001, pp. 54 - 55).

Heide & Jogn (1992) explains that norms are “*expectations about behaviour that are at least partially shared by a group of decision makers*” (Heide & Jogn, 1992, p. 34). Jansson, et al., (2007) explains how norms can be perceived as an acceptable behaviour, a convention or practice which one should follow.

In order to describe or specify the normative dimension of the business networks, Hampden-Turner & Trompenaars (2000) applies or uses three aspects together with trust:

*Ascribed versus achieved status*: this aspect relates to an actor’s status in a network, whether it was *ascribed* through social connections, privileges and special pleading or *achieved* based on personal merits or performance of the actor (Hampden-Turner & Trompenaars, 2000; Jansson, et al., 2007).

*Inner versus outer direction*: Hampden-Turner & Trompenaars (2000) and Jansson, et al., (2007) explain that this dimension addresses the issue whether values, such as morality and ethics, are located inside or outside the actors in the network. Cultures based on inner-directed values, tend to follow inner conscience, principles and core beliefs where values are internalized. Outer-directed values exist outside the actor in the network, where individuals have a tendency to conform values of the outside social framework (Hampden-Turner & Trompenaars, 2000; Jansson et al. 2007).

*Universalism versus particularism*: relates to whether behaviour is based on universal values or particularistic values. Universalism relates to rules, codes, laws and generalization, which searches for sameness and similarity and all individuals in the society are supposed to conform these values. Whereas particularistic values, searches for differences, unique and exceptional relations as well as special environments (Hampden-Turner & Trompenaars, 2000). Business networks and relationships, based on universal values, are more open, formal and general. On the contrary, business networks that are characterized by particularistic values are informal and personal (Jansson, et al., 2007).

*Trust*: is an important norm of the social organization of the business network. Trust building and establishing trustful relationship is a necessary aspect of the business network. Jansson (2007b, p. 211) defines relational trust as: “ *one party’s trust in the other party, who is perceived trustworthy*”. Trust is also mutual between two parties (Jansson, et al., 2007)

### **Enforcement mechanisms**

The regulative dimension relates to the structure of sanctions and incentives systems, which aim is to reward and punish individuals and companies in the society. In addition, this dimension refers to the establishing of surveillance and assessment system in order to control enforcement. Enforcement mechanism can be either formal or informal. The formal aspect of enforcement mechanism is for instance; wage decreases or increases, whereas the informal part relates to losing or gaining face (Scott, 2001; Jansson et al. 2007; Jansson, 2007b).

Jansson, et al. (2007) presents two main approaches of the regulative dimension, the authority system and the sanction system, which appears to hold a significant impact for business networks:

*The authority system*: this aspect in the business network relates to the authority to control or impose. Authoritative actors in the network can for instance; enforce their will on other individuals or offer inducements in order to secure obedience or use authority. Consequently, the building of relationships in the business network is affected by the authority system (Scott, 2001; Jansson, et al., 2007).

*The Sanction system*: relates to different measures, such as laws or customs. Its purpose is to reward/encourage acceptable behaviour/actions and punish/restrict non-acceptable behaviour/actions in the business network. The sanction system expresses mostly to the formal regulation as well as to the informal sanction mechanisms (Jansson, et al., 2007).

### **3.2.4 The Basic Rules of the European and Chinese Business Network**

#### **European - thought styles**

*Self* or the identity of firms is based on relationships that derive from the individual firms representing itself and its own interest rather than belong to a group or social networks, which dominants over the firm. Thus, the firm is perceived to dominant over the network. The firms’ identity is also characterized on its own operations in an

organizational network. *Time*: the business transaction takes place first and if the transaction is successful then one may establish a long-term relationship and there is also room for changes of the relationship in the network. The time perception of business relationship is medium-or-long-term orientated. *Causality*: The business network is perceived in a strategic perspective on relationships, where actors try to establish a casual and logical link and relationship between its goal and network structure. Moreover, performance is a dominated factor in western cultures, thus, each developed and maintained business relationships should be based on rational calculation of its own merits. A relationship should end if it has no practical value for the firm and business decisions are based on logical thinking ( Jansson, et al., 2007; Jansson & Sandberg, 2014).

### **Chinese - thought styles**

Concerning the *Self*, relationships in the Chinese markets originates from the individual and therefore make the relationships much personal (Wong & Leung, 2001) and the business people tend to use a more of a holistic style of thinking (Jansson et al. 2007). Within the business network, the identity is based on the network belongings and risks are shared within the networks (Jansson & Sandberg, 2014). Network membership is a question about becoming a trusted member in a network market (Ramström, 2005) and through interaction a negative or positive social flow determines if the relationship moves up or down (Wong & Leung, 2001).

Further on, *Time* shows that business networks develop a long-term inter-firm commitment. Between groups, the relationships are managed on short-term basis and created through reputational networks (Whitley, 1991). Social relationships are also long-term. A business relationship could be passive for long periods but activated when needed. Firstly, one should establish the foundation of a long-term relationship before discussing business transactions, therefore, Chinese firms follow non-linear logic (Jansson, 2007a). *Casualty* also refers to the non-linear logic within the decision making of a Chinese. The Chinese decide emotionally and is guided by intuition and feelings (Jansson et al. 2007). This is due to taking common background and personal relationships in consideration. Often it is difficult to understand how a Chinese firm works and the firm rarely engage in planning and budgeting (Ramström, 2005)

## **European - norms and values**

*Achieved versus ascribed status:* The organizational status of firms is achieved based on competence, interaction, exchange of goods and built on mutuality. Business relationships within the business network are developed and build based on mutual adaptation and investments to maximize profits, thus, marketing strategies are performance-oriented (Jansson, et al., 2007; Jansson & Sandberg, 2014).

*Inner versus outer directed:* values, such as morality and ethics, are located inside, i.e. inner-directed, thus, organizational behaviour is guided by inner-conscience. The marketing and strategic orientation is based on efficiency and competition, where they follow and adopt the optimization and either-or principle (Jansson & Sandberg; 2014, Jansson, et al., 2007).

*Universalism versus particularism:* The business networks within Western Europe are relatively open and transparent, where strategic marketing management is universal-orientated. Business networks are open due to the fact that business takes place between legal entities and there are clear boundaries between formality and informality. Relationships within the business network are more formal and impersonal. Business exchanges are often explicit and codified by using documents or written contracts (Jansson, et al., 2007; Jansson & Sandberg, 2014).

*Trust:* trustworthiness of the firms is based on an organizational and professional basis. Trustworthiness and trust building within the business network is an accepted norm, which is based on the legal system. Moreover, trust emanates from relying on the firm and not the individuals (Jansson, et al., 2007; Jansson & Sandberg, 2014).

## **Chinese - norms and values**

*Achieved versus ascribed status:* Chinese networks usually has a *ascribed status* where they are built on persons having a common background, if there are similarities they tend to have an empathy and more attraction to each other (Jansson, et al., 2007) Guanxi is an ego network that deal with relationships depending on the hierarchical position of the group, and it is based on family connections (Wong & Leung, 2001). The social network is based on social trust, which often refers to gifts and favours and they are long-term relationships, which are based on emotions and strong personal relationships (Jansson, et al., 2007).

*Inner versus outer directed:* Chinese business networks tend to have a culture of *inner direction*. Characteristics within this business network are face behaviour, which is an expression of shame culture. A cooperation of this sort evolves around harmony and one show empathy for partners having common backgrounds (Yau, et al., 2000). Guided by empathy and face, one could have a hard time to interpret a Chinese Network (Jansson, et al., 2007).

*Universalism versus particularism:* Guanxi is described as *particularistic*, which makes relationships informal and non-bureaucratic, blurred boundaries and closed business characterize these networks (Jansson & Sandberg, 2014). The networks are family-oriented and the relationship therefore, ends up interpersonal or social (Jansson, et al., 2007).

*Trust:* Trust is seen highly important in a successful relationship, whether the other party could be trusted or not guides the Chinese firms and one rely on individuals rather than organizations (Jansson, 2007b). The Chinese networks are more personal and private and thereby individually based (Jansson, et al., 2007). The internal and external organization consists of personal linkages and the relations within the firm are based on trustworthy employees and managers (Jansson & Sandberg, 2014). The market itself cannot always be trusted and therefore transactions are guaranteed by personal trust, it is a way to cope with uncertainty and bring stability to a relationship (Yau, et al., 2000).

### **European - enforcement mechanisms**

*The authority system:* The authority or hierarchy of the firm within the business network is usually formalized which is mainly based on competence and performance. Authority or power is usually distributed down the organization, which is based and legitimized by formal rules, laws and actions. Moreover, within the business network social interaction or position do not have a significant impact on the performance of business relationship (Jansson, et al., 2007; Jansson & Sandberg, 2014).

*The sanction system:* sanctions, within the business network, are established by formal conventions, such as laws, which are based on a well-developed legal system. Contracts should be codified or written so individuals are legally binding. Thus, if one breaks the contract legal sanctions would be the consequence. Moreover, sanctions in social relationship, to assure contracts and commitments, are not necessary due the fact that

private firms are protected by a strong legal system (Jansson, et al., 2007; Jansson & Sandberg, 2014).

### **Chinese - enforcement mechanisms**

Concerning *Authority system*, the Chinese firm can be seen as an organism where the informality and internal structure is high and the boundaries between formal and informal is blurred (Jansson & Sandberg, 2014) The business networks is hierarchical and characterized by law and order, it is a top-down structure where everyone within the firm knows their place. The actors within the network are monitored and controlled which also influences the relationships (Jansson, et al., 2007).

*Sanction system* concern an important aspect in the Chinese firms, which are control. The network does not rely on formal or written control systems, personal and mutual relationships are more valued than contractual obligations (Jansson, et al., 2007).

### **3.3 Adaptation of business practices**

According to Jansson, et al. (2007), business practices differ across different markets due the fact that an institution, which is prevailing in the markets, has an impact on business practises. Different underlying values, which are conformed by firms, vary across different markets. Due to the fact that firms from different markets operate and act according to these values, they also show dissimilarity in their business practices (Jansson, et al., 2007).

According to Lu & Beamish (2001), entering a foreign market is also challenging due to the importance of building business relationships, create legitimacy, train new employees at the host market. Hilmersson (2011) explains when firms enter a business networks that are embedded in another institutional context, there is a risk that they suffer from a liability for foreignness due to cultural distance. Sousa & Bradley (2006) and Theodosiou & Leonidou (2003) also states that it is important be attentive to challenges, such as differences in language, lifestyles, cultural values, customers purchasing power and demands as well as laws and regulations, norms and values.

