



JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL  
JÖNKÖPING UNIVERSITY

# Import from China

The straight way to success?

Bachelor's thesis within ENTREPRENEURSHIP AND  
MANAGEMENT

Authors: John Davidsson

Martin Hjerpe

Michael Åke

Tutor: Jenny Balkow

Jönköping MAY 2006

# Bachelors Thesis Whithin Entrepreneurship and Management

Title:	Import from China – The straight way to success?
Author:	John Davidsson, Martin Hjerpe, Michael Åke
Tutor:	Jenny Balkow
Date:	2006-06-07
Subject terms:	Import, China, Trading, Business culture, Micro and small sized enterprises, trade problems.

---

## Abstract

The interest in China today is enormous, and media talk about successful firms and entrepreneurs that engage in business with China. This positive image has created a general perception that China offers the moon and the stars for Swedish micro and small sized enterprises (MSEs). We still believe that there are many opportunities to extend or build business upon import from China. However, we question media's communication that import from China is a straight way to success. If this is an accurate picture of the situation, what is it that makes Swedish companies hesitating about establishing import business from China?

The purpose of this thesis is to identify the reasons for Swedish MSEs to engage in import from China, as well as recognizing the problems they experience. We will by analysing the underlying factors of the problems describe different ways to handle these issues.

We have chosen a qualitative approach with semi-structured, deep-going interviews, which we have carried out on six companies that have gone through with the import process from China. The empirical findings will be the base in order to verify the theories on this subject.

We have come to the conclusion that there is a division between production companies and trading companies when it comes to the reason to start importing. Trading firms generally follow the opportunities while production companies are forced to take action because of push effects. Also, the hype about China has helped in choosing China before other countries. The companies in this thesis have generally no trouble in finding a supplier but rather to find suitable suppliers.

The major problems in trading with China are quality and delivery, which many companies handle by short-term procedures like over-explicitness, constant reminders and increased specifications. They argue that these problems depend on lack of understanding, variation in outlook, different behaviour, as well as pride and attitudes among the Chinese. However, we believe that these issues have their roots in culture, linguistics and different views of how relationships should be considered. Thus it would be a more long term solution to handle the underlying issues which in the extension is a more successful way of importing from China.

# Table of Contents

<b>1</b>	<b>Introduction.....</b>	<b>1</b>
1.1	Background .....	1
1.2	Problem discussion .....	2
1.3	Purpose .....	2
1.4	Definitions.....	3
1.5	Delimitations.....	3
<b>2</b>	<b>Methodology .....</b>	<b>4</b>
2.1	Quantitative and Qualitative research.....	4
2.2	Inductive – deductive research .....	5
2.3	Data collection .....	5
2.3.1	Primary sources.....	5
2.3.1.1	Finding companies.....	5
2.3.1.2	Interviews.....	6
2.3.1.3	Validity and Reliability .....	7
2.3.2	Secondary sources.....	8
2.3.2.1	Criticism of selected secondary sources .....	8
<b>3</b>	<b>Theoretical framework.....</b>	<b>9</b>
3.1	Former research .....	9
3.2	Reasons to import .....	10
3.2.1.1	Push Factors .....	10
3.2.1.2	Pull Factors .....	11
3.2.1.3	Risk management.....	12
3.2.1.4	Imitation behaviour.....	12
3.3	Problems .....	13
3.3.1	Product quality.....	13
3.3.2	Finding appropriate suppliers .....	13
3.3.3	Culture.....	14
3.3.3.1	Power distance .....	15
3.3.3.2	Individualism versus collectivism .....	15
3.3.3.3	Long-term and Short-term orientation.....	15
3.3.4	Relationship & Guanxi .....	16
3.3.5	Language .....	17
3.4	Ways to handle problems .....	18
3.4.1	Step by step learning.....	18
3.4.2	External Assistance .....	19
3.4.2.1	Spirit of Gnosjö .....	19
3.4.3	Trial and error.....	19
3.4.4	Single and double loop learning .....	19
<b>4</b>	<b>Empirical findings.....</b>	<b>21</b>
4.1	Swede-Wheel .....	21
4.1.1	Background to import .....	21
4.1.2	Problems .....	22
4.1.3	Ways to handle problems .....	23
4.1.4	External assistance .....	24
4.1.5	Decision making .....	24
4.2	Falks Broker AB.....	24
4.2.1	Background to import .....	24

4.2.2	Problems .....	25
4.2.3	Ways to handle problems .....	26
4.2.4	External assistance .....	26
4.2.5	Decision making .....	27
4.3	Liljas Plast .....	27
4.3.1	Background to import .....	27
4.3.2	Problems .....	28
4.3.3	Ways to handle problems .....	28
4.3.4	External assistance .....	28
4.3.5	Decision making .....	29
4.4	Forsheda Stålverktyg AB .....	29
4.4.1	Background to import .....	29
4.4.2	Problems .....	30
4.4.3	Ways to handle problems .....	31
4.4.4	External assistance .....	32
4.4.5	Decision making .....	33
4.5	Uppman och Björkhag AB .....	33
4.5.1	Background to import .....	33
4.5.2	Problems .....	34
4.5.3	Ways to handle problems .....	35
4.5.4	External assistance .....	36
4.5.5	Decision making .....	36
4.6	Quickmatch Trading AB .....	36
4.6.1	Background to import .....	37
4.6.2	Problems .....	37
4.6.3	Ways to avoid problems .....	39
4.6.4	External assistance .....	39
4.6.5	Decision making .....	40
<b>5</b>	<b>Analysis .....</b>	<b>41</b>
5.1	Reasons to import .....	41
5.1.1	Push and Pull factors .....	41
5.1.2	Why China? .....	42
5.1.3	Risk management .....	42
5.2	Problems .....	44
5.2.1	Finding suitable suppliers .....	44
5.2.2	Quality .....	45
5.2.3	Delivery .....	46
5.2.4	Culture and behaviour .....	46
5.2.5	Language .....	48
5.3	Ways to avoid problems .....	48
5.3.1	Finding a suitable supplier .....	48
5.3.2	Quality/Delivery .....	49
5.3.3	Cultural issues/Language .....	51
<b>6</b>	<b>Conclusion .....</b>	<b>52</b>
6.1	Suggestions for further studies .....	54
	<b>References .....</b>	<b>55</b>
<b>7</b>	<b>Appendix – Interview model .....</b>	<b>59</b>

## Table of Figures

Figure 2-1 – Adapted graph of validity and reliability of sources (Kinnear & Taylor, 1991, cited in Lund Jensen, 1995).....	8
Figure 3-2 – Sources of differences between countries and groups (Hofstede & Hofstede, 2005).....	14
Figure 3-3 – Guanxi and Guanxiwang (Wu, 2000).....	17
Figure 3-4 – Intercultural communication process (Kotler & Armstrong, 1993) .	18
Figure 3-5 – Discovery and Exploitation model (Davidsson, 2004).....	19
Figure 6-1 – Adapted version of Single Loop learning .....	53
Figure 6-2 – Adapted version of Double Loop learning .....	53

# 1 Introduction

The image that media portrays today is that everyone has to go to China (News you can use, 2005). Swedish companies go on a pilgrimage to China filled with dreams and new ideas (Askman, 2005). When asked about it, 70% of the purchasing managers in Sweden reply that they are planning for more import from foreign suppliers and the rating of countries regarding most interesting and best in general is topped by China (Förenings sparbanken & Silf, 2006). *"The fact that the Shanghai office have developed into the biggest within the Swedish Trade Council globally shows how big the interest is"* says Fredrik Hähnel, head of Eastern China at the Swedish Trade Council (Askman, 2005).

In spite of the fact that China has doubled its foreign trade in just three years, there are still enormous opportunities for the companies that go through with their plans of importing from China (Yardley, 2005). The potential China offers to the Swedish companies that engage in import is well illustrated by the fact that a yearly growth in GDP of 8.5% is considered a soft landing (Zakaria, 2005). Today, still around 500 million people in China lives on less than US\$2 per day (Yardley, 2005). At the same time the wage of a Chinese worker is between 5 and 10% of the equivalent worker in Sweden (Vikström, 2006). Combining these factors gives you an obvious picture of the opportunities for import that China offers to Swedish companies in search of ways to reduce production costs.

Previous studies in this field done by Ahlström & Bäckström (2005) and Formgren, Gustafsson and Thunberg (2005) suggests that the process of importing from China is rather straightforward and that the problems that come with it is not of great importance. According to Lu (2002) success is more visible than failure and firms strive towards success, therefore this can contribute to build a positive image about China. Therefore we are doubtful if media reflects reality when stating that the import process is just an easy, straight way.

This is a bachelor thesis within management and entrepreneurship for Jönköping International Business School that will deal with Swedish micro and small-sized enterprises (MSEs) that engage in import from China. We will focus mainly on three different aspects of the process; the reasons to import, problems and ways to handle these problems. The intention of this study is to give a good reflection of the situation that MSEs faces today, not to generalize for all Swedish or international companies.

## 1.1 Background

During our exchange studies at City University of Hong Kong the interest for import from China came up. To further familiarize ourselves with this field of study we decided to acquire some basic knowledge about it on site. Amongst the things we did was meeting with some entrepreneurs, visiting a factory in China and attending a trade fair. We also studied some courses about Chinese Business and made several trips to different places in China. This gave us a picture of a country with a lot of opportunities for imports to Sweden but also a number of potential barriers: low English proficiency, cultural differences and difficulties to establish relations built on trust. Combining with more practical aspects like geographical distance, long delivery times and quality issues made us aware of that problems with import from China do exist.

Just a couple of years ago establishing business with China was almost exclusively for large companies, but now also smaller Swedish companies have realized the potential (Askman,

2005). Setting up import operations from China is both time demanding and resource consuming. There are several aspects to take into consideration during the process. Micro and small-sized companies usually neither have the in-house competence nor the resources to do a detailed preparatory work compared to larger corporations. They are more vulnerable to trade related problems since they do not have the assets to hire all expertise needed nor the funds to send a delegation to China to scan the market. Thus we have decided to look into the import process of Swedish small and medium sized enterprises.

We have chosen to look at firms that are located inside the famous Gnosjö region and compare with some companies that are located outside this region. The Gnosjö region is in Sweden highly connected to small and medium sized family owned companies with a special networking culture. We wanted to see if there is a difference between companies in this region and outside due to communication between entrepreneurs.

Despite the opportunities at hand experts in the field like Mats Harborn, director of Scania in China, warns smaller Swedish companies not to yield to the current Follow the Leadership that makes it easy to become stressed and make rash decisions (News you can use, 2005). *"It is not required for all subcontractors in Gnosjö to move to China. China will still be there tomorrow."* says Mats Harborn and gives the advice to keep a level head and do a thorough-going analysis before taking action (News you can use, 2005). This view is also shared by Björn Olanders, consultant at ALMI Företagspartner, who would like to prevent Swedish companies from making bad decisions by providing a stay or go calculation (Edvardsson, 2005). *"New research shows that a move of the production abroad can actually decrease the profitability"* says Björn Olanders (Edvardsson, 2005).

## **1.2 Problem discussion**

We still believe that there are many opportunities for Swedish micro and small-sized enterprises to extend or build their business upon import from China. However, we question media's communication that import from China is a straight way to success. This is a message that can easily be apprehended if reading articles and stories about successful entrepreneurs and companies that have succeeded with this kind of business. If this is an accurate picture of the situation, what is it that makes Swedish companies hesitating about establishing import business from China?

There must be some underlying features behind the fact that there are more MSEs in Sweden that do not practice this kind of import process. In media's glorifying reporting of the subject we seldom hear about problems that these entrepreneurs and companies have come across during their business with China. In this thesis we will take a closer look on why some companies choose to start up import. What are the triggering factors behind companies that put their import plans into action? We will also investigate if these companies have come across any problems and how they have solved these problems in case they bumped into any along the way.

## **1.3 Purpose**

The purpose of this thesis is to identify the reasons for Swedish micro and small enterprises to engage in import from China, as well as recognizing the problems they experience. We will by analysing the underlying factors of the problems describe different ways to handle these issues.

## 1.4 Definitions

**China** – Mainland China without special administrative regions and Taiwan.

**Delivery time** – The time it takes from when the customer places an order until the shipment is received.

**Micro and small sized companies** – Companies that employ fewer than 50 employees and whose annual turnover do not exceed 10 million Euro (Commission of the European Communities, 2003).

**Obstacles** – A smaller issue about the import process compared to a problem that should be considered, solved or answered.

**Outsourcing** – Buying a product from an outside supplier (Ting, 2004). In this thesis the term outsourcing is independent of having had in-house production or not.

**Problems** – A question about the import process that should be considered, solved or answered.

**Reasons** – Motives or causes that make people or companies to take action.

## 1.5 Delimitations

In our report we will not treat trade barriers like custom duties and quotas. There are two reasons to why we have chosen to leave these matters outside our research. The first reason is that these problems are product based which we do not consider. Different products have different custom duties and some products are regulated with quotas and some are not. The second reason is that custom duties and quotas are not barriers that only affect import from China. These are issues that you always have to consider when importing goods from countries outside the European Union.

We have also chosen to disregard the problem of Intellectual Property Rights which is a big issue in China. The reason for this is that this is product based problem as well. Also, in general this is not a problem for MSEs that usually do not have unique brands and patents worldwide.

## 2 Methodology

We have chosen to investigate the process of import from China for Swedish micro and small sized firms. This will be done using a qualitative research approach, where six companies will be interviewed. The interviews will be based on a model that covers different areas that we want to discuss with the companies. However, we will use open-ended questions to make the interviewees able to answer with as little influence as possible from the authors.

Companies both inside and outside the Gnosjö region has been found in order to see if it makes any difference as to location. Mainly primary data will be used as empirical results, while only secondary data will be used for the theoretical framework. These empirical findings will be the base for verifying the theoretical framework being used, i.e. we will use a deductive approach.

### 2.1 Quantitative and Qualitative research

The selection of methodology is an important process in all research projects. It can be described as the strategy of how to collect and interpret gathered data in the research. Research methods can be divided into qualitative methods and quantitative methods. The major difference between qualitative and quantitative methods is that quantitative research is based upon statistical methods or actions of quantifications (Ghauri, Grønhaug & Kristianslund, 1995), while qualitative methods emphasise more on understanding and observations of the natural environment. Quantitative studies emphasise more on testing and verifying with controlled measurements (Ghauri et al., 1995).

Objective quantitative research method is often recognized as better and has a higher status among researchers. One reason for this is that qualitative research is done because of the researcher's inability to master statistical techniques according to Marschan-Piekkari & Welch (2004). Another common reason for these thoughts is that qualitative research is not accepted as legitimate science (Marschan-Piekkari & Welch, 2004.) On the other hand according to Ghauri et al. (1995) this is not true; they state that the best and most scientific research method is the one that best suits the research problem and its purpose, no matter if it is a qualitative or a quantitative method. However, the qualitative method is subjective and will therefore demand a higher standard of the authors to analyse the data (Ghauri et al., 1995).

Marschan-Piekkari and Welch (2004) state that qualitative research answers complex and tricky issues that frequently appears in international management research. They further claim that qualitative research methods take advantage of the richness in data. Research problems that deal with personal behaviour and experiences are areas that need qualitative research methods (Ghauri et al., 1995). This is applicable to our thesis and a qualitative method is chosen.

Since when doing a quantitative study, the researchers have to think of the questions beforehand, and thus it is almost necessary to have some experience in the field of interest. We do not want to limit the answers from our interviewees and therefore a qualitative is more suitable. Since the import process is a very multifaceted subject, it is necessary for the researchers to be able to rephrase and explain the questions, and in some cases even narrow the field of interest. Also, since we wanted to reach in-depth aspects in our analysis and wanted to learn more about the subject, a qualitative method was more appropriate. Having open-ended questions and the possibility to discuss possible problems and solutions, we chose to do a qualitative research study. This made it possible for the interview-

ees to answer without as little influence possible from the interviewers, but only based on the companies' own experience. Also, it is hard to form this subject as a statistical investigation due to the complexity of the possible answers. This requires the researchers to do a qualitative research study.

## **2.2 Inductive – deductive research**

There are usually two different views on research: inductive and deductive approach (Alvesson & Sköldbberg, 1994). The inductive approach emanates from a set of data and explains the common connection by establishing a theory. The deductive however, start out from the theory, and use that to explain the happenings in different data sets (Alvesson & Sköldbberg, 1994).

In spite of the fact that Alvesson & Sköldbberg (1994) argue that deduction does not explain anything but rather presume that the things that should be tested is right from the beginning, it is more relevant for this thesis. Due to the relatively old subject, there are many theories about how an import process should be done. Therefore we want to test the results of some different micro and small firms to see if the theory is applicable.

Also, the necessity to investigate many sources to use an inductive approach implies that it is a very time consuming process, partly because of the amount itself, but also because of the diversity among possible answers. Therefore a deductive approach is more applicable in our case.

## **2.3 Data collection**

When conducting a thesis of this kind input data to base the analysis and conclusion on is necessary. This input data can be divided into two categories, primary sources and secondary sources (Lekvall & Wahlbin, 1987). Primary sources are data that are collected by yourself in some way, for example by carrying out interviews or a survey. Secondary sources are data that already is collected by someone else in another context. This could for example be that to use already existing statistics or researches (Lekvall & Wahlbin, 1987). Our research will be based upon both primary and secondary sources.

### **2.3.1 Primary sources**

The primary sources of this thesis has been collected and depicted in the Empirical findings chapter. One seminar about the Canton Trade Fair has been attended that was given by the Swedish Trade Federation and the Swedish Trade Council in Gothenburg on March 7, which has been depicted in the theoretical framework about finding suitable suppliers in China.

#### **2.3.1.1 Finding companies**

We have chosen six companies because we think it gives a good balance between the wideness of our population, while still being able to conduct in-depth interviews that is necessary to serve this purpose for all companies.

We have focused on Swedish micro and small firms due to the ability to act quickly and taking opportunities as they arise. Even medium sized companies have quite many employees and stakeholders in the company, and therefore they are not so flexible.

Also, large firms often have more resources and can therefore spend more without the need of fast results. Thus micro and small firms need to be more efficient in the process, even though the goals might be similar. Therefore micro and small firms are more interesting for this thesis. Additionally, the bigger the company, the more people that knows of a particular market. If an MSE choose to import from another country, there is less probability that anyone in the company knows about that market. If there is not anyone who knows, there is a larger possibility to hire that competence.

We are also interested to see if there is a certain effect of localization, and therefore we have chosen most of the firms in the Gnosjö region, a well-known localization economy. We will compare those with a few firms located in Jönköping outside the Gnosjö region. This was an active choice since we wanted to see if there were any differences in the way they thought and worked with the specific matters of the import process.

