Can ‘lagom’ save you in a Confucian world?
A study of how national cultural differences affect the use of management control systems of Swedish firms in China.

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Abstract
The purpose of this thesis is to analyze and provide a deeper understanding of how the national culture of China affects the use of formal and informal management control systems of Swedish firms, operating in China. In order to conduct this research, relevant theories concerning internationalization, culture and management control systems were gathered and analyzed in relation to each other. This resulted in a conceptual framework, which illustrates the interrelationships between the concepts. Thereafter, this was used as the ground to which the empirical findings were analyzed and compared to. The analysis chapter involves a discussion of the similarities and dissimilarities between theory and empirical data, which leads to the conclusions of this study. This is lastly followed by theoretical implications, practical implications and recommendations, limitations and suggestions for further research.

The study has been conducted with a qualitative research method, in order to obtain a deeper understanding of how national culture can affect the use of management control systems of Swedish firms in China. Further, due to the unexplored and limited research area of this complex subject, the study followed an abductive approach.

The findings of this research indicate that the Chinese culture affects the use of formal control systems, in which they are used extensively within Swedish firms, operating in China. However, the national culture of China does not have an effect on the informal control systems of Swedish firms. Nevertheless, the use of the informal control systems should not be undermined, as the use of these triggers for more innovation and creativity among the members of an organization. This in turn could lead to Swedish firms operating more efficiently in the Chinese market. This research can be valuable for Swedish firms that wish to internationalize to the Chinese market, as well as firms operating in China with concerns regarding the use of management control systems in relation to the culture.

Keywords: International business; culture; China; Chinese business culture; guanxi; management control systems; formal control systems; informal control systems
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   Part 1. Background Information:
1 Introduction

In this upcoming chapter, we will introduce and provide for the reader the topic we study, by presenting the background, problem discussion, research question, purpose and delimitations. The background is the ground to which the problem within this topic arises. Furthermore, the problem discussion will lead the reader to our research question and thereby the purpose of this research.

1.1 Background

Globalization is defined as the global unification of economies through trade, investments and the production of goods and services, in order to intensify international competitiveness (Passaris, 2006). Globalization creates opportunities for the exchange of ideas and information, and creates an integrated global market with diminished national borders. The intensification of globalization has resulted in a higher level of specialization, skilled labor forces and benefits of economic, social and cultural diversity (Passaris, 2006). The evolution of advanced technology and financial liberalization has affected globalization in a way where the intensity and degree of connections encompassed by different cultures has accelerated perilously. The wave of globalization has opened economies domestically and internationally, and is of great importance in regards to internalization of firms (Arnett, 2002).

The term internationalization consistently assigns an attitude towards foreign activities. The term has been indicated as a process in which firms increase its international involvement, with the desire of economic growth (Knight, 2004). In order to succeed in new international territories, the firm is ought to create an understanding of how countries, institutions and other firms operate within these regions (Fletcher, Harris and Richey Jr, 2013). One of the most challenging fields for most firms internationalizing is the cultural environment in different countries. The business world is emerging into a global focus rather than a domestic one. This implies that managers are required to be proficient at understanding the significant challenges and differences in culture, in order to tackle the challenges faced by this phenomenon (Ralston, Hallinger, Egri and Naothinsuhk, 2005). Furthermore, it is stated by Aycan, Kanungo, Mendonca, Yu, Deller, Stahl and Kurshid (2000) that it is required for the management of a company to understand the influence of the work culture, as well as the institutional and sociocultural environment of a country.

Culture could be defined as the combination of beliefs, values and expected behaviors, which are shared by a group of members within a society (Hofstede, 1984). Cultural values are unconscious and deeply embedded in the mental programs of individuals. All people are affected by culture, which is reflected by their beliefs, values and behaviors (Herbig and Palumbo, 1994). Culture can be presented on
different levels, in which the highest level is the national culture of a country or regional society (Trompenaars and Hampden-Turner, 2011). The importance of national culture in relation to international business has become increasingly important, and proved to have significant effect on business activities for firms operating in emerging markets (Leung, Bhagat, Buchan, Erez and Gibson, 2005). The term “lagom” has been used in the title as it reflects the Swedish culture. “Lagom” is the Swedish cultural concept of something being neither too much or too little, but rather good enough (Swedish Dictionary, 2009).

Emerging and developing markets are of great significance when doing international business. The emerging countries account for approximately 60% of the global GDP, in which some meet every year to discuss issues of concern, namely; BRICS (International Monetary Fund, 2016). BRICS is a term used to describe the economies of Brazil, Russia, India, China and South Africa. For the past 10-12 years, economists have considered the emerging countries in BRICS to be the future driving force for the world economy. In 2011, BRICS resulted in being the most accelerated growing emerging markets. Simultaneously, they accounted for 43% of the world population, 17% share in the world trade and 30% of the world GDP (Năstase, 2014). Among the five countries in BRICS, China has the largest economy (Oropeza García, 2014).

China has become the world’s second largest economy, following the U.S (Focuseconomics, 2017). The country has had marvelous economic growth due to the program of economic reforms that emerged in China, 1978. The establishment of the economic reforms resulted in China being the world’s manufacturing core (Focuseconomics, 2017). China, with a population of approximately 1.38 billion, accounts for the largest population in the world. Intact with the globalization of world business, China has become a market that strongly attracts foreign investment (Pan and Zhang, 2004). However, international expansion does not come without costs. When crossing national borders, firms must adapt to the foreign culture they are about to endure (Barkema, Bell, and Pennings, 1996). Most of the failures faced by cross-national companies exist due to cultural differences. The great barriers are caused by difficulty of communication, means of cooperation and operating methods. Therefore, it is of great importance that firms gain knowledge and experience in terms of the Chinese culture, in order to reduce uncertainties when operating on a foreign market (Pan et al., 2004).

Despite the cultural differences among the Western and Asian part of the world, China has great market potential that foreign investors continuously seek (Pan et al., 2004). It is further demonstrated that the importance of cross-cultural knowledge among foreign countries, in order to understand China and the complexity of the Chinese culture (Pan et al., 2004). The Chinese business culture is an important factor which explains the diversity in organization systems and management behavior (Ying, 2000). Furthermore, it is based on certain core values which have developed and maintained from 5000 years of history (Kwan and Ofori, 2001). These core values are of great importance in the Chinese culture, and still remain unique and consistent for the Chinese (Ying, 2000). One of the most outstanding values within the Chinese culture is guanxi (‘relationships’). This phenomenon refers to the building and maintaining of
interpersonal relationships in the Chinese society, which has long been
significant to the success of firms in China (Michailova and Worm, 2003). Furthermore, the Chinese culture is characterized by high centralization structures and avoidance of conflicts (Kwan et al., 2001). Belonging to a group, as well as having collectivistic values, has been emphasized as an important factor both within organizations and societies. This is mainly due to the reason that the Chinese believe that success is reached through group work, rather than individually (Pan et al., 2004).

The challenge with having strong guanxi among business partners is the required trust among each other. A study shows that a majority of people in China valued relationships in their daily life, while approximately 84% indicated that there is a strong need of trust among people in order to do business. The problem emerging from having relationships is the difficulties that organizations face when establishing its business in China. Building networks and connections in China is the best way to overcome hindrances within organizations (Yeung and Tung, 1996).

Whether national culture produces differences within the management control systems of a company has been of interest for many years. There has also been specific interest in how the Chinese culture can affect management control systems of firms (Efferin and Hopper, 2007). Management control systems are defined as actions managers take to ensure that the strategies and goals of the organization are achieved, which involve leading and motivating employees towards organizational goals (Merchant and Van der Stede, 2007). Management control systems have further been identified as actions for influencing behavior. Controls have been classified in many ways, such as formal and informal controls (Langfield-Smith, 1997). An organization’s formal control is identified as the procedures and policies that address behavior in order to achieve the organization’s goals (Falkenberg and Herremans, 1995). Components of the formal control systems consist of rules, policies, budgets, reward criteria, performance appraisal standards, and codes of ethics. These types of control systems reduce uncertainty for the management, because it controls employee behavior and ensures an outcome in advance. Informal control systems on the other hand create knowledge and a corporate culture as to how the organization functions (Falkenberg et al., 1995). Informal control systems include the unwritten policies, common values, beliefs and traditions of the organizational culture (Langfield-Smith, 1997; Armes et al., 2010).

1.2 Problem discussion

1.2.1 Managerial problem
The increasing rate of globalization and connections do not result in cultural differences fading or disappearing. On the contrary, cultural barriers are increasing as economic borders are decreasing (House, Hanges, Javidan, Dorfman and Gupta, 2004). One of the greatest challenges of international business is acknowledging and comprehending cultural values and practices that may be different from what people are familiar with (House et al., 2004). It has been studied that the uttermost barrier in
doing business around the world, is the cultural differences among different countries. Furthermore, most of the failures faced by companies operating in different countries are caused by the underestimation of cultural challenges (Pan et al., 2004).

When cultures collide, they may be similar in some aspects; however their characteristics still differ greatly (House et al., 2004). This proves that organizations within different cultures will differ in various ways, namely; the distribution of power among managers and employees, the organizational goals and objectives, and the decision-making processes (Hofstede, 1980a). Therefore, differences regarding business activities will arise between Western and Asian organizations (Hofstede, 1980a). These cultural challenges can result in a negative impact on the management of organizations (Pan et al., 2004).

Chow, Shields and Chan (1991) argue that the interaction of national culture and management control systems could be a significant determinant for performance. It has also been speculated whether it is beneficial to maintain the domestic design of management control systems of an organization, into the foreign market which it operates in. If the interaction of national culture and management control systems determines a firm’s performance, it is not beneficial to use the domestic management control systems, when operating in a foreign market. On the other hand, if the performance of a firm is mainly influenced by the management control systems and not the national culture itself, then adopting control systems that have been successful previously is more promising (Chow et al., 1991).

Chenhall (2003) states that there is a relationship between the national culture and the design of management control a system, which embodies a widening of contingency-based studies from an organizational point of view, to sociological matters. The proposition was made that national cultures are characterized by particular distinctions, which have an effect on the design of the management control systems (Chenhall, 2003). It has further been argued that the importance of culture in relation to the management control system of an organization is large. The difficulty firms face is the question on whether to develop a new design of the management control systems to fit the specific national culture, or to maintain the domestic design of the management control systems in foreign markets (Chenhall, 2003). It has further been stated that the management control systems and how to design it, has been problematic to research for several years (Harrison and McKinnon, 1999).

China is currently the second largest economy of the world, which opens up for huge economic opportunities for Swedish firms that seek to internationalize (Business Sweden, n.d.). A survey on Swedish firms was conducted in order to further comprehend how Swedish companies are performing in China. 46% of the Swedish firms who participated in the survey established that China is and will be increasingly significant in their global strategy, which makes China an important growth market for Swedish firms. The survey stated that Swedish firms in China employ almost 87,000 people, in which more than 80,000 are local employees. Furthermore, 65% of
the responding firms are planning to increase the employment of Chinese in the upcoming two years (Swedenabroad, 2013).

1.2.2 Scientific Research Gap

Although research on the relation between national culture and the design of firms’ management control systems is increasing, it is considered to be rather unexplored, in the fact that it dates mainly from the 1980s. Essentially, it is an appropriate time to study and analyze the cultural effect on the design of management control systems, in order to increase the understanding of how these studies interconnect (Harrison et al., 1999). Furthermore, it has been argued by Chenhall (2003) that the research of national cultures’ impact on management control systems is somewhat limited, and is suggested to be further studied (Chenhall, 2003).

Harrison et al. (1999) state that previous research regarding management control systems has been conducted within single nations, but little research has been conducted on whether national culture influence the use of management control systems. Due to the reason that there has been a lack of research on the impact of national culture on management control systems, the use of management control systems remains undefined (Harrison et al., 1999).

Due to that earlier research has focused frequently on formal control systems; there is still limited research and understanding of the impact on informal control systems. By studying how different control systems function together, an improved theory can be developed of how management control systems can be used in order to achieve organizational objectives and goal congruence (Malmi and Brown, 2008). According to Chenhall (2003), there is an association specifically between culture and formal control systems, which is why informal control systems should be examined and analyzed.
1.3 Research question

How do national cultural differences affect the use of formal and informal management control systems of Swedish firms in China?

1.4 Purpose

This thesis analyzes and provides a deeper understanding of how the national culture of China influences the use of formal and informal management control systems of Swedish firms in China. This will be conducted by examining the differences between Chinese and Swedish culture, and thereby apply these in relation to formal and informal control systems. This thesis can benefit Swedish companies that wish to internationalize to the Chinese market, as well as firms operating in China with concerns regarding the use of management control systems in relation to the Chinese culture.

1.5 Delimitations

This study delimits to investigate how the management control systems of Swedish firms in China have been affected by national cultural differences. Thus, the empirical data will derive from Swedish firms that have experience in the Chinese market. Furthermore, the size of the Swedish firms will not be considered, since cultural understanding and cultural impact is equally important regardless of size.
1.6 Outline

Chapter 1

**Introduction**
The first chapter provides the reader with an introduction of the topic chosen, followed by a problem discussion, research question and the purpose of the study. The chapter will be concluded with the delimitations and outline of the study.

Chapter 2

**Literature review**
The second chapter will present the literature review, in which relevant theories regarding the chosen topic is highlighted, in order to analyze the empirical data. The chapter will be concluded with a conceptual framework which illustrates the connection between the presented theories.

Chapter 3

**Methodology**
The chosen methodology will be presented, which highlights the choice and motives that was found applicable in order to conduct the study and answer the research question.

Chapter 4

**Empirical findings**
This chapter, which features the empirical findings will be initiated with an introduction of the companies who participated in our study, followed by the findings that are evident for the reader.

Chapter 5

**Analysis**
This chapter will provide an analysis of the empirical findings and theoretical framework, in which they are connected, along with our own voice. The findings will be discussed, in which similarities and dissimilarities will be highlighted.

Chapter 6

**Conclusions**
The final chapter will conclude the study by providing a conclusion of the findings from the analysis, which will lead to the answering of the research question. Recommendations and suggestions for future research will be presented as well.
2. Literature Review

*In this chapter we will discuss the internationalization of firms to the Chinese market. An overview of culture will be presented, more specifically the Chinese culture. Thereby, the importance of relationships in business will be presented. This will lead to the significance of the Chinese phenomenon “guanxi”, which then will lead to the study of management control systems. Finally, we will conclude this chapter by providing a conceptual framework, in order to clarify the theories in relation to each other.*

2.1 Internationalization of firms in the Chinese market

The concept of internationalization has become a significant strategic factor in most business activities of firms. According to Johanson and Wiedersheim-Paul (1975), internationalization can be defined as the attitude of a firm towards foreign activities (Johanson et al., 1975). It has been claimed by Boisot and Meyer (2008) that internationalization can be illustrated as the activities of a firm which include the advantage of operating abroad. Thus, firms across the globe are challenged to maintain their businesses in the domestic market while competing to internationalize into foreign ones (Boisot et al., 2008).

Internationalization is considered an important factor for the performance of firms, in which it has positive effects on business activities (Hsu and Pereira, 2008). Based on the literature on international and global strategies, Pangarkar (2008) has found different grades of benefits for firms internationalizing. Firstly, firms are more likely to exploit economies of scales due to bigger volumes, and greater cost efficiencies. Furthermore, internationalized firms will gain advantage in labor activities in countries where low-wage is accepted, as well as minimizing costs of the business. It has also been argued that firms internationalizing will benefit from the diversity of the different environment the firm operates in (Pangarkar, 2008). Therefore, firms will perform better in foreign markets, which include higher profitability and substantial profits. However, firms must take into account the costs associated with internationalization, which can derive from unfamiliarity with foreign markets, agency costs and bureaucratic costs and inefficiency (Hsu et al., 2008).