Therefore, due to the differences between host and home markets, the internationalizing firm needs to change many of its ways of doing business that were developed at the home market (Lu & Beamish, 2001). Consequently, adaptations of firms business



practices to the foreign market is necessary for a successful international business (Theodosiou & Leonidou, 2003).

In order to adapt business practices to the foreign market firms need to understand its environment properly. Analysing the environment from an institutional perspective firms are able to understand behavioural patterns, through a cognitive, normative and regulative perspective, within the foreign market and adapt its business practices according to these patterns (Jansson, 2007b; Hilmersson & Sandberg, 2011).

### **3.4 Theoretical synthesis**

The concept of cultural distance refers to the cultural level of a country, which is defined as “*the degree to which cultural values in one country are different from those in another country*”(Sousa & Bradley, 2008, p. 52). Hofstede’s cultural dimension is applied to measure the cultural distance between Sweden and China. By measuring cultural distance, one can explain the distance between country markets, on a national aggregated level (Hilmersson & Sandberg, 2011).

When entering a foreign market it is important for firms to acknowledge the cultural distance due to the fact that differences between two cultures often lead to misunderstandings, which creates obstacles for the cooperation (Ambler & Witsel, 2000; Trompenaars & Woolliams, 2004). However, in order to fully understand the environment and the international behaviour of firms, measuring cultural distance is not enough. The concept of institutional distance would be more appropriate, which refers to the extent of similarity or dissimilarity between institutions of different countries (Hilmersson, 2007; Hilmersson & Sandberg, 2011).

In the model, the institutional distance is on the business network-level. Different institutions govern the business network, which is perceived as a guideline for behavioural pattern, in which governs the human behaviour and action within a group, society or organization. Thus, to understand firms’ behaviour one needs to understand and measure the institutional distance. Thus, institutional distance is more on the aggregated level of firm behaviour (Hilmersson, 2007; Hilmersson & Sandberg, 2011).

Institutions consist of cognitive, normative and regulative structures and these pillars together can be perceived as *the basic rules* to the institutional content (Jansson, 2007; Jansson, et al., 2007). Therefore, the basic rules; thought styles, norms, values and enforcement mechanism are applied to measure the institutional distance between Sweden and China, which is illustrated in the model. Moreover, Jansson (2007b) explains that the characteristics of the culture help to develop different institutions, as it forms the informal rules. Therefore, culture can be perceived as a core basis for many institutions. Therefore, cultural and institutional distances are interconnected (Jansson, 2007b; Jansson, et al., 2007).

Distance alone, is defined as symmetric, the explanation is that distance from one point A to B is identical to the distance from point B to A. Therefore, it also argued that the same rule can be applied on the cultural and institutional distance, were as if a Swedish firm investing in the Chinese market is faced with the same distance as a Chinese firm investing in the Swedish market (e.g., Kogut and Singh, 1988; Tallman, 1988; Pan, 1996; Shenkar, 2001). However, Shenkar (2001) argue that the cultural and institutional distance between two countries, such as Sweden and China, do not necessarily need to be symmetric; it is an illusion of symmetry. Home and host country is affected differently where the home country involves the firm and the host country is within its national environment (Shenkar, 2001). Thus, it is necessary for firms to understand the environment properly in order adapt to the institutional context.

According to Jansson, et al., (2007), business practices differ across different markets due the fact that an institution, which is prevailing in the markets, has an impact on business practises. Different underlying values, which are conformed by firms, vary across different markets. Because of the fact that firms from different markets operate and act according to these values, they also show dissimilarity in their business practices (Jansson, et al., 2007). Due to the distance between the Swedish and Chinese markets, the internationalizing firms needs to change many of its ways of doing business that were developed in a domestic context (Lu & Beamish, 2001). Consequently, adaptations and adjustment of firms' business practices to the foreign market is necessary for a successful international business (Theodosiou & Leonidou, 2003). By measuring the institutional and cultural distance between Sweden and China one can understand firms behaviour and how business practices is adapted to the foreign market (Hilmersson, 2007; Hilmersson & Sandberg, 2011).

Moreover, host and home markets do not necessarily perceive the “same” defined distance in the same way and to assume that distance is symmetric is an illusion, one side can perceive it to be great while the other see it as close (Shenkar, 2001; Chapman, et al., 2008). Therefore, it can be argued that firms do not necessarily need to adapt to the same extent.

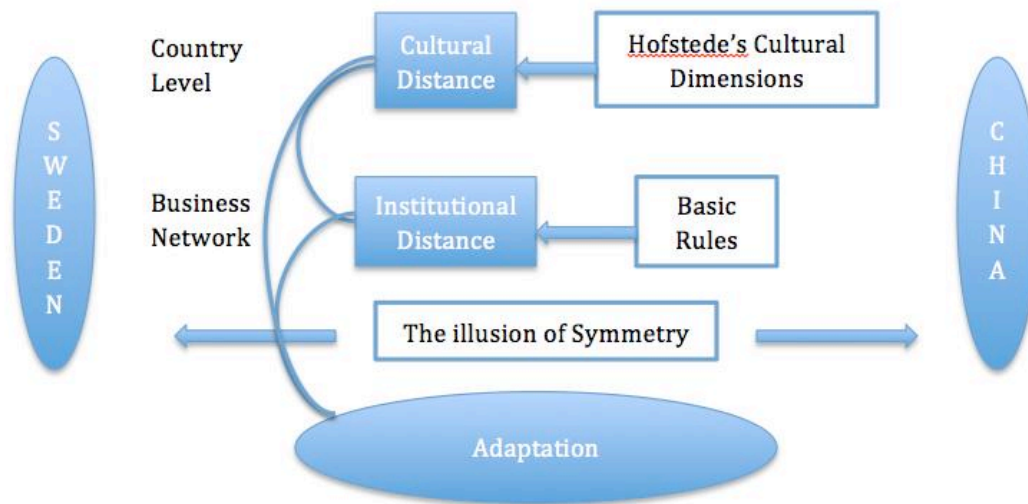


Figure 5: *Conceptual model*

## **4. Empirical findings**

*In this chapter, the empirical findings will be analysed by applying the theoretical framework on the phenomenon or findings. The analysis will be presented in different subchapters according to the two sub questions and the theoretical framework. Firstly, the perception of cultural and institutional distance are analysed and discussed, where the analyses of Swedish firms will be presented together and then the analyses of Chinese firms. Secondly, the analyses of adaptation of business practices are presented in the same way.*

### **4.1 Swedish firms**

#### **4.1.1 Läckeby Products AB**

Läckeby Products is a company that develops and manufactures quality products for water treatments. They specialize in the purification process where robust construction and unique technical solutions ensure that sludge and particles are removed safely. Furthermore, the products also ensure that valuable and sensitive purification membranes are protected from abrasive particles (Lackebyproducts.se, 2014). Läckeby's production is located in Kalmar and the firm exports their products to China via distributors. The person chosen for this interview was Robert Holm who is the Area Sales & Process Improvement Manager responsible for the Chinese and Oceania, and therefore has much experience working at the Chinese market.

In the past Läckeby has been working with a sister company in China, which helped them to establish the firm at the market. They later have chosen to work with distributors where they are the ones in most contact with the end client. Mr Holm stress that it is very important for them to go and meet the customers in order to build a stronger relationship, which is something he find more important at the Chinese market than others, however they do not have to make the effort of bringing the customers in themselves. One of the reasons for making personal visits is that the customers ask for their knowledge about the products etc. Läckeby provides knowledge and quality, if a customer did not care about such things they would work with a company based in China instead. But since they crave knowledge and quality it is more important to have a closer relationship to be able to share the knowledge easier.

According to Mr Holm it is much easier to work with Swedish customers where you have a straightforward relationships and you know what to expect from one another. In order to have a good relationships with the Chinese customers one have to raise the quality of the communications, the documents sent etc., clarity is a crucial aspect. In the past, Läckeby had an employee working at the Chinese market and there was much more disturbances with communications and projects, therefore they had to raise the price of their products when one normally wishes to lower the price to be more competitive. However, Mr Holm stress that this has not affected him much, communication is key and if that is clear there is no disturbances and the price does not need to be raised. The Chinese are loyal to the company as long as you show them respect. He means that even if a mistake has been made, which could be with a document or a project they are very patient and helpful. The relationships are to a beginning formal but could become personal if the business between the firm turns out to be successful, which is of benefit when or if a problem arises. Also, Mr. Holm feels that decisions made are based on logical grounds. A good relationship gives you benefits both with the customer as well as in the market itself.

Furthermore, he points out that the Chinese market is characterized by a hierarchical structure, the boss is the one taking the final decisions and managers always needs confirmation and approvals. However, he stress that this is not something that strongly affects the firm due to their distributors who works directly at the Chinese market and have most contact with the end customer. Mr Holm perceives the Chinese as restricted in their work as one never is allowed to act with out approval, which is something that much differs from how a Swedish employee works. He says that this could also be due to that the Chinese employee might not possess the same knowledge and therefore cannot take any decisions.

Mr Holm point out that the distributors Läckeby are working with, all has more freedom within their work and are trusted to take their own decisions. Talking about rules and regulations, Mr Holm ones again stress that they are not usually affected due to the help of distributors, they are the ones faced with these difficulties. Nevertheless, laws and rules are much different in China and Mr Holm gives an example where an accident happened on the field and they were held responsible even if they were not there themselves. In Sweden there would have been plant managers whom were thought by the firm. But this was not the situation and it is these types of a foreseen situations that

makes the Chinese market riskier. Furthermore, the Chinese does not specify what is expected and does not always provide documents needed etc. Even if rules are strict they have a tendency of being bended. That is why he stress that as long as you have the knowledge and know what is needed of you as a firm, it is really not complicated to do business in China.

*"If you look closely it is still just doing business, and have the contracts. I mean in the end it is really not that very big of a difference"* - Robert Holm, 2014-05-12

Mr Holm says that the biggest difference between working with Sweden and China is that the Swedish relationships are more straightforward and faster, which is not a great issue nor does it affect Läckebý greatly. As long as one is focused, clear and structured within the communication, doing business is not a struggle.

Furthermore he concludes that nowadays there is not a big distance between Sweden and China, he feels like the Chinese are the ones that has had to adapt to the Swedish culture and the ways of doing business. As much as Swedish firms seek to the Chinese market, the Chinese market has started to value knowledge and quality and seek the Swedish market, therefore the relations are easier to manage due to equal interest of each other.