We have had an objective approach in the selection process of companies. We did not have any previous connections with any of the companies. We had minor knowledge about Quickmatch Trading AB which we read about in the study by Formgren et al. (2005). However, it is still interesting due to that it was a new company and therefore has gained knowledge about the process since then. Our criteria for the companies were that they should have gone through the process of starting up import from China and that some of them should be established in the Gnosjö region. In addition, we have chosen firms that are in different stages of the import process. We wanted to have at least one that are in each segment of the process in order to see any differences between what kind of obstacles there are and if those change during time. The reason behind this selection is that we believe that it is easy to forget how it was and how they thought during early stages in the process after a couple of years.

We therefore contacted the local trade association (Gnosjö Industriförening) and got a list of companies that were involved in the import process. We randomly chose three companies that we called and asked if they could participate. All of the three companies agreed and we booked a meeting for the interview at their office. During the interview with Liljas Plast our interviewee recommended a company that he knew had long experience from import from China. The company was Forsheda Stålverktyg AB and we decided to arrange a meeting with them as well. It was a coincidence that we came in contact with the company Uppman & Björkhag AB. During a seminar about starting up your own business we posted the question if anyone had experience about import from China. One of the seminar participators raised his hand. We talked to him after the seminar and arranged a time for the interview.

Also, we would like to see if there is any difference between firms that have been active for quite long time in China compared to those that started during the last five years in order to see what ways there are to go. Especially Internet has made it possible for smaller firms to both market themselves, as well as search the market for possible suppliers. Therefore it is interesting to see whether there is any changes in the procedure of finding suppliers between relatively new companies and those that have been active for a long time.

### **2.3.1.2 Interviews**

The collection of data can be done in two different ways: orally or in writing. Lekvall & Wahlbin (2001) gives three different examples of how to collect oral data: by telephone, video conference or by personal meetings. All of our interviews have been through personal meetings.

Lekvall & Wahlbin (2001) also discuss some aspects of personal interviews. The biggest advantage is that it is possible to ask different kinds of questions, including showing material and pictures (Lekvall & Wahlbin, 2001). Something that they do not bring up is the advantage of registering the body language of the interviewee, which is important in finding small variations in attitudes. The biggest negative aspect is the cost of interviewing each respondent personally.

All the interviewees at the different companies have been persons in leading positions with good insight in the companies and their strategies in China. The persons interviewed have also had an active role in the import process and decisions concerning the import process from China.

The interviews have followed a model with different areas of interest with every company. This model has been used as a checklist in order to cover all areas of interest with all firms. This type of interview style where a checklist that covers different subjects is followed is called semi-structured interviews (Darmer, 1995). The questions have been open-ended so that the interviewee has been able to formulate his own answers. The interviews have been like a dialogue which implies that we have been able to go in-depth and ask more specific questions to different interviewees if the situation required it.

We used an audio recorder during the interviews so that we could concentrate on the answers and the body language of the interviewees, instead of writing down notes. After the interview we constructed a transcription from the audio file to get a good overview of what was said. We then used the transcription as the basis for our empirical data. This was because we wanted to get a clear structure where it was easy to compare the answers between the companies and make it easier for the analysis.

### **2.3.1.3 Validity and Reliability**

Validity and reliability are two different imperfections in a way of measuring of receiving data from respondents. Validity measures whether the survey really gets the correct result in regard to reality, while the reliability measure whether the results are similar throughout the population (Lekvall & Wahlbin, 2001).

If the interview was to be done several times, in order to get a good validity the results measure what it is set to measure (Lund Jensen, 1995). Thus it should not be anything in the measurement that twists the results. This is hard for us to be sure of for our companies, but since it is the companies' reality that we describe and that we have spoken a person have been involved in the process, it is hard to question the validity.

The reliability measures whether, according to Lund Jensen (1995), there should be no or few deviations when the same measurement is done several times. If there is a large spread of answers the reliability is low. Since the purpose of this thesis is to show a good reflection of the companies' situation rather than to generalize for all Swedish MSEs, the question whether the sample is appropriate is not of concern to us. However, looking at the answers given by our companies which are similar in all cases, one can say that the reliability of our data is relatively high.

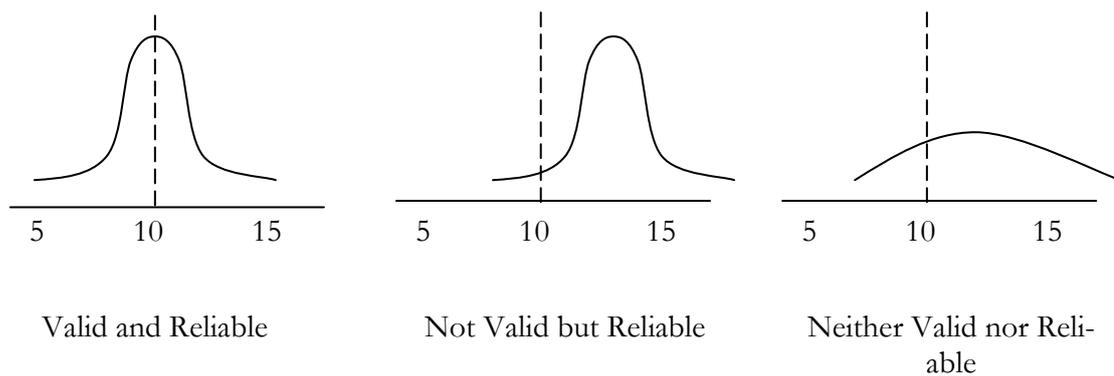


Figure 2-1 – Adapted graph of validity and reliability of sources (Kinnear & Taylor, 1991, cited in Lund Jensen, 1995)

According to Darmer (1995) this is usually more accurate to talk about when discussing quantitative studies, and the reason for this is due to the positivistic tradition where objectivity and measurability are needed. Since it is impossible to have to exactly similar interviews, it is not possible to reproduce such results since both the interviewer and the interviewee learn from earlier interviews. Also, due to the need to interpret interviews and analyze the importance of certain aspects it cannot be objective (Darmer, 1995).

Even though it is hard to measure the questions of validity and reliability in a qualitative research, they concern how critical we need to be when interpreting our sources. And if the validity and reliability would be high, the application of our thesis would be widened.

### 2.3.2 Secondary sources

We have collected theories about the areas of interest in order to be able to verify those against our empirical findings. In order to collect suitable theories we have used different methods. Several databases and search systems that we have been able to access through the Jönköping University library have been used in order find books and articles. Data bases that frequently have been used are JULIA, ABI, Diva and JSTOR Business collection. We have used search words such as: import, business culture, entrepreneurship and China. Also, the company websites of the different respondents have been used, together with articles from different newspapers, both in Sweden and China.

#### 2.3.2.1 Criticism of selected secondary sources

Since we only have used one source for some of the theories we might get a one-sided picture of them. However, we have tried to find the most renowned researcher of the area in order to minimize the risk of presenting a erroneous picture.

### 3 Theoretical framework

According to the Commission of the European communities' (2003) definition, MSEs are a more specific subgroup that goes into the category of Small and Medium sized Enterprises (SME). Therefore the theories based on SME are also suitable for our research.

#### 3.1 Former research

There is a lot of research on doing business with China, even though most of it is focused on either setting up a production site in China or exporting to China. There are however some research on the import process that are of interest.

Formgren, Gustavsson & Thunberg (2005) describe the import process from an SME-perspective in their bachelor thesis "Trading with China – the import process from an SME perspective", and look primarily at four different factors that are important to the importer. These are the product, the network, the producer and culture and the logistics aspects. They argue that there have not been any quality problems for products bought from China. Also, the price is the essential factor why many companies decide to import instead of producing in-house. The logistics factor is not seen as any problem by Formgren et al. (2005), however the time perspective is seen as the most important factor to consider.

Formgren et al. (2005) have stated that the relationships between Chinese and Swedish companies are not of any trouble, it would be the same as for doing business in Sweden. It is only common sense that is necessary, no matter if being in Sweden or in China. Furthermore, the cultural aspect such as *guanxi* is described as being of little use (Formgren et al., 2005) Almost no external help was used by trade councils or chambers of commerce to overcome any difficulties, instead most firms sought their own way of dealing with those problems. Formgren et al. (2005) also argues that the existing stereotype that Chinese products are of low quality is wrong. They have instead concluded that Chinese products are of good quality since none of their interviewees have mentioned anything about this.

Formgren et al. (2005) argue that China "*is a world of opportunity*" (Formgren et al., 2005, p.46). There are not many things to consider as problems, but things will be learnt on the way. Therefore, China is a place to find opportunities and to realize those (Formgren et al., 2005).

This however seems to be quite optimistic, and there should make a difference if being prepared or not. Based on our experiences from China and Hong Kong we believe that there should be many things that matter to Chinese businessmen, as well as there are a lot of things that matter to Swedish businessmen. The cultural aspect should be the most difficult to adjust to and to know of, together with the language. This will be studied further in this thesis.

Another thesis of interest in this field is one by Ahlström & Bäckström (2006) named "Guanxi - Contacts in Chinese". This project describes the most important factors to consider when establishing a business relationship with a partner in China, primarily from a cultural and organisational perspective.

Ahlström & Bäckström (2006, p. 41) say that there are three factors that should be focused on when importing from China:

- *“Develop a long-term relation with the supplier*
- *The supplier should have experience, preferably many years, of exporting*

- *Make sure to have employees that are experienced in international trading*

However, Ahlström & Bäckström (2006) argue that the empirical data suggests that there is no need to learn from earlier experience in gradual internationalization even though it sometimes helps the company. *“Cultural clashes and organizational clashes are not perceived as problems, but something that is positive”* (Ahlström & Bäckström, 2006, pp. 41-42) because they are just differences. They suggest that as long as the company is well prepared for the market in question, the step is not too big to take, even though it is the first time trading with a supplier from another country (Ahlström & Bäckström, 2006).

These conclusions drawn by Ahlström & Bäckström (2006) are contradicting the conclusions by Formgren et al. (2005) and therefore adds to our perception that it is important to be prepared. However we want to look more into specific problems to see what the underlying factors are and what can be done to handle these problems, which is something that Ahlström & Bäckström (2006) do not focus on.

## **3.2 Reasons to import**

As well as starting up a new venture in the local market, starting import or export requires entrepreneurial skills and risk taking. *“When starting to operate internationally, the risks increase.”* (Kjellman, Sundnäs, Ramström & Elo, 2004, p. 19) They argue that this is quite logical due to the exposure to new markets and lack of knowledge.

The forces that trigger entrepreneurs or companies to get involved in different ventures or projects can be divided into two different categories: push and pull factors (Wickham, 2001). Push factors force the entrepreneur into new ventures because of a less attractive current situation. Typical push factors are unemployment or limited financial reward from conventional projects (Wickham, 2001). Pull factors are those forces that drive entrepreneurs to new projects and ventures because of the attractiveness of the business or project idea (Amit & Muller, 1995). Examples of pull factors are financial reward, freedom to work for yourself and the feeling of achievement that can be gained from running your own projects (Wickham, 2001).

### **3.2.1.1 Push Factors**

Today there is often a push-effect on SMEs to lower costs and/or extend their range of products in order to keep up with competition (Johansson & Vahlne, 2003). Therefore many firms start their internationalization process in a country where the costs of production are as low as possible, like China. This is something that Johnson, Scholes & Whittington (2005) agree with. Since one of the most important aspects for customers is the price of a product and *“customers do not value product features at any price”* (Johnson et al., 2005, p. 122), it is very important for companies to be cost efficient.

One of the strategies to make a company more cost efficient is to outsource its production to other countries (Johnson et al., 2005). Dahab & Esperanca (2003, p.38) talk about the “make-or-buy decision”, where ‘make’ refers to insourcing while ‘buy’ means to outsource. Dahab & Esperanca (2003) agree that most often the primary factor for choosing to outsource is cost reduction in the firm. Thus the manager often has to choose the alternative that minimizes the cost of production (Dahab & Esperanca, 2003).

There are usually two different factors that should be considered when considering outsourcing instead of producing in-house. Firstly, the supplier that is used for outsourcing should be able to provide increased value of products compared to in-house production

(Johnson et al., 2005). The second factor is that the outsourced part should not be a core competence of the company, since then the competitive advantage will be undermined (Johnson et al., 2005; Dahab & Esperanca, 2003).

According to Alam & Pacher (2003), one effect of today's globalization is that the comparative advantage of SMEs in high-cost countries is reduced since the importance of traditional factors of production, such as land, labour and capital, is diminishing. This forces companies to take action. Moving focus towards more knowledge-based economic activities is of great importance and many need to restructure their business and move production to low-cost countries to be able to compete in the global market (Alam & Pacher, 2003).

### 3.2.1.2 Pull Factors

In many pull situations the entrepreneur or the firm spots an opportunity that they go after. The opportunity will drive them to engage in new business activity. According to Wickham (2001, p. 215) an opportunity is:

*“the change to do something in a way which is both different from, and better than, the way it is done at the moment“.*

Timmons & Spinelli (2003) also say that one of the driving forces in the entrepreneurial process is the opportunity. In this model over the entrepreneurial process the need of balancing of the three driving forces is illustrated, opportunity, team and resources (Timmons & Spinelli, 2003). However, we only consider opportunity in this thesis. Timmons (1989) define opportunity as following,

*“an opportunity has the qualities of being attractive , durable, and timely and is anchored in a product or service, which creates or adds value for its buyers or users”.* (Timmons & Spinelli, 2003, p. 82)

Wickham (2001) also uses a metaphor that he calls the strategic window to illustrate this process. In this metaphor he first pictures a solid wall which represents the competitive environment. In the competitive environment there are a lot of already existing firms that operates and together they are the solid wall. However, all the established companies leave some gaps, these gaps are window of opportunities that can be spotted by entrepreneurs and used to create new business activity.

The window metaphor as a process is divided into five different stages (Wickham, 2001). The first stage is to spot the opportunity. In this stage the solid wall is scanned in order to find gaps among the existing companies in the market. The second step is to locate the window. This is about positioning the new product in order to take the best advantage of the opportunity. In the third stage you will measure the window. This will make it possible to see the potential in the opportunity, i.e. if the window is large enough to cover the investment costs. The fourth stage is to open up the window. This is the stage where you turn the vision into reality and actually start the new business activity. The fifth and last step in the process is to close the window. This should be done in order to prevent your competitors to follow through the window (Wickham, 2001). Timmons & Spinelli (2003) have a similar description of an opportunity. They point out three factors that are important to consider when talking about a good opportunity. The first thing is the market demand, this is important in order to measure the opportunity (Timmons & Spinelli, 2003). The second aspect is the market structure and size that defines the market (Timmons & Spinelli, 2003). The third thing that should be considered is a margin analysis (Timmons & Spinelli, 2003).

### **3.2.1.3 Risk management**

Managing risk is one of the owner's most important tasks in making a project successful. Initially it is often the owner that is responsible for all of the risk management since he is the one who decide if the project is going to be executed or not. The owner is the one who must identify, analyse and control the risk and also decide what is acceptable when it comes to level of risk and the termination of the project (Committee for Oversight and Assessment of U.S. Department of Energy Project Management, 2005).

In a study by Frederic Delmar (1994), the differences between an entrepreneur and a small business owner-manager regarding risk management is indicated. While the entrepreneur has a high motivation to expand the business and is attracted by new situations, the small business owner-manager prefers control to growth and strives for a stable business. Delmar (1994) states that a probable cause why the small business owner-manager does not show the same willingness to expand is the need to retain the actual structure of the organisation and full control. The small business owner-manager generally has a low tolerance of uncertainty and sees risk as an all negative aspect. They also consider themselves as not having enough knowledge and competence to make the changes which makes the idea of expansion unfamiliar to them. Therefore they compensate this with external competence (Delmar, 1994).

The study by Delmar (1994) also suggests that there are differences in how managers respond to different situations. Delmar (1994) states that the small business owner-manager is more reactive than proactive. Instead of searching for opportunities and change, they adapt to the new situation. The reason for this according to Delmar (1994) is that they do not consider themselves competent enough to be proactive.

### **3.2.1.4 Imitation behaviour**

When striving for economic growth imitation is an important part of the entrepreneurial process (Schmitz Jr., 1989). Another theory about imitation argues that prior decisions or actions by other companies increase the legitimacy of similar decisions and actions (Lu, 2002). This is particularly the case when it comes to decisions or actions that involve a lot of uncertainty. Imitational behaviour can, according to Lu (2002), be divided into three different categories; Frequency-based, trait-based and outcome-based.

Frequency-based imitation is when a company follows the choices of a large number of other companies in the same environmental context as themselves. It is only the number of previous firms that forms the base for a firm's decision-making process (Lu, 2002). This statement is supported in a study by Haunschild & Miner (1997), where it is concluded that the choice of investment banker for a firm is positively related to the number of previous firms using the same investment banker. The more companies that start imports from China, the more other companies will follow.

The trait-based imitation behaviour is a more selective process. It is more likely that successful firms are imitated since success is more visible than failure and success is also something that firms aims at (Lu, 2002). Research by Haveman (1993) shows that the presence of successful firms in a new market makes it more attractive for other potential entrants. The conclusion of the research is that organizations imitate the behaviour of successful organizations (Haveman, 1993). The fact that only the successful cases are spread will increase the interest of other companies to go for the same opportunity.

The outcome-based imitation is like trait-based imitation a selective process. The firm looks at other firms that are doing well and then tries to imitate their decisions and actions

(Lu, 2002). Haunschild and Miner's (1997) study of investment banker shows evidence that very visible and beneficial outcomes enhance the outcome imitation. If the companies that are doing well use clear methods and decisions to reach success it is more likely that these actions will be followed by others.

### 3.3 Problems

According to Johansson & Vahlne (1977) there is a higher risk when entering a new market on the other side of the world, like China, an aspect known as the psychic distance. They define psychic distance as factors that prevents or interrupt the flow of information between the firm and the market. This could for example be differences in language, culture and educational level among workers (Kjellman et al., 2004). Some risks are more relevant to importing companies than others, and we will go through some aspects in depth to see the meaning and amplitude for new importation firms.