Emerging markets contribute to significant economic growth opportunities. Among the emerging markets, China has absorbed major inflows of foreign direct investments and is currently the most popular country of such investments (Child and Rodrigues, 2005). As the Cultural Revolution took place in China 1978, an “open door” policy was developed with the desire to attract foreign investors by connecting with these. During this time, both foreign investors and policy makers in China identified an opportunity for foreign investments and the stimulation of economic growth (Boisot et al., 2008).
China has attracted foreign companies for several years, and most of the firms operating in China come from regions in Greater China, such as; Taiwan, Singapore and Hong Kong (Carlsson, Nordegren and Sjöholm, 2005). The similarities in terms of culture, language and business contacts for these firms have resulted in less difficulties and challenges, when operating in China. On the contrary, Scandinavian firms are more likely to face challenges when internationalizing in the Chinese market, due to differences regarding the conditions of business, as well as cultural differences. These differences have been argued to affect the economic performance of a firm negatively, as well as increasing uncertainties of firms. Firms who gain foreign market knowledge and experience in terms of the business culture, are more likely to reduce uncertainty, and will therefore find it less complex to operate in the Chinese market (Carlsson et al., 2005). It is further stated by Johanson and Vahlne (2009) that the most significant barriers to internationalization are lack of knowledge and resources, which can be reduced by increasing knowledge about the foreign markets and operations (Johanson and Vahlne, 2009).

2.2 Culture

Culture has been defined as the collective programming of one’s mind, which separates people from one category or group, to another (Hofstede, 2001). Culture is therefore a system of collectively held values. Values shared by the majority are societal norms and lead to the development of a given structure in society and a way for people to function (Hofstede, 2001). It is further argued that in the same way that personality determines the uniqueness of an individual, culture determines the uniqueness of a human group Hofstede (2011). The distinctions in cultural differences are easily recognized from an external point of view. For instance, organizations are affected by culture in varieties of ways; it influences the distribution of power among managers and employees, it changes organizational goals and objectives, and the decision-making processes differ depending on what nation it concerns (Hofstede, 1980a).

Culture directs our actions; however it is beneath our awareness (Trompenaars et al., 2011). It is argued that there are different layers of culture; the outer layer is the explicit products that are observable to the naked eye, such as language, food, buildings, art etc. The middle layer is norms and values, in which norms determine what is “right” and “wrong” within a group. Values are the definition of “good” and “bad”. The core of culture is assumptions about existence, which are implicit. These layers of culture can be combined in different ways, which express the cultural differences that may exist among different countries (Trompenaars et al., 2011).

The importance of national culture in relation to international business has become increasingly important, and proved to have significant effect on business activities (Leung et al., 2005). Previous research has continuously examined whether the
increasing rate of globalization has led to cultures converging, which would lead to international business practices becoming similar. This would eventually result in culture-free and common business practices. However, Leung et al. (2005) demonstrate that this fact is overly optimistic. Decades of research on international business has argued that the world is different, and even among developed economies, there are significant differences in how business practices are performed (Leung et al., 2005). This is mainly due to the fact that different countries have different national cultures (Peng, Wang and Jiang, 2008). Further, Hofstede (1980a) implies that culture is reserved for describing entire societies and therefore, the concept of national culture will be used throughout this thesis.

2.2.1 Dimensions of national culture

According to Hofstede (1983), the differences in culture could be explained by cultural dimensions. The cultural dimensions are used to describe the differences in motivation among people in organizations, different organization structures, and the different challenges in a society which are faced by organizations and people (Hofstede, 1983). These cultural dimensions consist of six different criteria which are largely independent on each other (Hofstede, 2011), namely:

(1) Power distance (PDI) is referred to the extent in which societies accept the distance in power between employees within organizations and institutions. The level of the power distance in a country in relation to decision making, acknowledges a constitutional matter of hierarchies in a society (Hofstede, 2011).

(2) Individualism (IDV) is the opposite of collectivism, which refers to what extent individuals are integrated into groups. Individualism indicates loose ties among individuals and a higher degree of independency (Hofstede, 2011).

(3) Masculinity (MAS) assigns the extent in which a society is provoked by masculine or feminine values (Hofstede, 2011).

(4) Uncertainty avoidance (UAI) indicates the degree in which members in societies feel comfortable or uncomfortable being in ambiguous situations, as well as implementing strict rules and laws to avoid these (Hofstede, 2011).

(5) Long-term orientation (LTO) assigns the degree in which members of a society respect the past, social obligations, pride and traditions of a culture, when dealing with present and future challenges (Hofstede, 2011).

(6) Indulgence versus restraint (IVR) indicates to what extent societies allow for desires and free gratification (Hofstede, 2011).

Despite the fact that Hofstede’s (2011) dimensions of national culture are considered to be the most universally used cultural framework in several research areas, it has
received criticism (Soares et al., 2007). Considerable criticism against the study of Hofstede is that it disregards the change of time. Time can influence various factors, such as economic development which will result in changes of cultural dimensions (He and Liu, 2010). Hofstede’s (2011) national dimensions have further been criticized by McSweeney (2002), in which he argues that nations are not the best units to study, due to the fact that differences between national clusters would not “identify” any unique differences. Instead, McSweeney (2002) demonstrates that Hofstede should rather have divided it into classifications such as; race, language, religion etc. (McSweeny, 2002). Nevertheless, the cultural dimensions of Hofstede are still considered to be a significant study in distinguishing cultures, as well as the most reliable and valid study among others (He et al., 2010).

2.2.2 China versus Sweden

When addressing Hofstede’s (2011) six cultural dimensions in comparison to Sweden and China, it was found that there are considerable differences in most of these dimensions (Viberg and Grönlund, 2013).

![Figure 1: Own figure with data collected from Viberg et al., 2013](image)

**Power distance Index (PDI)**

Viberg et al., (2013) state that China is a society which has a greater acceptance of inequalities and hierarchies among people, due to the score 80 out of 100 (Figure 1). Organizations in China are therefore characterized by higher control and greater power distance among employees and managers. Sweden on the other hand scores 31 (Figure 1), which indicates that there is equality among people in power distribution, and control is not acknowledged to the same extent (Viberg et al., 2013).

**Individualism (IDV)**

China’s score of 20 (Figure 1) assigns a highly collectivist society in which people are more integrated into groups. Loyalty is remarkably important, and employee commitment within organizations is valued (Viberg et al., 2013). There are certain expectations from parents to their children in which the children are expected to have
the responsibility of their well-being in an old age. A related rigid hierarchy of authority prevails in organizations (Arnett, 2002). On the contrary, Sweden scores 71 (Figure 1), indicating that it is a society in which individuals act more independently (Viberg et al., 2013).

Furthermore, PDI and IDV tend to be correlated in a way that countries with a high degree of PDI are more likely to be characterized as collectivistic, while countries with low ranking on PDI are individualistic (He et al., 2010).

Masculinity (MAS)
China scores 66 (Figure 1) in the dimension of MAS, which demonstrates the importance of success. Chinese people perceive success and scores within education and work seriously (Viberg et al., 2013). Furthermore, people in high MAS societies tend to be money-oriented as well as materialistic, have respect for the stronger counterpart and focus more on competition and performance (He et al., 2010). On the contrary, Sweden is characterized by a feminine society with a low score of 5 (Figure 1). Swedish people, who are influenced by feminist beliefs, value the balance of life and work (Viberg et al., 2013). Consequently, managers in feminine cultures take into consideration the suggestions and opinions of the group (He et al., 2010).

Uncertainty avoidance (UAI)
China’s score of 30 (Figure 1) in UAI is similar to the one of Sweden (29). This demonstrates that both China and Sweden have a low desire of avoiding uncertainty, meaning that members of each society do not feel threatened by ambiguous or unknown situations (Leung, 2008; Viberg et al., 2013).

Long-term orientation (LTO)
China hits a score of 87 (Figure 1) on LTO, which indicates that it is a remarkably pragmatic culture. In these societies, people strongly believe that truth is reliant on time, context and situations. Moreover, LTO assigns the capacity of strong predilection to invest and save, as well as having a strong endurance in accomplishments. Sweden hits a score of 53 (Figure 1), and is therefore not seen to express a strong privilege (Viberg et al., 2013).

Indulgence (IVR)
With a score of 24 (Figure 1), China is considered a restrained society. This demonstrates the tendency the Chinese society has to pessimism and misanthropy. Moreover, the actions of people within restrained societies are restricted by social values and norms. Additionally, Sweden is characterized by high indulgence with a score of 78 (Figure 1). An indulgent society is referred to the willingness of enjoying life and act as one pleases (Viberg et al., 2013).

Mental programming in different nations, such as China and Sweden, will lead to different ways of thinking and behaving (He et al., 2010). What is basic knowledge and principles in Swedish firms, are challenged in the behavior of Chinese
management and staff. Western people tend to believe that all people are and should be treated equal, with the freedom to make independent decisions. On the contrary, Chinese members consider that people are unequal, in which all shall obey the decision of authority. Therefore, He et al. (2010) claim that the organizational culture of a company will be challenged by the foreign national culture, when internationalizing. Due to the fact that national culture provides a framework for how employees will perceive motivation, approach the goals of an organization and expect to be treated by others, employees will feel unsatisfied and perform poorly if the management of an organization fails to conform to these shared values (He et al., 2010). It is therefore argued by He et al. (2010) that national culture does have an impact on the management, employees and communications of an organization.

2.2.3 The Chinese culture
When crossing national borders, firms are under pressure to develop cross-cultural management abilities and skills (Pan et al., 2004). Emerging countries become appealing markets for foreign investors, as the globalization of the world business continues to increase. It is further argued by Pan et al. (2004) that China has become one of the greatest markets to invest in by foreigners, especially among the Western part of the world. Nevertheless, challenges with cross-cultural management encompassed by China and the Western partners continue to grow. Despite the cultural challenges, China could hardly be ignored by foreign investors, due to its low cost structure as well as the great market potential. Pan et al. (2004) emphasize the importance of cross-cultural knowledge among foreign countries, in order to understand China and the complexity of doing business with Chinese people. Therefore, in order to define the Chinese culture, one must simply understand the Chinese philosophy which underlies the Chinese culture (Pan et al., 2004).

The Chinese philosophy has evolved for over 5,000 years and is based on three casting forces, namely; Confucianism, Buddhism and Taoism (Kwan et al., 2001). These three factors have acted mutually in order to provide a humanistic and philosophical culture. Confucianism has shaped the Chinese way of living in which humanity, education, mutual trust, governance of the country, collective responsibility and mutuality, and respect is highly valued. In essence, Confucianism depends on the relationship among man and man, trustworthiness, wisdom, righteousness and propriety (Kwan et al., 2001). The philosophy further focuses on the hierarchical relationship among people (Xing, 1995). Additionally, the philosophy encourages yi-ren among individuals, which implies that a person should value favors given and repay it with increased value. The importance of this truth is reflected in the Chinese saying, “If someone pays you an honor of a linear foot, you should reciprocate by honoring the giver with ten linear foot” (Yeung et al., 1996:55). Furthermore, Buddhism advocates the importance of the “eightfold path” including; right thought, right understanding, right action, right speech, right effort, right livelihood, right mindfulness and right concentration (Xing, 1995). The eightfold path implies conduct, discipline and wisdom, but is also focusing on non-violence. Buddhism has had a great impact on and been deeply woven of the Chinese society and culture. Finally,
Taoism refers to the “way” or the “path”, in which a higher power surrounds and encompasses through living and non-living things. It is further argued that this philosophy refers to a deeper understanding of the universe and regulates natural processes within it. According to the philosophy, one who practices Taoism should be kind to others, mainly because the outcome of this action tends to be reciprocated. These philosophies combined have been influential factors which have shaped the Chinese culture (Xing, 1995).

In China, people's view of the world is rather different (Martinsons and Westwood, 1997). The Chinese society is characterized by being situation-centered and socially-oriented, where the society relies on the importance of relationships. The reason why the Chinese culture is characterized as situation-oriented is according to Martinsons et al. (1997) due to the collectivistic structure of the society. Unlike Western societies, Chinese people reach their “self” and fulfillment through reciprocal relationships. The relationships result in social and structural harmony, which in turn are supported by loyalty among people, status hierarchies, reciprocity and norms of conformance. It is further stated by Martinsons et al. (1997) that the government of China tends to limit the access of information among people, as well as making sure that messages which could cause radical change in society are suppressed. The control and the restrictions of the government over the people have led to mistrust in the political institutions, and therefore Chinese rely more upon relationships and the participation of social groups (Martinsons et al., 1997).

In order for a foreign firm to successfully gain competitive advantage abroad, an understanding of relationships in business is vital (Snehota and Hakansson, 1995). Relationships are defined by Holmlund and Törnroos (1997) as the interdependent process of repeated exchange and interplay among two or more actors in a business relation context (Holmlund and Törnroos, 1997). Personal networks and relationships are according to Michailova and Worm (2003) emphasized to a greater extent in most emerging and developing markets. Compared to societies in the West, personal networking is extensively rooted in the social and business life of emerging markets, and business success is strongly influenced by the quality of personal relationships (Michailova et al., 2003). Confucian societies are some of the most relationship-focused societies in the world and China is no exception, where interpersonal relationships are highly emphasized (Hui, Lee and Rousseau, 2004). It is further argued that interpersonal relationships can be traced back to Confucianism, where five fundamental relationships are being highlighted; father-son, husband-wife, elder-younger, father-son and friend-friend. These five relationships shape the importance of interpersonal relationships in China. Hui et al. (2004) highlight that none of these five relationships consist of organizations, nor any governmental/political institutions. As a substitute, the Chinese rely more on people and emperors, rather than organizations and political institutions. Therefore, people approach organizations by the “interpersonal thinking”. On the contrary, the Western point of view on relationships within organizations is that the employment should be based on “thinking organizationally” (Hui et al., 2004).
Interpersonal networks, also referred to as *guanxi* in Chinese, serves as an informal substitute for the lack of formal institutional support (Peng *et al.*, 2008). In countries where formal institutions are weak, informal institutions, such as norms and relationships, play a more significant role in driving firm strategies and performance (Peng *et al.*, 2008). It is further argued by Peng (2003) that the importance of networks and relationships in China is a result of the Chinese culture. Similar traces of the significance of networks and relationships have been found in other parts of the world, in which different cultural traditions exist, such as in Russia (*blat*) and Haiti (*pratik*). However, these findings suggest that the importance of networks and relationships are not a result of national culture, but rather the common lack of formal market institutions (Peng, 2003). Uncertainties and lack of trust in formal institutions and procedures results in managers relying on informal interpersonal relationships, rather than formal institutions (Whitley, 1999). The Chinese businessmen have come to believe that interpersonal trust diminishes deception and establishes certainty. Formal legal sanctions are not believed to induce contractual actions and outcomes; however, this can be settled informally with *guanxi* (Kiong and Kee, 1998).

### 2.2.3.1 Guanxi

There are shared views of the interpretation of *guanxi* and it can be defined from different perspectives, at different levels. Essentially, *guanxi* is about the cultivation of long-term and personal relationships (Lu and McInerney, 2016). According to Lee and Humphreys (2007), *guanxi* is referred to as “connections” or “networks”, and could be defined as the combination of reciprocity and relationships. Ramasamy, Goh and Yeung (2006) demonstrate that *guanxi* is the friendship with indications of exchange of favors. Furthermore, Ghauri and Fang (2001) argue that *guanxi* is related to “li” (etiquette, rules of conduct and property) and to “renqing” (favor), when regulating relationships. Lastly, Neerhut (2016) argues that *guanxi* is connections between individuals with the aim to assure favors of personal and professional purposes.