#### **4.1.2 Motoman Robot**

Motoman Robots has over 270 000 robots installed worldwide, they are a supplier with a wide selection of robots for all applications. The company was founded in the 70's in Torsås and is today a part of Yaskawa Electric Corporation, one of the world's leading manufacturers of industrial robots, electric and servomotors and control systems. The firm is today located in both Torsås and Kalmar. (Motoman, 2014). The person chosen for this interview was Johnny Jarhall, Executive sales director at Motoman robots and responsible for the Chinese market. He has decades of experience working at the Chinese market and therefore has valuable perceptions of the distance between the two markets.

Mr Jarhall explains that they have a sister company located in China, they are responsible for bringing in the customer, Motoman's relationship with the customer starts at the first meeting when discussing about the product. He stress that for Motoman

it is important that all products are identical and therefore the production only is located in Sweden, with a product with such high complexity that is crucial. The firm's sister company have around 500 employees that handle their businesses in China who knows the market better and therefore are a more suitable option to bring in customers. Motoman meets the customer for the first time to discuss set-up plans; the real reason for these meetings is to build up a strong relationship.

Mr Jarhall stress that relationship in Sweden are more personal than China where one is more straightforward and after a couple of meetings you understand one another. In China time can pass without fully understanding what the customer needs, they are much more vague. It is highly important to have a strong and clear communication that does not leave room for misunderstanding. There are many times where one have asked the customers if they fully understand and agree to the decisions made, and the Chinese always answer 'yes', in the end the firm realize that nothing was understood and changes had been made that was not according to plan. This could highly affect the firm, where in the end systems does not work as they should which could reflect badly on Motoman even if the firm is not to blame for their sudden changes. He says that the only thing one can do in these situation is to have patience and be as clear and structured as possible, by writing down decisions made during a meeting and making both parties sign the agreements is a way of securing a mutual understanding.

Furthermore, Mr Jarhall does not perceive the Chinese relationships to be particularly loyal. But he stress that this is only to be expected since it is easier to trust a company from your own market. Also, the Chinese market is highly competitive which makes it easier for the customer to do business with a firm that might suit them better. Also, the Chinese customers could prefer a supplier with a common background or a firm where they already have an existing relationship with in the network, but he stress that this is not something that highly affect them and Swedish firm's would do the same.

When discussing decision-makings, Mr Jarhall says that the Chinese employees are much restricted and no decisions are made without the approval from the boss. In Motoman's case most decisions are based on logical grounds since their products cost millions of euros. Even so, decision-making still takes longer time due to the Chinese employee not wanting to risk crossing boundaries with the boss. He also mentions that

this is one of the biggest differences with working at the Swedish market, were a manager is authorized to take the decisions within the field of his responsibility.

*“The boss could chose option number one even if the employee has researched that number two is a better choice, in the end the employee takes number one anyway. And if it does not work out he cannot be fired.” - Johnny Jarhall 2014-05-09*

It is explained that there is a big difference in how business is done and how to act at the Chinese market. Both countries are formalized but China has a hierarchical structure that Sweden does not, this is something a company must know before entering this market since a mistake that can cost you customers. He mentions that one of the reasons for using their sister company is because they possess this knowledge and therefore is of much help to Motoman at the Chinese market. It shows from how the boss is involved in all decisions made, one must prepare for constantly changing the plans. Furthermore, he says that small things like not wearing a tie to a meeting, to how to give someone your business card the wrong way could put the firm in a negative light. One always needs to learn about the culture and how to do business before entering a market with a different culture, and not exclusively China.

However, according to Mr Jarhall the distance is getting smaller between the two markets and the Chinese start acting more like the western countries. He says that they have started thinking in the same way, calculating in the same way etc. 10-15 years ago it was a greater distance but slowly the gap is closing. The differences that clearly are showing is to get the correct data of what the customer expects of the firm, also the poor English sometimes creates misunderstandings. These are ones again the reason for cooperating the sister company where the risk of these situations will decrease. Otherwise he perceives that the way to do business does not differ much from the Swedish market, accept the benefit of easier understanding the Swedish customers. Ones again he stress that the difference at the Chinese market is the risk of not gaining correct information and the time it takes for a decision to be made. Therefore, one should never book a flight ticket home. The Chinese highly value that the firm is present for as long as it takes, and as a Swede one need to be prepared that it always takes longer than expected to do business at the Chinese market.



### 4.1.3 Carrab Brake Parts

Carrab Brake Parts is a supplying company of brake fitting kits, accessories and offers the customer with knowledge and flexible solutions. They provide products such as bleeder screws and brake tube connectors (Carrab Brake Parts, 2014). Carrab Brake Parts is located in Kalmar and the company has a buyer-supplier relationship at the Chinese market and therefore do not export to China. The person selected for this interview was Göran Hallberg, the CEO of Carrab Brake Parts. Mr Hallberg has been working with the Chinese market for more than ten years and has much experience and knowledge of the market.

Carrab Brake Parts has a buyer-supplier relationship at the Chinese market and when it comes to finding and building business relationship at the Chinese market, Mr Hallberg explains that they visit fairs and exhibitions in both Europe and China. However, in order to maintain that relationship they do customer or factory edits at their factory in China. He stress that it is important to build a personal relationship with their Chinese supplier but also to create a mutual kind of respect for each other and thus, it is important to visit them. However, building a personal relationship does not play as significant of a role in Sweden in order to establish or make a business, it is easier to separate the business and personal life in Sweden. On the contrary, in China it is very important to establish and build trust where boundaries between formality and informality are not perceived as clear. Mr Hallberg means that their business relationships in China are very informal.

*“You have the drinking and food culture in a totally different extent than here in Sweden. You don’t necessarily need to have a good business meeting or a good business in order to be invited to a dinner or lunch. Its in the package, when you have business relations you should eat. Its more personal”* – Göran Hallberg, 2014-05-13

Moreover, the Chinese suppliers are not precise in their communication; they are more indirect than direct. They are uncomfortable with direct communication and very seldom give a straight answer to a question. However, Mr Hallberg explain that he has been doing business with China for the last ten years and can see a great difference on how it was in China back then and how it is today. For instance, it is a great difference in the country itself and the communication is getting better. The young generation is

starting to approach the Chinese market as well as the business activities and they are more direct in their communication. It is a big change in their mentality and how to handle these types of direct communication.

Moreover, when it comes to decision-making at the Chinese market it is explained that it is dominated by a hierarchical structure and is mostly based on logic decisions and behaviours. For instance, in some cases, during meetings the manager needs to ask their boss for approval. It is more common that the boss or managers makes the decision without any questions asked by the employees.

According to Mr Hallberg, it is more common that Chinese act within their framework and the social norm and behaviour. For instance, during a meeting it is very seldom that a Chinese employee gives an answer if a manager is attending that same meeting. Therefore, they are very strict and do not speak freely. On the contrary, in the Swedish organization they have more interactions where managers count on the employees' contribution to the organization and decision-making. This can sometimes affect them, for instance the process to get to root of a problem takes longer time than necessary.

*“When we have some kind of technical problems it is easier to solve that problem if we get the right people attending the meeting or the conference. If we just talk to the given contact person that we have maybe the knowledge of the technical issue is not that high so the process takes longer to get to the root course of the problem”* - Göran Hallberg  
2014-05-13

Furthermore, when it comes to the structure of a Chinese organization, Mr Hallberg explains that the owner of the company and his closes friends or relatives are pretty much the whole management department, and then the rest of the employees do not have to be connected to the owner. It is harder for those employees to work themselves up in the organization. On the contrary, in a Swedish organization an employee has an opportunity to work himself up the organization based on his performance. In a Chinese organization the management does not necessarily need to consist of skilled people. However, this does not affect them much due the fact that many Chinese companies today works with young people, which are skilled in business and communication, therefore it is becoming easier to for instance communicate with Chinese people, they sometimes use a translator that is working for the Chinese company.

Moreover, regarding laws and regulations it is explained that it does not affect their business in China much and they do not find difficulties in doing business at the Chinese market due to regulations and laws. However, Chinese can be flexible when it comes to rules, even though they are very strict, they can sometimes work around it and bend rules if it is necessary. But in general, Chinese tries to live up to the demands and requirements. The authority system and structure in China is very formal but Mr Hallberg continues by explaining that:

*“they have a big problem with the growing economy “money talks”, you can for example if you want a decisions past by the system I think its easy by using right people that are attractive to money.”* – Göran Hallberg, 2014-05-13

He also explains that a decision process about a building permission or anything that needs the government’s approval can be handled much quicker in that way. Mr Hallberg says that unlike Sweden, favouritism is common in China. Furthermore, the Chinese sanction system does not affect their business in China due to the fact that it is regulated with a trade agreement and therefore, the sanctions are very formal.

The most significant difference between the China and Sweden in terms of culture and the way of doing business is that in Sweden the firm can be more straightforward and more insistent in their relationship in order for the business to go as smoothly as possible. On the contrary, in China they have to be more careful and cannot be so straightforward, for instance, it is better to plant the seed and see were it leads, which can sometimes interfere in their relationship, which could make it more difficult to achieve and reach goals. Mr Hallberg continues by explaining that it is important to be polite, for instance Chinese do not appreciate negative feedback and do not perceive it as a way to improve their work and the reasoning behind it can be the unclearness on boundaries between formality and informality. Another difference in their relationship is the communication aspect; Chinese are more indirect while Swedish are more direct.

In the end, it is very important to be precise in documentation and communication in order to avoid situation where they find themselves arguing about things that was said or not said. Therefore, it is necessary to be very specific in the beginning of the business process and proposals of new ideas from Chinese are rare. Whereas in Sweden the business is developed more gradually where interaction takes place in the business relationship. Mr Hallberg explains that Chinese are very skilled in innovations and are

not afraid of changes but is afraid of proposing ideas that might be a failure and stand there with shame. Moreover, China is a changing market, where they can see many changes in their mentality, the structure and the country itself and is becoming more westernized.

## **4.2 Chinese managed firms**

### **4.2.1 Dragon Gate**

Dragon Gate runs a tourist- and cultural business with five business areas, museum, shop, conference-centre, restaurant and hotel. Their aim is to create a meeting place where they can connect China and Sweden and exchange or share different experiences, culture and create something strong together. The company has both Chinese and Swedish employees and therefore, Dragon Gate has competence and knowledge about the Chinese and Swedish culture. Thus, they are able to create perceptive cultural meeting between Sweden and China (Dragon Gate, 2014). The person selected for this interview was Kenny Li, the CEO of Dragon Gate. Mr Li has been working at the Swedish market for many years and has much experience and knowledge of the market.