#### 3.3.1 Product quality

The definition of quality seems to have changed over time. *“Previously, quality was equal to ‘conformance to specifications’, but today a product’s or service’s quality is defined as its ability to satisfy the customers’ needs and expectations.”* (Nationalencyklopedin, 2006a) Quality has been regarded rather as something objective, which should not differ depending on who uses the product, while today research distinct between perceived and objective quality (Zeithaml, 1988). Zeithaml (1988) defines quality as *“superiority or excellence. By extension, perceived quality can be defined as the customer’s judgment about a product’s overall excellence or superiority. Perceived quality is (1) different from objective or actual quality, (2) a higher level abstraction rather than a specific attribute of a product, (3) a global assessment that in some cases resembles attitude, and (4) a judgment usually made within a consumer’s evoked set.”* (Zeithaml, 1988, p. 3-4)

Also, according to Lichtenstein & Burton (1989) product quality is often regarded in conjunction with price. However, even though price can be seen as an indicator of quality, the perception of price varies among individuals (Lichtenstein & Burton, 1989).

#### 3.3.2 Finding appropriate suppliers

After deciding to start import the first step is to find an appropriate supplier. *“To be successful, an importer should select a supplier who can deliver a product that satisfies consumer needs, has minimum defects, and is priced competitively.”* (Seyoum, 2000, p. 348).

Seyoum (2000) suggests that there are several ways to identify a possible product, and thereby also find the appropriate suppliers in China. He argues that trade publications, foreign travel and trade fairs are good ways of discovering products to import. These ways are also identified by Larsson (1991). He additionally claims that databases as well as Chambers of Commerce and Trade Councils both in China and Sweden are good ways to find suppliers, since many Chinese companies turn to such organisations for business proposals. Weiss (1997) adds that travelling abroad and visiting trade exhibits are two possibilities.

Seyoum (2000) advocates that there are several critical factors that should be considered during the supplier selection, such as delivery time, supplier reliability and, above all, product quality.

After finding a number of potential suppliers a personal visit can be made to decide on which is the most suitable one (Seyoum, 2000). The evaluation can be based on factors

such as: international experience of the supplier, willingness to devote sufficient time, willingness to provide necessary training and provision of certain exclusivity combined with acceptable payment arrangements (Seyoum, 2000).

Different ways to evaluate a potential supplier is also brought up by Weiss (1997). He argues that five different aspects should be considered:

- **How do they respond to communication?** Do their letters and catalogues look professional? Bad English should be considered as less important at this stage.
- **How do they respond to requests?** Find out competence and eagerness by how the supplier respond to product modifications and demands for samples.
- **How is their credit?** Try to obtain credit information about the potential supplier.
- **How do they look in person?** Meet with the supplier in person, talk to key personnel and take a plant tour to get the whole picture.
- **Do they use formal quality management systems?** Is the supplier using any quality standard systems, like the ISO system, to assure good quality of their products? (Weiss, 1997)

### 3.3.3 Culture

Hofstede & Hofstede (2005) argues that there are some factors that make people different depending on where they were born. Due to the surroundings and traditions of the people close to them they will be given a certain way of looking at relationships. The figure below shows these factors.

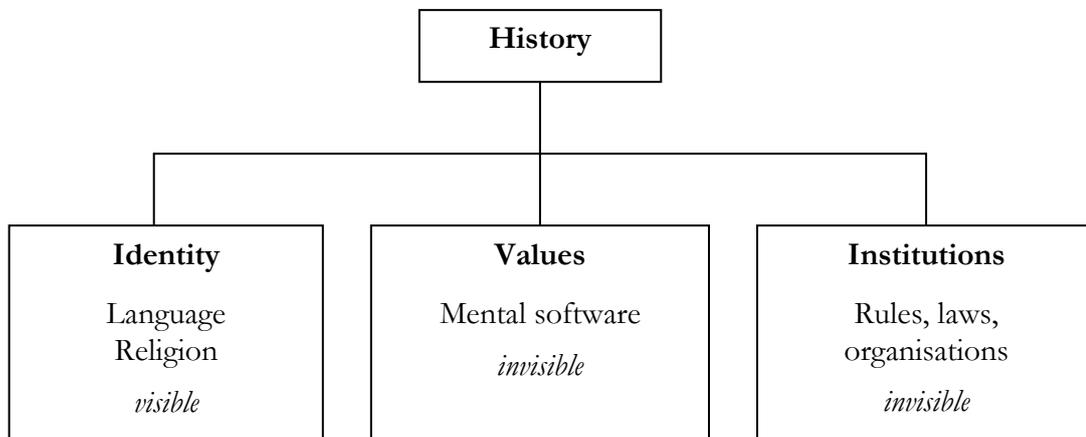


Figure 3-1 – Sources of differences between countries and groups (Hofstede & Hofstede, 2005)

This identifies that there are three types of differences in different cultures, and that all have their roots in the history of that specific region or country. All of these three are important for people to feel that they belong to another group of people. Even though some have the same history, the same values and institutions, they might have different identities, and thus the belonging to each other will not exist. This is the case in for example former Yugoslavia (Hofstede & Hofstede, 2005).

Hofstede (1991) refers to four different dimensions that are relevant for studying the behavioural aspects of intercultural meetings. These are:

1. Power distance

2. Individualism versus Collectivism
3. Femininity versus masculinity
4. Uncertainty avoidance (Hofstede, 1991, p. 14)

These dimensions have been compiled based on a US research (Rokeach Value Survey) and an international study of people working at IBM (Hofstede, 1991). Therefore Michael Bond, a researcher living in Hong Kong, carried through a study based on a non-Western bias to see if the former researches would correlate with the new Asian version. Only three of Hofstede's four dimensions were identified by the Chinese value survey; the term uncertainty avoidance was associated with the teachings of Catholicism and other specific Western traditions (Hofstede, 1991). Since this parable is not accounted for in China, this thesis will overlook it. However, these three factors were not sufficient for Eastern societies. Therefore, based on the survey by Michael Bond, an extra parable was added: Long-term and short-term orientation. Also, since this thesis will not investigate whether the difference in culture between Sweden and China is due to femininity versus masculinity, this dimension will be left out.

### **3.3.3.1 Power distance**

Power distance means how people accept and expect dependence relationships in different institutions and organisations (Hofstede, 1991). Dependence relationships talk about how dependent bosses and employees are of each other. Additionally it decides the emotional distance between subordinates and bosses, i.e. how easy it is for subordinates to question and approach their bosses. Countries with high power distance have a very autocratic system with hierarchical organisations and are thus more dependent on managers. This is also demanded by most employees. In countries with lesser power distance there is flatter organisations and less protective systems, therefore the people and managers are more interdependent (Hofstede, 1991). According to Hofstede & Hofstede (2005) Sweden's individualism index is 71, while Sweden only has an index of 31.

### **3.3.3.2 Individualism versus collectivism**

Individualists are those that have typically grown up in the nuclear family, meaning that it only consists of two parents and possibly other children. People that are raised as individualists consider what are best for themselves, not what is good for the whole family. No one is supposed to be dependent on a group neither practically nor psychologically. (Hofstede, 1991) According to Hofstede & Hofstede (2005) Sweden can be seen as rather individualistic, with a score of 20 on the individualism index.

The collectivists on the other hand have grown up as part of an extended family, including relatives, servants, and maybe even friends. This group is thought of as the only thing between themselves and the hardships of life. Therefore, to break this group feeling is one of the worst things to do, because everyone inside this group depend on each other both practically and psychologically, as opposed to other groups in society. (Hofstede, 1991) China has a power distance index of 80 according to Hofstede & Hofstede (2005), which is quite a big difference compared to Sweden.

### **3.3.3.3 Long-term and Short-term orientation**

This describes ways to focus in order to succeed in life. They could also be described by the word Confucian dynamism and allude to the teachings of Confucius of how people try to focus their lives in order to meet the needs of the relationships. There are for major principles according to Confucius:

1. “The stability of the society is based on unequal relations between people.
2. The family is the prototype for all social organisations.
3. A virtuous behaviour towards others implies that one should not treat others as oneself does not want to be treated.
4. Virtue considering the objectives in life is to try to acquire knowledge, to work hard, to not spend more money than necessary and to be patient and perseverance.” (Hofstede & Hofstede, 2005, pp. 224-225).

The factors of long-term orientation are primarily persistence, relationships by status in the society, thrift and sense of shame in order to focus on the future. The opposite is true for the short-term orientations, where one focuses on the present and the past rather than the future. Aspects in focus are personal stability, not losing your face, respect for traditions and reciprocation of gifts and favours. (Hofstede, 1991)

### **3.3.4 Relationship & Guanxi**

Establishing good relationships is not an easy thing to do even in one’s own community, and of course it is even harder to do on the other side of the world. There are many ways to go, and many problems to overcome when building relationships in the import process.

Outsourcing requires a lot more focus on maintaining the external relationships than producing in-house (Johnson et al., 2005). Both mediating the level of quality and the design of the product, as well as keeping good relationship due to price features (Johnson et al., 2005). Many authors advocate a long-term relationship because it is advantageous to both parties (Dahab & Esperanca, 2003). A high interdependence is necessary when outsourcing, in order to minimize the loss of flexibility compared to insourcing (Dahab & Esperanca, 2003).

There are different kinds of importers; loyal and opportunists. The loyal ones use the same suppliers for many years while the opportunists always try to find new ways and markets (Reichel, 1988). Especially relationships with the Chinese are hard to reach due to differences in culture, language and the special focus on networks in China, called guanxi.

Guanxi is more than just the interaction between two or more businessmen; it is based on loyalty and reciprocity (Chan, 2000). The long-term mutual benefits are much more important in a guanxi network than the short-term individual profits (Wu, 2000). According to Wu (2000) guanxi is just a relationship between two people, while it can be spread to involve many more people in a guanxiwang (see the figure below).

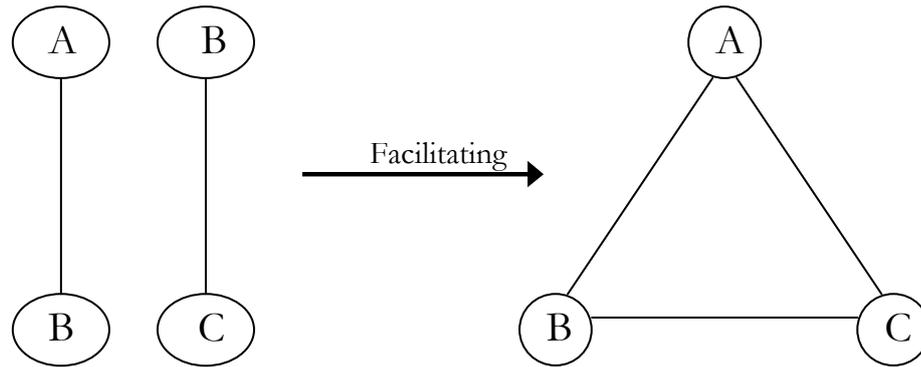


Figure 3-2 – Guanxi and Guanxiwang (Wu, 2000)

According to Bian (1994) the term guanxi can have three different meanings:

1. *“to refer to the existence of a relationship between people who share membership of a status group or social unit;*
2. *to describe the nature and strength of actual connections or contacts among people; and*
3. *to indicate the presence of strong connections with individuals.”* (Li, 2000, p. 266)

The most important elements of guanxi are loyalty and obligation, based on Confucianism (King, 1991). Thus the bonds from family, friends and close acquaintances are closely connected to guanxi.

### 3.3.5 Language

According to Andersson & Beermann (1992) language consist of three different aspects: syntax, semantics and pragmatics. Syntax and semantics are factors that are possible to learn by studying a certain language, while pragmatics is hard to attain if not studying the language where it is spoken.

According to Condon & Yousef (1975, cited by Wellros, 1986) pragmatics is the relationship between language and behaviour and gives a feeling of politeness or impoliteness. *“With the choice of linguistic expressions and the way of speaking it sends signals about warmth or distance, respect or disrespect; it is not indifferent whether a person greet someone by saying ‘good day’ or ‘hi’. Both expressions are correct, but in different contexts.”* (Andersson & Beermann, 1992, p. 8).

When talking to someone or communicating a belief or will in another language there are certain aspects of the pragmatic context that can be hard to transfer in an efficient and correct way. When talking in a third language this is even harder. According to Kotler & Armstrong (1993) there is noise that reduces the chance of conveying the correct message each time it is translated. Thus when a Swedish businessman and a Chinese businessman with Swedish and Chinese as mother tongues respectively talk in English, a reduction of the message’s content would be reduced. Thus there are three different situations where the communicated message can be distorted: translation between Swedish and English, between Chinese and English, and through the communication between the two parties. Below is an adapted version of Kotler’s & Armstrong’s (1993) graphical explanation.

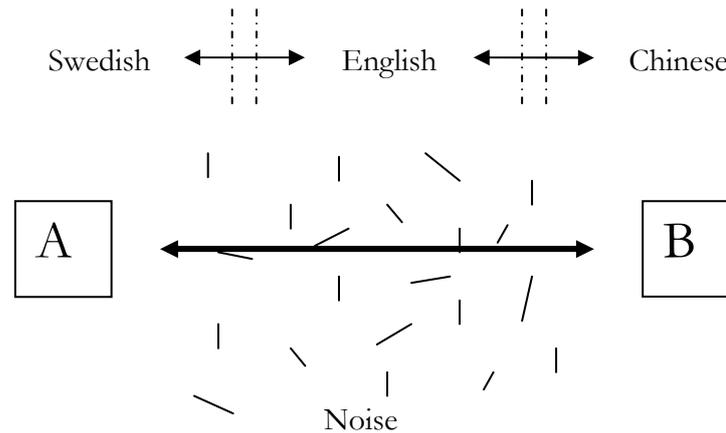


Figure 3-3 – Intercultural communication process (Kotler & Armstrong, 1993)

One of the conclusions drawn by Andersson & Beermann (1992) is that many companies underestimate the value of linguistics. Managers do not understand the correlation between the linguistics and the success in foreign markets.

### 3.4 Ways to handle problems

In order to minimize the effect of these problems, companies need to learn what to do. As we see it, there are some different ways of learning in order to improve: take small steps and increase the steps from time to time, use others experience to see what the most frequently encountered issues are, to learn from one's own mistakes and to solve problems in the right level. However, it is not necessary to choose, it is possible to run in parallel.

#### 3.4.1 Step by step learning

In order to be able to exploit a foreign market it is necessary to know certain features about it, as well as to know how to find the information. Johansson, Blomstermo & Pålberg (2002) argue that it is “companies with experience from a certain market that has the possibility to learn more” (p.69, Johansson et al., 2002).

According to Johansson & Wiedersheim-Paul (1975), many companies entered nearby markets in a small scale in order to increase knowledge and experience about the differences from the domestic market. Johansson & Vahlne (1977) describe this as a way to increase the knowledge about how to do business internationally.

In order to know what to do, routines are important. For companies that have no experience in international markets, there are no routines for the employees to follow. Johansson et al. (2002) also state that the longer it takes for a company to start its internationalization process, the harder it is to adapt to the needs of the foreign markets. Therefore, so-called *born globals*, which start their internationalization process fast and have thorough routines for it have a much higher potential to succeed internationally (Johansson et al., 2002).

## 3.4.2 External Assistance

### 3.4.2.1 Spirit of Gnosjö

Caroline Wigren (2003) has written a dissertation about the Gnosjö region, famous for its enterprising and networking culture. The Spirit of Gnosjö has become a well-known concept that represents privately owned businesses with informal and formal networks, cooperation between owner-managers, both a competitive and inspiring environment for entrepreneurs and a widespread helpfulness (Wigren, 2003).

Nationalencyklopedin (2006b) defines the Spirit of Gnosjö as: *“The relationship between companies is characterized by both co-operation and competition. On one hand there is mutual assistance as customers and subcontractors or by borrowing equipment from each other, on the other hand they stimulate each other by producing similar products. The business leaders cultivate this interplay through close networks of both business connections and personal relations rooted in the region’s rich club activities.”*

Wigren (2003) states that both the informal and formal networks between business managers are very strong in the Gnosjö region. Information, knowledge and other resources are spread amongst the managers through these networks. Especially the social networks contribute to the flow of information and knowledge between companies. In Wigren’s (2003) study about Gnosjö one of the interviewed owner-managers mentions that one always know whom to consult with a certain issue.

### 3.4.3 Trial and error

Entrepreneurship professor Per Davidsson (2004) describes new business activities as an entrepreneurial process. New business activity does not emerge from non-existence to existence in one step or by one decision. Instead this is a process with a lot of entrepreneurial activities that runs sequentially. More specifically Davidsson (2004) describes this as two interrelated processes that he calls discovery process and exploitation process. The discovery process is the part where the entrepreneur thinks and reflects about the venture’s development (Davidsson, 2004). The exploitation process on the other hand can be seen as the action part of the venture’s development where the entrepreneur receives feedback on his project and adjust the idea and then tries again (Davidsson, 2004). In the model below these processes are illustrated.

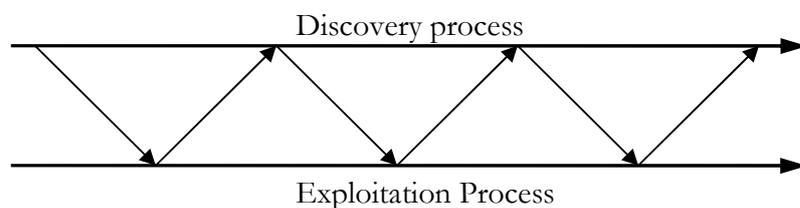


Figure 3-4 – Discovery and Exploitation model (Davidsson, 2004)

### 3.4.4 Single and double loop learning

Argyris (1992) argues that a crucial activity for a company to minimize negative effects like bad quality is organizational learning. Just finding a problem and change it is what Argyris (1992) call single loop learning. This is the most common way to deal with these issues in companies today. Finding the action that cause bad quality and change it has a direct effect, the quality is increased. Despite this, Argyris (1992) describes this way as self-limiting since it is not enough to find a problem and correct it, you need to detect why the problem per-

sists to get rid of it on a long-term basis. He argues that a better and more accurate way is the double loop learning. Double loop learning is about questioning the underlying programs that bring the problem back over and over again (Argyris, 1992).

## 4 Empirical findings

### 4.1 Swede-Wheel

*The information in this chapter is based on interview with Swede-Wheels' managing director Andreas Hildingsson. The interview took place at their office the 10<sup>th</sup> of April 2006.*

---

*"Swede-Wheel designs and manufactures wheels and wheel systems for customers throughout the world."* (Swede-Wheel, 2006) Swede-Wheel was started in 1942 and is now producing in Hillerstorp, Sweden and imports from China (Swede-Wheel, 2006). The company is now family-owned and employs 40 people in Hillerstorp. Andreas Hildingsson has been the managing director of Swede-Wheel since 2004. These days Swede-Wheel is using a number of different suppliers in China and will start some kind of quality control in China to solve problems on site. Swede-Wheel considers themselves as a production company and therefore they basically do not want to replace any part of this activity with trading.