China places great importance on relationships and is therefore a relational-oriented country (Pan *et al.*, 2004). It is the personal relationships within an organization which form the basis of correct behavior and social order. The importance of developing strong interpersonal relationships is stressed in order to enter contractual or business relationships (Pan *et al.*, 2004). *Guanxi* is considered being of great significance in the culture of the Chinese society (Wong, 2007). Further, the importance of “what you know” in Western societies is emphasized, whereas in Confucian societies the importance lies within “who you know”, which refers to *guanxi*. Furthermore, within *guanxi* networks, members are given highly advantageous treatment. These business networks are developed to enhance *guanxi*, which results in extensive opportunities (Wong, 2007).

The reason why *guanxi* is important is due to that China is a country ruled by people, not by law (Chhokar, 2007). It is stated by Davies, Leung, Luk and Wong (1995) that
guanxi is the “lifeblood” of the business of China. Without networks, strong connections and interpersonal relationships, one cannot gain competitive advantage in China, nor survive on the Chinese market (Davies et al., 1995). This due to the fact that guanxi creates security in form of protection, resources, and opportunities for both employees, managers and entrepreneurs (Lu et al., 2016). It is further stated by Su, Sirgy and Littlefield (2003) that firms which have high guanxi, compared to firms with low guanxi, tend to maintain a competitive advantage, obtain long-term market survival and growth, acquire more scarce resources and are more efficient (Su et al., 2003). China is an important market for the Western business people and it is therefore vital to understand this great, yet complex phenomenon (Lovett, Simmons and Kali, 1999). It is further argued that foreign firms are forced to increase their adaptation to the Chinese culture in order to succeed in the market. Guanxi relies on the trust and the reputation among individuals, which could be considered difficult for non-Chinese people to gain. Due to this concern, guanxi has received criticism from Western countries, where relationships are seen as a beneficial ways of doing business, but only for those having guanxi (Lovett et al., 1999).

Guanxi has been criticized due to the reason that personal loyalties are usually more emphasized than legal standards or organizational affiliations (Alston, 1989). It is further demonstrated that foreign investors with weak connections are more likely to face challenges in completing business or expediting their goods (Alston, 1989). On the contrary, Chinese people with strong guanxi will gain more beneficial outcomes. The right connections in China is said to result in completing processes easier, and is seen as a key to success in doing business in the Chinese society (Gu, Hung and Tse, 2008). It is further mentioned by Su et al. (2003) that guanxi can be compatible with bribery, indicating that business activities in China can be associated with high risk of being unethical and unlawful (Su et al., 2003)

2.2.3.2 National culture and guanxi

The Asian culture has a high regard for harmony and hierarchies, which according to Dunning and Kim (2007), are the twin pillars of guanxi. This is explained by the fact that people within the Asian culture depend on relationships, which is deeply rooted in the social context, as well as respect for authority. It is further argued that harmony and hierarchies are similar to two of Hofstede’s (1983) national dimensions, namely; collectivism and power distance. Dunning et al. (2007) suggested that these cultural dimensions have a strong effect on the perception of guanxi, which implies that guanxi is deeply embedded in the Chinese dimensions of high collectivism and strong power distance (Dunning et al., 2007). It is further stated by Su et al. (2003) that guanxi reflects norms associated with social interdependence, because the Chinese society is characterized as collectivistic. Additionally, it is claimed that guanxi is the Chinese way of performing business, which is embedded in the collectivistic society. Guanxi is also based on the idea that relationships are hierarchical in the Chinese society. It is therefore argued that guanxi in China reflects cultural attributes which are embedded in the Chinese society, such as hierarchy and social interdependence. These are related to strong power distance and high collectivism (Su et al., 2003).
2.3 Management control systems

Management control systems are defined by Abernethy and Chua (1996) as the combination of control systems that are implemented by the management of an organization, to assure that employees will behave in line with the organizational objectives (Abernethy et al., 1996). It is additionally argued by Armesh, Salarzehi and Kord (2010) that management control systems subsist with the purpose of planning, controlling, directing and motivating employees (Armesh et al., 2010). The aim of the management control systems is to achieve goal congruence of employee and organizational objectives. This implies that the goals of employees are aligned with the goals of senior management and owners (Ekanayake, 2004b). Thus, the management control systems of organizations are designed for all levels of influence: individuals, groups and the organization as a whole (Flamholtz, Das and Tsui, 1985). As it applies for most tools, management control systems can produce good or poor outcomes, in which positive results, as job satisfaction and motivation to increase job performance can emerge if control systems are used well. If used poorly, employees will become dissatisfied and perform insufficiently (Cammann, 1976). Furthermore, it is stated that management control systems are of great importance for organizational growth. Therefore, a lack of control systems can restrain growth or even lead to failure of firms (Davila, 2005).

It is stated by Armesh et al. (2010) that it has become important for the management of firms to increase the involvement of the employees in decision-making, as it increases efficiency and effectiveness. As a result, organizations will become more flexible and agile to environment changes. Furthermore, decentralization will increase the motivation of employees, and therefore an increase in performance to achieve organizational objectives (Armesh et al., 2010).

One of the main tasks for the management of an organization is leading employee behavior towards organizational objectives (Flamholtz et al., 1985). The use of different mechanisms are applied in order to achieve this, as in personal supervision, reward systems, rules and position descriptions among others. These mechanisms combined produce the management control system within organizations, which are supposed to influence employees to make decisions and take actions which are consistent with the organizational goals (Flamholtz et al., 1985). Management control systems can be categorized in various ways, in which one approach is formal and informal controls (Tsamenyi, Sahadev and Qiao, 2011).

2.3.1 Formal control systems

Formal control systems are characterized as rules, policies, standard procedures, budgeting systems, reward criteria and codes of ethics (Falkenberg et al., 1995; Armesh et al., 2010). These forms of control systems are explicit and used by the management of organizations in order to communicate define and reinforce the
purpose and the direction of the organization. The formal control systems must be followed and respected, therefore these can be seen as rather negative and “controlling” (Simons, 1994). The control systems are efficient when work assignments are highly standardized and routinized (Falkenberg et al., 1995; Merchant et al., 2007). Moreover, the formal control systems reduce uncertainty for the management, because it controls employee behavior and ensures an outcome in advance (Falkenberg et al., 1995). However, the use of the control systems discourage and hindrance innovation and creativity (Merchant et al., 2007). By controlling behavior through formal control systems, top management must develop specific rules for specific situations. However, organizations can not cover all possible scenarios with a set of written rules and policies, which is why the formal control systems provide limited guidance for employees (Falkenberg et al., 1995).

2.3.2 Informal control system

In contrast to formal control systems, informal control systems are not consciously designed (Langfield-Smith, 1997). Informal control systems contain the unwritten policies, common values, norms, beliefs and traditions of the organization which derive from the organizational culture (Langfield-Smith, 1997; Armesh et al., 2010). These types of control systems are considered being tacit knowledge and are communicated to all levels of the organization, often throughout the recruitment process, training and development (Lebas and Weigenstein, 1986). Furthermore, the way top management communicates and the distribution of power shape and reflect the organizational culture. The organizational culture is also expressed through company heroes, who reflect the organization’s values, norms, beliefs and traditions, and serves as a role model to how employees shall behave (Lebas and Weigenstein, 1986). It has been demonstrated by Bisbe and Otley (2004) that informal control systems encourage for innovation among employees, whereas formal control systems are stated to block the creativity and the innovation (Bisbe et al., 2004). As previously mentioned by Falkenberg et al. (1995), controlling behavior through formal control systems requires the development of specific rules for specific situations. On the contrary, informal control systems create implicit knowledge in how to behave in any situation. Thus, informal control systems provide definite guidance and a total form of control for employees within organizations (Falkenberg et al., 1995).

When it concerns the formal control systems within an organization, behaviors and outcomes are usually measured (O’Reilly, 1989). Formal control systems are further exemplified, in how it is measured by sales people. For instance, sales executives will usually be measured by their performance in terms of time, productivity and effectivity. However, the activities within informal control systems are usually unpredictable and not measurable, and can be dealt with through the use of informal control systems, in which behavior and appropriate attitudes become a common agreement among the members of the organization. O’Reilly (1989) further demonstrates that culture is one of these informal control systems which have a great impact on whether employees perceive autonomy or not. The formal control systems
are stated to be “unsatisfying” among employees and people feel that they are controlled by their managers (O'Reilly, 1989).

2.3.3 The interaction between formal and informal control systems

It is complicated to distinguish between formal and informal control systems as they interact and are intertwined (Falkenberg et al., 1995). The formal control systems of an organization is supported by the informal control systems; when the values, norms and beliefs support the formal values and goals, the systems are congruent, and efficiency can be fulfilled (Falkenberg et al., 1995; Armesh et al., 2010). Moreover, Langfield-Smith (1997) argues that the performance of formal control systems can be reliant on the informal control systems that are in place. Falkenberg et al. (1995) claim that formal control systems were appropriate to use when controlling employee behavior in the past. However, with the increasing rate of complexity and globalization in business, informal control systems provide flexibility for employees and have led to be significant in order to deal with issues (Falkenberg et al., 1995).

2.3.4 National culture and management control systems

There has been developing research in the recent years directed at comprehending the relation between national culture and the use of management control systems in different countries (Harrison and McKinnon, 1999). The importance of this is mainly due to the increasing rate of globalization. As there is an increase of globalization, firms find opportunities to expand to other countries, in which they may have to operate differently in regards to distinctive national cultures. Whether firms can use the design of their domestic management control systems overseas, or redesign it accordingly to cultural differences is of great importance (Harrison et al., 1999).

The link between Hofstede’s (2011) national cultural dimensions and management control systems is reviewed in this part. In order to analyze the relationship between national culture and management control systems, Harrison et al. (2007) have examined how variations in formal and informal control systems are associated with cultural dimensions in different countries (Harrison et al., 2007).

Formal management control systems are characterized by formalization and concentration of authority (Harrison et al., 2007). This can be associated to Hofstede (1983) dimensions of Uncertainty avoidance (UAI) and Power distance (PDI). It is further argued that societies which are characterized by low UAI focus less on control through standardized operating procedures, written rules and formalized planning. Moreover, organizations with high PDI, such as in China, are known for having hierarchies and centralized management control systems, where the division of subordinates and superiors is clear. On the contrary, in societies where PDI is low, subordinates demand to be consulted regarding decisions they are affected by (Harrison et al., 2007).
In individualistic (IDV) cultures, there is more emphasis placed on control, because absence of control results in self-interest of employees. However, IDV societies have a lower grade of acceptance of rigid budgetary controls, as it is perceived to limit the freedom of work. In collectivistic cultures, controls are not as necessary to the same extent, because of the shared values and goal congruence that lies within organizations (Van der Stede, 2003).

Harrison et al. (2007) further argue that organizations in high Masculine (MAS) societies put greater emphasis on achievement and competition, and less concentration on the development and well-being of its employees (Harrison et al., 2007). According to Van der Stede (2003), it is recognized that firms within high MAS societies tend to believe that achieving financial goals and budgeting targets is more important than the well-being of the members of the organization. Organizations in countries low on MAS, such as Sweden, value the development and health of their employees (Van der Stede, 2003).

Organizations in societies that score high on Long-Term Orientation (LTO), tend to have a longer planning horizon concerning budgetary and strategic planning within the management control systems (Harrison et al., 2007).

According to Martinsons et al. (1997), controls in Chinese organizations are often characterized by informal and implicit control systems, in contrast to Western companies, in which formal and explicit control systems are used. On the contrary to Western organizations, Chinese managers are less likely to use formal and systematic planning procedures, as they rely more on implicit means (Martinsons et al., 1997). It has been stated by Whitley (1999) that the use of informal control systems in Chinese organizations, is a result of the unreliability for written rules.
2.4 Conceptual framework

The aim of the conceptual framework (Figure 2) is to summarize the chosen theories’ correlation to each other. As there has been limited research on how the Chinese culture affects the use of management control systems of Swedish firms, the aim of the study is to fill the existing research gap. In order for us to do so, a conceptual framework is presented. The conceptual framework will provide an understanding on how national cultural differences affect the use of management control systems of Swedish firms, in China.

Firstly, culture is presented as a theory in which it indicates the importance of cultural knowledge when operating in a foreign market. It is further argued that an understanding of the national culture within a foreign market will reduce uncertainties and cultural differences. When foreign firms operate internationally, there are several areas within the firm which are affected by the culture. One of these areas is the management control systems of a firm. Further, national culture presented in the conceptual framework indicates on the Chinese culture and how the distinctive cultural differences compared to Sweden, could affect the use of management control systems. Within the Chinese culture, guanxi plays an important role in how business is performed and how organizational structures are set up. Hofstede’s national dimensions have indicated on differences of the Chinese and the Swedish culture. Therefore, theories are presented on how Hofstede’s national cultural dimensions could be related to management control systems. When connecting the different theories, it will allow for an understanding of how the national culture of China affects the use of formal and informal control systems of Swedish firms.
Figure 2: Own figure of Conceptual Framework
3 Methodology

The following chapter accounts for the methodological framework of this research, and how it has been conducted. This chapter will present a collection of what methods that have been used and the data that has been gathered. Moreover, we will explain why we found the selected research methods and the techniques for data collection suitable for this study. Finally, we will provide the reader the operationalization as well as the method of data analysis.

3.1 Research approach

The research approach can be described as the relationship between theory and the empirical data (Bryman, 2015), in which there are typically two reasoning approaches of conducting scientific research, namely; induction and deduction (Hyde, 2000). Inductive approach deduces conclusions from empirical data, whereas deductive approach deduces conclusions from logical reasoning (Ghauri and Grønhaug, 2010). A deductive approach starts by generalizations of existing theory, and seeks thereby to examine if these generalizations could be applied to specific cases. The inductive approach is rather the opposite, as it proceeds from observations of single cases and seeks to establish generalizations (Hyde, 2000).

A third possibility of research approach has been presented, namely; the abductive approach (Alvesson and Sköldberg, 2009). The abductive approach has various characteristics of both the inductive and deductive approaches, in which it adds new and specific aspects. It proceeds from an empirical basis, however it allows for the possibility of theoretical preconceptions. The research process changes back and forth between previous theory and empirical facts, in which both the empirical and theoretical processes develop and improve over time (Alvesson et al., 2009). It is further argued that the analysis of the empirical findings might be anticipated or combined with previous theories, as a source to discover patterns in behavior. Therefore, the abductive approach leaves more space for the discovery of new patterns, which in turn results in increased creativity and freedom for the researchers. In contrast, the deductive and inductive approaches are followed strictly, which can seem more one-sided and unrealistic (Alvesson et al., 2009).

Merriam and Tisdell (2015) state that the inductive approach is often associated with qualitative research. However, Bryman (2015) argues that since qualitative researchers are preceding their research in empirical knowledge and findings, an abductive approach better describes the process of reasoning, than the inductive approach (Bryman, 2015). The use of an abductive approach is more relevant and appropriate in our research as the source of the initial idea for this research derived from empirical knowledge. Following, we dug into theories and concepts within the literature to gain insight on what has been studied before, which provided us a
framework for structuring and positioning our research. Thereafter, a stronger foundation of knowledge had to be created by reviewing existing theories, which helped us observe and understand the complex relationship between cultural differences and management control systems, with the aim to find patterns in the empirical findings. However, an observation of the reality was crucial since the relation between national culture and management control systems is rather unexplored. The abductive approach allowed us to add theories in the theoretical framework later on for the intention of facilitating the analysis. Additionally, after observing the reality, some theories were reduced due to irrelevance. Since the research process of this thesis has changed back and forth between previous theory and empirical findings, we have found that an abductive approach is relevant in our methodology.