Dragon Gate has a direct business relationship at the Swedish Market. When it comes to building and finding business relationship at the Swedish market, Mr Li explains that other companies help them to find customers and suppliers from different industries. Moreover, Mr Li says that building a strong business relationship is certainly important, however, it does not play as significant of a role in order to establish a business. Cooperation through a business or project is more important where they can find a mutual understanding, also the relationship is very formal. It is further explained that it is more important to establish a strong business relationship in China. However, trust building is more vital in a Swedish business relationship than in a Chinese relationship due to the fact that one cannot operate in Sweden without building some kind of mutual trust, but in China it is not important. Comparing to China, the Swedish market has clear boundaries between formality and informality. For instance, in China it is more common to eat dinner and drink coffee with your partner whereas in a Swedish business relationship that is very seldom, the relationship is more on the email kind of basis. It is not crucial to involve a personal aspect in the relationship due to the fact that people only get scared and nervous. Therefore, it is better to have a clear line between

formality and informality. Mr Li explains that feelings and personal connections is often involved in every aspect in a Chinese business relationship, which differs from Sweden where it is more formal. He means that this is the most significant difference between the relationship in Sweden and China.

Furthermore, Mr Li explains that the communication aspect of a business relationship in Sweden is more explicit and straightforward than in a Chinese relationship. For instance, when doing business at the Chinese market, partners usually withhold information from each other, but eventually they give more and more information. Therefore, the sharing information in the business relationship is more on a gradually basis. On the contrary, in Sweden all information is shared in the beginning of the relationship and employees always conform to certain rules. Consequently, it is harder to influence the decision-making of the other party, which is more common in China.

Feelings do not interfere the decision-making and is more based on logical grounds, but it is more common to involve feelings and intuitions in China. In addition, employees in the firm have the authority to make their own decisions. It is explained that it is important to trust their knowledge and their ability to make their own decisions, trusting only the boss to make the decision does not work in Sweden. Thus, Mr Li says he can only give his opinion and suggestion to a matter but never make that decision by himself. Even though, China is characterized by a hierarchal structure the Chinese companies today are quite similar to Sweden, there are interactions in groups but in the end the boss makes the final decision.

Moreover, Mr Li stresses that individuals in Sweden can act freely within its own work responsibility, however there are rules in organization that must be followed. As it is crucial to conform rules, Swedish are not so flexible. Whereas in China rules in the organization are not so clear therefore they act and adjust according to different situations, which is not common in Sweden. Thus, it is necessary to learn and adapt to the ways of doing business in Sweden.

Rules and regulations in Sweden are quite challenging as they are hard to understand and it is easy to misunderstand the meaning of rules. Even though, rules are difficult to comprehend, firms must learn and adapt to the rules. According to Mr Li, obedience of laws and rules are not flexible to fit a certain situation, it is quite the opposite. Laws and rules are very strict and must be followed. Moreover, the authority and sanction system

in Sweden are very formal. Feelings and personal aspects are not involved in the decisions making, which also refers to the authority system. Mr Li continues to explain that it is important to follow laws and rules in the beginning of a business relationship while in China it is possible to take a shorter route to get a permission or decision made by the authority.

According to Mr Li, the most significant difference between the Swedish and Chinese culture and the way of doing business is the importance of a relationship in China, which does not play as a significant of a role in Sweden. In addition, Mr Li explained that it is more important to follow rules, laws and regulations in Sweden than in China. Moreover, it is necessary to understand the Swedish system and thereby adapt to the Swedish way of doing business. Ione would compare on how the firm would operate in China vs. Sweden, they have adapted very much to the Swedish market. In the end Mr Li says, in order to do business in Sweden, one needs to understand the conditions at the Swedish market and basically learn, follow and adapt to them.

#### **4.2.2 Wang Advanced Consulting**

Wang Advanced Consulting is a firm with knowledge and competence in markets, language and culture. Their aim is to create a better and more efficient communication as well as longer business relationship between Swedish and Chinese firms. As a consulting firm, they provide solutions and assistance with the establishment, business developments and negotiations in China (Wang Advanced Consulting, 2014). The selected person for this interview was Yunfeng Wang, the founder of Wang Advanced Consulting. Ms Wang has much knowledge and experience of the Swedish market and has been working at the Swedish market for couple of years.

Wang Advanced consulting has a direct business relationship in Sweden where they act as a consulting company. Ms Wang explains that they build and find business relationship by attending different lectures and occasionally their partners or clients introduce them to new clients or business relationships. After one has established a business relationship at the Swedish market, she usually contact them in order to maintain that relationship. Wang Advanced consulting often act as an intermediary, where they represent the Swedish clients to negotiate with their Chinese customers or suppliers. Even though, Wang Advanced consulting does not have a direct business

relationship with Chinese, Ms Wang says that they can see the difference between a Swedish and a Chinese business relationship. For instance, as an intermediary they can see that Chinese are more interested in profit whereas the Swedish are more attentive to trust building and strong relationships.

Moreover, Ms Wang explains that Swedish are very straightforward, when it comes to the communication aspect of the relationship Swedish are clear and explicit, which is something that Wand Advanced Consulting prefers. In order for them to provide the right information and to understand if they can cooperate, it is important to have a direct communication. It is explained it is important to build trust and have strong relationships at the Swedish market. However, in China profits are more important than trust building. Moreover, previous business relationships could help the firm to find new clients or business relationships. Whether a relationship is more personal or formal depends on size of the company. When dealing with a small company, the relationship is mostly personal but when doing business with a larger company it is quite the opposite. But a relationship in China is more personal. Ms Wang continues by explaining that the boundaries between formality and informality are very clear and that relationships in Sweden are more formal than informal.

Furthermore, when it comes to decision-making in a Swedish business relationship, it is mostly based on logical grounds, where feelings and institutions are not involved and not so important. Ms Wang explains that decision-making is more based on a rational foundation. The structure of the business is more decentralized due to that Swedish companies are quite small and thus the rights are almost the same. However, Swedes do not usually make decisions without consulting with other employees whereas Chinese superiors can take the decisions by themselves. Moreover, it is pointed out that compared to China, in a Swedish organization employees often earn their status or title through personal performance and merits and they are able to act quite freely. In a Swedish organization an individual is often responsible for its own work and do not collaborate with other departments. In addition, Ms Wang explains that personal connection is more usual in China and in Sweden

Differences in language, culture and the way of doing business in Sweden has been challenging. However, the most significant challenge is conforming laws and regulations, there are no room for bending rules. She means that it is important and necessary to obey the rules, laws and regulations since Sweden rely on the system to

sustain. Therefore, the system within the business is very formalized and based on competence and performance. Moreover, Ms Wang points out that the most significant difference between the Swedish and Chinese culture and the way of doing business is that a business relationship in Sweden is more on a gradually basis, whereas in a Chinese business relationship they do not care so much about the process, therefore this was not something they were used to. However, they understand that in a Swedish business relationship it is important to take everything step by step due to the fact that Swedish partners want to have control. For instance, Ms Wang explains that they must first confirm something, then act or complete that certain work. Moreover, Ms Wang points out that when Chinese do business they are more flexible and adapt to changes while Swedes are inflexible, rigid and relatively unchanged.

When it comes to how Chinese adapt to the Swedish market, it is explained that Chinese companies need to be more transparent, direct, clear and open regarding the communication aspect of the business relationship. Language differences can sometimes be a barrier and therefore the language can be improved, however, Ms Wang explains that both the communication and the language is getting better and is a working process. Furthermore, Ms Wang stresses that during the last century, many western companies are entering the Chinese market and Chinese managed firms are getting more westernized. Therefore, the cooperation and relationship between Chinese and Western enterprises are better and smoother than before.

#### **4.2.3 Avego AB**

Avego AB is a company that manufacture packaging materials from foam, bubble wrap and insulating materials in various forms and the aim of the firm is to establish sales of packaging and insulation material in Europe. It is located in Växjö and was established in Sweden 2012. Avego AB is Jiuding group, which is China's largest manufacturer of foam, made of polyethylene and it is there the production also is located. Two people were chosen to be interviewed, Ying Gao is the CFO and purchasing manager of Avego AB, she is born in China and now lives in Växjö full time. Also, CEO and sales manager of the firm, Dick Konradsson was interviewed due to the fact that he is the link between Jiuding group and has been working in China for approximately 30 years.

There are ten factories in China producing Avego Ab's products and Dick Konradsson



is the sales manager who is the responsible manager for Sweden and the rest of Europe. Ying Gao on the other hand is the purchasing manager and also is the face towards the Chinese producers. Mr Konradsson explains that since contact building in Sweden differs enormously from contact construction in China, he is more suitable to the Swedish culture. Therefore Mr Konradsson and Miss Gao are trusted have full responsibility and are trusted to take care of the Swedish market since they have much more knowledge and experience in Sweden. He stresses that in the Swedish culture one can just call up a potential customer and start selling without any kind of relationship, however the Chinese business culture values friendship and connection, there is no business without friendship first. In Sweden it is not necessary to be as personal where one is rather formal in its approach, which is a big difference. According to Mr Konradsson the Swedish culture values the 'product' itself and the Chinese culture values 'trust' in an individual, in the Swedish business culture one only sees strictly business and the personal parts of a relationship get shoved aside, however Miss Gao points out that even if the business factor is in focus, it is highly important to have trust between the firms, Swedish firms do not do business with an organization that cannot be trusted.

Mr Konradsson expresses that it is much easier to have long and lasting relationships in Sweden, the reasoning behind this is that it is easier to create a stronger relationship when the person actually in charge is easily available. Miss Gao agrees and says that China has a very clear hierarchical structure and the boss is the main decision-maker, which suggests that there is much approval and signatures that need to run through different people within the firm. In Sweden the employees instead are trusted and responsible for their actions and are allowed to take their own decisions, which makes it easier for a better relationship. Swedish people do not take decisions lightly and they are evaluated carefully, which differs from China where one often takes a decision based on a feeling in a certain situation. Miss Gao says that clarity and simplification are keywords for what the Swedish business culture appreciates. Miss Gao, who is used to the Chinese business culture, often feels a need to contact customers and suppliers in Sweden to make sure they are satisfied and also to keep a closer relationship. An example is given where she will contact a potential customer to make sure the sales goes through. What Mr Konradsson then stresses is that in Sweden one does not need to have a personal or consistent contact to make the relationship strong and long lasting. The

product speaks for itself and the potential buyer is the one that seeks contact when the decision is made. Miss Gao adds that having constant contact in Sweden is unusual and is something one has to adapt to in order to not scare a relationship off, being straightforward and honest is mostly valued.

