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Inter-organizational meets inter-personal: An exploratory study of social capital processes in relationships between Northern European and ethnic Chinese firms

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ABSTRACT

This paper deals with social capital in a business network setting focusing on three aspects of social capital: social interaction, social bonds and trust. The paper argues that because of variations in underlying principles and inter-organizational business practices between different countries and culture, social capital processes will take different forms and place different levels of importance on relationships in different countries. The paper investigates how northern European managers perceive social interaction, social bonds and trust in conducting business with ethnic Chinese business partners. The explorative study builds on interviews with 28 Finnish and Swedish managers in Singapore, Malaysia and Thailand. The findings of the study indicate that when northern European and ethnic Chinese firms develop trading relationships, the resulting relationship is neither Nordic nor Chinese. Both parties deviate from their native behaviour and a new type of relationship evolves as the exchange partners interact.

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1. Introduction

Social capital is receiving increasing attention from scholars from a variety of disciplines (see Adler & Kwon (2002) for a comprehensive list). It has also spread into the industrial marketing literature mainly through the work of various sociologists and organizational researchers (for instance Adler & Kwon, 2002; Coleman, 1990; Fukuyama, 1997; Putnam, Leonardi, & Nanetti, 1993; Putnam, 2000). Slowly, social capital is making its way into the industrial network and interaction literature because of the realization that business exchange does not take place in isolation of social relationships: economic activities are embedded in sets of social relationships (Granovetter, 1985).

Social capital is a useful concept for understanding industrial networks, since it deals with relationships or networks of relationships among actors (Adler & Kwon, 2002; Kumar & Worm, 2003; Hitt, Lee & Yucel, 2002; Luo, Griffith, Liu & Shi, 2004). Although much work has been done in order to understand social capital from a business perspective, little research has focused on understanding how social capital influences relationships between firms from different countries. Given that there is overwhelming evidence to suggest that different business principles and inter-organizational business practices vary greatly across countries (Adler, 1995; Cole, 1989; Hofstede, 1991; Janssens, Brett & Smith, 1995; Jansson, in press; Jepperson & Meyer, 1991; Kostova & Roth, 2002; Kogut, 1991; Kumar & Worm,

2003; Lincoln, H.M., & McBride, 1986; Rosenzweig & Singh, 1991; Whitley, 1991), this is somewhat surprising. Since organizational behaviour is influenced by culture and the environment, social capital processes are likely to take different forms and to have different levels of importance in different countries.

Asia and particularly China is receiving increasing scholarly attention. Consequently, there is a plethora of literature on business activities in the mainland and among ethnic Chinese (Table 1).

However, the books and articles typically cover subjects such as initial problems for MNC's entry and more 'traditional' problems facing MNC's such as cooperation through joint ventures (Jansson, in press). The current literature is more focused on establishing rather than operating and running joint ventures, and is more often focused on what firms should do, rather than what they are actually doing. Furthermore, studies focusing on different aspects of cross-cultural relationships have been criticised for mostly being based on 'western' concepts and descriptors (Batt, 2004; Fang, 2001; Fang & Kriz, 2000; Fletcher, 2003; Fletcher & Fang, 2004; Lowe, 2001; Lowe, & Veludo, Purchase, 2002; Meyer, 2000). Kostova (2002) points out that foreign firms experience pressure to adopt local practices and to become isomorphic with the local institutional context.

This paper explores how northern European firms manage business relationships with ethnic Chinese trading partners. The purpose is to highlight how managers interpret and perceive various aspects of social capital. A focus on understanding social capital in relationships between firms from northern Europe and ethnic Chinese is interesting for several reasons. Several studies have found that the cultural/institutional gap between northern Europeans and Chinese is large (Hofstede, 1991; Kumar & Worm, 2003; Ramström, 2005; Worm,

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Table 1
Literature on ethnic Chinese business activities

Theme	Authors
Ethnic Chinese management structures	(Chen, 1995)
	(East Asia Analytical Unit, 1995)
	(Lasserre and Schutte, 1995)
	(Bjerke, 1998)
	(Tsui-Auch and Lee, 2003)
The ethnic Chinese cultural environment	(Backman, 2001)
	(Björkman, 1994)
	(Hofstede, 1994)
	(Yang, 1994)
	(Huotari and Rosenberg, 1995)
	(Lasserre and Schutte, 1995)
	(Hamilton, 1996)
A strategic perspective	(Moilanen, 1997)
	(Tong and Bun, 1999)
	(Backman, 2001)
	(Chu, 1991)
	(Lasserre and Schutte, 1995)
	(Naisbit, 1996)
A network perspective	(Haley, Tan and Haley, 1999)
	(Yip, 2000)
	(Backman, 2001)
	(Redding, 1985, 1990, 1991, 1995a,b)
	(Redding and Richardson, 1986)
	(Björkman and Kock, 1995)
	(Johansson, Palsa and Törnroos, 2002)

1997). The larger the cultural gap, the more problematic the creation and maintenance of social capital is anticipated to be. Therefore, it might be fruitful to explore how differences in various aspects of social capital take shape in the context of a northern European-ethnic Chinese trading relationship. Because industrial networks are about people interacting, and since sociological aspects are an integrated aspect of organizational life, it is important to understand the mechanisms for how various social phenomena are established and maintained.

The remainder of this paper is divided into four parts. The first part offers a literature review related to social capital. The second part of the paper focuses on various methodological issues for the empirical study, which consisted of interviews with northern European managers. The third part explores how northern European managers perceive social capital processes in their interactions with Chinese trading partners. It focuses on how differences in social capital take shape in relationships between actors. The final part highlights how the study contributes to our understanding of how relationships are managed and maintained between actors from different ethnic background and offers managerial implications.

2. Social capital in a business context

Sociologists emphasize that economic action does not take place in a barren social context but is embedded in social networks of relationships. Social networks in a business context are viewed as patterns of lasting personal relationships between employees in firms, and consist of both a personal and a business dimension (Jenssen & Koenig, 2002).