3.2 Research method

The research method can be described as a plan for how a research study is to be conducted in order to find answers to research questions or problems (Kumar, 2014). A research can be categorized in two distinctive types: quantitative and qualitative research (Kumar, 2014). The different research methods can be referred to as alternative cultures, in which each carry its own values, norms and beliefs (Mahoney et al., 2006). The main distinction between the two methods is whether numeric data, or words and visual pictures are used as the unit of analysis. Furthermore, the size of the study tends to influence what method is used. Qualitative research is applied when studies of small scale are conducted, whereas quantitative research is used when large-scale studies are managed (Denscombe, 2016). Moreover, qualitative studies provide extensive flexibility, and study values, beliefs, understandings and meanings. On the contrary, quantitative studies focus on measuring the importance of a variation, more specifically how many people have these specific values, beliefs, understandings and meanings (Kumar, 2014). As the purpose of this thesis is to provide a deeper understanding of how cultural differences affect the design of management control systems, the qualitative method is considered to offer the flexibility and richness that is required for analyzing and comprehending the complexity of this thesis, and thereby answering the research question.

Qualitative research is generally used for providing in-depth understanding of a research issue that the study population is affected by (Hennink, Hutter and Bailey, 2010). It is further demonstrated that the purpose of a qualitative study is to attain a depth of understanding of people’s meaning of experiences, the uniqueness of situations and the nature of settings (Merriam et al., 2015). According to Hennink et al. (2010), qualitative research come in use when analyzing and comprehending complex issues, as in understanding people’s behavior or beliefs and for identifying cultural norms of a culture. Thus, qualitative research is relevant and applicable in answering ‘why’ questions that clarify and comprehend issues, and ‘how’ questions that explain processes and behavior (Hennink et al., 2010). The orientation of this thesis is exploratory and strives to answer the question of ‘how’, which is another motive to why qualitative research method will be used as a method for collecting data.
Qualitative data are mainly associated with research methods as interviews, observation and documentation, in which the data collection derives from primary sources (Denscombe, 2016). Few participants are required in a qualitative research, because the quality of the in-depth information gathered is more important than the quantity. Therefore, each participant must dig deep into their experiences regarding the research issue (Hennink et al., 2010). Our thesis is conducted as a small scale study, in which a few interviews are the primary source of the data collection. In-depth information about earlier experiences is required from each participant, which is why a qualitative research method is appropriate in this case.

3.3 Research design

Research design can be defined as the arrangement of conditions for analysis and collection of data, with the aim to highlight relevance of the purpose of the research (Kothari, 2004). The research design is a comprehensive plan for how research is to be conducted (Kothari, 2004). This consists of analyzing and collecting data, modifying and developing theory, forming the research question and thereby identifying the validity (Maxwell, 2012). It is further argued by Runeson and Höst (2009) that a useful research design, is the one in which the different factors work together harmoniously. A bad research design is the one which results in failure or weak operations (Runeson et al., 2009).

Several research designs can be identified in the category of qualitative research method, namely; experiment, archival analysis, history and case studies (Yin, 2013). Regarding case studies, it is stated that they normally tend to be valid on qualitative data, since this provides a deep-rooted description. Most typically, case studies tend to assign more flexible design studies, as well as they reduce uncertainty and risks (Runeson et al., 2009). Furthermore, case studies provide a detailed research, in which the purpose is to analyze and comprehend a phenomenon (Kumar, 2014). This thesis is ought to provide an understanding of how national cultural differences affect the use of management control systems. Therefore, it is appropriate for this research to focus on applying a case study method, since they are more applicable on “how” and “why” questions. Yin (2013) explains that these sorts of questions are more exploratory, and therefore the use of case studies is preferred. Moreover, it is stated that case studies can be categorized as single-case or multiple case studies, in which the distinction is whether one or more cases are examined in the study (Yin, 2013).
3.3.1 Multiple-case study
Yin (2013) argues that a single-case study is often referred to analyzing and describing one case. It is further stated that single-case studies have an embedded layout. When following the design of a single-case study, the researcher normally collects data of embedded units of analyses by using methods, such as; quantitative analyses or surveys (Yin, 2013). When a research is based upon two or more cases, a multiple-case study is essential. Multiple-case studies aim to study different cases to comprehend the similarities and dissimilarities between these cases (Gustafsson, 2017). The results and the conclusions which derive from two or more cases are regarded being more relevant and valuable than the results from the single-case studies (Yin, 2013). Furthermore, multiple-case studies allow for an extensive analysis of the research question (Gustafsson, 2017).

Furthermore, it is appropriate to conduct a case study if the researcher is seeking to provide an in-depth understanding or a comparison of certain cases (Creswell, 2014). It is further argued that using one source of data is usually not sufficient when seeking for an in-depth understanding. Therefore, the researcher should gather various types of data, such as interviews, documents and observations (Creswell, 2014). Throughout this research, we decided to collect data through interviews as well as documents, which is why we suggest a multiple-case study to be suitable in our case. Furthermore, it is claimed that case studies can include the analysis of multiple entities within one case (Creswell, 2014). Thus, multiple-case studies are in accordance to this study’s research design.

3.3.2 Purposive sampling
The intent of a qualitative research sampling is to select a sample of individuals who can provide useful and insightful information to the phenomenon that one is exploring (Creswell, 2014). Different sampling strategies can be identified within the nature of sampling, which can be divided into probability and non-probability sampling. Probability sampling, also referred to as random sampling, can be distinguished in the fact that each participant of the study population has equal probability of being selected in the sample (Kumar, 2014). This approach is often associated with quantitative sampling (Creswell, 2014). Non-probability samples are typically used in qualitative research, due to the aim of exploring diversity. If participants are selected carefully, diversity can be achieved through a few people with individual perspectives. In qualitative research, a researcher selects participants depending on who is most likely to provide the best information for the research issue (Kumar, 2014). Furthermore, Coyne (1997) argues that all sampling in qualitative research is non-probability sampling, due to the fact that the participants must always be intentionally selected with regard to the needs of the study. Since the aim of this study is to build individual perspectives and understand the complexity of a phenomenon, non-probability samples will be used.
Merriam et al. (2015) claim that when a non-probability sample has been defined, the researchers should describe the criteria which will be used for the purpose of selecting the sample. Thus, in order to select appropriate firms for a non-probability sampling, following criteria has been identified:

The companies must…
1. Be Swedish.
2. Have established operations in the Chinese market.

Interviewees must…
1. Have experience of working with Chinese actors in the Chinese market.
2. Have experience of the Chinese culture.
3. Have had some sort of managerial position, which implies leading Chinese employees.

3.3.3 Respondents
Table 1 displays the case companies and their respective respondent that participated in this study. Furthermore, how the interviews were conducted and where they took place is also presented. Among the six companies that we have interviewed, one of them has chosen to remain anonymous. The case companies were selected by the criteria that were presented in 3.2.2 Purposive sampling.

<table>
<thead>
<tr>
<th>Company</th>
<th>Respondent</th>
<th>Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norden Machinery AB</td>
<td>Göran Axelsson Title: CFO</td>
<td>Kalmar, 2017-05-04</td>
</tr>
<tr>
<td>Company X</td>
<td>Respondent X Title: Head of sustainable transport solutions</td>
<td>Telephone interview, 2017-04-21</td>
</tr>
<tr>
<td>Höganäs AB</td>
<td>Jackie Yuen Title: Sourcing coordinator</td>
<td>Skype interview, 2017-04-23</td>
</tr>
<tr>
<td>Check Point China AB</td>
<td>Andreas Fälth Title: CEO</td>
<td>Skype interview, 2017-04-20</td>
</tr>
<tr>
<td>LEAX Group AB</td>
<td>Shpetim Arifi Title: CEO of LEAX China</td>
<td>Skype interview, 2017-04-27</td>
</tr>
<tr>
<td>Smålands Shanghaikontor</td>
<td>Wang Zhi Title: Chief representative</td>
<td>Skype interview, 2017-04-24</td>
</tr>
</tbody>
</table>

Table 1: Case companies

3.4 Data collection

In order to collect data, scientists have come up with a number of different strategies (Hox et al., 2005). To begin with, experiments are of significance due to the fact that they involve such research design which allows for strong implication. Moreover,
surveys are considered being an important way of collecting data, as well as a qualitative research design which collects large amount of data, from a small sample (Hox et al., 2005). There are two main approaches which can be identified as information gathering for problems, phenomenon, and situations etc., namely; primary and secondary data. Primary data is the information collected which has not previously been analyzed and processed. On the contrary, secondary data consists of data which is already processed and collected by someone else (Hox et al., 2005).

3.4.1 Primary data

Primary data is regarded as primary sources that were collected, analyzed and written by the researchers that were directly involved in an investigation. Therefore, primary data derives from the original material that was provided by the researcher’s raw material (Sapsford and Jupp, 2006). Primary data has been described as data which is collected for a given research goal. This implies that primary data is processed and collected for particular research problems, in which procedures that fit the research problem best are used (Hox et al., 2005). Collecting primary data involves surveys, experiments, observations and interviews. However, using interviews as a way to collect data is the most common form in qualitative studies. Interviews provide a greater insight of a phenomenon or a problem, which can be done by face-to-face meeting, email, mail and telephone. This form of data is considered being more consistent with the objectives and the questions of the research (Ghauri et al., 2005).

Throughout this study, we will be using primary data in order to gain a broader insight of the subject of this research. This will be done by conducting interviews, which will consist of face-to-face interviews, Skype interviews and telephone interviews. By doing so, we will gain a profound understanding of how the use of management control systems are affected by national cultural differences.

3.4.2 Secondary data

Secondary data is distinctive from primary data in such way that it is collected by someone else, for a different purpose and thereafter used for another research question (Hox et al., 2005). Secondary data is therefore collected by other people than the researcher which provided the original information (Sapsford et al., 2006). It is further argued by Ghauri et al. (2005) that secondary data concerns such data that previously has been composed in terms of journal articles, books and online data sources (Ghauri et al., 2005). Moreover, secondary data could be regarded as the analysis of answering the original research question, or a new question by using old data (Mazeaud, Mazeaud and Donaldson, 1977).

We have collected secondary data through scientific articles, books and websites which can be related to our study. More specifically, secondary data has been devoted mainly in the introduction chapter, the literature chapter and the methodology chapter.
3.4.3 Structure of interview

Denscombe (2016) states that interviews can be structured in three different ways, namely: structured, semi-structured or unstructured. Firstly, a structured interview includes the researcher having high control of the questions in which the answers are limited. The respondent has a formatted structure of the interview questions which makes it more difficult to answer the questions freely (Denscombe, 2016). Moreover, the semi-structured interviews allows for flexible questions and answers, as well as allowing the respondent to speak freely and develop the answers. Semi-structured interviews also allow for supplementary questions by the interviewer, which are not presented in the appendices, as these rely upon the answers given by the respondents. Unstructured interviews allow for even more freedom. Instead of listing questions and issues of the research, the unstructured interview introduces a theme or a subject in which the interview is based upon (Denscombe, 2016).

The semi-structured interviews allow for answers other than “yes or no”, and rely on the interaction between the interviewee and the interviewer, as supplementary questions are asked. Further, semi-structured interviews have been considered to be one of the most generally used qualitative methods, especially in researching a complex issue (Longhurst, 2003). Thereby, we have selected semi-structured interviews, due to that our research covers a complex issue. Also, we believe that semi-structured interviews will allow the interviews for flexible and open ideas on this topic.

The empirical data that has been gathered is based on the six interviews which we have conducted with six different firms. In order for the respondents to gain insight of what the interview would consist of, we provided them the structure and the guidance of the interview in advance. This is due to the reason that we needed to ensure both ourselves and the respondents that they would be able to provide us with information relevant for this research. The semi-structured interviews were a suitable choice when implementing the interview questions, since it allowed us to ask questions in a more flexible manner. Longhurst (2003) argues that face-to-face interviews generally tend to be one of the most flexible methods used in interviews. This is due to the higher degree of response that face-to-face interviews commonly provide (Longhurst, 2003). However, since our case companies are Swedish firms operating in the Chinese market, in which the respondents are positioned in China, the most suitable ways of conducting the interviews were through Skype and telephone, due to the geographical distance. However, one of the interviews was conducted face-to-face due to the respondent being positioned in Sweden. During the interviews, we provided the respondents with the choice of either performing the interview in Swedish or English. Nevertheless, the interviews were initially written in English (these are attached in Appendix A).
3.5 Operationalization

Operationalization allows for making decisions on how to measure the variables, which have been selected by the researcher. These variables have been based and developed upon the literature review (Longhurst, 2003). In order to develop and create an interview, it is of significance to base the interview questions on the literature review. This is important due to the fact that the interview questions will provide an insight to the theory (Jacob and Furgerson, 2012).
<table>
<thead>
<tr>
<th>Concept</th>
<th>Interview questions</th>
<th>Reasoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business operations</td>
<td>1-2</td>
<td>We developed these particular questions revolving around the participant’s role in the company. These questions would allow the participant to describe the company itself, as well as giving a brief presentation of the participant in question.</td>
</tr>
<tr>
<td>Internationalization</td>
<td>4-7</td>
<td>By asking questions concerning why each company chose China as a market to internationalize in, what kind of challenges they faced during this phase, and if they had international experience and knowledge enough, we could gain an understanding of each company’s establishment in China.</td>
</tr>
<tr>
<td>Culture</td>
<td>8-12</td>
<td>Questions concerning culture and cultural differences were developed to gain an understanding of whether knowledge about the Chinese culture is vital when operating in the Chinese market, and to what extent Swedish firms are influenced by the Chinese culture.</td>
</tr>
<tr>
<td>Guanxi</td>
<td>13-18</td>
<td>These questions were asked to gain an understanding of how the participants perceive guanxi in China, and if it is of significance for Swedish firms in China. Moreover, we aimed to understand whether guanxi could be correlated to the use of management control systems.</td>
</tr>
<tr>
<td>Management control systems</td>
<td>19-28</td>
<td>These questions aim to answer how management control systems are used within Swedish firms in China. It aims at understanding how the use of control systems has changed as a result of the Chinese culture. This allows us to interpret how cultural differences affect the use of formal and informal control systems of Swedish firms.</td>
</tr>
<tr>
<td>Concluding questions</td>
<td>3, 29-30</td>
<td>To conclude the interview, we asked the participants two general questions about the organizational structure in both Chinese and Swedish firms. Furthermore, in order to conduct an ethical research, the participants were offered to remain anonymous.</td>
</tr>
</tbody>
</table>

*Table 2: Operationalization*
3.6 Method of data analysis

Data analysis can be described as the process of managing collected data, in which the purpose is to answer the research question (Merriam et al., 2015). The analysis of data presents a challenging task for researchers since it consists of preparing, examining, reducing, and interpreting what they have heard and seen, to clarify the collected empirical findings (Merriam et al., 2015; Yin, 2014). This should according to Merriam et al. (2015) occur simultaneously during the time of data collection. Miles, Huberman and Saldana (2013) state that there are three aspects of analyzing data; data condensation, data display and conclusion drawing/verification. Data condensation consists of choosing, focusing and simplifying the collected data, which results in improved data. Data display helps the researcher comprehending the meaning of the collected data, by organizing and making the information condensed, with the aim to allow for conclusions. The aim of this process is to make sense and simultaneously simplify the collected data, in order to answer the research question (Miles et al., 2013).