#### 4.1.1 Background to import

In 1999 IKEA Modulservice (IKEA's purchase department) was the major customer and bought wheels for about 25 MSEK yearly. Swede-Wheel was forced to work constantly, even on Christmas, in order to be able to keep up with the orders. At the same time IKEA had started up production of the same kind of wheels in China, but no notification had been given to Swede-Wheel. Just before the notification came Swede-Wheel had noticed that IKEA were able to move orders back and forth and was not as dependent anymore. Hildingsson says:

*"And then it just went on until the beginning of 2000, it was in January some time, when we found these wheels in the IKEA stores. You get a bit patriotic when it says Swede-Wheel on the wheels, and then I was about to show some people so I went down on my knees to be able to see and then it said IKEA Modulservice on the wheels instead."*

So then Swede-Wheel started to investigate and it turned out that IKEA had copied all the different wheels. Even certain details of the design was copied although it was not understood the practical use of them. It was a decision from higher level in IKEA, so the people in the IKEA department that Swede-Wheel was working with had no idea about it.

This led to that Swede-Wheel lost turnover, as well as profit. At the same time there was a change of fashion, the old industrial wheels were replaced by modernized models in plastic. During that time Andreas Hildingsson's father had been the managing director, but due to old age he stepped down and was replaced by an external managing director.

Besides the loss of IKEA as customer, Swede-Wheel had been noticing a trend when searching for new customers that they wanted more sorts wheels than Swede-Wheel could supply. Thus it became interesting to look at possibilities to extend the range of products to be able to sell whole orders to customers, and not just a small part. Therefore Swede-Wheel had to think about its strategy:

*"Is it good to have production or should we become a trader instead?"*

Hildingsson argues that people in the Gnosjö region are production people and Swede-Wheel is in the middle of it. However, the company realized its lack of a complete range of products. Thus the only way to go was to extend the product line, and after calculation of

in-house production contra outsourcing, they realized that it was not possible to produce in Sweden mostly due to substantially higher prices of industrial tools.

Thus Swede-Wheel was forced to look in other directions, China being one of them. Also India was of interest, but after searching the market for suppliers to find that there was no interest from the supplier side and the quality and design was not of any interest to Swede-Wheel. Instead of focusing on India the former managing director talked to his connection in China, a Swedish person living in Hong Kong. This man had been working for IKEA in China for about 7-10 years, so he knew the Chinese market quite good. Thus it was natural to use his knowledge when entering China, which they did in 2002 for the first time. The feelings were mixed:

*“We returned home and scratched our heads; we couldn’t understand how we would have a future and I will sell the company without hesitation to the first one who makes an offer!”*

Hildingsson also argues that besides the contact person in Hong Kong, the reason for choosing China was that everything went quite smoothly. It was easy to get contacts and to visit the companies there, but also the hype helped to pick out China; almost everyone at home knew someone and had some tips of where to go.

However, there are two ways that Swede-Wheel has taken. The first way to extending the range of products was to design their own wheels and let the suppliers in China find the tools and start the production. The second way was that Swede-Wheel scanned the market for existing products in China, which they started to trade.

Apart from the Swedish contact in Hong Kong, Swede-Wheel has been trying to find their own suppliers lately by travelling the countryside and visiting factories. This is a very time consuming way of finding business contacts according to Hildingsson, so the contact in Hong Kong is still the middle hand in imports.

#### **4.1.2 Problems**

Swede-Wheel mentions several possible problems that can occur in the import process, even though all of them might not be threats to the completion of the business. Hildingsson argues that even though the deals with Chinese suppliers have been quite successful for the company, it could have been even better if taking some of the things below into consideration.

The first thing that comes up is the problems of finding a suitable supplier that can sell high-quality goods to Swedish companies. Even though it is quite easy to find companies in the right industry, it is hard to find a suitable supplier according to Hildingsson. However, Swede-Wheel has succeeded in finding a few, even though there might still be better suppliers.

A major problem for Swede-Wheel is the product quality. Since Swede-Wheel has a guaranteed standard on their products this must be followed, otherwise there is a great risk of losing customers. Hildingsson says that the cost of bad quality will be covered by Swede-Wheel’s agent. However, the products will not be delivered to the customers, which will therefore not care about who has to pay for it; it is still a problem.

All companies that go through with import from China are aware of the long delivery time. According to Hildingsson this is a problem if comparing to producing in-house, which is the wish of most companies in the Gnosjö region. A problem arises when there is a quality

problem in a shipment. However, Swede-Wheel gets the money back through their agent, but the customers do not get their goods.

Something else that differs a lot is behaviour and culture. Swede-Wheel says that this is a field that Swedish companies generally are quite good at, because they are able to adjust and do not see themselves as the centre figure. Comparing American or German businessmen they generally have a harder time to adjust to other ways of doing business according to Hildingsson. However, Swedish businessmen have a lot to learn as well. Hildingsson says that even though Swede-Wheel was able to go through with some deals, it might have been better to know about manners and culture because it would open up other possibilities. Hildingsson says that if a Chinese loses his face in front of a customer, he can just get up and leave the meeting. Then all chances to pick up trading again can be lost with that supplier. Also, it has been easier to get certain trade conditions to go through as the knowledge of the way Chinese business is done is increased.

Another thing that Hildingsson talks about is the problem of getting clear answers. In the beginning Swede-Wheel calculated what the cost should be of a certain product and asked if it was possible to pay that price. The Chinese supplier then answered yes but the products never showed up since they had given a price that did not cover the production cost:

*“It is hard to make a Chinese say no, they are smooth without comparison.”*

### **4.1.3 Ways to handle problems**

Due to the problems that initiated the trading process Swede-Wheel had to go through several steps to make the business more profitable and to attract customers.

When it comes to dealing with problems in the Chinese trading, Swede-Wheel says that there are ways to avoid these problems. There should be many solutions to get a functioning import process going. When it comes to finding suppliers, Swede-Wheel has tried some different ways. One way Swede-Wheel used to search for suppliers was to use a contact in China to find and deal with them. However, Hildingsson also says that they have been searching the countryside for suppliers on chance. They were aware that they could lose the time and money at stake, but there was also a chance of finding better business contacts.

The quality problem can be dealt with in some different ways. At the moment, Swede-Wheel gives feedback to its suppliers after every shipment of what needs improvements and what is good. Hildingsson says that it will not necessarily cost more to improve; most of the time it's just nonchalance from the Chinese side.

Also, shipments of bad quality are currently discovered in Sweden. After discovery, Swede-Wheel has to make a complaint with demands for compensation from their agent. It is also the contact that is financially responsible, so Swede-Wheel will not lose any money on the shipments. However, as Hildingsson says, Swede-Wheel's customers do not care whether or not Swede-Wheel loses money; they are only interested in receiving their products. Thus Swede-Wheel wants to handle the problem on site. They are thinking about two different ways, either to set up a quality control centre in China by themselves, or to hire the contact to do this as well. This will also eliminate the problem with the delivery time, as it is mostly a problem when goods are not of expected quality. Other times it is possible to plan for a longer delivery time than when distributing from Sweden, thus the shipments will only be sent earlier.

The obstacle of culture and behaviour is a hard thing to deal with according to Swede-Wheel, since it is hard to know what would be different in case something else was done. However, Hildingsson says that Swede-Wheel has been able to get better deals with both old suppliers and new suppliers gradually.

#### **4.1.4 External assistance**

As said before, the way Swede-Wheel uses external assistance is in the form of agents in China. Also, some trade organisations like the Trade Council have been used to get some information about the country, and some seminars have been attended, but other than that Swede-Wheel has gone its own way mostly due to the cost of these services.

Hildingsson also claims that since they are located in the middle of the Gnosjö region, they have been able to get information from other local firms of what to think of and what to avoid. Since people know each other in the local neighbourhood, they attend the same church, go to the same restaurants and get their kids at the same day-care centre, it is possible to get information from friends that have been in the same position. Hildingsson also argues that he will give information to new importers that need assistance. Nowadays China is not as far away as before, according to Hildingsson. He explains, five to ten years ago, almost none of his business associates had been to China. Today almost all of them have been there.

#### **4.1.5 Decision making**

Swede-Wheel is a family owned company with a board that makes all the major decisions. The board consists of external board members as well as members of the owner family. Hildingsson says that this is a good system because it makes the company think through all the decisions and not rush into things. However, due to the owner structure, decisions about the current business situation can be taken by the family, with the managing director as the head of the company.

### **4.2 Falks Broker AB**

*Jerry Hultqvist is our interviewee from Falks Broker AB and all information in this chapter is based on a personal interview that we conducted with him the 10<sup>th</sup> of April 2006 in Anderstorp.*

---

Falks Broker was founded 1989 in Gnosjö by Björn Falk. Today Jerry Hultqvist is co-owner and the company is situated in Anderstorp. In the near future they will also open up an office in Shanghai. Hultqvist has a long experience from trade with Asia from his years as purchasing manager for a larger Swedish company. Falks Broker is a trading company which means that they have no own production. They take in inquiries from customers in Sweden and then use their network in China to investigate the cost to produce it. After that they can leave an offer to their customers in Sweden. They also have a small inventory of products that customers frequently demand in order to serve customer quickly. The product focus is on precision casting, sintering, metal injection moulding, cutting processes and aluminium products. Falks Broker today has five employees and the annual turnover is around 10 MSEK.

#### **4.2.1 Background to import**

Falks Broker started their import process from Asia due to that there are limited numbers of companies in Scandinavia that works with precision casting. From the beginning Taiwan

was the primary target for Falks Broker but along with that the price level has increased in Taiwan, more and more of their business has moved to China. The current situation is that about 50% of their trade is from Taiwan and about 50% from China, but the Chinese part will soon represent about 90%, Hultqvist says. The reason for this is the increasing prices in Taiwan, and that many of the suppliers in Taiwan move their production to China. Most of Falks Broker's Chinese contacts are located in the areas Shanghai and Guangzhou. Hultqvist states that these areas along with Ningbo and Hangzhou and the southern parts of China are districts where most Swedish firms operate.

On the question how long time it took to go from the idea about trade with Asia to realisation of the plans Hultqvist says:

*"It did not take that long time because now when we are in this region where everybody talk with each other, have one person dared to do something is it easy for number two and three to follow".*

Hultqvist continues to talk about how they have exchanged experiences and knowledge with other entrepreneurs and companies in everyday situations like Lions meetings and other association meetings in the Gnosjö region.

Hultqvist has worked in different ways in order to build up a contact network and find possible suppliers. In the beginning he worked a lot with one or two contacts that he had found, and then he tried to use the networks of these contact persons in order to search for new possible business partners. After a while when different trade fairs started to be more and more popular, brochures in English also became more common. These brochures could often be used to spot new suppliers. Today Internet is the big thing when searching for new suppliers.

*"Internet has had an enormous impact for the trade from Asia"*

This is something that the young generation in China today has understood. Today many young Chinese work as salesmen and have skills in both English and web design. Even though the language skills have improved a lot lately, it still varies a lot between different areas in China. In general, the English proficiency is higher near the big cities according to Hultqvist.

#### **4.2.2 Problems**

A big dilemma and often also the biggest problem when trading with China is the quality related issues. The Chinese side often has a function based approach when they look at the product. An example of this can be that a cell phone that should have a blue screen is instead delivered with a green screen. The Chinese side claims that the function is good because calls can still be made with the phone. This kind of thinking often leads to problems associated with design or other things that not have direct impact on the function. These problems are hard to solve but as the experience of doing business with Chinese increases, you learn to spot critical situations where problems like this are likely to appear.

The delivery time and especially delayed deliveries is also a problem many times. The moral among Chinese is quite bad when it comes to deliver at the right time. According to Hultqvist you will have to read between the lines when doing business with a Chinese. When it comes to delivery time it means that sometimes they will not delivered as promised. This is also problem that you will learn to handle as you receive more experience and you will also learn to see what circumstances that often leads to delayed delivery time says

Hultqvist. When you have learned to see this it will be easier to do business because you will be more prepared and spot the problem in an early stage.

Building a good relationship with Chinese suppliers is something that takes very long time according to Hultqvist; it can take as long as four to five years before you reach a trustful partnership with your suppliers. Chinese do not want to do business over Internet or phone but over a dinner in a more personal and friendly atmosphere, Hultqvist explains. This personal way of doing business is something that has its roots in Chinese culture. This long process of building up a good partnership is something that Hultqvist considers to be a large obstacle.

Another problem is that it sometimes is hard to find the real producer. This is often the case at trade fairs where many Chinese trading houses are represented. These Chinese trading firms give themselves out to be the producer but they are just traders.

### **4.2.3 Ways to handle problems**

One good way to avoid quality related problems is to buy a control service from an external company. This company acts like third party that comes in and makes a control of the goods before it is shipped from China. This type of services can save you many problems and trips to China, and therefore a lot of money Hultqvist says.

It is also important to be over-explicit when placing the orders. You will always have to ask them all kinds of question like: how they will do this, how they will insure the quality and what they will do if something goes wrong. These matters are extremely important since it is the importer that has the inspection duty. Small Swedish firms always have to do business on their conditions. Hultqvist explains:

*“Forget that you as a customer always are right; this is not the situation for you as small importer.”*

In order to avoid problems it is also important to be well prepared. To know the product well and to be able to scrutinize price and quality directly, as well as the ability to examine a person or a supplier are important. According to Hultqvist this will be learned along with increased experience of doing business with China. Hultqvist says:

*“For example, you will learn what circumstances that usually leads to delays or see if it is a trader or a real producer that you are talking to.”*

Falks Broker also has a Chinese person that helps them to search for new suppliers. This is a good way to find suppliers that not all importers find. A Chinese person can use Chinese search engines and local telephone books in order to find suppliers that is hard to discover from Sweden explains Hultqvist.

If Hultqvist should have restarted his career with China he would have done his homework better when it comes to the Chinese people and their culture. He would also have tried to spend more time in China the first times he visited the country.

### **4.2.4 External assistance**

Falks Broker has not used much external help from different trade organizations when it comes to issues concerning everyday business. Instead they have often talked about these ordinary issues with other entrepreneurs and companies in the region that also import

goods from China. This is a good way to avoid teething problems that someone else has come across during their import process Hultqvist says.

Hultqvist also has been in contact with the trade organization Swedish Trade Council. He has experiences of this organization both from his time as purchasing manager and his current position as a co-owner of Falks Broker. Hultqvist have used this organization as speaking partner when he has been involved in bigger decisions like establishment of offices inside China.

#### **4.2.5 Decision making**

As a small company with both of the owners active in the everyday business it is always possible to take quick decisions. At Falks Broker it is the two owners that take all the important decisions and they do not work together with an external board of directors. Fast decisions and the right to make decisions are especially important when you are in negotiations in China. It is important that the Chinese part knows that you are the one that have the right to make decisions, otherwise they will think that it is a waste of time explains Hultqvist.

### **4.3 Liljas Plast**

*This chapter is based on an interview with Liljas Plast's managing director Peter Johansson, that took place at their office in Hillerstorp on the 11<sup>th</sup> of April 2006.*

---

Liljas Plast was founded in 1964 and is a high end plastic moulding company. The company is situated in Hillerstorp, which lies in the heart of the famous Gnosjö region. It is a family owned business that operates with Peter Johansson as an external managing director.

Liljas Plast is the parent company in a group of firms consisting of BoBe Plastindustri AB and Polymed Hygienic AB. They have recently opened up their own production facility in Suzhou in China. Currently the group employs 42 employees and has a yearly turnover of about 90 MSEK.

The firm mainly produces technical plastic components for different industrial companies. They assist their customers through the whole developmental process and provide tools manufacturing service. Their largest customer segment is companies that deal with electronics and demands high quality and precision on their components.

#### **4.3.1 Background to import**

It was approximately four years ago that Liljas Plast started to look into different possibilities to import plastic goods from China. This was a result of that they recognised that they were too expensive compared to competitors. They were forced to take the decision to import in order to continue to be competitive on products where the quality was of less importance. They had also started to realize that they lost some customers because they could not offer the whole package of goods demanded. Therefore the start up of the import process was an important step in order to broaden the range of products. When Liljas Plast started to look at import possibilities no other countries were considered. The reason for this was the hype and the trend around China that prevailed during this time according to Johansson.

They decided to trade through a Swedish agent instead of going direct to the Chinese producer. This was a way to save time in the very time consuming process of finding reliable and good suppliers.

*“Going through an agent could also be beneficial if any problem like quality issues arises on the products”, Johansson says.*

### **4.3.2 Problems**

The first and biggest problem that they faced when they started to receive goods from China was that many components of very low quality. Some of the products were of such low quality that they had to work on them in Sweden. This process of course costs a lot and is a good example of when it can be good to have an agent to make a complaint to, Johansson says. Even though Liljas Plast has used a Swedish agent to search for good suppliers they have not found any supplier that they are satisfied with.

Johansson also mentions that another problem with trade from China is of course the delivery time and the need to buy quite large quantities in order to be profitable. The long delivery time combined with a bad shipment of products is of course the worst scenario. This is because it takes long before getting the new products and most likely at least one more sending from the same supplier is already shipped from the factory Johansson explains. The long delivery time makes business very inflexible.

Liljas Plast did not see cultural aspects and language difficulties as major problems in the beginning since they did not have direct contact with the Chinese part. This perception is something that has changed during their establishment process of their production facility in China. During this process they have realized that both culture and language are huge problems, where they hold culture as the biggest one. An example of this is like Johansson puts it:

*“A Chinese never confess that they do not understand, they always answer yes”.*

### **4.3.3 Ways to handle problems**

Liljas Plast tried to get control over the quality issue but the task was not easy and they did not find suppliers that met their requirements. The solution to the problem was to invest in an own production facility in Suzhou, which is about one hour drive from Shanghai. During this process they had more direct contact with China and Chinese people, which made them aware of the importance of culture understanding. The product line produced in Suzhou today is the same and has the same quality as the one in Sweden.

The products from the factory in Suzhou today are all sold to Swedish companies that operate on the Chinese market. If not using all production capacity in the future it could be an interesting thought to import goods to Sweden from this factory, Johansson continues. Currently, with staff on site in China it will be easier to look up new suppliers to import from. In the future also the trading will probably go through the Chinese facility and in this way a quality control can be made before the goods are shipped to Sweden.

### **4.3.4 External assistance**

Liljas Plast did not use any external trade organizations during the start up of their import business. Instead they used external assistance in the form of a Swedish agent that helped

them with the process of finding potential Chinese suppliers. The agent also handled the whole negotiation process with the Chinese side. This system did of course cost some money but Liljas Plast thought that it would cost even more if they would have done this job by themselves.