There are many factors preventing social exchange between network actors. For instance, concerns of opportunism, transaction costs, distrust, uncertainty and other factors can inhibit (social) exchange. It has been suggested that such concerns may be addressed by building and enhancing social capital (Durlauf & Fafchamps, 2004).

A review of work done by influential researchers on social capital (Adler & Kwon, 2002; Bowles and Gintis, 2002; Coleman, 1990; Fukuyama, 1997; Lin, 2001; Putnam et al., 1993; Putnam, 2000; Ostrom, 2000) reveals that there is no single accepted definition. The lack of a single definition is a major shortcoming of the work related to

social capital. In addition to conceptual vagueness and the co-existence of multiple definitions, a chronic lack of suitable data has so far been an impediment to both theoretical and empirical research of the phenomena in which social capital may play a role (Durlauf, 2002).

On the other hand, the breadth of social capital concepts reflects "a primordial fact of social life, i.e. the fact that social ties, for instance friendship, often can be used for different purposes, such as moral and material support or work and non-work advice" (Adler & Kwon, 2002, p. 7). According to Durlauf and Fafchamps (2004), all the main definitions of social capital indicate three main underlying ideas: (1) social capital generates positive externalities for members of a group; (2) these externalities are achieved through shared trust, norms and values and their consequent effects on expectations and behaviour; (3) shared trust, norms and values arise from informal forms of organizations based on social networks and associations.

A number of recent studies have focused on social capital in a business context (Adler & Kwon, 2002; Hitt et al., 2002; Kumar & Worm, 2003; Luo et al., 2004). Social capital is derived from social relations (Adler & Kwon, 2002), and is found inherently in the actors' social network which ties actors to each other (Sabatini, 2005).

Based on previous research (Adler & Kwon, 2002; Durlauf, 2002; Hitt et al., 2002; Portes, 1998; Putnam, 2000), social capital is, for the purpose of this paper, defined as the relationships between individuals and organizations that facilitate action and yields opportunities to the members of the social network or structure. It is characterized by a sense of trust and mutual interconnectedness, which is enhanced over time through positive interaction.

Social capital is an outcome of working together, developing trust and creating social couplings. Building social capital creates a social environment rich in participation and opportunities. Such an environment allows actors to meet frequently, where shared values and social norms can be nurtured. This increases the likelihood of further repeated interactions, which in turn decreases uncertainty and perceived risk (Sabatini, 2005).

Social capital in an industrial network setting creates positive outcomes for the actors, strengthening supplier relations (Asanuma, 1985; Baker, 1990; Dore, 1983; Gerlach, 2001; Helper, 1990; Smitka, 1991; Uzzi, 1997), enabling regional production networks (Romo & Schwartz, 1995), enhancing interfirm learning (Kraatz, 1998), value creation (Tsai & Ghoshal, 1998) and access to information (Hitt et al., 2002). Social capital also improves information quality, relevance and timeliness for focal actors (Adler & Kwon, 2002).

While there are many positive aspects of social capital, there are also risks associated with social capital. Although social capital can be seen as "the glue keeping cooperation together", Paldam (2000) argues that glue is the opposite of a lubricant when it comes to change. Strong solidarity and interconnectedness can facilitate inertia and provide resistance to change. Strong solidarity might also over-embed actors in a relationship, which might reduce the flow of new ideas, resulting in parochialism and inertia (Adler & Kwon, 2002). Adler and Kwon further argue that building social capital requires a considerable investment in establishing and maintaining relationships. Such large investments may not be cost efficient.

2.1. Three aspects of social capital

Keywords such as interaction, working together, trust, sharing, involvement, reciprocity, social bonds, couplings and collective can be used in order to capture the essence of social capital in a business network context. This study focuses on social interaction, social bonds and trust.

A common idea is that social capital is enhanced over time through positive interaction and collaboration in shared interests (MAPP, 2005). It can be accumulated when people interact with others in a range of informal and formal meeting places, i.e. creating social

couplings, from which trust can evolve (Putnam, 2000). Social interaction is also necessary to establish a network (Yli-Renko, Autio, & Sapienza, 2001). The industrial network approach emphasizes how on-going interactions and activities between actors shape the network (Anderson, Håkansson, & Johanson, 1994). Close social interaction enables actors to get to know each other and share resources and information. There is also a desire by individuals to derive pleasure from the social interaction that accompanies their daily work (Granovetter, 1985).

Actors in industrial networks are connected and controlled through different kinds of bonds which develop over time (Håkansson, 1987; Håkansson & Snehota, 1995; Mattsson, 1987). Social capital highlights the strength of the affective bonds between actors, since it is through on-going social bonds that people fulfil, for instance, such social motives as sociability, approval and prestige (Kumar & Worm, 2003).

Social capital seems intrinsically tied up with the psychological notion of trust and networks (Durlauf, 2002). Marketing scholars as well as practitioners have recognized that trust is a substantial dimension of networks (Håkansson, 1982; Håkansson & Snehota, 1995; Raval & Grönroos, 1996). In fact, in order to function at all, networks need trust and actors have to trust each other (Paldam, 2000). Adler and Kwon (2002) states that there is some confusion in the literature concerning the relationship between trust and social capital; some authors claim that trust equals social capital, while others claim that trust is a source of social capital. Either way, trust is a key motivational resource for social capital. In other words, firms with strong social capital can be assumed to be trustworthy (Hitt et al., 2002).

The context of the study also prompts focus on the above three mentioned aspects of the exchange. China is a collectivistic society and in collectivist societies, trust building is considered vital to successful relationships (Kumar & Worm, 2003). According to Confucianism, an individual is fundamentally a social or relational being, and interacting and cultivating relationships is a common preoccupation and a form of social investment. How well business succeeds is influenced by the quality and cultivation of personal relationships: one should first build long-term relationships. If that is successful, transaction will follow (Björkman & Kock, 1995; Michailova & Worm, 2003; Jansson, in press; Yau, Lee, Chow, Sin & Tse, 2000). Chinese businessmen tend to interact with others by building informal ties, which become strong bonds leading to the growth of a network. Trust to the ethnic Chinese is important because of the traditional lack of institutional trust (Kao, 1996). Therefore transactions are guaranteed by social bonds and personal trust (Kao, 1996; Whitley, 1992a,b). One has to be sufficiently trusted to be included in the network (Wong & Leung, 2001).