The empirical data that was collected for this thesis has been reviewed thoroughly and categorized in regards to the literature review and conceptual framework. The analyzed data was divided into the concepts of internationalization, culture and management control systems, which facilitated the analysis and comparison of the participating case companies. Subsequently, the composition of the data simplified the process of drawing conclusions. The data analysis went through the process presented by Miles et al. (2013), in order to answer the research question.

3.7 Quality of research

3.7.1 Validity
Validity refers to what extent qualitative researchers can demonstrate that their presented data is precise and accurate (Denscombe, 2016). Furthermore, Golafshani (2003) refers to validity as the extent in which the research truly measures what it was intended to measure, and whether the means of measurement are accurate (Golafshani, 2003). It is further argued that it is of great significance that the means of measurement which are used in a study are remarkably validated; otherwise the study will not be treated as science (Peter, 1979).

The nature of qualitative research does not allow the same possibility for the data to be verified, as with the quantitative research (Denscombe, 2010). Qualitative research allows the researcher of flexibility, freedom and spontaneity concerning the methods and procedures in data collection, which creates limits for the verification of data (Kumar, 2014). Despite this, there is still a need for the data to be verified (Denscombe, 2010; Kumar, 2014). It is further argued by Denscombe (2010) that it is not feasible for qualitative researchers to confirm that their gathered data is accurate and appropriate. However, measures can be taken by the researcher to increase the
validity of the data. One of these standards is referred to as “respondent validation”, in which the gathered data and findings are returned to the participants for them to look through and validate what has been interpreted. The researcher’s understanding of what has been studied can therefore be validated (Denscombe, 2010). Another method to increase the validity of data is triangulation, which implies the use of multiple and distinctive data sources, methods, investigators, and theories to present corroborated data (Kumar, 2014).

It is recommended that qualitative researchers should engage in at least two methods when increasing the validity of a research (Creswell, 2014). To maintain and increase the validity in this research, we have used the method of triangulation, to attain a complete understanding of the subject by viewing it from different perspectives, with contrasting sources, authors, and theories. Consequently, we have also engaged in this method by interviewing different respondents from different companies. By interpreting the collected data individually, a greater perspective and understanding of this study was fulfilled.

3.7.2 Reliability

Reliability refers to the extent in which research findings can be replicated (Merriam et al., 2015). This is determined when the used instrument produces consistent measurements under similar conditions. The more similar results the instrument produces, the greater the reliability (Kumar, 2014). Furthermore, if the results of a research can be recreated under a similar methodology by another researcher, the research would be considered reliable (Golafshani, 2003). However, reliability in research assumes that there is a single reality and examining it repeatedly will result in consistent results. It is therefore argued that reliability is difficult to achieve in social sciences, as human behavior continuously changes and interpretations of the same reality can differ (Merriam et al., 2015). Nevertheless, it is claimed that researchers must attempt to establish reliability (Kumar, 2014). This can be achieved as the researcher records and transcribes the recordings. This will allow the reader to obtain an understanding of how results were achieved and how conclusions were drawn, based on the results (Creswell, 2014). Unlike reliability in quantitative studies, where the aim is to explain the purpose, reliability within qualitative studies aims to generate understanding (Golafshani, 2003).

It is argued that a study is regarded more reliable if the used methods are presented precisely (Denscombe, 2016). Furthermore, the aim of reliability in research is to reduce the biases and errors within a study (Yin, 2014). In order for the reliability to minimize as much errors and biases as possible, we have provided an exhaustively outlined methodological process, in a manner where the reader will understand it clearly. The interviews have been recorded audio and conducted verbally, in order for us to have a literal and verbal transcription. Hence, the empirical data has been conducted and documented both in audio and text. Attached, the reader will find the
interview guide (Appendix A), as it will provide the reader an insight of the conducted interviews.

3.7.3 Ethical consideration
In regards to validity and reliability, it is of significance to examine to what extent the performance of the research is done in an ethical manner (Merriam, 2011). Ethical considerations are relevant in qualitative research during two occasions, namely; in the collection of information and during the process in which the results are being published (Merriam, 2011). It is argued that when conducting research and collecting data, it has to be taken into consideration that it should be done in a “sensitive” way, as respect to the people involved in the study (Yin, 2014). The data collection should therefore be treated in such manner where the researcher puts himself in the research, and has an insight of how to present the view of the participants. This is important because the researcher may reveal information or details in which the respondent feels rather uncomfortable doing (Corbin and Strauss, 2008).

When conducting the interviews, we did keep in mind that it is of significance to treat the interviewee with respect and sensitivity. Therefore, we were specific with asking the respondents both if we were allowed to record the interview, as well as giving them the opportunity to remain anonymous. Lastly, in order to make sure that there will be no misunderstandings or interpretations of the information provided by the respondents, the final empirical findings were proofread by the respondents, for them to accept and approve.
4. Empirical Findings

The following chapter will present the empirical data that has been gathered in this research. Firstly, an introduction of the respondents and the companies they represent is presented. This is followed by a division of the empirical findings in three concepts, namely; Internationalization, Culture and Management control systems. This follows the structure of the conceptual framework, which will facilitate the understanding of the reader. Furthermore, the companies are presented separately to create a clear structure for the reader.

4.1 Cases

The empirical findings in our research are based on primary data, which we have gathered through six interviews with Swedish companies, operating in the Chinese market. All of the case companies were founded in Sweden and are currently operating internationally on various markets all over the world, including China. The respondents that participated in our research have all experienced the Chinese culture, with a comprehensive understanding of how business is conducted there. Five of the interviews were conducted by video conference, due to the respondents being located in China, and one of the interviews was conducted through a face-to-face meeting at the company’s head office. All of the interviews were conducted in between April 20, 2017 and May 4, 2017.

**Norden Machinery AB**
Norden Machinery is the world’s leading supplier of high-performance tube filling systems for cosmetics, pharmaceuticals, toothpaste, food and industrial applications. The company has its headquarter and production facility in Kalmar, Sweden, with over 80 years of experience. The company has approximately 300 employees, in which 260 are employed in the headquarter, respectively 40 in the external sales network. Norden Machinery operates in markets all over the world, with more than 1.400 customers in 60 different countries, which accounts for 97% of all machines exported from the company’s headquarter. As of 2008, the company operates as part of the COESIA-group, which is an innovation-based industrial and packaging solution companies from Bologna, Italy.

Göran Axelsson, further referred to as Axelsson, has a 14 year experience as the CFO for Norden Machinery and Citus Kalix, which is a French subsidiary for Norden Machinery. Axelsson was highly involved in the internationalization process of Norden Machinery to China, which began in 2003 but was complete in 2006. Axelsson, together with three colleagues worked on a case study and evaluated
whether it would be profitable for the company to expand to China, onwards the establishment of the company was settled.

**Company X**
Company X, with its head office in Sweden, is one of the world’s leading manufacturers and providers of transport solutions. Company X is a global company offering their products and services to more than 100 countries. The company’s production units are located in Europe, South America and Asia. Company X employs approximately 45,000 people, in which 18,400 employees work in sales and services, to meet customers’ operations worldwide.

Respondent X has been working as the head of sustainable transport solutions at Company X’s regional office located in the Asia Pacific, for four years. This role involves respondent X in public relations, lobbying and business development in terms of future development in the transport industry. Respondent X has substantial experience of the Chinese culture and has been living in China and Hong Kong for the total of 11 years.

**Höganäs AB**
Höganäs AB, with its headquarters in Höganäs, Sweden is one of Sweden’s oldest companies, which was founded in 1797 as a coal mining company. Höganäs is today the world’s leading manufacturer of metal powders, in which metal powders are used in a variety of market segments, such as; aerospace, dental/medical, fashion design and industrial applications. The company has 2,500 customers spread out in 75 countries, and more than 1,500 products are produced in 13 production centers, in four different continents. Höganäs China was founded in 1993 and has 80 employees.

Jackie Yuen, further referred to as Yuen, worked as a sourcing coordinator for Höganäs China in between the years 2011 and 2016, and lived in China during this time. Yuen’s work assignments consisted of strengthening the company’s competitive advantage by finding potentially less costly suppliers in order to maximize the profits of the company. Yuen also worked as a project manager and was involved in various projects for Höganäs.

**Check Point China AB**
Check Point China is a company with extensive experience of Chinese production. The company was founded in 2007 and provides quality-assured components and systems, which are produced in China. The purpose of Check Point China is to help its customers with Chinese production of Swedish quality, which combined with the employees’ expertise and experience of the Chinese market will help companies minimize business risks, ensure quality and develop system solutions. Check Point China has two facilities in China with a Swedish-trained workforce of 25 employees.
Andreas Fälth is the founder and the CEO of Check Point China. Fälth has been experienced in doing business in the Chinese market, as well as having had a broad knowledge of risk management in global sourcing since 1995. Fälth’s role consists of running the organization and controlling the employees, mostly the middle management of the organization. Him and three other employees are positioned in Sweden, however they visit China every other month to control their respective functions within the company. Fälth describes Check Point China as a result of previous international business experience.

**LEAX Group AB**

LEAX Group is a privately owned corporate group which was founded 1982 in Köping, Sweden. The company offers flexible machining, assembly and testing of components and subsystems, services in business development and measurement technology for demanding and challenging customers. LEAX Group has 11 manufacturing factories worldwide in six countries, with the aim to meet the customers’ needs for both proximity and low costs. The company’s customers operate mainly within the industries of heavy automotive, mining- and construction, agriculture, general industries and telecom. The company, which was founded by a team of two, has grown into a unit of 1200 employees, and is currently active in several markets around the world. LEAX has been active in the Chinese market since 2013, and has today 21 personnel stationed in the country.

Shpetim Arifi has been working as the CEO of LEAX China since the company was established in the Chinese market. Arifi has previous experience in the company, starting as an operator at the age of 17. With a background of studies in Business Management, Arifi is leading a team of 20 employees in Shanghai as well as being responsible for the company’s operations on the Chinese market.

**Smålands Shanghaikontor**

Smålands Shanghaikontor is collaboration between Region Kronoberg, the regional association of Kalmar County and Linnaeus University, which helps and creates opportunities for smaller firms to establish their businesses or increasing their knowledge in the giant market of China. Smålands Shanghaikontor was founded January 1, 2012 and has today two employees who are positioned in China.

Wang Zhi started working for Smålands Shanghaikontor in 2012, and has been located in China ever since, as chief representative. Zhi’s role involves creating business opportunities in China for smaller companies originating from Småland, Sweden, as well as helping them establish their business in the Chinese market.

4.2 Internationalization

Axelsson declares that Norden Machinery initiated to enter the Chinese market in 2006, due to the market potential in China. He further explains that Norden used to
work through an external agent, as this facilitated reaching out to Chinese customers thanks to the agent’s wide network. Furthermore, due to the large scale of sales that Norden had, they realized that it would be profitable to establish the company in China and sell their own products, instead of using an agent that would be paid a 10% commission. Axelsson emphasized the importance of being present in the Chinese market as it decreases costs and is more profitable for the company. Moreover, Norden internationalized to China because if they would produce machines in China, they would not only lower the costs, but also provide better machines than the local industries in China would. Axelsson finally emphasized international experiences as vital when companies are seeking to find international business opportunities.

Company X had two reasons for internationalizing to the Chinese market. Respondent X clarifies that there are two separate entities within Company X, in which one is established in Hong Kong and the other established in Mainland China. It was further claimed by Respondent X that Hong Kong is a very mature, stable and calm market, in which the company values quality and focuses more on efficiency. On the contrary, Mainland China is a fast growing and turbulent market, with great market potential and business opportunities. Respondent X exemplifies this by stating that if Hong Kong sells 10,000 heavy vehicles per year, the Chinese market would sell 800,000 heavy vehicles per year. Further, the positive aspects of internationalization to China were emphasized, considering it being the biggest market in the world. Respondent X further states that China is an insane growth market, which is rather difficult to compete on.

Yuen describes that Höganäs initiated its internationalization process in Asia to Japan, due to the mature automotive industry with leading brands within this specific industry. This is due to the fact that Höganäs produces metal powder, which is mostly used in the automotive industry. Yuen further explains that after a while, the focus shifted to the Chinese market and Höganäs followed the trend. This was stated to be a smart move, as many American and European automotive brands moved their production to China during the same period of time. Another motive to operate in the Chinese market was due to the low production costs. It was lastly stated by Yuen that international experience is significant when operating in a new market, as this could facilitate challenges which can arise from the unfamiliarity of a foreign market.

Fälth explains that Check Point China was established in the Chinese market as a result of the positive attitude Chinese people had towards business activities. As difficulties arose for Fälth in the business climate of Russia, due to a rigid culture, China opened up for business and production opportunities. It was stated by Fälth that people in China were “hungry” for opportunities and had a great interest in doing business, which made him realize that there was extensive potential in the Chinese market. Fälth was intrigued and fascinated by how solution-oriented Chinese were, which was another motive to internationalize to the Chinese market. The importance of international experience and knowledge of cultural differences when entering a
foreign market were emphasized, which Fälth claims was rather unexplored and new, when he first started working internationally.

*Good experience comes from bad experience, which comes from no experience* – Andreas Fälth

Arifi explains that the motive for LEAX to internationalize to China was mainly due to the demand of the company’s customers. He further connects this to the BRICS countries, which he states have high customer demand as well as high growth rates. The global customers of LEAX surely follow the trend of operating in these markets, which is why LEAX must adapt to this trend as well, with the aim to meet the customers’ needs for proximity. It was stated that LEAX referred to their growth as “Customer driven growth”, which implicates that the global customers demand for LEAX to follow their internationalization process. This is a requirement for the customers in order to outlast the corporation in the long run. This due to the fact that customers prefer global collaborations, rather than local collaborations, considering them having one window of communication with no need of employing administrative personnel to handle multiple suppliers. Arifi lastly states that this demand is beneficial both for LEAX and the global customers.

Zhi emphasized the importance of the internationalization to China by stating that Smålands Shanghaikontor found great business opportunities for Swedish firms in China. He further explains that during 2010, firms across the globe found market potential in China. Therefore, Smålands Shanghaikontor followed the trend by creating business opportunities in the Chinese market. Zhi further elaborates on the great importance to be located and work in the foreign market, rather than working from a distance, due to challenges which could arise from not being present in the foreign market. According to Zhi, China is a great market which generates both business opportunities and profits for foreign firms. Finally, it is stated that international experiences could be considered vital when entering a new market, in order to facilitate the process.

4.3 Culture

It was stated by Axelsson that the internationalization process of Norden was facilitated and successful, due to the fact that a manager who had experience and an extensive understanding of the Chinese culture was appointed to the Chinese organization. It was further explained that the manager was Chinese, who knew the language and characteristics that were necessary for the company to adapt to. According to Axelsson, it was important to use a Chinese manager, not only to minimize the cultural challenges and differences, but also to get access to the great network of his. Axelsson emphasizes an understanding of culture as vital in order for
any foreign company to enter the Chinese market and succeed in business. He further exemplifies adapting to cultural differences by stating that Norden had to implement practices, which were not performed in the Swedish business.

A manager for Chinese workers needs to be very clear and specific in what should be done in the organization and not, which Axelsson believes differs slightly from Swedish people. Additionally, it is significant to understand that people in China do not want to “lose” face (mianzi), as this may be regarded as disrespectful. To exemplify this further, it was argued by Axelsson that a decision within the organization in China must always go through the local CEO first, or else it would be regarded as insulting and losing mianzi. When touching upon guanxi, Axelsson described this as networks. As the company was aware of the importance of networks and the traditions of China, they chose to recruit an external agent which had years of experience of the products manufactured by Norden. This was a strategic choice with the aim to obtain potential relationships, because he had an embedded network in China. According to Axelsson, the company would not have been as successful in the Chinese market today if starting from scratch in trying to create relationships by themselves. Therefore, taking advantage of a local employee’s guanxi was considered important.