As mentioned earlier Mr Konradsson stress that Sweden and China show much difference in how to do business and what is valued. In China one has to `woo` the relationship to keep it strong, while in Sweden it is more formal and the product is the main focus. In Sweden one is very straightforward and an individual is valued and trusted based upon education, competence and experience. Although, after working a while one get recommended and recruited through recommendations and contacts, just as in China. Overall Sweden is perceived as very straightforward and the same goes for the rules. Miss Gao finds that the rules are very clear and certificates are needed in order to be able to compete with other firms in the same business, In Sweden one knows what is expected of you. In China the rules can be changed from one day to another and even if there are strict rules, there are a grey zone where the government is willing to look passed possible bending of rules. So there is a very big difference, ambiguity, and the law systems compared to the Swedish market one cannot disregard. Mr Konradsson gave an example of how an ISO certificate is very important to have in there type of business, it is a certificate that is very hard to get in Sweden were a lot of documentation is needed and the firm goes through many tests before is earned. However in China, if a firm has money and connections one can get many different certificates that actually does not mean anything in the end. Miss Gao explains that these types of certificates provided in Europe is necessary to have in order to be trusted at the Chinese market and is a prof of quality, in this way Sweden is very formalized and one is restricted to obey these rules in order to create relationships at the market.

Both Mr Konradsson and Miss Gao expresses that one of the biggest differences with relationships at the Chinese and Swedish market is how one treat a relationship. In China one value dinners and personal contacts, through family and friends one gets a job or connections to one. While in Sweden this is not a common behaviour. One has to be factual and one might sometimes take a lunch with a potential customer, but that is how far it goes. Swedes value knowledge and competence, not caring about the personal factor, trust is also important if the firms want a relationship. Therefore the main adaptations to the Swedish market is found to be clarity, trust and straight forwardness in

the actual relationship and communication, furthermore Miss Gao stress that rules are necessary to follow if a firm wants to survive at the Swedish market.

## 5. Analysis

*This chapter will put the empirical findings and theoretical framework against each other. Firstly, an analysis of the Swedish vs. the Chinese managers perception of the Chinese cultural and institutional distance will be presented. Since these distances are presented together they will be followed by a sum up as well as the Swedish and Chinese perception of each other put together. Furthermore the same structure is presented of the analysis of the adaptations of business practices.*

### 5.1 Perception of Cultural and Institutional distance

#### 5.1.1 Swedish Perception

In a *collectivistic society*, the social framework or in-group creates the individuals identity. In order to gain loyalty it is important to take care of the people within that social framework or in-group (Jansson, 2007b; Mooij & Hofstede, 2010; Hofstede centre, 2014). In a collectivistic society as China, it is necessary to build relationships that are personal (Hofstede centre, 2014; Jansson, et al., 2007). According to the empirical data, two of three Swedish firms find it beneficial to build personal relationships at the Chinese market. Carrab Brake Parts stresses the importance of building a personal business relationship at the Chinese market, which goes in line with Hofstede's (2014) arguments as well as the *Chinese thought styles*, where Wong & Leung (2001) argues that relationship at the Chinese market are highly personal. Läckeby products explained that relationships are to a beginning formal but can later on develop to a more personal basis but the important aspect in the relationship is that business works well, which according to Jansson, et al. (2007) goes in line with a *Swedish thought style*. However, Motoman was the only company that perceived the business relationship to be more personal in Sweden than in China and it is not a necessity to build a personal relationship in China.

Out of the empirical data, one can state that a personal business relationship is not always a necessary aspect when doing business in China. Läckeby and Motoman explained that boundaries between formality and informality are clear in China but

Carrab Brake finds it unclear. According to the *norms and values* within a Chinese business network, business exchanges are based on particularistic values (Jansson, et al., 2007). All Swedish firms explained that business exchanges in China are codified and explicit by using documents as well as contracts in order to avoid misunderstanding during meetings or when communicating. Out of the three Swedish firms, two firms perceived the network to be more *universalistic* in China and thus, do not perceive a distance between Sweden and China in terms of *norms and values*. Due to the fact that Sweden is more characterized by universalistic values. In addition, none of the Swedish firms expressed or perceived the network to be closed, which indicates that the Chinese network is more oriented towards the universalistic values than the particularistic. Thus, the Chinese network does not necessarily need to be personal and informal, as two of three Swedish firms do not perceive it informal or an institutional distance in terms of *norms and values*.

*Collectivistic societies* are high-context communication cultures where messages are delivered with unclearness and indirectness (Nishimura, et al., 2008; Mooij & Hofstede, 2010). Chinese has a low preference on *uncertainty avoidance* and do not feel threatened by uncertainty and ambiguity. The Chinese language consists of ambiguous meanings, which can be difficult to understand for people from a different culture. (Hofstede centre, 2014). According to the empirical data, all Swedish firms stated that personal visit is necessary in order to maintain a strong business relationship at the Chinese market. Out of the three Swedish companies, all meant that it is important to meet their clients in order to provide knowledge about their products but also to gain and share information. Motoman explained that it is necessary to meet their clients in person in order to avoid misunderstanding, which is quite easy at the Chinese market. This is something that Läckeby's agrees with, where they point out that the communication aspect in the business relationship is not one of the better ones, therefore it is a necessity to meet their clients in personal. Carrab Brake explains that Chinese are not so precise in their communication they are more indirect than direct. They are uncomfortable with direct communication and very seldom give a straight answer to a question.

All Swedish firms *perceive a cultural distance* when it comes to the communication aspect, where Sweden is more straightforward and Chinese are more indirect. One could argue that a reason behind their indirectness is that Chinese are comfortable with

uncertainty or ambiguity, which is an agreement with Hofstede's dimension on *uncertainty avoidance*. All respondent expressed the importance of always being clear and explicit when doing business in China, this is so they can avoid misunderstanding. However, Carrab Brake counties, for the last ten years and one can see a great difference on how it was in China back then and how it is today. For instance, it is a great difference in the country itself and the communication is getting better.

*Trust* is seen highly important in a successful relationship, whether the other party could be trusted or not guides the Chinese managed firms and one rely on individuals rather than organizations (Jansson, 2007b). The market itself cannot always be trusted and therefore transactions are guaranteed by personal trust, it is a way to cope with uncertainty and bring stability to a relationship (Yau, et al., 2000). All three firms stress the importance of building trust when doing business with Chinese. A strong and trusting relationship is beneficial when or if a problem would arise, also decisions are easier made if the relationship is based on trust. However, none of the Swedish firms stresses the importance of a personal trust instead the importance is to build and establish trust in the business relationship. Therefore, the Swedish firms do not perceive an institutional distance regarding *norms and values* in China.

According to Hofstede's cultural dimensions (Hofstede centre, 2014), China is characterized by a *masculine society* where individuals are driven by achievement, competition and success. Out of the empirical data, all Swedish firms explained that Chinese are very competitive and do not always express loyalty in the business relationship. However, all Swedish firms argued that if one shows respect and makes personal visits, one could build and maintain a business relationship. This indicates that even if Chinese is sometimes perceived as competitive, relationship is important at the Chinese network. Therefore, one could argue if China is characterized by both a masculine and feminine society as all Swedish firms perceives the network to stand for relationship, which is one of the characteristics in a feminine society. But do to the competitive driven society all firms *perceive a cultural distance*, since one must build a strong relationship in order to evade losing a customer due to the masculine side of the Chinese society.

Furthermore, within a *Chinese thought style*, the decision-making is based on a non-linear logic and guided by intuition and feelings (Jansson, et al., 2007). Nevertheless, all Swedish firms explained that decision-making and behaviours is based on logical

grounds, thus do not perceive an institutional distance regarding the Chinese thought styles. According to Hofstede (2014), the Chinese society is characterized by a hierarchical structure. As a result, decision-making is centralized (Hofstede centre, 2014). All Swedish firms find the Chinese structure to be hierarchical, which can cause a longer time on decision-making. All Swedish firms explained that due to the hierarchical structure a decision could take longer time. They also agree that one of the reasons that decisions takes longer time could be due to restrictions within the Chinese business relationship, for instance, how Chinese conform social norms. As stated in Hofstede cultural dimension, the Chinese are often *restrained* by social norms (Hofstede centre, 2014). Thus, all Swedish firms perceive a cultural distance when it comes to *power distance* and how it is distributed throughout the society, as well as how Chinese are more *restraint* than the Swedish society. This could also further show that China is a collectivistic due to the fact that they have a tightly-knit framework in the society (Hofstede centre, 2014).

Chinese networks usually has a ascribed status where they are built on persons having a common background, if there are similarities they tend to have an empathy and more attraction to each other (Jansson, et al., 2007). Guanxi is an ego network that deal with relationships depending on the hierarchical position of the group, and it is based on family connections (Wong & Leung, 2001). Hofstede (2014) argues that in a collectivistic society, promotions and hiring is often based on in-groups favouritism, i.e. there is a tendency of favouring members, such as family. According to the empirical data, Läckeby and Motoman explained that employees usually achieve its status or title in the organization through personal performance and merits. Though, they are not oblivious to the fact that social connection can be beneficial, which is the same in a Swedish market. Carrab Brake acknowledges the fact that the management often consists of the owners' closest friends and relatives. However, this does not affect them so much due the fact that many Chinese companies today works with young people, which are skilled in business and communication, therefore it is becoming more easier to for instance communicate with Chinese people. This suggests that status or title does not necessarily need to be ascribed and the Swedish firms do not perceive an institutional distance in terms of *norms and values*.

Hofstede (2014) argues that individuals' behaviour and action in a high *power distance* society are highly influenced and controlled by authorities and sanctions and there are

no protections against power abuse by superiors. In general, individuals should not have extra aspirations beyond their group. In addition, the authority and sanction system in China are usually informal (Jansson, et al., 2007). Obedience of laws and rules can be flexible to fit the actual situation and pragmatism is a fact of life (Hofstede centre, 2014).

According to all three Swedish firms, laws and regulations does not affect their business in China so much and they do not find difficulties in doing business at the Chinese market to due to regulations and laws. But Chinese can be flexible when it comes to rules even though they are very strict, they can sometimes work around it and bend rules if it is necessary. Therefore, it is necessary to specify and codify everything on a written document or contract in order to avoid problems with obedience of rules. However, Carrab Brake explains that in general, Chinese tries to live up to the demands and requirements. This indicates that there is a perceived *cultural distance* regarding *uncertainty avoidance* and the *pragmatism*. Moreover, all firms perceived the authority and sanction system and structure to be very formalized, which do not go in line with the theory on *enforcement mechanisms* within Chinese network. Yet, Carrab Brake explains that a decision process about a building permission or anything that needs the government's approval can be handled much quicker if one uses right people that are attracted to money. This suggests that there is not a perceived institutional distance regarding the *enforcement mechanisms*.