Although trust and social bonds can be seen as interrelated aspects, a distinction is made between them in this paper. Trust is seen more in the sense of trustworthiness (one party's trust in the other party, who is perceived as trustworthy), credibility and reliability. Social bonds are understood more in line with emotional closeness, understanding, commonality and social similarity.

2.1.1. Social interaction

Business relationships develop over time as a chain of interactions, which, over time shape the network (Anderson et al., 1994; Eriksson & Johanson, 1999). As a relationship develops, actors gain common knowledge and understanding about each other and the ways that they can and should interact (Håkansson & Ford, 2002). The evolution of interaction can be described as a social exchange process. If one actor takes the initiative, interaction evolves if the counterpart responds. Gradually, both firms make commitments. During the evolution process, firms learn about each other's competencies and behaviour (Håkansson, Wootz, Andersson, & Hangård, 1979). In fact, a central purpose of social interaction is to foster friendship and liking in

order to increase openness and communication frequency. Frequent and close social interaction permits actors to know each other, to achieve similarity and to create a common point of view (Tsai and Ghoshal, 1998).

Empirically, it is difficult to distinguish between the social, information and business exchanges which take place when actors interact. Many interactions in predominantly social relationships may have an impact on business-related issues, regardless on whether monetary values are exchanged or not (Walter, 1999). Social interaction also takes place both through formal and informal meetings between individuals from each firm (Hutt, Stafford, Walker, & Reingen, 2000).

Despite an increasing transformation towards the market in mature Western economies, Asia's emerging markets are still very different. Commercial practices are more personally and socially oriented (Yau et al., 2000). Relationships emanate from the individual and are more inter-personal and person specific (bamboo networks) (Jansson, in press). Social interaction is typically necessary prior to business relationships. Social interaction will determine whether the relationship moves up, down or laterally (Li, 2004; Wong & Leung, 2001). While social interaction in the northern European context has more of a supporting than a deterministic role for business relationships, social interaction is more clearly and specifically expressed in the ethnic Chinese context. Social interaction also extends to emotional or affective responses and social interaction includes feelings of familiarity, personal recognition, and social support. During informal discussions, actors may share inner feelings and disclose personal secrets, indicating sincerity and frankness. Gift giving is also often a central aspect of social interaction. A gift may not only be a small physical token, but it can also result in the transfer of resources (Yau et al., 2000).

2.1.2. Social bonds

Social bonds are understood as investments of time and energy that produce positive inter-personal relationships between actors (Perry, Cavaye & Coote, 2002). Social bonds also contain elements of friendship and closeness (Williams, Han & Qualls, 1998). Social bonding is evidence of satisfaction with a relationship partner, for instance, in the form of equity and benevolence. One aspect of social bonds is empathy: 'to get personal' with the other actor. Empathy is defined as the ability to understand someone else's desires and goals. For instance, Chinese expect people to anticipate others' needs or to know their feelings without asking or being told (Yau et al., 2000).

There are several types of bonds connecting relationship partners, such as geographic, economic, logistical, administrative, informational, legal and technical (Easton, 1992; Liljander & Strandvik, 1995). The industrial network perspective also attaches considerable weight to the social bonds that are formed between actors (Johanson & Mattsson, 1987; Johanson & Vahlne, 1992). In the early phases of a relationship, there is a degree of distance between actors. Although distance might be high and adaptation low, it can be offset by social bonds between the actors (Halinen, Salmi & Havila, 1999). Social bonds will create positive personal relationships and social capital between exchange partners (Coleman, 1988; Granovetter, 1973). If actors have strong bonds to each other, they are likely to develop a shared understanding of their partner's behaviour. This in turn influences their actions (Gulati, 1998).

Guanxi dominates business throughout Asia (Tong & Bun, 1999). In a business context, guanxi refers to a system of doing business on the basis of personal relationships. For the ethnic Chinese, social bonds typically precede business bonds (Björkman & Kock, 1995). Bonds are basically formed based on two factors: blood, which includes family members and relatives; and social, which includes such friends as work colleagues, neighbours or schoolmates. The closer the 'relationship', the more effectively a bond removes doubt (Yau et al., 2000).

While cooperation through relationships in the Nordic business network largely evolves around efficiency issues, business cooperation in Chinese business networks evolves around harmony as a major value; i.e. solidarity is much more emphasized. It contrasts to the more conflict-oriented relationships based on the Christian individual guilt culture of European business networks (Jansson, Johansson & Ramström, 2006). In the former case, relationships between economic actors are fundamentally competitive, while the rational for relationships in the Chinese business network is harmony. This is created through the Yin and Yang principle of having a balance between major alternatives rather than choosing the best alternative according to an 'either-or' optimization principle. In northern Europe, relationships rest on rational and logical calculation and voluntary individual action. Chinese businessmen, on the other hand, tend to have a more holistic view (Jansson, in press).

'Renqing' is another important dimension in ethnic Chinese business relationships. A central component of renqing is emotional response, consisting of happiness, anger, sadness, fear, love, hate and desire. In psychological terms, renqing is similar to empathy. If someone is indifferent to another person's emotional responses, he or she is described as 'not knowing renqing' (Wong et al., 2001). A common metaphor for this strong emotional content of the relationship is the 'heart', while the 'brain' symbolizes the less emotional Nordic business relationships (Jansson, 1987).

