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# MASTER THESIS

BE309E

International Business and Marketing

## **Relationship-builders or rule-followers?**

### **Trust challenges for Norwegian managers in China**

By

**Tehniat Ejaz**

**Victoria Thanh Le**

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Tehniet Ejaz

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Victoria Thanh Le

## SAMMENDRAG

Internasjonale forretninger er i dag begeistret over globaliseringen og ser verden som et stort marked uten grenser. Konseptet om det globale markedet ignorerer nasjonale ulikheter og de endringer som skjer i andre økonomier. Dette fører til at ledere møter utfordringer til tross for alle mulighetene som globaliseringen gir.

Formålet med denne oppgaven er å utvide forståelsen av lederes utfordringer i overgangsøkonomier. Basert på dette case studiet av norske ledere i Kina, hvor utfordringen var forventet, investigerer denne oppgaven hvordan overgangen fra en relasjonsbasert til en regelbasert styringssystem utfordrer norske ledere, med et spesielt fokus på utfordringer i forhold til tillit.

De empiriske funnene som er utført gjennom kvalitative dybdeintervju, indikerer at relasjoner (*guanxi*) er fortsatt viktig og påvirker den kinesiske forretningskulturen. Til tross for viktigheten av relasjoner (*guanxi*) har viktigheten av lover og regler økt. I diskusjonen vil hovedfokuset være på ”decoupling”. Hvor dette vil være spesielt interessant for ledere, på grunn av institusjonelle endringene som fører til mulighetene for ”decoupling”.

Ved bruk av ulike teorier gis det mulighet til å se hvorfor utfordringene av skiftet fra et relasjonsbasert- til et regelbasert styringssystem ikke er så lett. For norske ledere handler dette ikke om å bevege seg fra en tilstand til en annen, men heller å finne en balanse.

## **PREFACE**

There is no doubt that the choice of the research topic and the research question was based on our personal motivation. A topic within international management was an obvious choice, as the main purpose for our educational degree we are pursuing is to be in a managerial position. Having a specialization in International Business, and an academic background in international management, did not only give us theoretical knowledge, but also practical insight through our exchange semester(s) in countries with different culture and students from across the world. We observed the modern business world in a different manner. Globalization has not only brought opportunities but also challenges for managers. This made us wondering and led us to the direction of our current topic. Multiple theories will in this respect help us to see the ongoing changes from different perspectives, which are ignored by globalization concept, and will strengthen our understanding of the phenomena.

Hence, in order to illuminate and study the international business challenges, we needed a context with tensions. In this regard, Norway and China are not only geographically split, but also characterized by significant cultural and institutional distance.

Being in contact with other researchers in this area, as well as doing pre-interviews, we learnt that institutional environment in China, that is currently under transition is a highly relevant and focused topic area. Additionally, being born and brought up in Norway with an Asian background was one of the reasons for choosing China over any other countries. We believe this will be an advantage, because we will be able to see and understand things from both the Chinese and the Norwegian perspective, which will give us a unique position as researchers.

## ABSTRACT

Today, international business is inspired by the idea of globalization and seeing the world as one big market, without borders. However, global market concept ignores national differences and the changing aspects of other economies. As a result, managers do face challenges despite of all the opportunities of globalization. The purpose of this study is to broaden the understanding of managers' challenges in transition economies. Based on the case study of Norwegian managers in China, where tensions were expected, this research investigates how the transition from a relation-based to a rule-based governance system challenges Norwegian managers, with a particular focus on trust challenges.

The empirical findings conducted through qualitative in-depth interviews, indicate that although relations (*guanxi*) are still highly preserved and impact trust in today's Chinese business culture, the importance of rule of law is now increasing. In the discussion the main focus will be on decoupling. In this respect, the findings are especially interesting for practitioners, regarding the opportunity of decoupling brought by institutional change.

Application of multiple theories allow to see the challenges of why this shift from relation-based to rule-based doesn't go so smooth. For Norwegian managers it's not about moving from one state to another, but rather finding the balance.