During the establishment process of their own production facility in China they have used more external help. Above all they have used an external consultant that has helped them. They have also attended some seminars that the Swedish Trade Council has arranged.

### **4.3.5 Decision making**

As a family owned business with all the four owners and the managing director under the same roof it is always possible to take quick decision about current business matters. This makes it a very flexible company Johansson says, and adds:

*“We also have an active board of directors with some external board members that work together with the owners when it comes to larger decisions like new investments and strategies. In this way we work in a very professional way.”*

## **4.4 Forsheda Stålverktyg AB**

*The information in this chapter is based on an interview with Mikael Sigfridsson, the owner of Forsheda Stålverktyg AB. The interview was conducted the 19<sup>th</sup> of April 2006 at their office in Forsheda.*

---

Forsheda Stålverktyg AB is an engineering company based in the Gnosjö region. Operations consist of developing and manufacturing injection moulds for injection moulding and die-casting. The company was founded in 1961 by the father of the current managing director Mikael Sigfridsson (Forsheda Stålverktyg, 2006). They deliver products to end customers that are produced in their own workshop but are also involved in trading with suppliers in Taiwan and China. Customers belong to different fields like furniture, white goods, automobile and medicine. The head office is situated in Forsheda and they have a sales office in Västerås. The company has 12 employees and an annual turnover of around 20 MSEK (Forsheda Stålverktyg, 2006). The import accounts for about 50% of the annual turnover.

### **4.4.1 Background to import**

The consideration of import came up in year 2000 when current customers started to demand industrial tools at a lower price than the company could offer. Since the company felt that business opportunities were passing by they were almost forced to take this step to stay on track. They also felt that import was the only option to be able to offer a complete range of industrial tools to their costumers in Sweden.

The initial step when considering imports was to compare some different countries to commence trade with. The Baltic States, Poland and Portugal were investigated and abandoned due to either wrong price or lack of responses. At EuroMold, a trade fair in Frankfurt, the first contact with a supplier from Taiwan was taken. This is a supplier that they still work with today. After the initial contact Sigfridsson bought an air ticket, called the Taiwanese supplier and told him:

*“I will be at the airport and I want to do business with you”.*

Sigfridsson describes it as he went on speculation down to Taipei, Taiwan.

Sigfridsson also brought with him a name of another supplier that he got from current customers in Sweden. On location in Taipei he phoned and introduced himself briefly over the phone.

Until 2004 the company used suppliers from Taiwan and only made small detours into China where current suppliers had some production. They tried to put a brake on the development since they felt comfortable with the situation in Taiwan; both quality and punctuality was satisfying. In 2004 competitors that offered the moon and the stars through low prices from China further increased the pressure of engaging in even more cost efficient imports. This began their search for suppliers at a lower price in China. Contacts at current suppliers facilitated the process of commencing with new partners in Shenzhen, in the southern part of China.

Forsheda Stålverktyg considers two different criteria when looking for new suppliers. The first one is that they look for smaller firms that have lower knowledge in English. This is because higher level of English equals higher price according to Sigfridsson. The other important aspect they consider is quality. Sigfridsson explains that the quality of the products has to reach the expectations or else they will not touch it at all.

Aside from the initial contact in Taiwan Forsheda Stålverktyg has not found any other contacts at trade fairs. They have searched but Sigfridsson is of the opinion that the exhibitors also find each other which takes away some of the exclusiveness of the opportunities. Instead he has tried to build a large network of contacts in the same way as in Sweden. Taking advantage of the fact that people change employer by making personal relations through a good impression is a way that Sigfridsson has used to increase his network.

Other ways to find suitable suppliers is active searching via the Internet. Sigfridsson has also been contacted directly by Chinese suppliers, probably due to that they are part of some export directory. He receives a couple of emails every week from interested subcontractors in China.

Travelling around at random in China in the search for new contacts is almost pointless; the ones who succeed are to be congratulated. Sigfridsson believes that for this method an external agent is needed as help.

#### **4.4.2 Problems**

The biggest problem according to Sigfridsson is the time before having a well functioning import process. During this time varying quality is common.

*“You start buying from a supplier and you manage it well; everything works out fine. After a couple of deliveries you start to relax since you feel that the Chinese side grasps what you are after. Then suddenly a shipment with worse quality arrives. Even though you have approved a design and a specification, they have made something up their own way.”*

The fact that you never can count on the next delivery to look just like the previous one is one of the hardest things for Swedish companies to adjust to according to Sigfridsson.

One of the problems that Sigfridsson experienced with one of his first suppliers in Taiwan was that the personal chemistry did not match. This caused shortcomings in the communication between the two companies. He does not believe that language has anything to do with the lack of communication in spite of the fact that he does not speak any Chinese.

Another thing that is brought up as a problem is that it is hard to get a clear answer from the Chinese partner. Sigfridsson describes a situation where there is a deadline for an injection-mould test. Even though the problem has come up earlier in the process it is not brought to attention unless asked about it on the day of the test. He says:

*“In Sweden we have learnt that it is easier for a customer to accept a delay if he finds out about it as early in the process as possible. This is not the case in China; they are very unwilling to admit that they are behind schedule.”*

Further problems are that some suppliers are not adjustable at all to specifications or demands. They do things their own way as they have always done. In some cases it is not possible to dictate the terms without a discussion; this will make the Chinese part very unwilling to adjust to what is demanded, according to Sigfridsson.

One thing that Sigfridsson regards as not much of an issue is cultural differences between Sweden and Taiwan, since people are more influenced by Western culture. Still it is more important when dealing with China. At the same time he brings up differences when it comes to decide on how and when compensation for shortcomings in quality should be paid. Which side that brings up the question is important in China unlike what we are used to in Sweden. Sigfridsson also ascribes the constant need to point out the same issues over and over again to differences in culture. This is something you just have to accept.

A problem with using the Internet when searching for potential partners is that the ones that are easy to find is also found by others. This is not as interesting for Forsheda Stålverktyg which forces them to search deep into the systems to find more exclusive contacts. Sigfridsson describes the problem with these in-depth searches as very time demanding.

#### **4.4.3 Ways to handle problems**

The first step to avoid problems was to start in a small scale. This was the case for Forsheda Stålverktyg when they started their cooperation with the supplier in Taipei. They also had support from some of their current customers in Sweden when starting the import business. Sigfridsson says that support from customers that are aware that there might be some initial problems is necessary:

*“You do not start to import industrial tools from China to Sweden without having a couple of customers with you in the process.”*

When it comes to securing quality, continuous communication is of great importance according to Sigfridsson. If the supplier is responsive to what you have to say and if you manage to communicate your quality so they adopt it, then it works out fine. Sigfridsson also says that repeat orders are not possible since you need to make the same remarks all the time. Constant reminders are vital to a smooth import process. Another way that Forsheda Stålverktyg uses to guarantee quality towards customers is to have a workshop of their own in Sweden as a backup where defective products can be adjusted before they are sent. When talking about competitors that only have trading and create problems for customers when products from China are insufficient, Sigfridsson says:

*“I think that desk trading is a bit dishonest since you are only cutting through without taking full responsibility”*

Forsheda Stålverktyg also tries to cover itself when it comes to promises of delivery times to customers. This to reduce the risk of delays due to some of the reasons mentioned above.

To avoid cultural clashes, Sigfridsson describes, common sense has to be used and develop a good personal contact. During his years in China he has learnt to never deduct anything from the price without consulting the Chinese suppliers. If the received products are of bad quality it is better to clear this in future deals or in a way that the Chinese side suggests. When it comes to cultural difficulties a lot can be gained by getting an understanding about how they work. This knowledge can only be acquired on site in China according to Sigfridsson. Another important characteristic about personal contacts with a Chinese person is to never point out that he is wrong, especially in front of others. If doing this he will lose his face which means that you are on bad terms with this person forever. It is very important not to embarrass the Chinese partner in any way in order to maintain a continuous business relationship according to Sigfridsson.

When it comes to details about specifications or how things should be produced it is important to bear in mind that it is easier to come to an agreement if the suggestions come from the Chinese supplier. If there is a disagreement about something, Sigfridsson usually tries to talk a bit around the issue for a while and then return with a slightly changed argument. If they are not able to agree at this point the conversation goes another round before bringing it up again. After a while the supplier has often come up with an alternative of their own which makes it a lot easier to settle the deal. Sigfridsson describes it as they need to feel that they are involved. The method of talking about other things and then return to the subject again is also often used when it seems like the Chinese person do not understand something. This is to avoid an awkward situation where someone gets humiliated.

To evaluate the offers that Forsheda Stålverktyg receives from Chinese suppliers and in order to avoid problems they first send out an inquiry. If the price offered is within an interesting range Sigfridsson usually visits them during his next trip to China.

During none of his trips to China Sigfridsson has brought a Chinese interpreter. In the Chinese companies there is always someone that speaks, at least some, English. This is the natural contact person to deal with.

#### **4.4.4 External assistance**

Due to Forsheda Stålverktyg's strive to cut costs they have chosen not to work with an external agent in any part of the process. Sigfridsson explains the choice of avoiding agents by the fact that the competition is quite high and that an extra middleman would reduce margins too much to make it profitable. They have neither used any of the external formal trade organisations. The reason for not using these organisations are the same as with trade fairs that Forsheda Stålverktyg do not want to be where everyone else is. They want to find their own niche and go their own way.

When looking at the Gnosjö region, Forsheda Stålverktyg was amongst the first to start import from China. Therefore they did not feel that they could benefit a lot from other companies in the region. Sigfridsson describes the Spirit of Gnosjö as something that is more helpful when setting up a new establishment or starting production in China. Also when it comes to the line of business that Forsheda Stålverktyg works in there is a lot of competition between the companies in the region which reduce the willingness to share experiences.

Three years ago Sigfridsson decided to bring in a former competitor as a co-worker. He describes him as a person with 20 years experience from China and one of the first that had business with Taiwan. From this person Sigfridsson has learnt a lot about how to get along with Chinese people and this has made contacts running smoother. How to deal with different situations and stress the need to accept their culture as it is are other things that the new co-worker have contributed with.

#### **4.4.5 Decision making**

Since the managing director Sigfridsson is also the owner of the company he takes all major decisions. He was the one that initiated the idea of import, decided how to do it and also carried it through. With his new experienced co-worker the discussion about different ways to go have clearly increased but the final decisions still rests with him. The lack of an active board of directors also increases the role of Sigfridsson as the decision maker in the company.

### **4.5 Uppman och Björkhag AB**

*This chapter is based on an interview with Freddy Uppman, co-owner of Uppman & Björkhag AB. The interview was carried out in Jönköping on the 25<sup>th</sup> of April 2006.*

---

Uppman & Björkhag AB is a new company situated in Bankeryd outside Jönköping that helps Swedish companies to import products as well as to establish in China. They are two people who own the company and both of them work as agents for Swedish firms that want to start doing business with Chinese companies. It was formed in February this year and has estimated its turnover the first year to be around 8 MSEK.

According to Uppman the company could deal with anything; it is not focused on any particular industry. He says:

*“It is not really components but more service that we do.”*

#### **4.5.1 Background to import**

Uppman has been working in other companies during the last decade with trading with China. The first interest in China came from a Norwegian furniture supplier in 1994 or 1995, which gave Uppman the opportunity to scan the Chinese market and see the possibilities. It is also in these companies that he has experienced most of the problems he has encountered, and also where he learnt to deal with those problems.

Uppman only trades with China nowadays. Previously he has been around in all of South-east Asia, Japan, India and so on. He has been to China around 35-40 times during the last decade and sees no change in the visiting frequency over the coming years either.

The reason why Uppman still does business with China is that the Chinese are more willing to learn and to do progress. When comparing with other countries the Chinese people always try to improve the components and come with their own suggestions. Other people mostly just do what they have been told and then do not care about anything else. He says:

*“The only thing that I would have liked to do differently is that I should have started 5 or 6 years ago.”*

Also, the price is a central issue for many companies, and as a consultant it is necessary to focus on the most cost advantageous market. Both components as well as industrial tools are cheaper in China, according to Uppman.

#### 4.5.2 Problems

There are many problems that exist when trading with Chinese suppliers according to Uppman. Many of those are not thought about before entering but it could make a big difference if research is made. Uppman says that the biggest issue that most companies do not consider is the fact that it will take a lot more time to establish a business relationship in China compared to Sweden. Not getting to know the company, nor the business contact at the company could make the deal suffer. Uppman says:

*“Many Swedish companies go there after correspondence via e-mail or telephone and want to start trading. Of course, the Chinese will sell but often it will not be any good deals.”*

The Swedish way of thinking is that they want to start trading directly and start to make money as soon as possible. However, the Chinese want to get to know the customer and then, after some time, start trading.

*“When one has gained more knowledge about the culture and the Chinese people, it is easier to start trading. Even business between two Chinese companies takes a long time, and it is first after getting to know each other and each other’s companies that they start doing business together.”*

One part of the cultural difference is that the Chinese never wants to lose face or say no in front of a stranger. Uppman has been through this many times before.

*“Now, last time for example. We have received an inquiry about helping to import from China. So we looked at some different components that could be of interest. Then we asked this manufacturer some questions, a big company with about 600 employees, if he could arrange something to this instead. But I did not get any ‘Yes, absolutely’, but he said ‘Mm, well I can try to.’ Already then I knew that what he really wanted to say was ‘No.’ “*

Another problem about China is the location compared to Sweden. It is a long way, which makes really costly for a delivery from China to Sweden, both in terms of price and time. Another thing is the language that of course is a problem itself. The low English proficiency among the Chinese producers causes misunderstandings and makes the communication less efficient. Many factories, at best, have one or two persons who speak English reasonably well.

The many firms in China can also be seen as a problem. Since there are so many to choose from, the selection process will take much longer time, and the probability to pick the right one from the beginning will decrease. Uppman also argues that trade fairs are not very good to establish contacts since almost only trading companies are located there, and they are not going to reveal their suppliers anyway. It is quite easy to see if the company is a trading or a manufacturing company, according to Uppman:

*“You can buy candles. The next day you can buy a nuclear submarine from him.”*

### 4.5.3 Ways to handle problems

In order to handle the quality problem the best way is to get a few samples from each supplier and then see if it is good quality. Since many of the suppliers get inquiries about samples from many buyers every week, it might be hard to get samples if communicating from Sweden. Thus the best way is to identify a few suppliers that are interesting, and the visit them.

Also, to avoid the communication problem and the cultural problem it is a necessity to either have an office in China that deals with all the contacts, or to fly there many times each year to maintain this relationship. This is good not only for the existing partnership, but having a good relationship with one supplier opens the doors to his business network.

*“When you have made friends with them, then you have made friends with so many more [people], because he has a network as well.”*

To keep away from the problem of making the Chinese loose face or saying no, one has to ask some questions about the area but never press too hard to get an answer. After a few times one can notice when this situation emerges, and then it is good to go around the topic.

It is also important to visit the factory of the supplier to inspect it with your own eyes. Many people state that they are manufacturers but are in fact nothing more than swindlers. To avoid those firms it is necessary to be clear about that you want to visit his factory in order to do business.

According to Uppman the language skills in China is not a major problem. Even though not so many people are fluent in English, there are ways to proceed. Either bring an interpreter in or the supplier can hire someone whose English proficiency is high. And that is never a problem, Uppman says, since if the company wants to export it has to have someone who knows English.

Finding the right companies can be a problem according to Uppman. However, the Internet is helping a lot, since it makes it easier to find the best firms. *Google*, *Made-In-China* and *AliBaba.com* are large sites where many suppliers can be found. During the last decade the Internet has become much larger when it comes to information. Ten years ago the corresponding way was through trade fairs and catalogues.

When wanting to import ball bearings, there are about 5000 suppliers in China. One way to narrow the selection process, which Uppman uses, is to eliminate those that do not have any website, and also those that only have a one in Chinese. This way about 4300 companies are removed. The next move could be to take away those without any prior export experience, otherwise it is your task to teach them how to do so. Then another 400 is eliminated. Then other criteria can be chosen just like these until there are about 5-10 suppliers left, then it is time to visit them to make the final decision whether or not to buy.

Of course those that are already taken away have lower costs of their products, because they do not have as much overhead costs like website, English proficiency, no export experience and inferior assembly of machinery. It is up to you as customer to choose what you prefer and which way you want to go, according to Uppman.

The selection criteria should involve many things according to Uppman. Of course the quality together with the price are two of the most important things. However, other important factors are the way the importer manufactures the parts, how big the factory is and

how many employees there is, in order to be able to maintain a long term relationship. Another factor to consider is of course the future plans of the supplier.

*“If he wants to establish a retail network in Europe it might mean that you have to buy through them in the future, which will imply higher costs.”*

Of course it matters how big you are as a customer. The more you plan to buy from him, the more power you have when it comes to dealing. This should be considered when choosing and dealing with suppliers. These are mainly factors to consider when trading continuously with the same supplier.

In order to evaluate the price it is good to ask for a Delivery-Duty-Paid (DDP) price, according to Uppman. Then everything is included until it is unloaded in Sweden and through customs. This would imply that it gives the price for the same thing which make it easier to compare. Otherwise it is a really time demanding and hard task to calculate if there are many different areas that should be evaluated.

#### **4.5.4 External assistance**

Uppman has never been assisted by anyone or any organisation that serves to help new entrants on the Chinese market. Neither consultants nor organisations like the Chamber of Commerce or the Trade Council have been used for information.

He argues though that for larger companies as well as construction projects it is a good idea to use those kinds of organisations. Then it is more formal and legal aspects to consider which is harder to explore by yourself.

The first company he worked for that wanted him to go to China had employees there as well who helped to find contacts and suppliers. During that time he also had the opportunity to go there a few times to meet people himself, which gave him a chance of establishing his own network instead.

When addressing the question of whether localization economies like the Gnosjö region have any benefits, Uppman argues that there is no big difference. It is based on networks, and whether those contacts are situated in Gothenburg or Stockholm or Gnosjö does not matter. But of course he uses his contacts to learn and he also helps other people just enough to help but still not giving out any business secrets.

#### **4.5.5 Decision making**

Since Uppman & Björkhag AB only has two owners and no employees, they consider themselves to be very flexible. They can decide to go to China in one day, and they can decide to take on a new company in another day. This way they can run the business depending on their own will and depending on what the market demands.

The biggest setback is also that they are only two people. If someone is sick or something happens, then 50 % of the knowledge is lost. These things are hard to handle from time to time.