#### ***5.1.1.1 Summary on the perceived cultural and institutional distance***

To sum up, all Swedish firms perceived a cultural distance concerning the communication aspect within the Chinese business relationship due to the fact that China is characterized by a *collectivistic society* but also perceived as one. All Swedish firms pointed that Chinese are indirect and not straightforward in their communication, which has a significance impact when doing business in China, for instance one must always make personal visits, codify all agreements and be very explicit in the communication in order to avoid misunderstanding. One could argue that it is crucial to be very clear and explicit in a Chinese business relationship due to the fact that Chinese are open for bending rules with their low preference on *uncertainty avoidance* and that *pragmatism* is a fact of life. For instance, Motoman explained that Chinese has a tendency to make changes that were not according to plan, therefore it is important to be very clear. Thus, the Swedish firms perceive a cultural distance in terms of *uncertainty*



*avoidance*. All Swedish firms perceive a cultural distance when it comes to power and how it is distributed throughout the society, meaning *power distance*. In addition, do to the competitive driven society all firms perceive a cultural distance, since one must build a strong relationship in order to evade losing a customer due to the *masculine* side of the Chinese society. According to the empirical data, only Carrab Brake perceived an *institutional distance* in terms of norms and values, where they perceive the Chinese business relationship to be more personal, which is not as common in a Swedish business relationship.

Even though, all firms perceived a cultural distance, they all pointed out that the distance is getting smaller between the two markets and the Chinese start acting more like the western ways. Motoman and Carrab Brake, which have been working with Chinese for over 10 years, explained that the Chinese way of thinking, thought styles is changing to a more western mentality and can see a great change from then and now. China is a changing market, where they can see many changes in their mentality, the structure and the country itself and is becoming more western. This indicates that the Swedish firms, besides one, do not perceive an institutional distance.

### **5.1.2 Chinese perception**

Hofstede (2014) argues, Sweden is characterized by an individualistic society with a low preference of loosely-knit social framework. An individualistic society is characterized by a low-context communication cultures with explicit communication (Mooij & Hofstede 2010). According to the empirical data, the Chinese managed firms find the communication aspect of the business relationship to be very straightforward and explicit. Dragon Gate explains that all information is provided and shared in the beginning of the relationship, which is something Wang Advanced consulting (WAC) agrees with. Therefore, they always have to be direct and clear when doing business in Sweden, which is not common in China. For instance, when doing business at the Chinese market, partners usually withhold information from each other, but eventually they give more and more information. Both companies find the business relationship to have a direct communication. As stated by Hofstede's, Sweden is characterized by low power distance, where communication is direct.

Out of the empirical data, the Chinese managed firms *perceive a cultural distance* when it comes to the communication aspect, where Chinese is more indirect and Swedish are

more straightforward. One could argue that a reason behind their directness is that Swedish society are characterized by low power distance and are more comfortable with a direct communication and the fact they are characterized by a low-context communication. Thus, the Chinese managed firms perceive a cultural distance regarding the *individualistic society* and *power distance*.

Trust building is based on an organizational and professional trustworthiness of the firm. Trustworthiness is an important norm of the social organization of the business network. Trust building and establishing trustful relationship is a necessary aspect of the business network. Trust emanates from relying the firm and not the individuals (Jansson, et al., 2007; Jansson & Sandberg, 2014). According to the empirical data, trust building is important in a Swedish business relationship. One can argue that trustworthiness relies on the firm than individuals due the fact that relationship is more formal than personal. Dragon Gate and WAC explain that trust building with Swedish firms is more important than in China. Avego explains that without trust in a Swedish business relationship one cannot operate on the Swedish market. For instance, one must have a specific certificate that shows firms trustworthiness at the Swedish market. Due to the fact that all Chinese points out that trust relies on the firm and not the individual, they perceive an institutional distance in terms of *norms and values*.

Business relationships in Sweden are usually more formal and impersonal, where business exchanges are often explicit, codified by using documents or contracts (Jansson, et al., 2007; Jansson & Sandberg, 2014). According to the empirical data, it is important to build a strong business relationship at the Swedish market, however it is not as significant when establishing a business in Sweden. Dragon Gate explains that cooperation through a business or project is more important so they can find a mutual understanding and the relationship is very formal. WAC points out that relationship can be both personal and formal depending on the size of the firm but in general the business relationship is more formal than informal. Avego stresses that Chinese value friendships and personal relationship, whereas in a Swedish business relationship it is more impersonal. *Norms and values* within a Swedish network in terms of universalism, where networks are open and transparent and formal (Jansson, et al., 2007).

In the empirical data, the Chinese managed firms points out that there are clear boundaries between formality and informality in a Swedish business relationship. For instance, Dragon Gate explains that it is common to eat dinner and drink coffee with your partners whereas in a Swedish business relationship that is very seldom, the relationship is more on the email kind of basis. It is not crucial to involve a personal aspect in the relationship due to the fact that people only get scared and nervous. WAC points out that personal aspects in a Swedish relationship are not necessary or as common as it is in China. Avego explains that in a Swedish relationship, one separate personal feelings or aspects from the business. This indicates that the Chinese managed firms find the business relationship to be more formal where business exchanges are often clear and codified by contracts, which goes in line with the norms and values of a Swedish market. Thus, they perceive an institutional distance regarding *norms and values*, where both firms perceive Sweden to be characterized on universalistic values rather than particularistic.

Sweden is characterized by *feminine society*, where decision-making is decentralized and there should be a mutual decision making and not only by one individual (Hofstede centre, 2014). Dragon Gate and Avego explains that trusting only the boss to make the decision does not work in Sweden, employees in the firm have the authority to make their own decisions and it is important to trust on their knowledge and ability to make their own decisions. WAC explains that decision-making is based more on rational foundation and the structure of the business is more decentralized. According to Hofstede's cultural dimension on power distance, Sweden is characterized by a low power distance, where independence, equal rights, hierarchy for convenience are factors prevailing in the Swedish network. Decision-making and power is decentralized. Employees do not appreciate when ideas are implemented without any discussion and therefore would rather be consulted (Hofstede centre, 2014). According to Dragon Gate, interaction is important and the boss can give his opinion on a matter but can never be the only one taking the decision. Swedes do not usually make decisions without consulting with other employees whereas Chinese superiors can take the decisions by themselves. One can argue that the Chinese managed firms find the business relationship in Sweden and how power is distributed in the society is decentralized. Thus, the Chinese managed firms perceive a cultural distance regarding the *feminine society* and *power distance*.

According to *Swedish thought style* there should be a casual link or relationship between its goal and network structure. Business decisions are based on logical thinking. Business relationship should be based on rational calculation of its own merits (Jansson, et al., 2007; Jansson & Sandberg, 2014). Out of the empirical data, the Chinese managed firms explain that decision-making is based on logical grounds, where feelings and intuitions are neither involved nor important in the decision-making. For instance, WAC explains that decision-making is more based on rational foundation. One can argue, due to the fact that business relationship is more formal in Sweden, decision-making is often based on logical grounds, which according to the empirical data, is the opposite in China. Thus, the firms perceive an institutional distance regarding the *Swedish thought styles*.

In a Swedish network a status or title is often *achieved*, which is based on competence and merits (Jansson, et al., 2007; Jansson & Sandberg, 2014). In an individualistic society, decisions concerning hiring and promotion are supposed to be based on merit only (Hofstede centre, 2014). WAC explains that in Swedish organization employees often earn their status or title through personal performance and merits. Dragon Gate points out that it is crucial and necessary that employee has knowledge about the area that the individual is responsible for. One can argue, the Chinese managed firms sees status within Swedish firms is achieved based on personal merits and competence due to the fact that the boss must trust the employee's knowledge and ability to make their own decisions. The Chinese managed firms also explains that feelings and personal connection is involved in almost every aspect in a business relationship in China, which is not the case in Sweden. Thus, the Chinese managed firms perceive an institutional distance in terms of *norms and values* and cultural distance regarding the *individualistic society*.

The authority or hierarchy of the firm within the business network is usually formalized which is mainly based on competence and performance. Authority or power is usually distributed down the organization, which is based and legitimized by formal rules, laws and actions (Jansson, et al., 2007). Social interaction or position is not so important to the performance of business relationship. The sanction system is established by formal conventions, such as laws, which are based on a well-developed legal system (Jansson,

et al., 2007; Jansson & Sandberg, 2014). In the empirical data, the Chinese managed firms explain that the authority and sanctions system in Sweden is very formalized. For instance, Dragon Gate explains that feelings and personal aspect is not involved in neither the sanction nor authority system. Avego stresses that Sweden is very formalized and one is restricted to obey these rules in order to create relationships at the market. Moreover, obedience of laws and rules are not flexible to fit a certain situations and are very strict and must be conformed, therefore there are no room for bending rules. For instance, WAC points out that it is important and necessary to obey the rules, laws and regulations since Sweden rely on the system to sustain. Therefore, the system within the business is very formalized and based on competence and performance. In a normative society, individuals have a tendency to do things correctly, explain everything and conforming different conventions (Jansson, et al., 2007; Hofstede centre, 2014). Dragon Gate also explains that it is important to follow laws and rules in the beginning of a business relationship while in a Chinese society it is possible to take a shorter route to get a permission or decision made by authority. This shows that the Chinese managed firms finds that obeying of rules, laws and regulations is necessary due to the fact that Sweden rely on the authority and sanction system to sustain and therefore is very formalized. This goes in line with the enforcement mechanisms, where firms are protected by a strong legal system (Jansson, et al., 2007; Jansson & Sandberg, 2014). Therefore, Chinese managed firms perceive a cultural distance regarding *normative society* as well as an institutional distance in terms of *enforcement mechanisms*.

According to Hofstede's cultural dimension, Sweden is dominated by a culture of indulgence, where individuals emphasize on leisure time and do not have much control of their desires and needs. (Hofstede centre, 2014). The Chinese managed firms explain that Swedish employees can act freely within its own work responsibility, however there are rules in organization that must be followed. Whereas, Dragon Gate stresses that the rules in the Chinese organization are not so clear therefore they act and adjust according to different situations, which is not common in Sweden, where Hofstede (2014) argues, rules that are not practical or ambiguous should be either changed or abandoned and there should not be more rules than what is essential. One can therefore argue that the Swedish culture is both indulgent and restraint due to the fact that the individual is able to act freely within its own working responsibility, but they are

restraint because organizational rules must be followed in Sweden. The Chinese managed firms do not find the rules within the organization at the Chinese managed market to be as clear as in Sweden. Thus, the Chinese managed firms perceive a cultural distance regarding the *indulgence and restraint* as well as the *uncertainty avoidance*.