2.1.3. Trust

Trust in a business context is a multidimensional and complex concept (Blomqvist, 1997; Wong, 1996; Wong & Leung, 2001). McAllister (1995) distinguishes between two components of trust, cognition and behaviour. Cognition based trust is based on confidence in the role reliability of an actors' ability; for instance, to perform at a set level and to adhere to specific written or oral agreements. Cognition based trust is based on confidence in the intentions of an exchange partner; for instance, to place the other's interest ahead of one's own and to have confidence in a partner's reliability and integrity. Sako (2000) differentiates between contractual trust, competence trust and goodwill trust. Plank, Reid and Pullins (1999) state that trust has three individual components, i.e. sales-person trust, product trust and company trust. Anderson and Narus (1990) distinguish between trust in an individual and trust in an organization. In general terms, trust is a belief that one's exchange partner will not take unexpected actions that would result in negative outcomes; i.e. that a relationship partner will act in the best interests of other partners towards common goals from which there are mutual benefits (Anderson & Narus, 1984; Hitt et al., 2002; Morgan & Hunt, 1994; Wilson & Möller, 1995). Trust also indicates a willingness to do more than is formally expected.

Firms develop trust through on-going exchange (Gulati, 1998; Kale, Singh & Perlmutter, 2000). The degree of trust that has been built up is based on past experience of each other as well as on expectations of future exchange (Ford et al., 1998). Opportunistic behaviour, underlying motives and hidden agendas are factors that destroy trust.

Trust may not only vary between individuals and organizations, but also between nationalities (Batt, 2004; Coote, Forrest & Tam, 2003; Dryer & Chu, 2000). Sako (2000) has found that there are significant differences for various trust dimensions between US, Japan, UK, Germany and Europe. Such differences result from different bases for and perceptions about trust in different countries (Harris and Dibben, 1999; Hofstede, 1980; Sako & Helper, 1998; Zabkar & Makovec Brencic, 2004).

Trust among the ethnic Chinese cannot be assumed and institutionalized law is inadequate for underpinning transactions. In order to guarantee reliability of exchange processes, transactions are guaranteed by personal trust (Björkman & Kock, 1995; Kao, 1996; Whitley, 1992a,b). Another characteristic of trust among ethnic Chinese is that family trust and loyalty is an obligation and taken for granted (Lasserre & Schutte, 1995). Anyone not from the same

family, clan, dialect or village is considered an out-group member and is deeply distrusted. In northern Europe, integrity is the basis for trust. While a Westerner typically approaches an exchange situation by emphasizing formal contracts, ethnic Chinese will seek to determine whether the other party can be trusted or not, i.e. trust is more important than contracts and relationships are dependent on trust to individuals.

Trust between firms in the northern European context is organizational and professionally based. Ethnic Chinese business people, on the other hand, tend to have a more holistic view. Trust is personal and private, as well as individually based (Whitley, 1999). The northern European orientation toward organizational trust is also indicated by the fact that people are typically trusted until they have proven they cannot be trusted. For the ethnic Chinese, which is characterized by social trust, it is typically the other way around: people are distrusted until they have proven they can be trusted (Jansson, in press).

3. Research methodology

As the relationships between actors from different ethnic backgrounds are complex and ambiguous, this study has adopted a qualitative approach. A qualitative approach is useful since it allows a high degree of flexibility to experiment with different variables and dimensions (Bryman, 2002; Patel & Davidsson, 1994). A qualitative approach is, according to Kumar and Worm (2003, p. 266), "particularly useful for understanding the dynamics of the interaction processes and the meaning or the interpretation that individuals bring to bear on their lived experience".

A number of other factors prompted a qualitative approach. The goal of the study was to understand, describe, discover and ascribe meaning. A qualitative approach is flexible and evolving. As the sample is small and consists of non-random informants, a qualitative approach best serves the specific purpose. The empirical data, collected through interviews and documents, was holistic and richly descriptive.

However, while a qualitative approach has many advantages, it also presents some problems and challenges. It is hard to verify the reliability and validity of the findings. In order to guarantee a high degree of agreement between concepts and observations, multiple informants were used whenever they were available. During the planning and implementation of the interviews, care was taken in formulating the questions so as "not to put words in the mouth of the respondent" and to allow the respondents to answer freely. Quotations are extensively used in reporting the results, since it adds transparency and depth of understanding (Patton, 2002).

Because there are no exact rules for analyzing qualitative data (Collis & Hussey, 2003), some basic principles offered by Froggatt (2001) have been followed. In order to minimize the risk of subjectivity, the approach sought to seek and promote answers that were as elaborate and comprehensive as possible.

While a study is typically inductive or deductive, this research study simultaneously engaged both aspects: an abductive study (Alvesson & Sköldbberg, 1994). The study continuously moved between the empirical world and a model world (Dubois & Gadde, 2002).

Pilot interviews were initially conducted with 4 managers in Asia to formalise the research objectives. This was followed by a refocused literature review and a modification of the theoretical framework. Thereafter, interviews with 28 northern European managers were conducted and transcribed immediately after the interview.

3.1. Sample size and selection

The 28 Finnish and Swedish respondents in the sample represent a variety of industries thus reducing the risk of industry specific characteristics. All except one of the respondents have lived in the region for more than three years and five of respondents have lived in the region for over ten years. One of the respondents was female.

t2.1 **Table 2**
Respondents according to country and origin

t2.2	Country	Number of Finnish respondents	Number of Swedish respondents	Total number of respondents
t2.3				
t2.4	Singapore	7	6	13
t2.5	Malaysia	5	2	7
t2.6	Thailand	5	3	8
t2.7	Total	17	11	28

435 In order to find potential respondents the Finnish and Swedish
436 embassies were contacted. Based on the list provided by the
437 embassies, requests were sent by e-mail to 46 companies of which
438 36 agreed to be interviewed. Unfortunately, five of the respondents
439 were unable to participate in the interviews because of unexpected
440 engagements (Table 2).

441 Because three of the respondents have asked to remain anon-
442 ymous, a detailed account of firms and industries is not given. The
443 main reason is that some industries are represented only by a limited
444 number of firms and as these firms are usually represented only by
445 one Finnish or Swedish manager in the region, there is a risk of
446 identifying some of the respondents.