### **4.6 Quickmatch Trading AB**

*The information in this chapter is brought form an interview with Erik Ydrén, co-owner of Quickmatch Trading AB. The interview took place at their office in Jönköping the 2<sup>nd</sup> of May 2006.*

---

Quickmatch Trading AB is a company based in Jönköping that imports scooters from the Pearl River Delta in Southern China. Quickmatch is currently working with only one supplier and offer their scooters and accessories for sale under the trademark DinScooter. Their goal is to offer good products to better prices without tampering with either service or quality. The company was founded by Erik Ydrén and his partner in 2004 as a new project beside their earlier company that helped companies recruiting students. They market themselves mostly through their website and sells at their warehouse in Jönköping. They have also had some distance sales through their website. Recently Quickmatch opened a show room in Stockholm in order to be closer to the customers and boost sales by letting potential customers try the scooters. Currently it is only the founders and one mechanic that are employed. During summertime they will hire two salesmen, one in Jönköping and one in Stockholm. The company had an annual turnover of 1.9 MSEK last year and this year the budget is set to 6-8 MSEK.

#### **4.6.1 Background to import**

Since Ydrén and his partner had a staffing company together it came naturally that they should start this new business together as well. During the summer of 2004 Ydrén found a scooter that he did not know of before and that he saw as very cheap. He started to think about the opportunity to import these seemingly unknown scooters for a good price. When Ydrén's partner went to Hong Kong for his exchange studies the idea started to evolve into action. The favourable price was confirmed and at the time the market looked advantageous. Unfortunately at the same time others had come up with the same idea and since then the prices have been forced down.

One reason for choosing China was that it was an interesting area. A bigger reason was the fact that Ydrén's partner was going to Hong Kong to study.

*"If he had gone to Poland to study it might have been Poland that we imported from",*  
Ydrén says about their choice.

Neither Ydrén nor his partner has previous experiences from import but only from running a previous company. Ydrén has earlier investigated some import ideas and looked into the basic issues attached to it by consulting other companies and Government agencies. He has also built up a small contact network that he could use once again.

Quickmatch uses only one supplier and has used this since the start due to the reason that the brand had won some recognition in Sweden beforehand. This supplier is the only producer of the certain brand that Quickmatch uses and they found it by searching the Internet from Sweden. Quickmatch felt that it was a good idea to ride on this wave to have an advantage in the competition. Since customers started to be familiar with it and spare parts started to show in the Swedish market this made it a preferred option compared to a totally unknown brand. Also the prices between different brands does not vary that much. They have searched for other interesting suppliers at some trade fairs but never found any. The only thing they have compared with other suppliers is that they are in the right price range.

#### **4.6.2 Problems**

A problem acknowledged by Quickmatch is the lack of proper documentation. Ydrén describes the situation where you can make a fairly big oral order and then receive a very brief written confirmation. They also noted on the first shipment they received that it was not exactly what they had specified. This is something that China differs a lot from how it usu-

ally is in Sweden. The overall view of the quality issue is that it is better than expected considering the price level, according to Ydrén. He also adds that the level of quality is fluctuating between orders, once you get one quality issue solved another one shows. The reason for this is, according to Ydrén, that the Chinese supplier uses multiple subcontractors and changes these constantly. In order to save money they buy parts from the cheapest subcontractor which in the end leads to an end product built by different parts from time to time. Except for the quality issue of the final product this is also a big problem when it comes to spare parts. Since parts differ between deliveries it is very hard to keep spare parts for all products sold.

The problem with promises that are not kept is also big in China. Ydrén describes it as *“a pride of some kind”*. The supplier that Quickmatch work with has become too big lately with an order intake of 50,000 units per month while their production capacity is 30,000 units. Instead of declining orders or at least inform about the long lead times they just accept new orders and says that they will do it. This has given that the lead times of Quickmatch’s orders have gone from 25 to 75 days without any notice about it from the Chinese side. Ydrén explains the problem with:

*“They never say no. They do not highlight the problem until very late.”*

One problem when searching for suppliers via the Internet is that a lot of the companies you find are actually agents or middlemen. This is an extra step that you want to avoid but it can be hard to spot initially.

To get the Chinese side to understand the importance of the aftermarket has been a difficult task for Quickmatch. Ydrén says that the Chinese supplier cannot understand why there is a need for spare parts for the scooters. They seem to have more of a throw-away culture Ydrén describes and adds that they seem to see it as *“you fix it with steel wire until it do not work anymore, then you throw it away.”*

When it comes to personal contacts Ydrén feels that this worked very badly in the beginning. They have now got a new salesperson as a contact and it runs more fluently. Another problem based on this is that the most competent persons on the Chinese side often get swamped with work assignments. In the long run this has a negative effect on the relation due to lack of time. Ydrén explains that the persons who have good knowledge in English at the Chinese company just get more and more work to do until they cannot handle it. The low level of English proficiency is mostly a problem when communicating over the telephone. Quickmatch have experienced large problems with understanding each other over the telephone even with their new sales person. Via e-mail it is usually not a problem with understanding; the negative part is instead the inefficiency with e-mail.

Quickmatch has got advice from persons with previous experience that they should use several suppliers to have the ability to play them against each other. Up to this point they have not used this advice mainly because they have marketed the brand quite heavily as the best one, which makes it hard to change supplier. Ydrén also describes lack of time and their willingness to show faith in the supplier as reasons for this.

A big problem for the company during the first year was that they had liquidity problems which had a negative impact on the result. Since all orders from China generally must be paid in advance Quickmatch needed to sell all their products in Sweden before making a new order. This of course caused very long periods of waiting between orders without any products in the warehouse.

### **4.6.3 Ways to avoid problems**

Thanks to the fact that Ydrén's partner was studying in Hong Kong he could visit the supplier and the factory three times before the first order was made. This was regarded as a big advantage and without a person in China the idea would probably not be put into action. At the same time Ydrén made a market research at home which ensured that the first delivery would be sold. They made a few advertisements that generated a lot of interest.

When it comes to evaluating the potential suppliers you have to find out who really is a producer and who is an agent. After a while you learn how to do this and you start to notice that all these different products cannot possibly be made at the same place. Also since they searched for a particular brand of scooters this could limit the search which made it easier. To ensure the quality of the product they also used the Internet. Since this product had been for sale for a while there were people naming the biggest problems and comparing the brand with others in different discussion forums online. A lot of competent people discussed a lot about the pros and cons with the brand and Quickmatch used this as a reference when deciding about the supplier. A proper test of the scooter was never done mostly because of the fact that none of the two persons involved in Quickmatch at the time had appropriate technical knowledge for this.

To minimize the problem with lack of specifications and to secure that the delivery you receive is actually what you have ordered Quickmatch would like to have someone on site in China that can supervise the process. This model was used successfully when Ydrén's partner was staying in Hong Kong and also a short while after when a friend of his took this role. Right now they do not feel that they neither have the volumes nor the resources to do this so the only way is to use proper documentation with complete specifications from their side. This is definitely something that they want to implement in their business in the future; a person who oversees that everything is correct and put pressure on the supplier that things are done in time. They have considered to take in external sources for this service but never carried it through since they have too small orders to make this profitable at the moment.

To handle the problem with long lead times and the lack of information about delivery Quickmatch have changed their strategy a bit when placing new orders. Earlier they have placed an order and then added a few days before they could expect it to arrive. Currently however, they will decide on a date when they want to have it delivered and then ask the supplier when they need to place the order to receive it at this date. The reason for this is that to get around the necessity for the Chinese side answering 'yes' or 'no'. Now they have to give a specific date.

Quickmatch have experienced that the personal relations have improved a lot when they met with the company face to face in China. Having an informal dinner that is not especially much about business matters has added smoothness to the contacts between the companies. They have also noticed that this relation needs to be maintained to avoid worsened contacts with longer waiting times for email replies. Ydrén is of the opinion that going to China and meet with the Chinese partner to speak generally and about future orders is important for future relations.

### **4.6.4 External assistance**

Ydrén had received some contacts at the Chamber of Commerce in Jönköping during his previous ideas of import that he brought up again for this project. They have a large network of contacts in different fields that can be of assistance for new business start-ups.

*“They [Chamber of Commerce in Jönköping] are very good at the networking part with all their members. Usually when you call an entrepreneur that has been working with it for 30 years; he is not shy about sharing his experiences.”*

He adds that even if there might be competition between the two it is often easy to get advice. One advantage with using formal external like the Chamber of Commerce is that it is free of charge the first times, especially when you are a young entrepreneur.

#### **4.6.5 Decision making**

Quickmatch do not use any board or external consultants for decision making about current business. Ydrén believes that an external board would be good to have in the future when the company is a little bigger. This would give an outside view of things and also offer someone to check plans and ideas with.

## 5 Analysis

There are of course different reasons to import depending on the companies' situation. Looking at the six companies we have interviewed, we can divide them into two different groups: production companies and trading companies. Production companies produce some kind of products for internal or external markets, in our case Swede-Wheel and Liljas Plast. Trading companies have no production facilities but uses other manufacturers' products to sell in a market that is not covered by the manufacturer itself, like Falks Broker, Uppman & Björkhag and Quickmatch. Forsheda Stålverktyg can be considered as something in between since their business is shared equally between production and trading.

### 5.1 Reasons to import

#### 5.1.1 Push and Pull factors

The reasons for trading seem to be different depending on whether the company is producing or trading. Even though this is something that is hard to generalize, the small family-owned production companies in our investigation are usually more risk avert and therefore need a push-effect, just as Johansson & Vahlne (2003) argue. For all the production companies we have looked at, this is true. Swede-Wheel and Liljas Plast both lost a major customer, and Forsheda Stålverktyg's customers demanded lower prices, since they compared it with competitors. Therefore, according to Johansson & Vahlne (2003), firms in this situation have to skip the learning process of going to a nearby country, and thus are forced to import directly from a country where the cost of production is the lowest possible.

Due to the fact that production companies are forced to cut costs, it is usually harder since they have to beware the risk of outsourcing the core competences of the company. Both Dahab & Esperanca (2003) and Johnson et al. (2005) argue that this should not happen since it is easier for competitors to achieve the same competence, which implies that there is no competitive advantage. However, if it induces additional value to the product, it is something that should be considered.

Swede-Wheel realized that the reason for the cost of production being higher in Sweden compared to China was due to higher wages as well as higher start up costs concerning for example tools. According to Alam & Pacher (2003), the diminishing importance of traditional factors of production is one reason to move production or start trading with low-cost countries.

Uppman & Björkhag and Quickmatch have a different view of the reason to start import. Both describe that they had realized an opportunity in the market. Uppman & Björkhag had realized their competences and seen the hype around China, while Quickmatch had seen the possibilities with the specific scooter. In both situations, it applies to the definition by Wickham that it should be different from the way it was before. Since the products are bought by many customers, it must add value and therefore it applies to Timmons' (1989) definition of opportunity as well. The reason for that trading companies spots the window of opportunity mentioned by Wickham (2001) is that they actively search for gaps in the market.

Since production companies has a business idea of producing something, as Swede-Wheel mentions, the step towards starting a totally new business activity is bigger than for a trader to change from one product to another. Thus when Swede-Wheel, which essentially is a

production company, start trading is a bigger step than if Falks Broker would start to trade another product. Thus a push factor is needed for production companies in order to even see the opportunity, while trading companies are more used to seeing the demand for a certain product, which is a more proactive way of doing business.

### **5.1.2 Why China?**

The reason to choose China before other countries to import from though is a bit contradictory according to some authors. Johansson and Vahlne (1977) argue that the psychic distance should make companies choose a nearby market first and then move on after learning what is important to focus on. However, the reasons to go directly to China are, according to the companies in this investigation, that there is a hype, that almost all competitors are present there and that cost of production is much lower. Thus the benefit of going directly to China is larger than the possible disadvantages that it brings.

This can be seen from a different perspective in the trading companies' cases. Since they want to exploit the opportunities described by Wickham (2001) and Timmons & Spinelli (2003), they want to find the biggest possible opportunity. On the other hand the production companies choose China because they want to cut costs as much as possible in order to keep the edge in the competition.

None of the companies that we have investigated have said anything about the psychic distance being too big. It is also something that differs from time to time. Since more and more Swedish companies turn to China the knowledge about the country has increased, and thus the psychic distance has decreased. Hildingsson from Swede-Wheel says that ten years ago none of his business associates had been there; nowadays everyone has. This also has to do with that during the last decades the pace of globalization has increased. Today even smaller companies with less resources have the ability to start trading with China, while a few decades ago it was only larger corporations that traded (Askman, 2005). This is also something that has been confirmed by Johansson & Vahlne (2003) and Ahlström & Bäckström (2006).

As discussed before, the hype about trading with China influences a lot of companies. This is something that is affected by the current situation among local companies. Since a lot of companies succeed, the need to investigate the country in question is lower; their success justify why other companies should start trading as well. Both Swede-Wheel and Forsheda Stålverktyg mention that their customers almost demanded presence in China by the time, because the common perception was that everyone who traded with China had low prices and were successful.

There are other matters that are of greater importance when choosing country for imports. In both Quickmatch and Uppman & Björkhag's cases there are factors adding to why choosing China instead of some other nearby country. Uppman had extensive experience from trading with China from other jobs, and Quickmatch had chosen a specific brand before choosing country. This way it was more natural to choose a country with completely different culture and behaviour as the first step.

### **5.1.3 Risk management**

In our case, all the companies are micro and small sized companies and are more or less run by the entrepreneur. It is the owner who is responsible for all the risk, and should therefore analyze the risk and make the decision himself (Committee for Oversight and Assessment of U.S. Department of Energy Project Management, 2005). When looking at our

companies, one can perceive that there is a difference in how to handle risk depending on what the business idea was from the beginning.

Looking at the production companies, they were started and are run to fulfil a wish to produce something like Swede-Wheel says, while the trading companies are run in order to find opportunities to exploit. This has a large influence over the risk taking among entrepreneurs. Since production companies risk more when starting up a new process, they are less keen on grasping the opportunity. They have an entire factory that is at risk if something goes wrong. Both Swede-Wheel and Liljas Plast AB had to loose a large customer in order to even start looking at the Chinese market. Also, both of the companies needed to extend their range of products primarily in order to keep old customers, but also to reach new ones. Thus they were not willing to take on the initial cost of starting up a new production facility in Sweden due to the large costs. This forces them to take action, since then the risk of loosing the business is as large if not investing as if investing.

The trading companies in our investigation however are more focused with the opportunity and should therefore be less risk avert. As a trading company it is needed to get as good profit on each product as possible. Also, it is necessary to be among the early adopters in order to be really successful when the majority comes along. Uppman says that the only thing he would done differently would have been to start up a few years earlier.

Also, Delmar (1994) talks about the difference between small business owner-manager and entrepreneurs. Both Liljas Plast and Swede-Wheel can be considered as small business owner-managers since they want to keep the structure of the company and keep uncertainty away. They have done so and that would explain their unwillingness to expand and renew their businesses. China is unfamiliar territory to them, and therefore they do not want to risk their business in order to seize the opportunity.

The trading companies on the other hand, are relatively new and the owners see the opportunities rather than the risk of failing. Both Uppman & Björkhag and Falk Broker have started their business due to possible profit when trading with Chinese companies; they have a high inspiration and wanted to do something different. Then one can see that, as Delmar (1994) says, it is the personal need for either a stable income or the need for expansion and success that decides whether the person running the business should be considered as small business owner-manager or as an entrepreneur. This also explains why family owned companies like Swede-Wheel and Liljas Plast require a push factor rather than taking their own initiative, something that Delmar (1994) describes as being more reactive than proactive.

When something needs to be done in order to maintain the profit, the small business owner-manager often uses external competences according to Delmar (1994). Both Liljas Plast and Swede-Wheel has a board consisting of external members, and both companies have or have had an external managing director. This is a way to stay objective and risk as little as possible but still be competitive. In Swede-Wheel's case they had to have a major event in order to realize the necessity to take in an external person as manager; they lost a major customer. Having an external board of directors and managing director also makes it easier to not take any rash decision, since they are not as emotionally involved in the company. Falks Broker on the other hand stresses the importance of being able to take fast decisions as a trader, since trading companies need to follow the opportunities quickly in order to be competitive. Thus an external board would be a too slow system.

Both Swede-Wheel and Liljas Plast have used agents to find suitable suppliers in China as a first step rather than trying to find suppliers by themselves. This is another way of using ex-

ternal competences. Forsheda Stålverktyg on the other hand uses almost no tool to find suppliers that can be easily used by others; they want to find an exclusive opportunity in order to expand even more.

Thus, since each situation is different from company to company, it is hard to generalize. What can be seen among the companies in question is that micro and small sized companies that are family owned are more reactive than proactive. Thus a push effect is essential in order to see the need for business reorganization. For trading companies however, the opposite is more common. It is the opportunities that sets the direction and decides what strategy to take.

## **5.2 Problems**

### **5.2.1 Finding suitable suppliers**

Another problem that many of our companies have discovered is that it is hard to find an appropriate supplier described by Seyoum (2000) that should be able to provide high quality goods. All firms in the investigation have experienced this difficulty in one way or another. Liljas Plast has experienced this even though they have solely used an agent. Uppman & Björkhag argues that there are too many firms in China to be able to investigate the industry they want, while most of the firms argue that the large amount of middlemen are the biggest issue when searching for suppliers. Falks Broker argues that there are many people who give themselves out to be producers, but they do not have a production site.

Forsheda Stålverktyg adds another level of features, and that is that it does not want to find the suppliers that everyone else does. At trade fairs or on the Internet only the most go-ahead firms are easy to spot; finding the others is a very time demanding process. This is not something mentioned by Swede-Wheel, but still they have travelled the countryside to find suppliers, which will then be more exclusive and harder to find by others.

Both Seyoum (2000) and Larsson (1991) argue that trade fairs are one good way of finding a suitable supplier. According to the firms in our investigation though, this is the place which is represented by most middlemen. However, those should be quite easy to spot according to Uppman & Björkhag, who talks about the ability to buy two completely different products from the same supplier.

Larsson (1991) also claims that the use of trade organisations should be high in order to find suppliers as well. This is something that most of our companies did not use, because they did not know about their capabilities to help.

Like Seyoum (2000) argues that the interesting suppliers should be visited, and so does Uppman. He says that the best way to spot a suitable supplier when it comes to the critical factors mentioned by Seyoum (2000) is to first choose a number of different selection criteria and then visiting the most suitable to see the quality and interest from the supplier side. When choosing the selection criteria Weiss' (1997) five aspects can be considered, but this should be based on the preferences of the customer. If price is the number one criteria, then factors affecting price should be considered, while if quality is the first criteria these factors are the most important. Forsheda Stålverktyg for example wants to find exclusive companies with low English proficiency that should lead to a low price.