#### ***5.1.2.1 Summary on the perceived cultural and institutional distance***

To sum up, Chinese managed firms perceives a cultural distance when it comes to the communication aspect, where Swedish are more direct than indirect, which indicates that they perceive Sweden as a individualistic society that is characterized by a low-context and explicit communication. All information needs to be codified by documentations in the beginning, which is not common in China. Therefore, it is harder to influence the decision-making in Sweden than in China. The Chinese managed firms perceive a cultural distance regarding the power distance and the feminine society of Sweden, where decision-making is decentralized and consequently the boss cannot take a decision on its own. In addition, Chinese managed firms perceive a cultural distance regarding normative society due to the fact that obeying rules and conforming conventions is necessary at the Swedish society but not as much in Chinese society, where there are rooms for bending rules. Chinese managed firms do also perceive a cultural distance when it comes to uncertainty avoidance, due to the fact that rules and laws are clearer in Sweden and China but is hard to understand.

The Chinese managed firms perceive an institutional distance in terms of norms and values, due to the fact that trust building is more important in Sweden than in China, Sweden is perceived to be characterized on universalistic values rather than particularistic as well as status in the firms is achieved based on personal merits and performance. The Chinese managed firms perceive an institutional distance regarding the Swedish thought styles, due the fact that decisions is based on logical grounds rather than intuitions and feelings. The Chinese managed firms perceive an institutional distance in terms of enforcement mechanisms, due to the fact the authority and sanction system is more formal than informal, where one cannot take a short route to get permission from the government.

#### **5.1.3 Swedish versus Chinese perception**

Swedish firms perceive a cultural distance regarding the high context culture in China, due to their collectivistic values in the society. Whereas, Chinese managed firms perceive a cultural distance when it comes to the low context culture in Sweden and the individualistic society. Sweden and China are from two different institutional contexts, where one is more direct and the other more indirect in their communication, therefore, both perceive a cultural distance in terms of *individualism vs. collectivism*.

Swedish and Chinese managed firms perceive a cultural distance concerning the *normative vs. pragmatic society*, where obeying rules and working from an ethical point of view is necessary in Sweden. Whereas, Chinese are more open for bending rules, where laws and regulations are not as clear as in Sweden, therefore there is also a perceived cultural distance regarding *uncertainty avoidance*.

Moreover, one can indicate that Swedish and Chinese managed firms perceive a cultural distance when it comes to the *power distance*. Chinese managed firms perceive a power distance due the fact that decision-making is decentralized in a Swedish organization and not hierarchical. Swedish firms perceive a cultural distance due to the hierarchical structure in the Chinese business.

Chinese managed and Swedish firms perceive a cultural distance concerning the *masculine vs. feminine society*. Swedish firms perceive China to be a competitive driven society, therefore perceive a cultural distance, where China is characterized by a masculine society. As Chinese managed firms find the decision-making to be decentralized in a Swedish organization, they also perceive a cultural distance regarding the feminine society of Sweden. Also, both Swedish and Chinese managed firms perceive a cultural distance when it comes to the *indulgent vs. restraint society*, where Chinese managed firms perceive the Swedish culture to be both indulgent and restraint. In addition, the Swedish firms find the Chinese culture to be restraint and therefore perceive a cultural distance regarding this dimension.

The Chinese managed firms perceive an institutional distance in terms of *norms and values*: trust building in Sweden is more important than in China, Swedish society is dominated by universalistic values rather than particularistic and status in firms is achieved based on merits and performance and not ascribed. Also, the Chinese managed

firms perceive an institutional distance regarding the *Swedish thought styles*: decisions are based on logical grounds rather than intuitions and feelings. The Chinese managed firms perceive an institutional distance concerning the *enforcement mechanisms*: the authority and sanction system is formal and not informal. On the contrary, Swedish firms do not perceive an institutional distance between Sweden and China. However, one firm find the business relationship in China to be more personal than impersonal, therefore perceive an institutional distance in terms of *norms and values*

Even though, all Swedish firms perceived a cultural distance, they all pointed out that the distance is getting smaller between the Swedish and Chinese markets. The Chinese are acting and behaving more like the western. China is a changing market, where Swedish firms can see many changes in their mentality, their structure and the country itself, which is becoming more western. So overall, the Swedish firms do not perceive an institutional distance.

## **5.2 Adaption of business practices**

### **5.2.1 Swedish adaptation**

Due to the fact that firms from different markets operate and act according to these values, they also show dissimilarity in their business practices (Jansson, et al., 2007). The distance between host and home markets therefore force the internationalizing firm to change many of its ways of doing business that were developed at the home market (Lu & Beamish, 2001). All Swedish firms agree that there is cultural and institutional distance between the two institutional contexts. However, over the recent years the distance has been decreasing. Läckebý stresses that doing business is not that different from business at the Chinese market, the Chinese has started to seek to the Swedish market, which implies that they adapt to the Swedish relationships than the opposite. The most significant difference when doing business with Chinese is that Swedish relationships are more explicit than indirect in their communication, however this according to the empirical data is not a great issue. Moreover, both Motoman and Carrab Brake agrees that the distance between the two markets keeps getting smaller, the Chinese are adapting to the 'western-ways' which Carrab Brake sees in both mentality and the structure of the market.

In order to adapt business practices to the foreign market firms need to understand its



environment properly. Analysing the environment from an institutional perspective firms are able to understand behavioural patterns within the foreign market and adapt its business practices according to these patterns (Jansson, 2007b; Hilmersson & Sandberg, 2011). All three Swedish firms has acknowledge that the Chinese are indirect in their communication, have a tendency for bending rules and has as hierarchical structure through out the organization. Due to the hierarchical structure and the power distance at the Chinese society, decision-making in a Chinese business relationship can take longer time, as decisions is always taken by the boss. Whereas a Swedish business relationship is more decentralized and characterized by a direct communication style where one is more used to a straightforward relationship. Therefore, personal visits, codifying all documents and contracts as well as being explicit in the communication in order to avoid misunderstandings are necessary. For instance, according to the empirical data, if one do not codify by using documents or written contracts there is a risk, in a Chinese business relationship, that something will be changed the following day, which is not common in a Swedish relationship. Another reason for personal visit could be due to Chinese competitive side, where they do not always express loyalty. Therefore, in order to maintain a Chinese business relationship one must make personal visit. However, as mentioned earlier the perceived distance is constantly decreasing, where Chinese country structure and mentality is changing and becoming more western. Thus, one can argue that Swedish firms do not have to adapt so much to the Chinese market due to the fact that Swedish firms perceive the cultural and institutional distance between Sweden and China decreasing.

Hence, adaptation of business practices by Swedish firms in a Chinese business relationships: clear and direct communication as well as personal visits where business exchanges must always be codified by documents and contracts. In addition Swedish firms has to be patience at the Chinese market due to the hierarchical structure.

### **5.2.2 Chinese adaptation**

According to Jansson, et al. (2007), business practices differ across different markets due the fact that an institution, which is prevailing in the markets, has an impact on business practises. Different underlying values, which are conformed by firms, vary across different markets. Therefore, Sousa & Bradley (2006) and Theodosiou & Leonidou (2003) stress that firms needs to be ware of challenges when entering a

market, such as differences in cultural standards, consumer purchasing power and demand as well as laws and regulations, norms and values. Out of the empirical data, Chinese managed firms perceive a cultural and institutional distance between the Swedish and Chinese society and therefore must adapt business practices according to the Swedish market. One can argue that firms adapt business practices to a different institutional context in order to avoid the liability for foreignness. Hilmersson (2011) explains when firms enter a business networks that are embedded in another institutional context, there is a risk that they suffer from a liability for foreignness due to cultural distance. Consequently, adaptations of firms business practices to the foreign market is necessary for a successful international business (Theodosiou & Leonidou, 2003).

Cultural distance regarding the communication aspect, where China is more indirect and vague while Sweden is clear and straightforward. In order to operate on a Swedish market one must be very clear, explicit and transparent in a business relationship. Thus, Chinese managed firms must adapt their business practices by being more direct and clear in the communication as well as share all information in the beginning of the relationship. Chinese managed firms perceive an institutional distance when it comes to norms and values and cultural distance, where Chinese managed firms perceive the business relationship to be more formal than informal and business exchanges are often codified by written contracts or documents. Personal relationship or involving personal feelings and intuitions is rare in a Swedish business relationship and it is necessary to separate business and personal opinions. On the contrary, in a Chinese business relationship firms can have a more personal relationship and business exchanges do not necessarily need to be through written documents but also during dinner meetings. Thus, in order to have a business relationship in Sweden, Chinese managed firms adapt their business practices by not involve personal opinions or feelings in the business relationship and by compiling all business exchanges in written documents.

Moreover, due to the fact that Sweden is characterized by low power distance, where the structure is decentralized one must always interact and discuss with other employees when a decision is made. For instance, employees do not appreciate when ideas are implemented without any discussion and therefore would rather be consulted Hofstede centre, 2014). On the contrary, the Chinese managed firms explain that in a Chinese

business relationship, the superior can make the decision without discussing or consulting the employees. The Chinese managed firms explain that they cannot take a decision without interactions with other employees. In addition, they explain that many times employees have the authority to make their own decision in the area they are responsible for and therefore, superiors cannot influence the decisions but only give their opinions. Consequently, the Chinese managed firms must adapt their business practices when it comes to decision-making and the interaction aspect of the business relationship. As mentioned before, feelings and intuitions are not involved in a Swedish business relationship therefore this also applies on the decision-making, meaning that all decisions must be made on logical grounds, which is not so common in China.

According to the empirical data, the Chinese managed firms perceive an institutional distance regarding trustworthiness where they find it more important to build trust within Swedish relationships. For instance, one must have a specific certificate that shows firms trustworthiness at the Swedish market. At the Chinese market one can easier fool the other party to benefit the most out of the relationship, in Sweden it is the opposite where mutual benefits are of importance, which are partially built by trust between firms. The Chinese managed firms must therefore adapt their business practices by obtaining a needed certificate that makes a firm trustworthy at the Swedish market.

The Chinese managed firms perceive a cultural and institutional distance regarding laws and regulations where it is found crucial to obey existing rules at the Swedish market. They explain that at their home market it is possible to find a shorter route to get permission or get a decision taken by the authorities, which is not possible in Sweden, at the Swedish market one has to follow the rules set. The Chinese managed firms also stress that the rules within a Chinese organization are not as clear as in Sweden. Consequently, the Chinese managed firm need to adapt to the laws and regulations at the Swedish market, since the rules are not flexible one must learn and adapt to these in order work at the market.