447 3.2. Data collection and analysis

448 The main body of data was collected in 2003 and during a follow-
449 up study in 2004. In-depth, semi-structured interviews were carried
450 out with all respondents. An interview guide was prepared in advance.
451 The interview guide contained questions revolving around three main
452 themes; the interaction process, relationship dimensions and ex-
453 periences of relationship management with ethnic Chinese trading
454 partners.

455 The interviews lasted on average 1.5 h. All interviews were
456 recorded and later transcribed. The interviews were conducted in
457 Swedish if possible, otherwise in English.

458 While transcribing the interviews, the responses were grouped
459 according to question, subject, country, themes and dimensions. The
460 data was then codified to identify ant emerging themes or constructs.

461 4. Perceptions of northern European managers concerning social 462 capital processes with ethnic Chinese business partners

463 Social capital processes have different forms and place different
464 levels of importance on relationships and networks of relationships
465 between northern European business partners and ethnic Chinese.

466 4.1. Northern European managers' perceptions about ethnic 467 Chinese business partners

468 On an everyday basis, northern European managers are reminded
469 that they are foreign firms. This is not, however, a negative issue,
470 because locals are also more tolerant towards foreigners' mistakes,
471 since they realize and accept that foreign firms cannot know all the
472 customs and norms of local business.

473 The northern European managers generally felt that they were
474 respected for the knowledge and expertise they possessed.

475
476 "They treat foreign business people different than they treat their
477 own. It's interesting, because many times it just is. An example is
478 that one time I wanted to send logs to Finland by air. But log
479 exporting is banned here in Malaysia. So I had to apply for an
480 exemption. My local Malay friend said that it would be impossible
481 to get that kind of exemption, but you can try. And I did try and
482 they were very helpful, very helpful, and only after 2 weeks of
483 processing, they gave the approval. But not only approval, they
484 were very friendly and understanding."

4.2. Northern European managers' perceptions of social interaction 486 488

489 "If you don't like to meet people, you don't go to Asia. The fact is
490 that in Asia business is done by individual people, not companies.
491 In Europe I can send even you to say you are a [Company x] man to
492 Spain and settle a claim, and they treat you as a company member.
493 But here you have to be a person who they know." 494
495

496 Respondents stressed the importance of social interaction in
497 conducting business with ethnic Chinese. There was a unanimous
498 belief among the respondents that social events are a vital aspect of
499 their business relationships. Frequent social visits are considered the
500 main building blocks of a successful business relationship with ethnic
501 Chinese (Table 3).

502 "We have spent a total amount of time of two months. All in all if
503 you count all the time, all the trips we have made there without
504 any business at all. And spent a lot of money on it, driven there,
505 taken them out and to eat. I am in contact with the most
506 important people once a month".

507 Respondents with experience of relationships in other parts of the
508 world unanimously agreed that although social interaction is also
509 important elsewhere there would be no business relationships with
510 ethnic Chinese without regular social interaction.

511 Compared to their home environment, most managers believed
512 that they needed to meet more frequently and regularly with their
513 business partners. A common idea is the expectation of regular
514 interaction and social contact. On one hand the respondents do not
515 feel that such regular social interaction was challenging, but at the
516 same time, many respondents expressed that they thought relation-
517 ships were easier to manage in northern Europe. One reason is that
518 social interaction in their home environment had a more supportive
519 role than a deterministic role, while the business relationship with
520 ethnic Chinese was dependent on regular social interaction. Therefore,
521 northern European managers must make the time to interact regularly
522 with their partners.

523 Many respondents mentioned that there was no clear distinction
524 between formal and informal interaction. For instance, business
525 letters can be formulated quite formally, but discussed in a rather
526 informal fashion over lunch. Sometimes the respondents even have to
527 stress that an event is a purely informal and social event.

528 Local firms are more hierarchical than Northern European firms
529 with a substantial top-down mentality. The respondents were largely
530 unaccustomed to this kind of top-down approach and of the need
531 therefore to maintain contacts at all levels of their partner's
532 organization. They also interacted with as many individuals as
533 possible at different managerial levels.

534 Many managers felt that they had an advantage over competitors
535 from other Western countries because they had been permitted to
536 stay for such a long time. They believed that stability was important
537 and that the same person should maintain social interaction.

538
539 "It's important that you don't change people who meet with locals
540 every two or three years. Being old friends. Continuity in the sense
541 that the same person should continue and maintain the relation-
542 ship." 543

4.3. Northern European managers' perceptions of social bonds 545

546 "Let us play with the thought. First of all, let's assume that I have a
547 very good relationship with my customer and it is based on them
548 portraying me in a certain way. If I quit my company and go to one
549 of the competitors, then I would take with me a large part of the
550 customer base. As long as my new employer would not prohibit
551

Table 3
Finnish/Swedish firms understanding of social interaction with ethnic Chinese business partners

Antecedent	Meaning	Quotation	N
Borderless	Mix of formal and informal	Formal and informal are not at all like in Finland. Business can be discussed during lunch, dinner. The setting is more relaxed, it is not so charged, and it's not so obvious. It's more relaxed and issues can be openly discussed in a relaxed setting. And then you need to find a way to make sure that the other partner understands that it is only social, not business. There are no rules saying that you can't discuss business during dinner. It works fine. It's a polite expectation that there is a soft transition to the business relationship.	11
Regularity	Meeting on a frequent basis	I try to meet up with them, even if I don't have anything to say, just to say hello, and to ask how things are, if there any problems. Every now and then I get in contact with the management and we meet somewhere nice and have lunch. They are interested in learning new things and hearing new things. Local Chinese colleagues typically play golf with customers once a week. Not only working days but also weekends. Every Sunday he normally plays golf at the Raffles Golf club. His important customers are also there, most of them. That is a very typical way of maintaining the business relationship. Quite often [I'm in contact], every day or second day. It is a result of the way business is done here.	13
Social events	Eating and 'golfing' have important function	It's very much eating lunch, dinner, singing karaoke, playing golf. Very important. For Finns and Swedes it doesn't sound sensible, but it's important for the Chinese. Social things are important to the Chinese, for instance, eating is a thing done together. You never eat alone. Two, preferably four go together to lunch. Mention food to a Singaporean and it creates a huge smile on his face. If you don't sit and pick the food, you get bonus points. I didn't play golf before I arrived in Asia. They all gave me advice to get up on the golf range. So it is not always clear that how their organization work. Brother does this, other brother this, and sister this. Generally it helps if you talk to everybody. You try to pick different people from different parts of your partner's organization to get to know their views. The fundamental is to learn the person's background, who are really in control, who are the stakeholders, who are players in the other sides network.	15
Hierarchies	Maintaining relationships on many levels	I have done it in such way that I can play on every level in our partner's organization.	10
Stability	Not changing personnel	The Thai partners don't like the idea that there is a new person, absolutely not, they do not appreciate it. They like that they know they guy, how he is, how he behaves, how he negotiates, what he like and doesn't like. It helps a lot if you can show that you are not just a passer by, that you are committed to the long term here. Being old friends. Continuity in the sense that the same person should continue and maintain the relationship. On the other hand, in this region, some of the customers we have, we have know since we started the plant here 42 years ago.	15