## 5.2.2 Quality

There is one thing that all the companies see as a major problem: the quality of ordered goods. Both Uppman & Björkhag and Quickmatch argue that there is altering quality while the production companies say that the quality is generally low compared to Swedish products. Thus one can say that the production companies focus more on the specifications, Liljas Plast and Swede-Wheel have a certain standard that they can answer to, and want to be sure that the quality is good enough to correspond to what the companies state. The trading companies however are satisfied as long as the quality is corresponding to what they need, rather than the specifications.

Forsheda Stålverktyg says that it is hard to get a supplier to maintain its quality standard over and over again. Even though ten shipments have been good, the eleventh might still be useless. Falks Broker argues that one has to be over-explicit and so says Quickmatch. Thus trading companies have a less critical view of quality compared to the producing companies since production companies compare the quality with their own products in Sweden. Production companies usually have better knowledge about the products since they are involved in production themselves. According to both the definition given by Nationalencyklopedin (2006a) and Zeithaml's (1988) description of quality, there is a difference between how we perceive the quality and the actual quality.

Also, there might be a difference of comparing quality with price in Sweden and China. Since the two countries focus on different aspects, there is a difference in which one is the most important. Production companies in Sweden have a higher cost of production, and thus want to make sure that the quality is always the best. Chinese producers however, are more concerned about the price and are therefore prepared to accept a lower quality level of their products. The Chinese does not see the use for the spare parts for the aftermarket, since they fix the problem with steel wire. According to Quickmatch this is because they have another mentality, while Falks Broker argues that the difference in mentality is because they have a function based perception of quality. Thus a Swedish person would repair a scooter with a new shield with regard to the design, while the Chinese would use steel wire as long as it is functioning. This would correspond to what Lichtenstein & Burton (1989) say about various perceptions among individuals. It also agrees to the third aspect of Zeithaml's (1988) description of perceived quality, that people in China and Sweden perceive quality differently because there are different value judgments in the two countries.

Differences in quality perception could also be an explanation of why production companies see it generally as low quality while trading companies only say that it is varying quality. While Swedish production firms aim at providing a high qualitative product, the main goal of a trading company is to provide as high value for as low price as possible. Thus they have answered differently about quality because they have two different perceptions of the same quality.

Maintaining a quality standard is something that can be argued to be a problem itself, and in a way it causes the quality problem. Swedish firms know that once an order is placed and the quality is described, it should hold for every other shipment as well. The Chinese however seems to see it more as shipment by shipment. Just because a certain company has bought products before does not imply that it wants the same quality over and over again.

### 5.2.3 Delivery

The delivery time that it takes for a shipment from China to Sweden is a problem if comparing to buying the same product in Sweden. Uppman argues that it is costly both in terms of money and time. However, as most of the companies say, this is something that has to be included when considering trading, and most of the times it should be possible to plan ahead.

According to Liljas Plast the delivery time is a problem that gets much bigger when combined with the quality problem; bad shipments have to be complaint about in order to get compensation, while a new order is processed and delivered. Also, there is usually already another shipment on the way with similar quality. Thus it will take both long time to correct the quality and to get the right goods.

Liljas Plast has mentioned two other aspects of the costly and time demanding deliveries from China that are important to consider compared to produce in house. These are that it makes the trader very inflexible due to the inability to accept orders that needs fast delivery, and that it is necessary to buy large quantities.

Also, Quickmatch says that it must pay in advance and therefore a long delivery time is the same as having a low inventory turnover. The goods lock up the capital of the firm and therefore it might cause liquidity problems for smaller firms. However, if the goods are paid for after delivery, the firms can still plan ahead enough to satisfy the needs of the customers, and therefore it is not as large problem.

Both Ydrén from Quickmatch and Hultqvist from Falks Broker talk about issues connected to both delivery and cultural matters. Falks Broker talks about delayed deliveries as a problem, and Ydrén talks about long lead times. Also Forsheda Stålverktyg has experienced difficulties with delivery dates. All of these problems have their origins in the Chinese peoples' unwillingness to say 'no' and loose face in front of a customer.

### 5.2.4 Culture and behaviour

All of the companies in our investigation have identified a difference between Swedish and Chinese businessmen in that the Chinese never say 'no'. This can be based in the behaviour which is deeply rooted in identities and values and goes back into history. This is described by Hofstede & Hofstede (2005). It can also be due to that they never want to show weakness in front of others. This is described by Quickmatch when they talk about the inability to decline orders. Hofstede (1991) together with Bond explain this inability with the theory about Confucian dynamism with the basic focus of the past and the present. No matter what the no would imply for the future, it is not as valuable as keeping a good reputation. This is also described by Swede-Wheel, Uppman & Björkhag and Forsheda Stålverktyg when they talk about that the Chinese does not want to loose face, and that this can damage a relationship forever.

Most of the companies argue that Chinese people often has a problem of keeping their promises. It can apply to anything from delivery time to not being able to process orders and keeping quality specifications. Forsheda Stålverktyg says that it is possible to e-mail a supplier to ask if the order is finished one day, and the next day after travelling to China, realizing that he did not finish it. This can be due to cultural differences, and Ydrén from Quickmatch describes it as "*a pride of some kind*". Again this is based in the values and history that shape the personalities. Hofstede (1991) also explains that there are differences in the power distances between different cultures. Since China can be argued to have a very high power distance one can conclude that it is not good for a superior to do something wrong

in front of his employees, because then he will not be trusted as much as before. Also relationships with customer, foreigners and strangers could have this kind of function; if losing face in front of a customer one time, it can be hard for that person to be trusted again. Therefore he will close the deal as quickly as possible and do no further trades. However, in Sweden it is seen as worse to not tell about a problem as soon as it is found out instead of finding out in the end. Falks Broker says that the Chinese have a bad moral in these issues while it might be more accurate to say that there is a complication between the two countries' values.

Swede-Wheel and Falks Broker talk about the importance of sending the right person or persons to handle the business contacts. According to Swede-Wheel the boss should not be involved in the negotiations but rather a place of refuge when the discussions about something have broken down in order to be able to take a decision. Falks Broker talks about the negotiator that should be able to take decisions for the firm as well. In both cases the decision maker should be present, otherwise the Chinese will not even deal with you as customer. This should be due to the power distance of the two cultures that Hofstede (1991) talks about; Sweden generally has very flat organizations where almost anyone sent to such a meeting have the right to take decisions, while in China it is the boss that take all the decisions while the subordinates should discuss the deal.

Both Uppman & Björkhag and Falks Broker have talked about the unwillingness to do business over the telephone or via e-mail. Instead they want to meet over a casual dinner, and get to know the customers more, unlike the situation in Sweden. Also has noticed that the business relation has been improved this way. According to Hofstede (1991) this is due to the collectivistic attitude of the Chinese people. They are part of the extended family and see the family as the ultimate organisational structure where each person has its place. Thus it should be important to know each member of the family, otherwise it is hard to get a collectivistic thought among everyone. In Sweden however, it could be acceptable to loose face in front of someone as long as it is profitable enough. Where the border is depends on the individual.

Falks Broker and Uppman & Björkhag also talk about the time that it takes to build relations and the necessity to spend a lot of time in China, either by having an employee there or by travelling a lot. This is something that goes hand in hand with the prior discussion about business via e-mail or telephone. The less time spent in China, the longer the time to establish a good and lasting relationship.

Looking at Hofstede's (1991) dimensions the time to establish relationships as well as the will to get to know the customer should be due to collectivistic thinking, which is more important than individualism in China. However, this can be based in the theories about relationships and guanxi as well. Wu (2000) and Dahab & Esperanca (2003) argue that the long-term mutual benefits are very important in China and Johnson et al. (2005) argue that outsourcing needs more focus on relationships than producing in-house. Thus to keep a good relationship with someone it is necessary to be present in China and meet as often as possible. As Uppman & Björkhag says, this would be the ultimate situation, even though travelling to China often is a way as well. However, what none of the companies have mentioned but could be a way to even more improve the relationship would be to bring the supplier to Sweden to meet you in your natural environment and meet your family; just like he wishes you to see his family.

Keeping a good relationship with a supplier is also necessary from a cost perspective and keeping flexible like Dahab & Esperanca (2003) argue. Quickmatch and Forsheda Stålverktyg say that the Chinese do not keep their promises, but it is of course easier to break a

promise with a customer that does not have a good relationship than with someone who is well-known. According to Bian's (1994) description of Guanxi it is even more important in China than in the relationships of the Western countries to keep this membership and belonging.

The definition of guanxi given by Wu (2000) that it is just a relationship between two people, and that involving more people would be a guanxiwang would apply to the interests of many of our companies. Forsheda Stålverktyg, Falks Broker and Uppman & Björkhag argue that being part of a network like this is vital to find more suppliers, and Forsheda Stålverktyg points out that it is easier to find exclusive suppliers this way that almost no other importers know of.

When asked directly about culture, most companies answer quite doubtfully that it is not a big problem. Despite this, all companies have mentioned several problems that clearly can be connected to cultural or behavioural aspects. This can explain the conclusions drawn by Formgren et al. (2005) that culture is not a big issue.

### **5.2.5 Language**

Liljas Plast and Uppman & Björkhag are the only two companies that see language as a problem. One can notice when travelling there that people in China have a low English proficiency. Thus it is hard to understand how this cannot be a problem. Falks Broker admits that knowing Chinese is important and wishes that he had seen the importance a few years ago and started to learn it then. Forsheda Stålverktyg on the other hand does not see language as a difficulty at all, and rather searches for firms without high English proficiency to find exclusive suppliers.

However, almost all companies have experienced some quality problems and have to keep trying to correct those by communicating its importance. Almost none connects the perseverance to differences in language but see other things as causes. According to both Andersson & Beermann (1992) and Kotler & Armstrong (1987) differences in language make it harder for people to convey their messages. Uppman & Björkhag acknowledge that the communication becomes less efficient and causes misunderstandings. However, they say that it is improved with time. Thus the conclusion by Andersson & Beermann (1992) can be said to be incorrect in a way, even though it takes a lot of time to notice even in a market where the general linguistics are low.

## **5.3 Ways to avoid problems**

### **5.3.1 Finding a suitable supplier**

When searching for suppliers the product and your values and preferences play a large role. Since the companies are in different situations and look for different things the ways to find a supplier is varied. Still, a general opinion is that finding suppliers is not the hard issue, the problem is to find the right supplier. Swede-Wheel and Liljas Plast used their contacts to search for suppliers as well as, in Swede-Wheel's case, some searching on chance in the Chinese countryside. Forsheda Stålverktyg and Uppman & Björkhag have tried another approach which involves sending out inquiries to potential partners and then visit them at the next trip to China to see if the price and quality seems satisfactory. Forsheda Stålverktyg and Uppman & Björkhag differ when it comes to the search criteria, where Forsheda Stålverktyg tries to find their own way contrary to the traditional ways presented by Seyoum (2000), Larsson (1991) and Weiss (1997). Falks has used this traditional way consider-

ing trade fairs and trade publications but nowadays has more moved over to searching the Internet. Also Uppman & Björkhag prefers the Internet and has an elimination process based on different categories to sort out potential partners.

A sort of step by step method was also used by Falks Broker. By using a contact's network to find new contacts Falks Broker found and evaluated new ones. This way of securing themselves against surprises can be compared to learning about foreign markets gradually by Johansson and Vahlne (1977). Since Quickmatch had a brand that they built their import around they did not have any reason to search and evaluate other suppliers. However, they mention that it would be good to have additional suppliers to be able to put some pressure on the current supplier. Thus it can be argued that they have not achieved a good relationship or found the right supplier according to the others preferences.

The difficulties involved in distinguishing the traders or the middlemen from the real producers are something that most of the interviewed companies regards as something learned over time. Uppman & Björkhag as well as Falks Broker argue that these middlemen are usually found in trade fairs and on the Internet. Falks Broker, Forsheda Stålverktyg, Uppman & Björkhag and Quickmatch emphasize the importance and the advantage of visiting the supplier and the production plant in China. This is one way of selecting the right supplier and to avoid the middlemen.

The problem of finding the right supplier is thus something that is based on chosen preferences. Thus it is hard to say that one way or the other it the better choice, but the firm has to evaluate what is best for them and for the needs they are in. The rapid growth of the Internet in China recently has meant a lot for how easy it is to find companies. Also the older companies interviewed in this thesis and mainly have used traditional techniques to find suppliers have noticed this shift towards Internet lately. A negative aspect with the increased usage of Internet in the search for suppliers is that it might have increased the number of middlemen and swindlers since it is easier to claim to be someone else online than in person. Thus Falks Broker and Uppman & Björkhag's idea to meet all the business partners at their factory is a very good way to be sure of what to get. Getting a first-hand view of the potential partner including the office, production facility and working conditions is a good basis to avoid being deceived.

### **5.3.2 Quality/Delivery**

Almost all of the companies argue that the quality problem and delivery problems are due to other problems that need patience and a lot of discussions to correct. Liljas Plast talks about misunderstandings, Forsheda Stålverktyg talks about the need to be over-explicit and Quickmatch about proper documentation of specifications. All the respondents have concluded that after some time they have learnt what to do in different situations, depending on what is necessary.

To ensure the best possible quality Swede-Wheel, Falks and Quickmatch argue that using external help is a good way. All three discuss the advantage of having either an external agent or a company in China that control the quality of the products before they are sent to Sweden. This saves both trouble and trips to China, and therefore both time and money. However, using an agent is no guaranteed way to succeed. Falks Broker is currently using someone and Quickmatch has done it earlier by having people living in China. Swede-Wheel also sees opening an own quality centre in China as a possible solution. Also Liljas Plast is planning to do the same using resources at their new production facility in China.

Forsheda Stålverktyg on the other hand secure high quality by having a workshop in Sweden which adjusts the possible defective products they receive. Sigfridsson at Forsheda Stålverktyg also emphasizes the importance of continuous communication and constant reminders to the supplier. That reminders and over-explicitness are important is supported by Falks Broker and Quickmatch. Quickmatch also stresses that proper documentation of specifications is a must. Uppman & Björkhag prefers samples to measure quality beforehand. Since it is hard to get samples from most suppliers he describes visiting the factory and starting to build a relationship directly as the best ways to ensure good quality. This can be seen as different ways of interpreting the step by step model by Johansson & Vahlne who talk about taking small steps from country to country.

Samples, reminders and proper documentation are small steps to secure the quality of products. It can also be seen as the trial and error model described by Davidsson (2004) where they firstly take one shipment, discuss the quality of that and remind the supplier of what needs attention in the next shipment, and take this step over and over again.

Additionally, Forsheda Stålverktyg and Falks Broker used both the step by step alternative discussed by Johansson & Vahlne (1977) and the trial and error method by Davidsson (2004) to evaluate the quality initially. They started in a small scale with imports from Taiwan that is more similar to Sweden compared to China. After a while both companies moved their activities into China. They learned the differences in small steps and then used their knowledge to test it also in China. On the other hand, Uppman had experience from the market and Quickmatch started to trade with China directly when beginning their import. They both went directly to China and had to try, receive feedback and then adjust, much like the discovery process and exploitation process that Davidsson (2004) presents.

If succeeding to maintain a high quality from the supplier the problems that delivery causes is reduced. To even more decrease the possibility of a negative impact due to delayed deliveries Forsheda Stålverktyg makes sure to add a margin when telling customers when to expect their products. Quickmatch has started to use a strategy when placing orders; they name a date when they want the goods and then ask the supplier when to place the order to receive it at this date. These can be seen as trial and error methods where both companies have tried to get the products in time, but have learned over time that this will not always be the case if not changing the way of ordering or forwarding the products to the end customer.

Thus the companies in our investigation have used different ways to find better solutions to the existing quality and delivery problems they face. What has not been mentioned so far is the learning process before starting up trading. According to most companies this is something that is done when the chance is given, but there is not much attention to it. Swede-Wheel describes it as since the people are members in the same church, use the same day-care and meet in local sport activities, they talk with each other. This is something that Falks Broker and Liljas Plast agree upon; firms use the knowledge of other firms in order to find solutions or ways to handle the existing problems, or future possible problems. Almost none of the firms have used trade organisation since they are not useful for everyday business, also Swede-Wheel argue that it is costly; talking with other firms in the region is free.

Uppman & Björkhag argue however that there is no difference in having the business contact next door or in another city; telephones and the Internet makes it easy enough to be informed about the problems and solutions that other companies have. However, thinking about what the Gnosjö region companies say about meeting the business owners in everyday life, it should make a difference because it is easier to get information if not needing to

search for it by yourself. However, this is really hard to generalize based on such a small sample as ours.

When looking at the different ways to handle the problems that arise, one can see that it is not necessary to use one of the solutions, but rather using them simultaneously would be the best solution. However, more information searching from the beginning would be a good idea in order not to lose a good supplier due to an act that a Swedish businessman would generally have no idea about. Although, many times the best way to learn for the future is to make a mistake, because it more if loosing something.

### **5.3.3 Cultural issues/Language**

When it comes to dealing with problems that originates from cultural differences or behavioural diversity all companies agrees that knowledge and experience are the solutions. Some bring up the importance of building a relationship, some talks about knowing the language and some would spend more time in China if they would start all over again. Informal dinners, how to speak and propose different solutions and more general knowledge about how the Chinese side look at business are other things that the companies have noticed improved their activities. All companies interviewed agree that they have learned things over time and that this new understanding have made their import process easier. This can be seen as the learning by doing process that Davidsson (2004) presents.

Swede-Wheel and Liljas Plast both used external agents. This is of course one way of removing the cultural and linguistic problems, since agents usually are more experienced about the market they work with. Thus Swede-Wheel and Liljas Plast did not need to study the Chinese market as much on their own beforehand.

Appropriate knowledge transfer can be seen as something that is necessary due to differences in culture, values and language. Most of the companies bring up the problem of reaching total understanding from the Chinese side, but do not see that it would be the same if doing business with another completely different culture. However, China can be seen as a bit extraordinary due to its history, but still it is necessary to learn about a market before entering in order to decrease the risk of failures.

The communication between the Chinese and the Swedish companies is currently done in English and/or Chinese with the help of interpreters or someone at the Chinese company that knows English. These are two ways to handle the linguistic problem, but still none of the companies see it as necessary to have a Chinese speaking employee. Due to the distortion each time something is translated, it would be much better to have someone who speaks Chinese, or at least a little bit. This is something that is verified by Andersson & Beermann (1992).