### **5.2.3 Swedish vs. Chinese adaptations**

Swedish firms perceive the distance between the Chinese and the Swedish market to decrease, the Chinese managed firms has started to seek the Swedish market and

therefore changing and striving to act more in line with the western market. Accordingly, Swedish firms do not have to adapt to a great extent. However, Swedish firms has perceived that the Chinese are indirect in their communication, have a tendency for bending rules and has as hierarchical structure through out the organization. These differences has made the Swedish firms adapt their business practices in a Chinese business relationships. Clear and direct communication as well as personal visits where business exchanges must always be codified by documents and contracts. Furthermore, the Swedish firms have to be patience at the Chinese market due to the hierarchical structure.

On the contrary, Chinese managed firms perceive that they have to adapt to the Swedish market to a great extent due to cultural and institutional distance between the two markets. Consequently, it can be concluded that in order to operate on a Swedish market the Chinese managed firms must adapt their business practices. The Chinese managed firms must be more direct and clear in the communication as well as share all information in the beginning of the relationship. Furthermore they must adapt their business practices by not involve personal opinions or feelings in the business relationship and by compiling all business exchanges in written documents, decisions must be made on logical grounds. In order to gain trust at the Swedish market Chinese managed firms must adapt their business practices by obtaining a needed certificate that makes a firm trustworthy at the Swedish market. Also, Chinese managed firms must adapt to the laws and regulations at the Swedish market.

## **6. Conclusions and recommendations**

*This final chapter will conclude the thesis and answer the research questions in the following order; Sub-RQ 1: How do managers from two different institutional contexts perceive the cultural and institutional distance between them? Sub-RQ 2: To what extent do firms adapt business practices, developed in the domestic context, to a different institutional context? Main RQ: How does asymmetry in managers' perception on distance affect the extent of firms' adaptation to a different institutional context?*

### **6.1 Conclusions**

#### **6.1.1 How do managers from two different institutional contexts perceive the cultural and institutional distance between them?**

Based on the analysis, it can be concluded that Swedish managers perceive a cultural distance between Sweden and China in terms of Chinese indirectness in their communication, having a tendency for bending rules and the hierarchical structure through out the organization. Chinese managers perceive a cultural distance regarding Swedes directness in their communication, working from an ethical point of view, decision-making is decentralized and their indulgence culture. Moreover, Chinese managers perceive an institutional distance between Sweden and China, in terms of trust building, the domination of universalistic values and that status is achieved. They also perceive an institutional distance regarding the formalized authority and sanction system and the fact that decisions are made by logical grounds. On the contrary, Swedish managers do not perceive an institutional distance between Sweden and China. It can therefore be concluded that the Chinese managers perceives a greater distance between the two institutional contexts than the Swedish managers.

#### **6.1.2 To what extent do firms adapt business practices, developed in the domestic context, to a different institutional context?**

Based on the analysis it can be concluded that the Swedish firms does not have to adapt their business practices to the Chinese market to a great extent due to a perceived decreasing distance. However, they still have to adapt to the Chinese market by being clear and direct communication as well as personal visits where business exchanges

must always be codified by documents and contracts. Furthermore, Swedish firms have to be patient at the Chinese market. On the contrary, the Chinese managed firms have to adapt to the Swedish market to a great extent due to perceived cultural and institutional distance between the two markets. They therefore must adapt their business practices by being direct and clear in the communication as well as share all information in the beginning of the relationship. Furthermore they must adapt their business practices by not involve personal opinions or feelings in the business relationship and by compiling all business exchanges in written documents, decisions must be made on logical grounds. Also the firms must obtain a needed certificate that makes a firm trustworthy at the Swedish market, and they must adapt to the laws and regulations at the Swedish market. Based on the analysis and the perceived distance between the two institutional contexts, it can be concluded that the Chinese managed firms have to adapt their business practices to a greater extent than the Swedish firms.

### **6.1.3 How does asymmetry in managers perception on distance affect the extent of firms' adaptation to a different institutional context?**

Based on the analysis, it is evident that there is an illusion of symmetry when it comes to distance. Managers from different institutional context might perceive a cultural distance but their perception on cultural distance does not reflect at the same extent on their adaptation of business practices. Based on the two sub questions, one can indicate that Chinese managed firms adapt their business practices to a greater extent than Swedish firms. The Swedish managers explain that this distance between the two countries are constantly decreasing and the mentality at the Chinese are changing and they do not adapt their business practices in the same extent as Chinese managed firms. One could argue that there is symmetry in Swedish and Chinese managers perception on cultural distance, however the empirical data indicates and that this distance affects managers from two different institutional contexts differently. Since the Swedish firms explain that this distance is decreasing and therefore, they do not adapt their business practices in the same extent as Chinese managed firms.

From the empirical data it is found that the Swedish managers do not perceive the same distance as the Chinese managers. The Chinese managers perceive both a cultural and institutional distance, whereas, the Swedish managers do not perceive an institutional

distance. This indicates that there in fact is an asymmetry between the institutional contexts. Consequently, this asymmetry in managers' perception on distance affects the extent of firm's adaptation of business practices to the institutional context. It can be concluded that Swedish firms adapt business practices to less extent than Chinese managed firms and the reason behind it is the asymmetry in managers' perception of distance. Swedish firms investing in the Chinese market is not faced with the same distance as a Chinese managed firms investing in the Swedish market, and thus they do not adapt to the same degree.

## **6.2 Recommendations**

Managers from two different institutional context are affected differently by cultural and institutional distance and therefore do not adapt business practices at the same extent. Based on the analysis and the empirical findings there are different adaptations of business practices the two institutional contexts could do;

### **Swedish adaptations of business practices when entering Chinese market:**

- Be clear with a direct communication as well as personal visits where business exchanges must always be codified by documents and contracts.
- Firms have to be patient due to longer time of decision-making.

### **Chinese adaptations of business practices when entering Swedish market:**

- Have a direct and clear communication as well as share all information in the beginning of the relationship.
- Do not involve personal opinions or feelings in the business relationship and by compiling all business exchanges in written documents.
- Decisions must be made on logical grounds.
- Firms must obtain a needed certificate that makes a firm trustworthy at the Swedish market.
- Firms must adapt to the laws and regulations at the Swedish market.

## **6.3 Limitation**

Due to time consideration there is a limitation of number of case studies in this thesis, where six cases are studied; three Swedish firms and three Chinese managed firms.

Regarding one of the Chinese managed firms (Avego AB), two managers, one Swedish and one Chinese, were interviewed. This was the only interview where the authors had two persons to interview and the CEO is from Sweden. This was a choice made since the CEO has been working in China for decades and has a lot of knowledge, however Ms Gao had the main influence on the answers and Mr Konradsson more became a support and a comparison between Sweden and China. Therefore, the authors do not find this choice to have coloured the answers of the empirical findings. All interviews were conducted in Sweden and two of three companies, which represent the Chinese aspect, are Swedish but Chinese managed firms. One could argue, that the Chinese interviewees have more knowledge on Sweden than Swedish interviewees have on China due to the fact that they do not live in China. However, the Swedish interviewees have been working in China for more than 10 years and the Chinese market is their speciality. In addition, all Swedish interviewees are constantly visiting China, which gives them more insight of the cultural and institutional distance between Sweden and China.

Furthermore, there is not much consistency between the firms chosen except that they are active at the opposite market, some only export while some are located at the market. If firms chosen were equally active at host-market, the result could be even more concentrated. However, the authors can generalize the empirical findings to some extent since the cases chosen are active in the opposite institutional context. Due to time considerations there is limitation of generalization due to number of case studies.

## **6.4 Theoretical implications**

The purpose of this thesis was to describe and analyse how asymmetry in firms' perception on cultural and institutional distance affect the extent of firms' by increase understanding on how firms from different institutional contexts perceive the distance between them and to what extent they adapt their business practices to the foreign market. Based on Shenkar (2001) and Chapman (2008) who argue that the cultural distance is an illusion of symmetry and that the cultural and institutional distance between two countries, such as Sweden and China, do not necessarily need to be symmetric; it is an illusion of symmetry. Home and host country is affected differently where the home country involves the firm and the host country is within its national environment. Thus, it is necessary for firms to understand the environment properly in



order adapt to the institutional context. After analysing the theoretical framework and the empirical findings the authors has been able to conclude that in fact there is a asymmetry between two institutional contexts were the distance is not perceived the same, which also indicates that firms has to adapt there business practices to different extents.

## **6.5 Further research**

This thesis has increased understanding on how asymmetry in managers' perception on cultural and institutional distance affects the extent of firms' adaptation. This is by increasing the understanding on how managers' from different institutional contexts perceive the distance between these contexts and to what extent they adapt their business practices to a institutional context. However, as mentioned in the limitation, there is no clear consistency between the Swedish and Chinese managed firms, which could somewhat, influence the study. Therefore, for further research, the authors acknowledge the possibility to specify the choices of firms in order to find more concentrated and exact answers of firms perceptions of distance and to what extent it affect the firms adaption of business practices. Moreover, it could be of interest to conduct a quantitative research in order to gain more knowledge about this subject.

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# Appendices

## Appendix A Write title

### Interview guide

1. How do you build business relationship at the host-market?
2. Could you give an example on how you would approach a customer or supplier, comparing to your home-market?
3. What do you find to be the biggest differences between your relationships in Sweden and China?
4. How would you describe the importance of establishing a *strong, trustworthy* and *long-term* orientated relationship within the business network? (Comparing with home-market)
5. Would you describe the relationship to be more personal or formal?
6. How do you perceive the boundaries between formality and informality in the network e.g. blurred or clear boundaries?
7. How would you describe the communication aspect of the relationship? Are customers or suppliers (the relationship) straightforward and explicit when communicating or more indirect?
8. Do you perceive the decision-making at host-market businesses to be based on intuition and feeling or on logical grounds?
9. How would you describe the structure of the business network, for instance, is it based on hierarchical structure or decentralized? For instance, managers have authority to make decisions without the boss approval or vice versa.
10. Do you perceive the business network to be more restraint, e.g. employees conform social norms to not stand out from the group or do they act more freely?
11. From your point of view, what it is more common in the business network:

- Employees *achieves* its status or title in the organization, through personal merits and performance
- Employees *ascribed* its status or title in the organization, through social connection

12. What are the main challenges you face when it comes to laws and regulations?

13. Are they open for bending rules, i.e. obedience of laws and rules can be flexible to fit a certain situation or are they very strict with conforming of laws, rules and regulations?

14. How do you perceive the authority system within the business network, e.g. is it formalized, based on competence and performance, or less formalized?

15. How do you perceive the sanction system within the business network, e.g. is it based on formal conventions, such as laws, or informal conventions (relational norms)?

16. Based upon these differences, what is the most significant difference between the Swedish and the Chinese culture and the way of doing business?

17. Based upon these main differences, what kind of adaption have you had to make?