me to act in the same way as before, then it would be much easier than in any other environment for the new employer to build a relationship to my customers. This is totally different than in the West.”

It is clear from the respondents' answers that they believe that social bonds have significant importance for the formation and duration of business relationships with ethnic Chinese. Social bonds facilitate a large part of most business transactions (Table 4).

'Harmony' is, according to the respondents, another ingredient of business life with ethnic Chinese. Harmony refers to the basic philosophy of non-conflict and non-confrontation where partners always attempt to achieve a 'win-win' situation.

“If a person comes from Finland, someone always has to be right, and someone has to be wrong, and they have to find someone that is guilty. That is the Lutheran thing. That is what they are not doing here.”

Table 4
Finnish/Swedish firms understanding of social bonds in ethnic trading relationships

Antecedent	Meaning	Quotation	N
Harmony	Adopting a non-confrontational approach	There should be a win-win situation. You should be able to see this win-win. You will not make it if you go with the western shot gun marketing-style. When I go to Finland, people are teaching me all the time. There are many different ways. Finns are very poor at a smooth behaviour and are too intolerant. There is a will to solve a problem in every possible way. Over here there are surely 10 ways to solve a problem, while in Sweden there is only one.	17
Character	Personal chemistry and characteristics	Personal chemistry is very, very important. They are more sensitive to human character here. They often look for common factors in human characters. There is another example of a person where chemistry does not work. We don't get along and I don't see him all that much. I even think that if I would try to have a relationship, it would even ruin it for the company, so I better stay out. Characteristics are important in the early stages of the relationship.	10
Involvement	Caring for the local partner	They need to feel that you are personally engaged in their success. And not being selfish, like the Americans who come in and go out and leave things behind. It's better to give a little too much than a bit too little, because then you get a reputation of respecting and caring about them, rather than being seen as a person who cares only about himself. I believe that Scandinavian countries have a good chance in Asia based on our way of acting. We consider each other.	12
Informality	Importance of social events	After golf we have beer. It was a very good opportunity to socialize and learn about each other better. So, that is how it started. Golf is nothing to do with work. Sometimes we don't talk at all. A reason to meet and talk afterwards. Just getting to know each other. Social things, dinner, golf. These provide the opportunity to complain about anything.	8
Availability	Should be reachable easily	Some customers become very unhappy if I will not be in contact with them. Even if I don't call about business. But here people have a hard time to understand the mentality if you have a company telephone in Finland you turn it off after business hour. But here you have it on all the time; people need to reach you every day, even Saturdays and Sundays. More often than not you put your mobile number on your business card. There is expectation that the boss makes courtesy calls, it is appreciated. As a bit of a joke they offered him a chair and a working place at their office, because he almost lived there.	10

Since the ethnic Chinese prefer to approach various issues indirectly, a challenge for the respondents has been to avoid approaching issues directly like they are used to in their home country.

Some of the northern European managers believe that the ethnic Chinese are more sensitive to human characters than business people in the West. They often look for commonalities in their partners and personal characteristics and chemistry have an influence on how long it takes to develop a relationship.

Another aspect of social bonds is 'involvement'. Involvement means being engaged in the partner's success, as well as generally being considerate and caring.

Establishing social bonds requires a sense of closeness between the partners – both mental and emotional. Social bonds are strengthened during informal meetings. These informal meetings can also function as a forum for bringing up issues that need to be discussed later. It is common that informal meetings continue even if the partners do not conduct business anymore. The respondents feel that being easily available to the partner is a way of showing that the partner is important. Therefore, many of the respondents never disconnect their mobile phones. Being available also means that many of them even spend weekends with partners, for instance on the golf course.

A large number of the respondents believe that they need to prove they are committed, otherwise the local partners are unlikely to engage in a relationship. Literature covering Western business relationships often mention 'moving backward' and/or terminating a relationship, which may occur as a result of changing requirements or needs or if the fundamentals of the relationship do not exist anymore (Ford, 1990). However, terminating or moving backwards in the relationship was never brought up by the respondents.

"I think the difference is that in a Western context, at the end of the day what matters is performance. The business relationship can be broken if the performance is not there, or if the parties feel that it does not really work. In an Asian context, it is more that we started this together and we live this through together. There is an expectation that you continue as a friend and a partner. Even if either party starts feeling that this doesn't really work well even then there is still an expectation that the relationship still continues, even if business go down and there is a slow period. You do not easily give up relationships."

Somewhat interestingly, many respondents stated that business has become more westernised with ethnic Chinese. Some traditional norms still need to be followed; for instance, non-confrontational social behaviour, but local businessmen are more accustomed to western business practices, including acceptance of different business behaviour.

4.4. Northern European managers' perceptions of trust

"There is a different idea of what trust is between a Finnish and a Thai company. Serious business relations never start from zero, they always start through recommendations. So if I recommend someone, and I am a trusted friend, I would never recommend someone that is not trusted. So therefore it is not so straight forward."