What is actually true of all these ways of handling problems and learning is that they are all ways to handle the quality and delivery problems as well. Since the communication between companies still does not work without problems, both the Swedish and the Chinese companies would have to want to learn about the other in order to make the business run smoother. This is something that Argyris (1992) calls double loop learning, to find the underlying factors that causes problems and do something about it. Thus it is easier to remove the problems causing bad quality and delays in deliveries, instead of just finding that they have to be over-explicit and need to nag about the same things over and over again.

Better understanding and communication gives both parties a better understanding of how to design and produce the components.

## 6 Conclusion

When it comes to the reasons to import there seems to be a division between trading companies and production companies. Due to the wish to produce in-house and the unwillingness to risk what has been a family matter for quite some time, the producers need some kind of push effect to start the trading business. Their preferred strategy of being a stable business, take small steps and have a constant development, has usually been neglected due to a certain event that implied that the company had to react. Trading companies on the other hand are started due to the opportunities in the market which is based on their motivation. Thus trading companies are more proactive, while the production companies are more reactive.

The reason for choosing Chinese suppliers have been due to a lot of reasons, but the current hype around China, which is created through media's reporting of the experiences of successful companies and customers' demands, has been a major force. This can make companies take rash decisions by not evaluating other options properly.

However, the hype can have a positive effect as well, primarily by the increased knowledge about the country, culture and market among Swedish companies. Since many of them have experiences in culture it contributes to information sharing and co-ordination of practical issues like interpreters, travels and quality control. Even though the geographical distance is very far, the psychic distance is reduced.

Since all companies are different regarding products, goals and situations it is impossible to state a general way that is the best for all Swedish micro and small enterprises to go. Irrespective of company the first step in the import process is to find a suitable supplier. The companies interviewed in this thesis all agree that it is not finding a supplier that is hard, it is finding a good supplier that is the trouble. We believe that it is important to first sort out the actual producers from the firms that only claim to be so. After this the preferences of the company should be the base for the criteria to evaluate and sort out some appropriate suppliers. These preferences are different from company to company, but they are important to find the right supplier for that specific company. This method depends on things like the product, the strategy of the company and how much time and money that is invested.

How to search for supplier has nowadays shifted over from the traditional ways, like trade fairs and catalogues, to more modern searches via the Internet or databases. However, one thing that still is as important as before, and the best way to evaluate a supplier is to visit them in China. To get the most correct and reliable view of the supplier a visit to the office and production facility is a must.

Due to the fact that most of the problems mentioned in this thesis can be solved or at least reduced by either having the right knowledge or being on site in China the most obvious and easiest step is to have an external agent in China that handle this for you. Even though this is not a guarantee for success, we think that it is a short cut to knowledge and contacts. This agent also is an unnecessary extra middleman in the supply chain which will have a negative effect on the profit. If seeing the import process as a long-term strategy it might be a better idea to acquire this knowledge and contacts first hand.

Regardless of how issues as quality and delivery are perceived, they are problems that Swedish micro and small sized enterprises need to consider. The ability to find out ways to handle or at least reduce these things has a large impact on how successful the import will be. When asked about the problems that come with importing from China all companies brings up similar things: the Chinese lacks understanding, variation in outlooks, different

behaviour, pride and attitude. Most of the companies try to handle these issues by the same means: over-explicitness, constant reminders and increased specifications. This often only gives temporary effects. This way of solving problems on a short-term basis is what Argyris (1992) describes as the single loop learning.

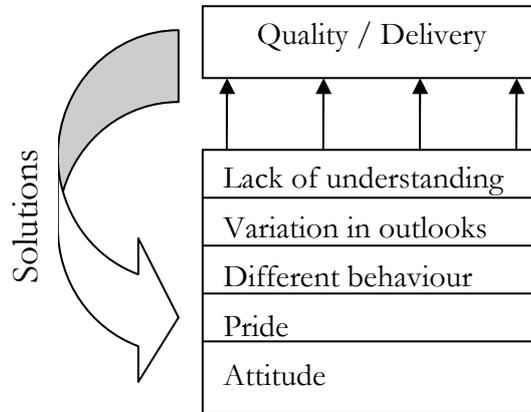


Figure 6-1 – Adapted version of Single Loop learning

A better solution is to try to explore the problems deeper and deal with the underlying things that cause these problems. When talking about the differences between Sweden and China, we think that most of the issues that the companies have brought up above has its roots in culture, language and guanxi. Solving the underlying features that allows that problems appear is what Argyris (1992) describes as double loop learning.

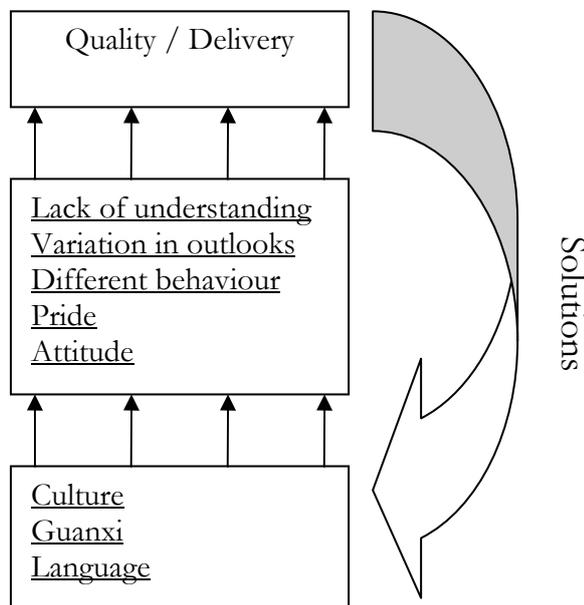


Figure 6-2 – Adapted version of Double Loop learning

Thus if the entrepreneur learns about the differences in culture, understand the importance of guanxi and learns the language before starting the import process, the chances of long-term solutions to the problems are increased a lot. The experiences from the companies in this thesis also support this. We believe that this should provide a good relationship with

the supplier, resulting in higher quality and more secure deliveries and in the extension a more successful import.

Since there are many similar firms within the same industry in localization economies like Gnosjö, and there is a culture of sharing with others it is easy to find information about their experiences. Even though it is easy today to find information about import from China through telephone and the Internet, it is given without the need to search for it by yourself.

Engaging in imports from China is of course connected with many opportunities for Swedish micro and small enterprises. During this study we have observed the different problems at hand that the interviewed companies have experienced and also some possible ways to handle these. In contrast Formgren et al. (2005) and Ahlström & Bäckström (2006), we believe that cultural differences between Sweden and China is of great importance when doing business in China. Also, Formgren et al.'s (2005) perception of good quality and that not many things need to be considered, are things that we disagree with. Our conclusion is that even though success is definitely attainable, there is not a straight way for every Swedish micro and small sized enterprise.

## **6.1 Suggestions for further studies**

During the work with this thesis we have come across some issues that we do not go into which could still be of interest. The first thing is to do a similar study based on the Chinese point of view. Since this thesis only consider the Swedish MSE's perception of problems, it would be interesting to know about Chinese exporters' viewpoint.

To be able to generalize about the situation for Swedish companies, a bigger statistical investigation would be needed. This could be interesting for many future companies that want to engage in trading with China.

## References

- Ahlström, M. & Bäckström, G. (2006). *[güan xi] – Kontakter på kinesiska*. Huddinge: Södertörns Högskola.
- Alam, Q. & Pacher, J. (2003). Internationalization of Australian SMEs: Challenges and opportunities. In H. Etemad, & R. Wright (Eds.), *Globalization and Entrepreneurship – Policy and Strategy Perspectives*. (p. 85-105). Cheltenham: Edward Elgar Publishing Limited.
- Alvesson, M. & Skoldberg, K. (1994). *Tolkning och reflection – Vetenskapsfilosofi och kvalitativ metod*. Lund: Studentlitteratur.
- Amit, R. & Muller, E. (1995, October-November). "Push" and "Pull" Entrepreneurship. *Journal of Small Business & Entrepreneurship*, 12 (4), pp. 64-80.
- Andersson, K. & Beermann, N. (1992). *Att förstå och bli förstådd – Företagens behov av språklig kompetens vid utländska kontakter – en studie i Jönköpings län* (2nd ed.). Jönköping: Jönköping University.
- Argyris, C. (1992, March). Overcoming Organizational Defenses. *The Journal for Quality and Participation* 15(2), 26-29.
- Askman, T. (2005, September 14). Nu drar vi till Kina!. *Affärsvärlden*. Retrieved March 22, 2006, from <http://www.affarsvarlden.se/art/114156>
- Bian Y. (1994). *Work and Inequality in Urban China*. Albany, NY: State University of New York Press.
- Chan, K. B. (2000). State, Economy and Culture: Reflections on the Chinese Business Networks. In Chan K.B. (Ed.), *Chinese Business Networks: State Economy and Culture*. (pp. 1-13). Singapore: Pearson Education Asia Pte Ltd.
- Commission of the European communities. (2003). Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. [Report]. Retrieved April 15, 2006, from [http://europa.eu/eurlex/pri/en/oj/dat/2003/l\\_124/l\\_12420030520en00360041.pdf](http://europa.eu/eurlex/pri/en/oj/dat/2003/l_124/l_12420030520en00360041.pdf)
- Committee for Oversight and Assessment of U.S. Department of Energy Project Management. (2005). *The Owner's Role in Project Risk Management* [Departmental study]. Washington: The National Academies Press.
- Dahab, S. & Esperanca, J.P. (2003). Integrated outsourcing: a tool for the foreign expansion of small-business suppliers. In H. Etemad, & R. Wright (Eds.), *Globalization and Entrepreneurship – Policy and Strategy Perspectives*. (p. 38-58). Cheltenham: Edward Elgar Publishing Limited.
- Darmer, P. (1995). Kvalitativa intervjuer. In P. Darmer & P.V. Freytag (Eds.), *Företagsekonomisk undersökningsmetodik*. (p. 252-272). Lund: Studentlitteratur.
- Davidsson, P. (2004). *Researching Entrepreneurship*. New York, NY: Springer Science+Business Media Inc.

- Delmar, F. (1994). The risk management of the entrepreneur: an economic-psychological perspective. *Journal of enterprising culture*, 2 (2), pp. 735-751.
- Edvardsson, H. (2005, September 2). *Alla företag tjänar inte på flytt*. Retrieved April 5, 2006, from <http://www.reporter.se/Nyheter/VaraKundersNyheter/-%20Alla%20f%C3%B6retag%20tj%C3%A4nar%20inte%20p%C3%A5%20flytt.aspx>
- Formgren, J., Gustafsson, A. & Thunberg, N. (2005). *Trading with China – The import process from an SME perspective*. Jönköping: Jönköping University.
- Forsheda Stålverktyg. (2006). *Forsheda Stålverktyg – trading av verktyg från kina*. Retrieved 2006-04-13, from <http://www.stalverktyg.com>
- Föreningssparbanken & Silf (2006, March 27). *Vilka leverantörsländer föredras av svenska inköpare? – Konkurrenskraft idag och framöver*. [Report]. (Available from <http://www.iolservice.se/project/wsp/content.asp?action=nyheter&cid=1&rid=1276>)
- Ghauri, P., Grønhaug K. & Kristianslund I. (1995). *Research methods in business studies*. Hemel Hempstead: Prentice Hall Europe.
- Haunschild, P.R. & Miner, A.S. (1997, September). Modes of Interorganizational Imitation: The Effects of Outcome Salience and Uncertainty. *Administrative Science Quarterly*, 42 (3), pp. 472-500.
- Haveman, H.A. (1993, December). Follow the Leader: Mimetic Isomorphism and Entry Into New Markets, *Administrative Science Quarterly*, 38 (4), pp. 593-627.
- Hofstede, G. & Hofstede, G.J. (2005). *Organisationer och kulturer* (2nd ed.). Lund: Studentlitteratur.
- Hofstede, G. (1991). *Cultures and Organizations: Software of the Mind – Intercultural cooperation and its importance for survival*. Great Britain: HarperCollinsPublishers.
- Johansson, J. & Vahlne, J-E. (1977). The internationalisation process of the firm – A model of Knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8 (1), 23-32.
- Johansson, J. & Vahlne, J-E. (2003). Business Relationship Learning and Commitment in the Internationalization Process. *Journal of International Entrepreneurship* 1, 83-101.
- Johansson, J. & Wiedersheim-Paul, F. (1975). Internationalisation of the Firm: Four Swedish Cases. *Journal of Management Studies*, 12 (3), 305-322.
- Johansson, J., Blomstermo, A. & Pahlberg, C. (2002). *Företagets internationaliseringsprocess – Lärande i nätverk*. Lund: Studentlitteratur.
- Johnson, G., Scholes, K. & Whittington, R. (2005). *Exploring corporate strategy* (7th ed.). Edinburgh: Pearson Education Limited.
- Kapasuwan, S. & Rose, J. (2004). Cultural effects on delegation in the small business lifecycle. In H. Etemad (Ed.), *International Entrepreneurship in Small and Medium Size Enterprises*. (p. 107-125). Cheltenham: Edward Elgar Publishing Limited.

- King, A. Y. (1991). Kuan-hsi and network building: A sociological interpretation. *Daedalus*, 120 (2), pp. 63-84.
- Kinnear & Taylor (1991)
- Kjellman, A., Sundnäs, A-C., Ramström, J. & Elo, M. (2004) Internationalisation of small firms, Kebab-paper Ltd. Vaasa Finland.
- Kotler, P. & Armstrong, G. (1993). *Marketing: An introduction* (3rd ed.). New Jersey: Prentice-Hall, Inc.
- Larsson, C.P.G. (1991). *ExportImportGuide – Handbok vid utlandsaffärer*. Göteborg: Tre Böcker Förlag AB.
- Lekvall, P. & Wahlbin, C. (1987). *Information för marknadsföringsbeslut*. Göteborg: IHM Förlag AB.
- Lekvall, P. & Wahlbin, C. (2001). *Information för marknadsföringsbeslut* (4th ed.). Göteborg: IHM Förlag.
- Li, P.S. (2000). Overseas Chinese Networks: A Reassessment. In Chan K.B. (Ed.), *Chinese Business Networks: State Economy and Culture*. (pp. 261-284). Singapore: Pearson Education Asia Pte Ltd.
- Lichtenstein, D.R. & Burton, S. (1989, November). The Relationship between Perceived and Objective Price-Quality. *Journal of Marketing Research* 26(4), 429-443.
- Lu, J.W. (2002, 1<sup>st</sup> quarter). Intra- and Inter-Organizational Imitative Behavior: Institutional Influences on Japanese Firms' Entry Mode Choice. *Journal of International Business Studies* 33(1), 19-37.
- Lund Jensen, A. (1995). Användning av modeller i problemlösningsprocessen. In P. Darmer & P.V. Freytag (Eds.), *Företagsekonomisk undersökningsmetodik*. (p. 77-97). Lund: Studentlitteratur.
- Manalova, T.S. (2003). Small multinationals in global competition: an industry perspective. In H. Etemad & R. Wright (Eds.), *Globalization and Entrepreneurship – Policy and Strategy Perspectives*. (p. 59-81). Cheltenham: Edward Elgar Publishing Limited.
- Marschan-Piekkari R. & Welch C. (2004). Handbook of Qualitative Research Methods for International Business. In R. Marschan-Piekkari & C. Welch (Eds.), *Qualitative research methods in International Business: The State of the Art*. (p. 5-24). Cheltenham: Edward Elgar Publishing Limited.
- Nationalencyklopedin. (2006a). Search term: *Kvalitetsteknik*. Retrieved 2006-05-19, from <http://www.ne.se>
- Nationalencyklopedin. (2006b). Search term: *Gnosjöanda*. Retrieved 2006-05-12, from <http://www.ne.se>
- News you can use. (2005, September 9). ”Alla måste inte Följa John...”. *KinaAffärer*, p. 5.
- Schmitz Jr., J.A. (1989, June). Imitation, Entrepreneurship, and Long-Run Growth. *The Journal of Political Economy*, 97 (3), pp. 721-739.
- Seyoum, B. (2000). *Export-Import Theory, Practices, and Procedures*. USA: The Haworth Press.

- Swede-Wheel. (2006). *Swede-Wheel – Makes it easier*. Retrieved 2006-04-05, from <http://www.swede-wheel.se>
- Timmons, J. A. (1989). *New Business Opportunities*. Acton, MA: Brick House Publishing.
- Timmons, J.A. & Spinelli, S. (2003). *New venture creation: Entrepreneurship for the 21<sup>st</sup> century*. (6<sup>th</sup> ed.) New York: McGraw-Hill/Irwin.
- Ting, A. (2004, December). Outsourcing in China. *Industrial Engineer*. 36 (12), 46-50.
- Weiss, K. D. (1997). *Building an Import/Export Business* (2nd ed.). USA: John Wiley & Sons, Inc.
- Wellros, S. (1986). *Kulturmöten till vardags*. Stockholm: Liber Utbildningsförlaget.
- Wickham, P.A., (2001) *Strategic Entrepreneurship – A Decision-Making Approach to New Venture Creation and Management* (2nd ed.). Edinburgh Gate: Pearson Education Limited.
- Wigren, C. (2003). *The Spirit of Gnosjö – The Grand Narrative and Beyond*. Jönköping: Parajett AB.
- Vikström, L. (2006, March 9). Kinesisk femårsplan bra för svenska företag. *Affärsvärlden*. Retrieved March 24, 2006, from <http://www.affarsvarlden.se/art/131680>
- Wu, W. (2000). Transaction Cost, Cultural Values and Chinese Business Networks: An integrated Approach. In Chan K.B. (Ed.), *Chinese Business Networks: State Economy and Culture*. (pp. 35-56). Singapore: Pearson Education Asia Pte Ltd.
- Yardley, J. (2005, November 20). American China: Partners, if Not Friends. *New York Times*, p. 4.5.
- Zakaria, F. (2005, December 26). Big Enough To Know Better. *Newsweek*, p. 45.
- Zeithaml, V.A. (1988, July). Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing* 52(3), 2-22.

## 7 Appendix – Interview model

- When did you start to consider import?
- What were the underlying factors behind this decision?
- Why did you choose China?
  - Was any other countries considered as possible alternatives?
- When did you start the import process?
- How did you start the import process from China?
- How were possible contacts and suppliers evaluated?
- How was the first contact established?
- Did you come across any problems in the import process?
  - Has this changed as the process has developed?
- Did the import process proceed as it was expected to do?
- Have any external organizations or consultants been used during the process?
  - When and in which situation were the external help used?
- How does the decision making process work in this company?
- Was risk considered before the start up of the import process?
- Have the Internet had any significant role in your import process?
- Could anything in the process have been done differently to get a better result?