An understanding of the Chinese culture, as well as guanxi, is crucial in order to have a successful business in China – Göran Axelsson

It was stated by Respondent X that the Chinese culture is somewhat similar to the Swedish culture. It was further argued that business people in China and Sweden both strive to perform equivalent, however it differs in how to articulate it. The way of communicating with each other was demonstrated the main difference between Swedish and Chinese people. Furthermore, one of the most significant differences in China was stated to be labels, which the respondent also argues is adaptable for foreign companies. Nevertheless, it was argued by Respondent X that both Swedish and Chinese people work in the same sense and in the end, both want a good deal and achieve great objectives as well as KPIs. Moreover, the importance for Chinese people to perform well, succeeding and earning money was emphasized. It was stated that an understanding of the culture is not as important as one would think. However, the importance of understanding the language in order to better operate in the market was emphasized by Respondent X. It was further stated that several companies internationalizing to China blame the cultural differences when they fail in the market. However, the failure of a company in China is rather due to the product or service of a firm that has not been customized properly. When touching upon the phenomenon of guanxi, the respondent demonstrated that guanxi is not of significance nor outstanding, meaning that this could as well be found in Sweden. It was further emphasized that relationships are important, nevertheless, a company in China could survive without any relationships.
Yuen emphasized the importance of understanding cultural differences of each nation that firms operating on. Despite the fact that Yuen himself is Chinese, he believes that life is all about respecting others and having an open mind in where people come from in order to succeed with international business. It was further stated that Swedish people, unlike Chinese, prefer to plan and have a strategic mind in order to decrease uncertainties. Contrary, the Chinese tend not to plan in the same extent, which could result in last minute solutions. Furthermore, Yuen demonstrated that there are multiple cultural differences among China and Sweden. One of these would be that Chinese people are very collectivistic, in which they rely heavily on family members. Another distinction mentioned was that money rules China and therefore, Chinese workers tend to view their job as “only a job”. On the contrary, work is important for self-interest in Sweden. Therefore, the respondent emphasized the significance of understanding that China is a world market, in which they rely on their traditional values. Due to this, it is vital for foreign companies to adapt to the Chinese culture. When asked about the cultural phenomenon *guanxi*, Yuen referred to it as “networks” and described this as an important phenomenon to understand in China, not only in business contexts, but in general. Yuen further emphasizes the importance of *guanxi* in succeeding as a foreign company in the Chinese market.

Fälth from Check Point China stresses the importance of three cultural challenges which need to be taken into consideration when doing business in China; (1) the distance, (2) the language and (3), which he considers being the most important factor; cultural differences. It is important for Fälth that his firm understands the complexity of the Chinese culture, in order to succeed in the market. When discussing the importance of a cultural understanding, Fälth states that knowledge of the foreign language can facilitate many cultural challenges that may arise. Fälth exemplifies cultural differences further by describing that Chinese people have a constant desire of performing well and earning as much money as possible, which derives from the desire of supporting family members. It is further stated that Chinese people are never satisfied regarding money, which is why they constantly work. Additionally, it is claimed by Fälth that it has been important to learn from the mistakes he made during his earlier years of work in China. In the beginning of his career, there were several factors which forced him to adapt to the cultural differences. When discussing *guanxi* with Fälth, he instantly came to the statement that it is a crucial phenomenon to know about if seeking to understand the Chinese culture. It was mentioned that one of the greatest challenges in recruiting people in China, is to find the right suitable person.
He emphasized this phenomenon further by explaining that *guanxi*, which he referred to as relationships, is an important factor in recruiting the right people in China. He believes that *guanxi* is a great reason why people do business in China and why processes sometimes could be easier when having the right *guanxi*. Therefore, he states that Swedish people should have an open mind to *guanxi*, as well as understanding the significance of it in the Chinese business world.

*The most important factor of doing business in China is to understand the Chinese culture – Andreas Fälth*

Arifi find Chinese people entirely different from Swedish people, in which Chinese often think and plan in short-term horizons. It is further described that Chinese employees tend to take the easy path in business, instead of the long way, which would usually generate in better results. Arifi finds China as a country which controls the business, rather than being controlled by the business. It is important for the CEO that his employees provide innovative ideas. However this can be problematic in China as workers are used to receiving orders from their superior. When discussing culture, Arifi explains the significance of a cultural understanding as a way to easier deal with the business environment in China. He mentions that one has to adapt to China, instead of having a mindset that 1.4 billion people will adapt to one’s culture. The great border between the Chinese and the European mindset has made Arifi believe that Swedes will never be able to fully adapt to the Chinese culture, due to the distinctive differences in how business is handled. Nevertheless, the importance of cultural understanding has been emphasized by Arifi, in which he believes that a great strategy is not enough to succeed in the Chinese market, instead one must simply adapt to the culture. The complexity of the Chinese culture has made Arifi understand that a successful business strategy goes hand in hand with an understanding of the culture. When touching upon *guanxi*, Arifi demonstrates that it is an extremely important factor to comprehend and adapt to, as he believes that relationships account for 50% of the business in China. Lastly, he explains that a Swedish company working exclusively with Chinese customers, would not be able to operate in the Chinese market without relationships. A company cannot simply survive without *guanxi*, when dealing with Chinese counterparts.

*Culture eats strategy for breakfast – Shpetim Arifi*

Zhi reminisces back to when he first started doing business in China, and explains that a great challenge was to keep up with the way Chinese people work. He exemplifies this by stating that Chinese people are faster in performing and completing their work tasks and they are more collectivistic compared to Swedes. The Chinese are rather collectivistic, and therefore Zhi explains that they tend to perform their work tasks
faster. As the processes in China among employees go faster, Zhi believes that Chinese people do not resonate and plan in the same extent as in Sweden. The reason why many foreign companies are outcompeted is according to Zhi due to that firms find it rather difficult to understand the way Chinese people work. When he first entered the Chinese market, he found that an understanding of the Chinese culture is important for Swedish firms to gain, which is due to the cultural differences between China and Sweden. He further came to the instinct that it is not possible for a Swedish company to work in China if not being present in the Chinese market, with no understanding of the culture. It was important for Zhi to understand that experience of the cultural challenges in China is not the same as trying to understand the culture from readings or what he has heard before. He supposes that one will never gain an understanding of the culture, if not truly having an experience of it. When being asked about guanxi, Zhi explained that guanxi, which he referred to as relationships, is everything in China. He argues that what most foreign companies do not realize is that business in China does not only go through laws and regulations, but rather through guanxi. The phenomenon was further emphasized by Zhi in which he explains that there are no strong market rules in China which could protect you as a company, and therefore relationships when doing business with Chinese are significant.

It is not possible to do business in China without having any understanding or experience of the Chinese culture – Wang Zhi

4.4 Management control systems

It was claimed by Axelsson that before the time Norden was acquired by COESIA-group, the company worked with rules, policies and code of ethics, which was defined and established by the headquarters in Sweden. These were initially simple rules and basic controls, such as the fact that payments should be assisted, in which at least two persons should make one payment, to avoid every possibility of mistakes. It was further explained by Axelsson that in terms of planning and budgeting, extensive time and work were put in it. However, this was generally applied regardless in which nation it was located. Furthermore, an incentive program was implemented in China, in which all of the employees were paid a “thirteenth salary” if they managed to keep the budget. This was stated to be a part of the Chinese culture, as the company adapted to the Chinese norm. Consequently, it was demonstrated that rules and formal controls were used to a larger extent in China, due to the high rate of employee turnover. This was said to be a result of the Chinese culture, in which Chinese employees are mainly motivated by earning money. Axelsson further demonstrated that the organizational culture of Norden in China was permeated by “the Northern spirit”. Generally in Northern countries, companies establish their values around the customer, which was implemented in the Chinese business as well. However, there
was no distinction in how different organizations within the same company worked with values, norms and rituals due to cultural differences. The respondent highlighted that it was important to create relationships and communicate with the employees in order to work more effectively. However, it was stated that the Chinese local CEO had a rather different perspective of this, in which hierarchies were a fact.

Respondent X described that the easiest way of leading employees towards organizational goals in China, is to connect the organizational goals with financial bonuses. It was further stated that in companies where the work assignments are rather standardized, financial bonuses are the most suitable way to make sure your employees strive towards the organizational goals. Respondent X argued that the reason why it is relevant to work with policies and rules to manage the employees towards organizational goals is partly due to the fact that there is a high employee turnover in China, and therefore it becomes easier to find new employees that can perform the exact same job. Another reason why Company X uses formal control systems is because they believe this increases the workflow among employees. This was claimed by the respondent to be more common among Chinese employees.

Nevertheless, when touching upon the informal control systems, such as organizational culture in terms of values, norms and rituals, it was argued by Respondent X that it is essential in how the company controls the organization. The company lives by three keywords which emerge from the headquarter, namely; customer first, quality and respect of the individual. Providing the employees with educations and training is highly valued and an important aspect for striving towards organizational goals. Respondent X explains that these values derive from the company’s organizational culture, which the respondent believes is a distinct organizational culture compared to the one that local Chinese companies have. What further distinguishes Swedish companies from Chinese is the involvement of decision-making that the employees have. At Company X, decisions are not made top-down, they rather focus on the involvement of every employee before a decision is made, which is different from how the local managers in China usually do it. Respondent X further makes a distinction between Chinese and Swedish managers, in which local Chinese managers are described as rather hierarchic, as they control the employees in larger extent. Respondent X further explains that as a manager, it is of importance to encourage employees to become more flexible at their job, as long as they complete their tasks. However, due to the cultural differences among Chinese and Swedish employees, this is rather problematic since the Chinese do not fully comprehend the Swedish values.

In order for the employees of Höganäs to strive and reach for organizational goals, Yuen believes that it is important to respect the opinions of the workers and encourage them to work with tasks which they find interesting. During the time Yuen worked for Höganäs, he was tolerant with his colleagues not succeeding all the time, as it was a sign that his colleagues were trying hard in doing a good job. He further emphasizes the importance of working with formal control systems such as code of
ethics, planning and rules. At Höganäs, the employees would follow specific rules on what they were allowed to do and not, which Yuen states are important in order to create a guideline for the employees to follow. Furthermore, he explains that due to the low discipline Chinese have, it is important as a Swedish company with Chinese workers, to control the exact time that the workers enter and leave the building. This is according to Yuen one of the ways they have adapted their control systems according to the Chinese culture.

However, Yuen believes that the best way of managing and controlling Chinese people is by using a mix of the Swedish and the local Chinese way of doing it. The reason why Yuen believes that a mixture of these cultures could be suitable is because some Chinese prefer the strict local manager, whereas others prefer the humble and caring Swedish manager. When being asked whether the extent of control is larger in China than in Sweden, Yuen explained that there is a greater need of control in China. This he argues because he believes that Chinese people are raised with less discipline in comparison to Swedish people, and therefore within the working life, it is important to make sure that there are controls in which the workers follow. Concerning the informal control systems, such as values, norms and rituals, Yuen explains that the values of a culture are undoubtedly important to respect. Therefore, Höganäs as a company do not specifically have any Swedish rituals or traditions, as it is important to not push the workers into a foreign culture. Yuen understands that Chinese are proud and satisfied with their culture, which has evolved for over 5 000 years.

It was implicated by Fälth that Swedish people normally tend to have visions within organizations in order to reach goals that have been set up by the organizations. It is claimed that Swedish employees often need visions and objectives in order to successfully work and complete their job. On the contrary, Chinese employees are “doers”, indicating that they get the job done, regardless of whether there is a vision or not. It is further demonstrated that Chinese employees take time to understand and apply visions and objectives to their work, because the local Chinese manager is described to manage and lead his or her employees in a strict way, which is preferable for most Chinese. In Fälth’s case, he is working towards developing goals for his workers to reach, which can be difficult for them to understand. As a CEO, he needs to make sure that the middle-management is being patient with the Chinese workers taking their time to fully understand why they should apply goals to the work. It is further claimed by Fälth that the reason why these cultural differences emerge is because Chinese workers are used to take orders, not initiatives. Fälth indicates that he is constantly encouraging his workers in taking initiatives, as this is commonly accepted in Sweden. Nevertheless, it was highlighted that if goal congruence is not working for the employees, then the management would most likely use formal control systems rather than setting up a list of goals, as this is the Chinese way of doing it.
The importance of working with formal control systems, such as rules and processes was emphasized by Fälth, when working with Chinese. This is mainly because there is nothing as being “too clear” with a Chinese employee. Furthermore, the respondent elaborated on this by explaining that the best way of managing and leading Chinese employees is by the process of rules. However, there is necessarily not a greater use of rules in China than in Sweden, which is important to him as a CEO to highlight. This, in order to make sure that there is no distinction of the Chinese and the Swedish people.

To emphasize the relevance of controls in the organization, Fälth explains that control stations have been implemented in Check Point China, due to that all workers are not always in the same building. He emphasizes this by stating that reliance on the employees is good, but controls are necessary. Fälth highlights that it is important to influence his workers with the Swedish culture, as the company is built upon Swedish values. As Swedish values in Check Point China were implemented, the workers have been encouraged to criticize him as a CEO, as well as having the courage to take initiatives. Furthermore, it was explained that in order to understand Swedish rituals, the company implemented a health-program for the workers. Fält stresses the importance of creating an organizational culture with values that support the wellness and health of each individual. However, this is a rather different way of managing workers in Chinese organization.

It was explained by Arifi that many local and foreign companies in China focus extensively on rules, policies and formal controls. When discussing the use of formal control systems, Arifi indicates that the extensive use of formal control systems in China is due to the concern that employees will cheat. This he finds rather irrelevant, considering that employees will automatically strive towards organizational goals if the management of the company can build values, which permeates all levels of the organization. The CEO further specifies that the company has rules, policies and standards, but not in an extensive level, due to hindrance of innovation, ideas and freedom of work. With an experience of the Chinese business market, Arifi explains that a company in China does not necessarily need more formal control systems, as it should be equally used in all organizations in different nations.

Arifi believes that goal congruence can be achieved by allowing employee participation in decision-making, as well as development of strategies. Therefore, he understands that employees will feel responsible to achieve organizational goals if he or she can participate in important decisions. At Leax, Arifi works in a manner which encourages the employees to take initiatives in their work assignments. Concerning values, Arifi argues that it is the most important element within a company, which LEAX focuses heavily on. All decisions that are taken in the company are based on five core values, which permeate the entire company’s work. LEAX constantly works on reminding its employees of the core values, as it is of great significance for Arifi.
that a company lives according to its values. The CEO makes a distinction between the Chinese and Swedish unit, in which he claims that the Chinese unit focuses on maintaining and strengthening the values to a greater extent than in Sweden. However, this fact does not occur due to cultural differences, but rather due to differences in management.

*Values are something that raises a company* – Shpetim Arifi
5. Analysis

This coming chapter will include a thorough analysis of the empirical data which will be connected to the theoretical framework. The analysis will be performed in order to present the differences as well as similarities between the empirical findings and the theoretical framework. Furthermore, the structure of the analysis will be presented in accordance to the empirical findings.

5.1 Internationalization

It has been stated by Carlsson et al. (2005) that China is a market which attracts foreign firms, due to significant economic growth opportunities. Pangarkar (2008) further states that firms tend to internationalize to China due to three reasons, in which one is that firms are more likely to exploit economies of scales due to bigger volumes, and greater cost efficiencies. From the empirical data that has been gathered during this research, the majority of our respondents stated that the initial motive for internationalization to China was mainly a result of great business opportunities, due to China’s market potential. Further, it is apparent that the majority of our respondents entered the Chinese market due to exposure to bigger consumer markets, which could result in greater profits. Another motive for internationalizing to China was the low productions costs in the Chinese market.