*Keywords: trust, China, transition economy, rule-based society, relation-based society, governance trust, institutional trust*

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## **SURVEY OF ABBREVIATIONS**

CPI	Corruption Perception Index
FDI	Foreign Direct Investment
IFRS	International Financial Reporting Standard
SME	Small and Medium-sized enterprises
WTO	World Trade Organization

# CHAPTER 1 INTRODUCTION

China, is booming, which has led to it topping the world's second largest economy in the world after USA (World Bank, 2014). With an increase in GDP of nearly ten percent a year for more than 35 years, China is today recognized as one of the powerful players globally (Isachsen, 2015). China is an attractive market for international business, as China has only opened up to a free market in the last 30 years through economic reform, which in turn has made international trade more promising. China has a great market potential and is a very attractive and interesting market for Norwegian companies, as it is one of the biggest markets and is the most important trading partner in Asia, especially in the field of production, purchasing and research & development (Utenriksdepartementet, 2007).

To expand its economic relations with an emphasis on increased market access for Norwegian goods and services, and to promote Norwegian business interests, Norwegian expertise and Norwegian values in China, the Norwegian government introduced "The China-strategy" in 2007, which is still an ongoing project (Utenriksdepartementet, 2007). This indicates that in addition to the over 200 Norwegian companies registered in China (Innovation Norway, 2014), it can be implied that their number will increase, as it will be easier to do business in China when the governments are on good terms.

Although Norwegian companies in China have been growing, there is a fact that Norwegian managers are facing challenges to adjust and to succeed in China. Norwegian managers in China may find that what made them successful and effective back home may not work in their new settings (Kristoffersen, 2010). It may partially be explained by Hofstede's national cultural dimensions theory, which categorizes Norway and China as opposed to each other, when it comes to national culture differences (Hofstede, 1980). One of the main differences between Norway and China is that Norway has more of a rule-based governance system, while China has more of a relation-based governance system (Li et al., 2004). This difference has significant impact on Norwegian managers who take the opportunity to work in China. The

importance of relations in China might not be very clear for Norwegian managers in general.

However, the Norwegian Government has clearly understood and is endeavoring to face these challenges. After human rights activist, Liu Xiabo, received the Nobel Peace Prize on October 8th 2010, the relationship between Norway and China has been difficult. The Chinese authorities chose to avoid the Norwegian government; hence, the negotiation on a free trade agreement between Norway and China was put on hold (Håkonsen and Sandvik, 2014), China requested an apology from the Norwegian government for the Nobel Peace Prize award. To ease the situation, when the former Nobel Peace Prize winner, Dalai Lama, came to visit Norway in May 2014 no members of the Norwegian Government met with him (Brende, 2014). The reason was clear, to not worsen the tense relations between and China. In this regard the China-expert, Henning Kristoffersen stated: “From a Chinese perspective, it is a breach of trust. (...) If the Norwegian Government wants to regain a normal relationship with China, it must abstain from meeting Dalai Lama.” (Kristoffersen, 2012)

Not only are relations and trust important for the Chinese in the political and social context, but also particularly in the business context (Kristoffersen 2010; Li et al. 2004). Arnulf (2014) stated that personal relations (e.g. *guanxi* in China) are one of the success-factors in doing business in China. He underlines that companies’ knowledge and skills could bring managers far, but not as much as personal relations would: “...It means that companies can do everything by the book, but still fail if they are not certain about building relations that supports their activities.” (Farbrot, 2014).

It is clearly recognized that trust in the Chinese environment is different from the Western countries. As China is a relation-based society, trust is mostly built on relations (*guanxi*) and reciprocity. The Chinese notion of trust is not a matter of faith, but an exchange between parties in order to build mutual confidence (Huang and Bond, 2012). In contrast to the Western countries, trust in business is mostly built by “contracts”, which means that written documents are signed by parties with binding effects (Luo, 2007). The main differences of trust rely on how people from different societies work towards building a trusting relationship (Huang and Bond, 2012).

As an emerging economy, China is going through radical transformations (Li, 2013). This transformation indicates profound change in both the economic and the political area of the national governance system. Politically, the move is from a quite dictatorial to more a democratic system. Economically, the change is from a rather closed and planned economy system to a more open, and market economy system (Li, 2009). In both, the move is from non-transparent, unpredictable and relation-based systems towards a more efficient rule-based system of governance, it is claimed. The challenge transition countries are now facing is how to move effectively from institutions of economic and political governance that tend to be highly relation-based to institutions that are more extensively rule-based. This transformation is said to be essential for a country's long-term development process. The transformation progress of economic and political governance varies among countries, relative to the degree of internal resistance that comes from a country's culture and history, which also includes legal heritage.