The issue of trust provided the most unanimous answers among all the respondents – trust was a critical issue when conducting business with the ethnic Chinese. If trust is not managed in a correct way, it could easily destroy the business relationship.

The respondents' experiences are that trust was initially established through references and recommendations; i.e. it needs to be established prior to starting the business relationship. This can be

done either through recommendation from a trusted person, or from the firm's record of accomplishments (Table 5).

Trust exists foremost between individuals, not between companies. The firm naturally represents something that has been built over a long time, and there is respect for the brand. But the relationship is foremost between people, not organizations. Local business people always refer to a person – a business card – never to a company name.

"The company is known, the name of the company is known, and the market knows what the name stands for, for instance leader in something. But the real contacts are personal contacts".

A number of the respondents feel that the ethnic Chinese believe it is the person who creates the organization, not visa versa. There was an understanding that ethnic Chinese business people see through the person what they want to see in the company.

In order to establish trust, many respondents felt that it was important to pro-actively offer assistance as often as possible and to regularly check if there are problems that need to be addressed.

"It's better to give a little too much than a little bit too little, because then you get a reputation of respecting and caring about them, rather than being seen as a person who cares only about himself."

Behaviour plays an important role in trust building. Many of the respondents felt that a basic element in creating trust was to show an understanding for the partner's way of thinking. The northern European managers perceive that trust develops as a result of being able to act in a respectful manner as well as by showing respect for local traditions, rules and beliefs.

The 'fourth dimension' refers to the possibility for performing some business deals, which do not strictly follow the rule of the law. This 'fourth dimension' is a common element in business transactions in many parts of Asia; gift giving and favours are an integral part of many transactions. Issues of such sensitive nature can be more openly addressed when strong social bonds have been established.

Another indication of the presence of trust is the absence of written contracts; i.e. written contracts are seldom used or referred to. This aspect of business relationships is quite different compared to the northern European context, where most business transactions rely on written contracts.

5. Discussion of the findings

Important aspects in the formation of social capital in Asia are social interaction, social bonds and trust. This paper has highlighted that where country cultures and environments are different, social capital takes different forms and assumes different levels of importance.

A central theme in the paper has been an exploration as to how northern European managers engage with ethnic Chinese business partners. Among the ethnic Chinese, the level of collectivism is high. Every individual has a social network built around them consisting of family, relatives, colleagues and friends. In northern Europe, individualism is strong and the rights of the individual are of the utmost importance (Halman, 1994) (Table 6).

Northern European firms represent the inter-organizational approach to business networks (Håkansson & Snehota, 1995), while ethnic Chinese firms represent the inter-personal approach. Business in the northern European markets is largely based on the concept of transactions, while business dealings among the ethnic Chinese are based on relationships (Hitt et al., 2002). Business relationships for the ethnic Chinese are built on social relationships which are often a prerequisite for developing other types of business activities.

Table 5
Finnish/Swedish firms understanding of trust with ethnic Chinese business partners

Antecedent	Meaning	Quotation	N
References	Business based on recommendations	If you are being recommended by someone that is trusted, then it shortens the time to get trusted. Of course it depends on how close the persons are, the one recommending and the one receiving. If they are in the same group or family, you can gain trust rather easily.	13
Inter-personal	The individual instead of the organization	Very often it happens that Mr. X leaves the company and the customers follow him. It's the guy – they could care less about the link to the company. Without person to person relationships it's really difficult to proceed. I want to emphasize the importance of personal contacts. Not the company. If the company has a good reputation, that is fine, but when it comes to the deal, it's still the personal contact.	15
Forthcoming	Offering help when needed	A lot of things are done here based on relationships. Basically the product and your performance are secondary. It doesn't mean that if you have a relationship you can sell garbage, but your product won't make it if you don't manage your relationship. If a Thai partner is in a difficult situation, for whatever reason, and you help him out, then you build an enormous amount of trust by being there. In some circumstances we can help the customer by making their problem our problem, and help them solving the problem. The support that they need and the sincerity that they want. If you get the support, then you can get things moving. It is important that it's a bilateral thing. They have to feel that they get the backing they need.	11
Behaviour	Continuously acting according to expectations	You can gain trust, fundamentally, if you understand the people, their values, the way of communication, which gets down to body language, face expression, dress codes, concept of time, small stuff. In a way, trust comes with behaving correctly, although you as a foreigner will not always do things correctly. You need to take the local culture seriously - that is fundamental. It builds on that you have behaved according to your partners expectations over a long period. Not necessarily right according to a western perspective, rather being open, attempting to learn local traditions, attempting to adapt some rules that apply here. You can never gain trust if you stomp around, not acting right, not greeting in the right way.	15
Fourth dimension	Addressing issues of sensitive nature	Being a friend to a partner means that some business can be done under the carpet. If Finnish companies want to do business here, the firm cannot look with the Finnish moral and values at the situation here. There is a certain history here of giving a little extra to someone that is important. In fact, Thais usually don't see anything wrong in giving someone a little tip for a good service provided or doing the work good. There is an official and an unofficial relationship. A good relationship means also that you are able to make business of a dishonest kind, a dimension we don't have in the Nordic countries. For this, [close] relationships play an important role.	8
Paperless	Written contracts are not needed	The verbal contract is the contract: the written contract is just for looks, and it's very loose. A lot of things are based on trust. If you have the trust of top management, you don't need a contract. The local ways are like the Japanese, they want only a few pages in contract. We deal with the rest later on. Typically, you don't often read the contract. If you cannot agree on something without reading the contract, you're off to a bad start. So the actual contract negotiation process can be somewhat cumbersome. It's not necessarily that the other party doesn't want to make the contract, it's that they don't know how to go about doing it.	12

Commercial practices are more personally and socially oriented and business networks overlap with other networks (Jansson, in press).

A fundamental difference is that northern European firms embrace the notion of competition, even between individuals. The ethnic Chinese focus on minimising conflict through a group based system of social relationships. Another difference is that northern European firms are achievement oriented while ethnic Chinese firms are face oriented. All aspects of ethnic Chinese business behaviour are guided by the principle of face.