The respondents from Norden and Höganäs initiated the internationalization process to China because of the great market potential and the minimizing costs of the business, as there were lower production costs in the Chinese market. As Norden had large scales of sales through an external agent, it would be more profitable for the company to be present in the Chinese market. Further, Company X and Smålands Shanghaikontor argue that their initiative for entering the Chinese market was due to the great potential for economic growth that China has. Moreover, the founder of Check Point China realized the extensive potential of the Chinese market, which is why the internationalization process was initiated. Additionally, LEAX emphasizes the importance of long-term cooperation with global customers, as this was why they entered the Chinese market. LEAX further states that establishing their operations in China was a smart move, as they consider their establishment and operations to be successful on the Chinese market. It can therefore be said that the majority of our case companies commenced their internationalization to the Chinese market due to the positive effects it may have on business activities and performance. This is in accordance with the theory, which claims internationalization to be an important factor for the performance of firms, as it has positive effects on business activities (Hsu et al., 2008). Therefore, it can be claimed that internationalization for firms generate competitive advantage as well as greater business opportunities. It can further be stated that due to prior international experience and knowledge, our participating firms entered the market with an understanding of the Chinese market, as well as the culture. This in turn facilitated challenges which arose during and after the establishment in the new market.
Carlsson et al. (2005) state that Western firms tend to face more challenges when internationalizing to the Chinese market, which is mainly due to cultural differences. Therefore, it has been suggested that firms internationalizing to China should have both international experience and an understanding of the Chinese culture. The theory further demonstrates that the most significant barrier for internationalizing in a new market is the lack of experience (Carlsson et al., 2005). This is argued to be reduced by increased market knowledge (Johanson et al., 2009). From the gathered empirical findings, we found that the majority of our respondents highly valued international experience when internationalizing to a new market. It was further expressed that an understanding of international markets is vital when internationalizing to a foreign market, particularly if one wishes to operate efficiently in the Chinese market. The majority of the respondents additionally demonstrated that earlier international experience facilitated the internationalization process to China, as it decreased uncertainties. It was further mentioned by the respondent of Norden that the internationalization process of the firm was facilitated and successful, because a Chinese with an understanding of the foreign culture was appointed as the manager of the organization. This in turn helped the firm to minimize cultural differences that arose. The empirical findings of Smålands Shanghaikontor can be connected to the previously mentioned theory of Carlsson et al. (2005), in which the respondent states that when firms internationalize to the Chinese market, it is important to be located there. This, according to the respondent, is due to the cultural challenges which could derive from not being present in the Chinese market. As the majority of the empirical findings are in accordance with the theory, it can be stated that international experience is vital in order to facilitate challenges that can arise when internationalizing to a foreign market. We further emphasize the importance of having an international mind-set or experience, as previous experience would make the internationalization process easier in how to establish the operations of a firm in a foreign market, as well as reducing market uncertainty.

5.2 Culture

It is argued by Leung et al. (2009) that national culture in relation to international business has become increasingly important, as it has significant effect on business activities. The majority of our empirical findings emphasize a cultural understanding before entering the Chinese market, as this may facilitate the operations in the foreign market. As Pan et al. (2004) stated, the main barriers in doing international business are the cultural differences among different countries. The respondent of Check Point China agrees to this fact and states that the greatest challenge of doing business in China is cultural differences, which can be eased in having knowledge about the local culture. Cultural knowledge, according to the respondents from Check Point China and Company X, derives from an understanding of the local language. Furthermore,
the respondent from Norden claimed that cultural knowledge can be attained by the use of local personnel, as well as people with already established cultural understanding. According to Norden, it was important to use a local manager in order to reduce cultural challenges, and adapt to the differences of the culture in China. Furthermore, Trompenaars et al. (2011) claim that there are different layers of culture that are combined in different ways, which express the cultural differences that may exist among different countries. It can therefore be argued that by using local personnel who have an understanding of the different layers of a culture, a Swedish company can obtain a better understanding of the Chinese culture. We further reason that local personnel can help the company overcome issues which arise from a lack of language knowledge and facilitate the process of communication with Chinese counterparts.

There are extensive differences between the culture of Sweden and China, particularly concerning the dimensions of power distance, individualism, masculinity, long-term orientation and indulgence versus restraint (Viberg et al., 2013). The majority of our respondents acknowledged the cultural differences as extensive, whereas Respondent X did not find the national culture of China to be distinctive from the Swedish one. However, Respondent X perceived the Chinese culture as different in comparison to Sweden, when first entering the market. Nevertheless, these differences diminish after a period of time. As Respondent X experienced cultural differences when first entering the Chinese market, we reason that there are indeed cultural differences between the Chinese and Swedish culture. However, these mitigate as a result of the adaptation to the culture.

The majority of the respondents agreed with the theory of Hofstede (1983), and described the Chinese people as collectivistic, in which they do not only work for the sake of themselves, but for their family members as well. This can be connected to Hofstede’s dimension of individualism, which implies that societies with a low score of this dimension are more integrated into groups (Hofstede, 1983). It has been argued by Arnett (2002) that people within the Chinese culture are expected to obey those of authority, and therefore a related rigid hierarchy of authority prevails in organizations. Norden describes the organizational structure as rather hierarchic, in which decisions within Norden in China must always go through the local CEO first. The majority of the case companies further emphasize a rigid hierarchy that dominates in Chinese organizations. This can be related to Hofstede’s dimension of power distance, which refers to the extent in which societies accept the power distance between subordinates and superiors in an organization (Hofstede, 1983). It is claimed by He et al. (2010) that cultures with a high degree of power distance are more likely to be characterized as collectivistic, which is further supported by the empirical findings of this research.

Further, the majority of the empirical findings agreed upon the importance among Chinese people to constantly work and earn as much money as possible. The majority of the respondents describe the Chinese as materialistic, indicating that money rules
the Chinese workers, whereas in Sweden work is significant for self-interest. We have found a correlation of these empirical findings with Hofstede’s (2011) dimension of indulgence versus restraint, in which Swedish people tend to focus on self-interest as well as emphasizing a balance of work and life, while Chinese people tend to focus on regulations and social norms (Viberg et al., 2013). The majority of the respondents have confirmed this theory by stating that there is a great difference in managing Chinese workers compared to Swedish, as the Chinese are driven by money and restrictions. This can according to the empirical findings derive from the importance of performing well and succeeding in life. As people within the Chinese society constantly strive to perform well, we reason that this is a society which is characterized by Hofstede’s dimension of masculinity, which is further supported by the empirical findings. Furthermore, Höganäs and Smålands Shanghaikontor stated that Swedish people, unlike Chinese, prefer to plan and develop strategies in order to decrease uncertainties. Contrary, the Chinese tend to not plan in the same extent, which could result in last minute solutions. This is contradictory to Hofstede’s dimension of uncertainty avoidance, which states that both China and Sweden have a low desire of avoiding uncertainty, by implementing strict rules and laws (Leung, 2008; Viberg et al., 2013). The previous statement is further supported by the respondent from LEAX, who claims that Chinese workers often think and plan in short-term horizons. This too, is contradictory to what Hofstede’s dimension of long-term orientation states, which implicates that Chinese people think in long-term and have a longer planning horizon than Swedish people (Viberg et al., 2013). Therefore, it can be claimed that Swedish people tend to work for the sake of self-interest, which results in strategic planning in long-time horizons. Chinese people tend to think and plan in short-term horizons, as the focus lies within earning as much money as possible. This further results in high employee turnover. This can be related to the theory, as it is claimed that Chinese people are money-oriented and materialistic (He et al., 2010).

The cultural phenomenon of guanxi is stated to be the “lifeblood” of business in China (Davies et al., 1995). Furthermore, guanxi is argued to be vital in order to survive on the Chinese market, as well as gaining competitive advantage (Davies et al., 1995). This has been confirmed by all the respondents of this research, in which they believe that guanxi is a great reason why firms gain business opportunities. They further state that guanxi is vital for Swedish companies to have when operating in the Chinese market, in which the majority of the respondents state that it is rather difficult for a foreign firm to operate in China without guanxi. This can be related to the theory, in which it is demonstrated that without guanxi, it is difficult to survive in the Chinese market (Davies et al., 1995). Therefore, it is stated that guanxi is commonly used in Chinese business contexts, which is why a proper understanding of the phenomenon should be acquired before and during the establishment in the Chinese market.

The majority of the respondents suggested that the members of the Chinese society value personal relationships and networks. This we argue to be due to the
collectivistic society of China, which has also been supported by Viberg et al. (2013). Norden further states the importance of using a Chinese workers’ guanxi, as this would be beneficial for the development of business opportunities as well as potential networks. This aligns with the statement of Lovett et al. (1999); in which guanxi tend to rely on the trust and the reputation among individuals, especially among Chinese. This correlates with the statement of the respondent of Check Point China, who emphasizes the importance of trust among individuals in order to establish relationships, and use these relationships to hire the right people for the firm. Therefore, we reason that Swedish firms should be aware of, and use the local personnel’s guanxi, as this could result in greater opportunities and useful relationships for the firm. Furthermore, Peng et al. (2008) stated that guanxi serves as an informal substitute for the lack of formal institutional support in China. This correlates with the answer of the respondent from Company X, who demonstrates that Chinese counterparts do not usually trust the company itself, but the individuals of the company when business deals are performed. Company X further stated that Chinese people do not have faith in organizations and their corporate values, as their trust lies within the individuals they have guanxi with. We can thus analyze that due to the lack of support and trust Chinese people have for formal institutions, they must trust the nature of relationships with other counterparts. We reason that this results in a complex environment for Swedish firms to operate on when acting on the Chinese market.

5.3 Management control systems

Theory has stressed the importance of the design of management control systems in relation to national culture. It is further argued that the increasing rate of globalization has led to the management of firms operating differently, due to cultural differences (Harrison et al., 1999). The majority of our respondents have confirmed this theory by arguing that culture can have an effect on the use of formal control systems. Further research has indicated that formal control systems are most efficient when routine behavior exists and when work assignments are highly standardized and routinized (Falkenberg et al., 1995; Merchant et al., 2007). The respondent from Company X is in accordance with previous statement, and claims that in companies where work assignments are rather standardized, financial bonuses is the most suitable way to make sure that employees strive towards the organizational goals. Thus, it is demonstrated that the respondent from Company X supports the theory, and we can affirm that formal control systems are efficient within departments or organizations where standardization in work assignments exist. However, the respondent from LEAX claims that an extensive use of formal control systems can be insufficient. This can further be related to O'Reilly (1989) statement, who claims that an extensive use of formal control systems is “unsatisfying” among employees. It can therefore be claimed that an extensive use of formal control systems will result in demotivation among employees to comply and work towards organizational goals.
Formal control systems have been identified to reduce uncertainty for the management, because it controls employee behavior and ensures outcomes in advance (Falkenberg et al., 1995). Our findings support this reasoning as the respondent from Company X claims that the extensive use of formal control systems ensures the company to easily find new employees that can perform the exact same job. This is due to the high employee turnover in China, which is a result of the Chinese employees’ desire of earning money. This is also implied by the majority of our respondents, and therefore we could connect this to the theory. We reason that there are correlations of Hofstede’s (1983) dimension of masculinity in the extensive use of formal control systems. It has been argued that a high degree of masculinity of a society reflects the desire of financial achievements, respect for higher counterparts and focus on work (Viberg et al., 2013). Thus, the management of firms feels the need to establish rules and other formal control systems, in order to reduce risks and uncertainties which could derive from the high employee turnover. This however, is not in accordance to the theory, which demonstrates that China has a low score of uncertainty avoidance (Viberg et al., 2013).

The theory further demonstrates that formal control systems can be seen as rather negative and “controlling” (Simons, 1994), which can be related to the statement of the respondent from LEAX, who states that extensive use of rules is due to the concern that employees will cheat. It is further stated by the respondents from LEAX and Check Point China that Chinese employees are not used to take initiatives, as a result of being constantly controlled by their superiors. This can be connected to the theory, which claims that formal control systems are characterized by formalization and concentration of authority (Harrison et al., 2007). The respondents from LEAX and Check Point China further articulates that many local and foreign companies in China focus extensively on rules, policies and formal controls. This statement is confirmed by the majority of our respondents, who emphasize the importance and the use of formal controls in China, compared to Sweden. However, LEAX and Check Point China do not comply with the use of this. That formal control systems are used to a larger extent in China is contradictory to the theory, in which it is claimed that controls are not as necessary in collectivistic cultures, compared to individualistic cultures (Van der Stede, 2003). Therefore, the use of formal control systems in China is significant in leading Chinese employees towards organizational goals, which could be a result of the Chinese culture. Additionally, it could be said that Swedish firms operating in China are ought to comply and adapt to the use of formal control systems. This is supported by He et al. (2010), who state that if the management of an organization fails to conform to the shared values of how motivation among employees is perceived, how the goals of the organization are approached and how people are treated; employees will feel unsatisfied and perform poorly.

It has been argued by Merchant et al. (2007) that formal control systems discourage and hinder innovation and creativity in organizations. The respondent from LEAX supports this theory, in which he claims that an extensive use of formal control
systems hindrance the innovation, ideas and freedom of work. He further states that the company has worked considerably with encouraging Chinese employees to take initiatives, instead of taking orders. It is additionally stated that informal control systems encourage innovation and creativity among employees in firms (Bisbe et al., 2004), which can further be connected to the empirical findings. The respondent from Check Point China stated that informal control systems are of importance for the sake of innovation among Chinese employees, which is why these types of controls are used. We therefore argue that formal control systems can be used in every organization to control basic behavior of employees, but not in an extensive level as this could be perceived as demotivation by employees. Consequently, Swedish firms should place an emphasis regarding informal control systems in China.

Theory claims that Chinese organizations are known for having hierarchies and centralized management control systems (Harrison et al., 2007). Our findings support this reasoning as the majority of our respondents emphasized the rigid hierarchies that prevail in Chinese organizations. The respondent from Check Point China exemplified this statement in a manner in which Chinese employees are used to take orders. Furthermore, the respondents argued that each of their firms is distinctive in such way that the organizational structure is rather flat. The respondent from LEAX mentioned that the management of the company allows employee participation in decision-making, stating that employees will feel responsible to achieve organizational goals if he or she can participate in important decisions. This could be supported by the theoretical framework, which claims that employee participation in decision-making increases motivation for employees to achieve objectives (Armesh et al., 2010). The respondent from Company X further makes a distinction between Swedish and Chinese organizations, in which he argues that decisions within Company X are not made top-down, as the involvement in decision-making of employees is important. Thus, it could be stated that formal control systems are common in Chinese organizations, as a high degree of power distance occurs, which also is implied by Viberg et al. (2013). Further, we deduce that Swedish firms operating in the Chinese market have a tendency to implement a more decentralized structure, as this is common in Sweden. This goes in line with how subordinates require to be involved in decision-making they are affected by, in societies where power distance is low (Harrison et al., 2007).