The interesting part here is to understand what kind of challenges managers from a rule-based governance society face when doing business in a relation-based economy in transition. In this respect China fits very well to study this phenomenon.

## **1.1 Problem statement**

The concept of the transition from a relations-based to a rule-based governance system in China is relatively new; hence there is little research done on this topic. While several researchers have concluded that China has always had a relation-based governance system, and is now moving towards a rule-based governance system, few researchers have focused on how this transition is affecting foreign managers. This can be especially challenging for Norwegian managers that have a very different cultural background and a governance system compared to China. Therefore, this thesis is a case study of Norwegian managers doing business in China.

Firstly, we assume that Norwegian managers face challenges when going from a rule-based governance system to a relation-based governance system, as the institutional distance is immense (Li, 2009). Secondly, we assume that there is a double challenge when China is now under transition. The second challenge relates to puzzlement about how much of the prior rules, norms and values are preserved in organizations and how much of the new rules, norms and values are embraced in the organizations. Thus, it is interesting to know when and how much to rely and trust rules and regulations, and when and how much to rely and trust relations (*guanxi*). However, since the topic is very comprehensive and there are limited resources available, we will have to narrow the scope by focusing on challenges Norwegian managers face regarding trust relations when they do business in China.

## **1.2 Research question**

Our research question originates from our aim to understand and give benefit to the newcomers, as well as current Norwegian managers working in China: in particular, to be prepared for the change they face and may face in the future regarding China's transition from a rule-based governance society to a relation-based governance society. This aim will be used as an attempt to answer the following research question:

***How does China's transition from a relation-based to a rule-based governance system challenge Norwegian managers' trust relations when doing business in China?***

The following sub-questions will be used as support to answer the main research question listed above:

1. *What challenges still exist?*
2. *What challenges are brought by transition?*

### **1.3 Structure of the thesis**

This thesis is divided into seven chapters. In order to give the reader a clear understanding of the choices that have been made throughout the whole thesis, a brief description of each chapter follows.

The introduction of the topic and the research question is presented in Chapter 1. Chapter 2 explains the context of the case, which is China. Here, China's historical concepts and the Chinese culture are described. Moreover, to recognize the contextual change, China's transition is briefly presented. Chapter 3, suggests the theoretical framework, based on three different theories; Hofstede's national cultural dimensions, governance theory and institutional theory, where each of them throw light on different aspects of the research problem and the concept of trust. In Chapter 4 the research method is discussed, where research design, choice and purpose of method are explained. The empirical findings of the research are presented in Chapter 5. The findings are explained with the regard to theoretical framework from Chapter 3. In Chapter 6 the findings are discussed through the prism of the theoretical lenses. Chapter 7 concludes and summarizes the main contribution of the thesis and brings forth practical implications, addresses limitations of the research and provides recommendations for further investigations.

## **CHAPTER 2 CONTEXT OF THE RESEARCH: CHINA AS A RELATION-BASED ECONOMY IN TRANSITION**

*“If you want one year of prosperity, cultivate grains. If you want ten years of prosperity, cultivate trees. If you want one hundred years of prosperity, cultivate people.” (Chinese proverb)*

### **2.1 China’s historical and cultural baggage**

China has had the reputation of managing business activities and governing economic actions through personal relations for decades. However in the recent times China is moving towards a more rule-based governance system (Li et al., 2004).

To understand China’s transition, it is important to understand the Chinese culture that determines the values, traditions and norms that are embedded in Chinese context. Not only is history important to learn from the past, but also because the present and the future are connected to the past (North, 1990).

Chinese history has long roots, it being the longest shared culture on earth (Sheh, 2003). Thus it is necessary to limit the discussion of its history to what is relevant for this paper. Clearly, one cannot hope go into specific details, however to point out certain basic ideas should be acceptable. Two main points to address are historical and cultural attitude to trust, and additionally, China in transition. This is what will be addressed in this Chapter.

#### **2.1.1 A brief History**

Since the majestic dynasty system of government has ruled in China for over 2000 years, it has had enormous impact on the Chinese culture, and is still today a big part of the Chinese thinking (Chen and Lee, 2008). Various dynasties have ruled China; where each dynasty has fallen, another one has taken its place. However Mao’s dynasty with its Confucian thinking, had the most influence on Chinese culture, before Deng established open thinking and made it possible for international business (Chen and Lee, 2008; Kristoffersen, 2010; Sheh, 2003).