While business in northern Europe largely revolves around optimization and efficiency, business for the ethnic Chinese revolves around harmony. Harmony is achieved through the Yin and Yang principle of having a balance between major alternatives rather than choosing the best alternative according to an 'either-or' principle. Thus, the business logic of local firms can cause difficulties. Whereas it is felt that local firms are guided by intuition and business is based on feeling, northern European business people make decisions rationally. Conversely, the ethnic Chinese decide emotionally in a way of thinking that few westerners understand.

Of great concern when doing business with ethnic Chinese is for trust not to be taken for granted. Trust is individual rather than organizational, and people are generally not trusted until they have proven that they can be.

Relationships in northern Europe undergo constant evaluation and incremental change, which makes networks more volatile and unstable (Håkansson & Johanson, 1993). Relationships among the ethnic Chinese are relatively strong and endure over the long term,

often representing a continuity of collective common interests among families, communities and sets of friends and relatives.

Conventional wisdom, such as 'think global, act local', suggests that northern European firms should adapt to the local context when conducting business with ethnic Chinese. However, an important observation is that when northern European and ethnic Chinese engage in an exchange relationship, the relationship is seldom dominated by either a northern European or ethnic Chinese perspective. Both parties deviate from their native behaviour. Consequently, a re-institutionalization process takes place as firms from these two vastly different contexts interact. A new type of relationship takes shape: a mixed relationship.

Although the resulting relationship more closely resembles an ethnic Chinese relationship, there are several differences. For instance,

Table 6
Dimensions governing relationships with Finnish/Swedish firms and their ethnic Chinese business partners

Nordic network characteristics	Chinese network characteristics
Individualistic	Collective
Inter-organizational	Inter-individual/personalistic
Optimization	Harmony/Yin-Yang
Conflict base	Harmony/face base
Logical	Holistic
Brain	Genqing/heart
Organizational/professional trust	Individual/social trust

the northern European managers maintain a degree of 'northern Europeaness', because the managers feel that it offers advantages and creates a positive atmosphere. Ethnic Chinese business people are aware that their northern European partners' parent companies require written contracts and therefore written contracts are employed. The ethnic Chinese are also moving towards a more modern, non-social way of communication.

These findings are in line with the findings of Kostova (2002), who suggested that foreign firms in a particular host environment are buffered from the local institutional pressures and are not necessarily expected to be completely isomorphic with other local organizations, especially if the MNC is relatively powerful and thus less dependent on the host country. Thus, the direct effect of the local environment might be somewhat constrained. Szeto and Wright (2006) also found that young Chinese executives are in fact, extremely keen to draw on Western management thought, which is regarded as more practical and open. Therefore, it should be possible to link modern management concepts of relationship marketing with guanxi, as both must be cultivated on a continuous basis to maintain a network.

5.1. Research implications

The research results presented in this article should also be valid for doing business in mainland China, especially for northern European firms. First, as shown by Jansson and Ramström (2005), the northern European and Chinese mixed business network model in Southeast Asia has changed little during the past 25 years, indicating that these firms have identified a way to successfully do business with the Chinese. Secondly, numerous ethnic Chinese firms in Southeast Asia, as well as Taiwan and Hong Kong, have 'moved back home' by investing in China. Thirdly, the small business sector in China has grown very rapidly during the last five years, largely due to these investments. However, from a research point of view, this is a proposition that needs to be studied further.

One has to keep in mind that Finnish/Swedish companies are typically dealing with local companies that are experienced in doing business with foreign companies. The local companies are not usually the small 'workshop' companies that can be found in many small alleys and shopping malls. Most of the local partners are medium to large sized firms. Therefore, the findings in this paper should not be applied to the large population of small sole traders or 'sweat shops'.

5.2. Managerial implications

How much business a northern European firm conducts with its ethnic Chinese business partner is to a large extent dependent on how much time the individuals employed have spent in the region. A local presence is often necessary in order to grow business in the region. Local firms are reluctant to commit to firms that visit the region only once or twice a year. It is also useful to extend an invitation to the work course early in the relationship.

If a new relationship is initiated, the local business person is going to be interested in the history of the foreign firm. It is necessary to obtain a recommendation from someone who has a prior relationship. A business person who is new to the region and unable to acquire a recommendation from an established firm can use its own trade commission or embassy as a reference. A good reputation can be built by behaving in a manner, which indicates to the local firms that the firm is offering the support they need and the sincerity that they desire.

It is also important to establish trust. Initially, trust can be established by getting a recommendation from a trusted person. Trust is further developed as a direct result of being sensitive to the local culture and showing a willingness to learn basic cultural behaviour. An initial step in developing a business relationship is to learn as much as possible about the local business person's organiza-

tion. The foreign firm needs to identify key persons in the potential partner's organization and attempt to match personalities. Personal characteristics are important for local businessmen and being 'a nice person' builds a positive image and atmosphere. The chemistry between two persons is more important than northern Europeans are used to. Team work is a strength of northern European managers: an ability to work with local partners without being commanding.

Changing expatriates in the ethnic Chinese context is difficult, because trust and social bonds exist between individuals and usually cannot be transferred. If there is a change in personnel, ethnic Chinese feel that they need to invest a considerable amount of time in learning about the new person, even if they have known the company for a long time. The succession process therefore needs to be planned carefully. For instance, common trips to the European office, informal meetings, dinners and golf should be used as tools for introducing and handing over to a successor. Northern European firms should also consider allowing their employees to remain in Southeast Asia for a longer period and should always maintain at least one northern European manager in the region.

Promoting local employees to management positions is a way of enhancing the firm's reputation and signalling to partners a long-term commitment to the region. However, although local employees should be responsible for most of the daily contacts with local partners, Finnish and Swedish managers should be present when a major business deal is at hand. This arrangement is not only because local employees may not be able to manage the transaction, but rather because the partner expects contracts to be signed by the management of both companies.

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