Flamholtz et al. (1985) argued that one of the main tasks for the management of an organization is leading employee behavior towards organizational objectives. The respondent from LEAX claimed that employees will automatically strive towards organizational goals if the management of the company can build values for all levels of the organization. The majority of our respondents state that there is an eminent use of formal control systems in China, and that the informal control systems tend not to be as important in Chinese organizations. It is further stated by the respondent from Check Point China that it is important to influence Chinese employees with Swedish values, as the formal control systems tend to overshadow these. Our empirical findings however, are not in accordance with Martinsons et al. (1997) who
demonstrate that there is a greater use of informal control systems in China, compared to the formal. Nevertheless, the respondent from LEAX argues that values are the most important element within a firm, which the firm focuses extensively on. It has further been demonstrated that the use of informal control systems at LEAX, is not a result of the Chinese culture, but rather a result of different management styles. Moreover, the respondent from Company X further emphasizes the use of informal control systems of its Chinese firm. Nevertheless, this too is not a result of the Chinese culture, but rather a result of Company X’s organizational culture. This is also contradictory to Martinsons et al. (1997) previously mentioned statement. As these empirical findings are not in line with the theoretical framework, Swedish firms should implement their domestic informal control systems when operating in the Chinese market.

The majority of our respondents are not in accordance with Martinsons et al. (1997) theory, in which it is stated that Chinese organizations tend to use more informal control systems. The empirical findings of this study indicate on firms using informal control systems influenced by Swedish values and norms. However, the respondent from Höganäs demonstrates that the firm does not push their employees to adapt to a foreign culture, as they are proud of their culture which has evolved for more than 5 000 years. This has further been implied by Kwan et al. (2001). As previously mentioned, the respondent from Check Point China argues that it is of importance to implement the Swedish values, norms and rituals within the firm. However, the respondent further argues that Chinese employees find it rather difficult to understand and apply visions and objectives in relation to their work assignments, which is why formal control systems will be used to a larger extent. It could be claimed that Chinese employees are not familiar with working towards organizational goals, but rather under the orders of their superior, due to the hierarchy of authority that prevails in Chinese organizations, which is also implied by Viberg et al. (2013). Therefore, it can be said that the management of a firm will prioritize the use of formal control systems, rather than informal control systems, in societies where power distance is high.

We have found connections of Hofstede’s (1983) national dimensions to management control systems, such as power distance, collectivism, uncertainty avoidance and masculinity. However, our empirical findings do not suggest that management control systems could be connected to Hofstede’s (2011) dimension of long-term orientation and indulgence versus restraint. Consequently, it could be said that these are not related to the use of formal and informal control systems in China, due to the lack of emphasis on these dimensions in both the empirical findings, as well as the theoretical framework.
6. Conclusions

In the following chapter, we will summarize answers to the research question of this study, which is a result of the analysis performed in the previous chapter. Following, a presentation of the theoretical and practical implications that this study has resulted in will be provided. Lastly, limitations and suggestions for future research will be presented.

6.1 Answering the Research Question

As the world is becoming more globalized, firms are seeking for international business opportunities within potential markets. Despite the business opportunities which derive from increasing globalization, firms are faced with cultural challenges when operating in foreign markets. In order for firms to succeed with their operations abroad, it is crucial to have an understanding of the national culture, as this is said to have positive effects on business activities. This has been emphasized by previous research as well as the literature. Nevertheless, research on the relation of culture and formal and informal management control systems has been rather limited. Whether firms can use the design of their domestic management control systems overseas, or redesign it accordingly to cultural differences is of great importance. Therefore, the purpose of this thesis is to answer the following research question;

*How do national cultural differences affect the use of formal and informal management control systems of Swedish firms in China?*

The research question aims to explore how the national culture of China affects the use of management control systems, specifically formal and informal control systems of Swedish firms operating in the Chinese market. The empirical findings suggest that the main initiative for the establishment of the case companies’ operations in China is due to the great market potential and business opportunities. Therefore, it could be said that Swedish firms who wish to internationalize to China will advantage in business opportunities which derive from greater consumer markets, as well as minimizing costs of the business. However, in order for Swedish firms to successfully internationalize to the Chinese market, it is indicated that cultural understanding is an important factor. Therefore, in order for us to answer the research question, it is important to distinguish between the Chinese and Swedish culture, to further investigate how cultural differences may affect the use of management control systems. The empirical findings suggest that there are considerable differences in managing Chinese employees compared to Swedish employees. Thus, in order to successfully apply management control systems within firms, it is important to have an understanding of these cultural differences, as they result in distinctive use of formal and informal control systems.
The literature indicates that different characteristics of national culture can affect the use of formal and informal control systems. Our empirical findings further demonstrate that the use of formal control systems can differ, in regards to the distinctive cultures of China and Sweden. Despite that there has been limited research within this field of study, it is clear that culture has an effect on the use of formal control systems. Our empirical findings indicate on an extensive use of formal control systems for Swedish firms operating in China. In addition to this, our respondents have argued that formal control systems are necessary to use in China. That formal control systems are used to a larger extent in China is a result of the national culture, which can be explained by different factors, namely; a high grade of collectivism, uncertainty avoidance, a strong power distance, and a high degree of masculinity. Firms in China operate in a collectivistic society, in which the members of the society are more integrated into groups. This results in people not only working for the sake of themselves, but for their family members and their well-being as well. As a result of this, Chinese employees are described as materialistic who strive for earning money, as stated by the majority of the respondents. This indicates that Chinese employees tend to replace jobs if the salary given is higher, which further results in a high employee turnover. This could additionally be explained by the high degree of masculinity in China, in which Chinese employees focus mainly on financial achievements. Despite the theory which argues that China has low uncertainty avoidance, it could be said that the extensive use of formal control systems is implemented in order to reduce and avoid uncertainties related to termination of work in China.

Further, organizations with a high degree of power distance result in employees being controlled by their superiors and obeying those of authority. The theoretical framework also suggests that an extensive use of formal control systems is characterized by a high concentration of authority, which can be found in Chinese organizations. Due to this, the adaptation to the Chinese culture has resulted in an increased use of formal control systems for Swedish firms. Despite that Swedish managers are not used to lead employees towards organizational goals with an extensive use of formal control systems, they are ought to adapt to the Chinese culture, in which Chinese employees are used to be led in a certain way. Therefore, it could be said that the increased use of formal control systems reduces challenges for Swedish management to lead Chinese employees towards organizational goals. In other words, the empirical findings have implied that there is a need for extensive use of formal control systems in China, compared to Sweden. Therefore, the national culture of China affects the use the formal control systems, in which they are used extensively within Swedish firms, operating in China.

Despite that the empirical findings have demonstrated that the case companies use formal control systems in an extensive manner, the importance of informal control systems should not be undermined. The empirical findings have indicated that the use of informal control systems are not being as emphasized on, compared to formal
control systems, for Swedish firms in China. The findings further demonstrate that there is no indication of the Chinese culture affecting the use of informal control systems of Swedish firms. Therefore, the use of informal control systems remains unchanged for the case companies within their Swedish and Chinese units. It can be said that Swedish firms have not been affected by the culture in such way that informal control systems in their Chinese businesses have been used more or less. It could be said that the emphasis on formal control systems have resulted in low emphasis on the informal control systems for Chinese organizations. However, the low emphasis on informal control systems in China has not affected the use of informal control systems of Swedish firms, as they maintain the same as in Sweden. Consequently, the national culture of China does not affect the use of informal control systems of Swedish firms, operating in China.

Hence, the conclusion of this thesis is that the management control systems of the case companies have been affected by the Chinese culture, in such a manner that formal control systems are used to a larger extent in Chinese organizations. However, the use of informal control systems of the case companies has not been affected by the national culture of China, in which it remains unchanged. Despite that the empirical study has indicated that the informal control systems of the case companies have not been affected by the Chinese culture, the use of informal control systems should not be underestimated. The theoretical framework has indicated that the use of informal control systems triggers for more innovation and creativity among the members of an organization. Therefore, Swedish firms should focus more on the informal control systems as it can increase the quality of work among employees. This in turn could lead to Swedish firms operating more efficiently in the Chinese market.
6.2 Theoretical implications

Academic research concerning culture in relation to management control systems has so far been limited in business research, and a research gap has therefore been identified. This study strived to fill the existing research gap, in which we analyzed how national cultural differences can influence the use of formal and informal control systems. Throughout this study, we found that adaptation to a foreign culture mitigates cultural differences. Therefore, the findings from our study contribute to theory regarding adaptation in relation to culture. Our results indicate that adaptation to a foreign culture is an important concept, which mitigates the impact of cultural differences on management control systems.

The empirical findings demonstrate that the extensive use of formal control systems is partly a result of Chinese employees being materialistic, in terms of money. This indicates that Chinese workers tend to replace jobs if the salary given is higher, and therefore the extensive use of rules and policies are implemented to decrease uncertainties related to this. This however, has not been presented in the theoretical framework. Consequently, this study has further contributed to theory of the use of management control systems in relation to what motivates Chinese employees.

It is further suggested that relationships are vital in the Chinese culture. Both the theoretical framework and the empirical findings indicated on the importance of guanxi in China. However, neither the theoretical framework nor the empirical findings have indicated on any correlation between guanxi and management control systems. Therefore, this study has contributed to theory regarding the lack of connection between guanxi and management control systems.

The conceptual framework which has been presented in the literature review indicated on the relationships between cultures, national culture and management control systems. More specifically, the purpose was to find a connection of the Chinese culture and formal and informal control systems. The findings of this study contradict the theory concerning culture in relation to informal control systems. Therefore, the reason why the revised conceptual framework has excluded the informal control systems in relation to the theories is due to the empirical findings, which do not indicate on any relationship between culture and informal control systems. This can be explained by the fact that previous studies presented in the theoretical framework regarding culture in relation to informal control systems are limited. By taking these implications into consideration, the conceptual framework has been revised, which is illustrated in Figure 3.
Figure 3: Revised conceptual framework
6.3 Practical implications and recommendations

The importance of obtaining knowledge about national culture when operating in foreign markets is vital for firms, as it is said to have positive effects on business activities. Firms who gain cultural knowledge of a foreign market will facilitate the cultural challenges that might arise. Our empirical findings suggest that national culture does have an influence on the use of formal control systems. By obtaining an understanding of this, the management of firms will most likely face less challenges in leading employees within different cultures, towards organizational goals. Furthermore, adaptation is necessary in mitigating cultural differences. The adaptation to a foreign culture and its differences will create less challenge concerning the use of management control systems.

We recommend Swedish firms that seek for international opportunities in the Chinese market to obtain an understanding and knowledge about the foreign culture. This in turn should be applied in relation to management control systems, as it can facilitate concerns of the use of formal and informal control systems. We would recommend Swedish firms to further engage in the use of informal control systems in their Chinese businesses, as it could induce creativity and ideas among employees.

6.4 Limitations

Throughout the process of this research, we have identified certain limitations that can affect the quality of the findings, as well as the ability to answer the research question. The main limitation of this study has been that the interviews were not conducted face-to-face, as the majority of the interviewees are positioned in China. This indicates that we were not able to judge how the respondents react to the questions asked. However, the majority of the interviews were conducted through Skype and therefore, the findings of this thesis are still valid. Further, with the complex subject of this study, the criteria of the respondents required experience of Swedish management in China. To find these specific people with enough knowledge and experience was difficult, which results in further limitations. Moreover, the respondents that were interviewed have visited and lived in China in different amounts of time. The most suitable way would have been to interview Swedish managers that have not fully adapted to the culture, as a result of time. In doing so, it would be easier to distinct between cultural differences and how these might affect the use of formal and informal control systems.

Additionally, as this research is based upon empirical findings that stems from six Swedish firms, the results might therefore not be generalizable to all firms operating in the Chinese market. However, the findings of this study are generalizable to Swedish firms in China. This is further supported by Yin (2013), who states that analytic generalization can be used in multiple-case studies, in which generalization
can be applied to similar situations beyond the hypothetical population that is presented (Yin, 2013).

6.5 Suggestions for future research

Academic research regarding culture in relation to management control systems is rather limited and underdeveloped. Management control systems are mainly studied in a general manner and as for Swedish firms operating in China, this research area is close to non-existent. Due to the limitations of this topic, relevant and interesting topics for future research have been identified, which can contribute to be filling the research gap:

1. To examine whether there is a distinction between Swedish and Chinese managers’ use of formal and informal control systems, from a Chinese employee perspective. In order to obtain an extensive depth of this issue and how it may affect Swedish firms, this study can be conducted from a Chinese employee perspective.

2. To investigate how Swedish expatriates perceive the effect of cultural differences on the Swedish management’s use of formal and informal control systems, in China. This study can provide a profound understanding of how the culture of China can affect Swedish firms’ formal and informal control systems, as expatriates have experienced the control systems of both businesses at first hand.

3. To conduct the same research, however by applying a quantitative research method. By investigating this study with a quantitative method, we reason that numerous firms can be analyzed, which can contribute to a wider perspective on how national cultural differences influence the use of formal and informal control systems of Swedish firms in China.
Interview participants

1. Axelsson, Göran, CFO at Norden Machinery, face-to-face interview, 2017-05-04
2. Respondent X, Head of Sustainable Transport Solutions at Company X, telephone interview, 2017-04-21
3. Yuen, Jackie, Sourcing coordinator at Höganäs, Skype interview, 2017-04-23
4. Fälth, Andreas, CEO at Check Point China, Skype interview, 2017-04-20
5. Arifi, Shpetim, CEO at LEAX China, Skype interview, 2017-04-27

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Appendices
Appendix A Interview guide

Part 1. Background Information:

☐ Brief information about yourself
  o What is your position? What are the responsibilities you are assigned to at the company?
  o For how long have you been working for this company?
  o Have you had job-related visits to China?
  o Could you describe your international experience; what are your work assignments abroad?

☐ About the history and mission of the company
  o How many employees are there at the company?
  o How long has it been since the company entered the Chinese market?
  o Would you like to remain anonymous throughout this interview?

Part 2. Internationalization:

- Could you please describe the company’s ongoing activities in China?
- Why did the company you work for choose China as a market to establish on?
- What forms of challenges did the company face when entering the Chinese market?
- Would you consider yourself being well prepared in terms of experience and knowledge, when entering the Chinese market?

Part 3. Culture:

☐ What would you consider being the most outstanding characteristics of the Chinese culture?
☐ In order to succeed on the Chinese market, would you consider the understanding of the culture as significant? Is it crucial to understand the cultural differences?
☐ What would you consider being the greatest difference between the Chinese and Swedish culture?
☐ When entering the Chinese market, were there ever any circumstances that forced you to adapt to the Chinese culture? If so, please explain these.
☐ As a Swedish citizen working abroad in China, are there any cultural misunderstandings that arise when operating with Chinese people?

Part 4. Guanxi:
Are you familiar with the phenomenon guanxi? If yes, how would you explain this?
Is it vital to understand this phenomenon when operating in China?
Would it be possible for a Swedish company to operate on the Chinese market without any relationships with local actors?
Would you consider trust, favors and affection being important in relation to your Chinese employees?
Does guanxi influence the recruitment process of employees? If so, please explain how.
If an employee has strong guanxi, does the extent of rules and policies that the employee must follow differ?

Part 5. Management control systems:
Do your work assignments consist of managing and leading employees?
In what way do you as a manager get your employees to strive towards the organizational goals?
To what extent does the company work with rules, policies, code of ethics, planning, reward system etc.?
Compared to Sweden, do you feel like the firms has increased or decreased the use of rules, policies, budgets etc.?
To what extent does the company adapt to the Chinese culture regarding rules, policies, code of ethics, planning, reward systems etc.?
Do you believe that culture in general could have an impact on what extent of controls a firm focuses on to practice?
Are values, norms and beliefs within the company important for managers and employees?
Is it possible that the organizational culture could be used as a tool to manage employees towards the organizational goals?
In comparison to the unit in Sweden, has the emphasis on organizational culture, values and norms increased/decreased?
To what extent does the company adapt to the Chinese culture regarding values, norms and beliefs within the organization?

Part 6: Concluding Questions
- What is the most considerable difference in leading and managing Chinese and Swedish employees towards the organizational goals?
- To what extent are the employees involved in the decision making of the company?