There are three main schools, among the hundreds of schools of thought in the Chinese history (Sheh, 2003). The foundation of Chinese culture and its business environment are based upon these three major schools, and they are both in variance with and in contradiction to one another. This is why all of them are still practiced, depending on the situations. In the order of their establishments the schools are; *Confucianism*, *Daoism (Taoism)*, and *Buddhism* (Kristoffersen, 2010; Sheh, 2003).

Confucius, the great Chinese philosopher, is seen as the pioneer of Chinese civilization along with, Lao ZI, the found of Daoism (Fewsmith, 2010). Confucius focuses on hierarchical, friendly and logical society, where rules should be followed in consensus to ones political and social status; ethical codes and unwritten rules are used to realize these aims (Fewsmith, 2010). However, the study of Daoism involves how things happen and how things work, in other words, the principle that underlines all creation (Sheh, 2003: 6). In parallel, Buddhism aims to lead mankind to peace by reducing agony and developing good morals. A prominent difference between these three schools of thought is that Confucianism is humanistic; Taoism is naturalistic; Buddhism is spiritualistic (Sheh, 2003). In later times, Taoism and Buddhism have integrated into Confucianism. This integration represents Neo-Confucianism, which has the greatest impact on the Chinese thinking (Chen and Lee, 2008; Sheh, 2003).

### 2.1.2 China's cultural values

Confucianism is also called Chinese traditional culture, due to the impact of the Confucius period on Chinese history. It is a set of guidelines for proper behavior (Hofstede 1991). The Chinese social structure is based on the five fundamental relations; Husband and wife, father and son, siblings, sovereign and subject, and between friends (Sheh, 2003). This social structure derives from Confucius thinking and gives meaning to the Confucius saying "let the ruler act like a ruler, the subject do his duty as a subject, the father fulfill his responsibilities of a father, and the son be obedient as a son should be" (Chan and Young, 2011: 24). This view indicates that people's roles and places in a society are different and given. It directly characterizes Chinese hierarchical society. Harmony is achieved when everyone obeys their civic duties (Lau and Young, 2013). These are rules that are followed because of the Chinese norms and values, rather than any written law.



The family is the basic unit, but the development and progress of society is based on network expansion. The Chinese family unit holds great importance: all the members aim to ensure a high regard for the family name, by working devotedly, staying thrifty and prudent, and by sacrificing personal interests to the benefits of their families. Interpersonal relationships (*guanxi*) can be related to etiquette, especially towards the elders in the society. Aggression and resentments of elders is repressed and disagreements are avoided, hence harmony is favored. The Chinese believe that one's destiny is predestined, at least to some extent. Another basic assumption is that everything is inter-related; hence everything depends on everything else. As mentioned, the Chinese culture is derived from the Confucianism in which relations (*guanxi*) are the main factor to gain trust in all aspects (Li, 2009).

### 2.1.3 The importance of relations (*guanxi*) in China

The term “*guanxi*” (關係) (pronounced gwan-shee) is a special relationship and/or connection between persons (Luo, 2007). The “*guan*” means “a door” or “to close up”, and can be metaphorically explained by a person who is inside the door belonging to the group, whilst someone outside the door does not. The “*xi*” stands for the ties between individuals or organizations (Ambler and Xi, 2009). Thus *guanxi* involves attracting and expanding connections in order to secure favors in personal relations (Luo, 2007). It can also be explained as an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract. *Guanxi* is maintained by following the social norms, such as long-term relationships, mutual commitment, loyalty, and obligations (Chen et al., 2004).

Luo (2007) specified seven principles as the bases for the content of *guanxi*:

- *Transferable*: Transfer of *guanxi* is determined by how introduction is done. If Person A has *guanxi* with person B, and B does not introduce his friend C properly to person A, contact between A and C is doubtful. Hence, satisfaction of introduction felt by both parties determines the success of transferability.

- *Reciprocal*: *Guanxi* is a give and take concept; hence rejection to return a favor is considered unreliable and untrustworthy.
- *Intangible*: As *guanxi* is built on expectation of future exchange of favors, it is considered intangible.
- *Utilitarian*: A *guanxi* relation is rather practical than emotional, as it is easily broken when exchange and mutual benefits are not involved.
- *Contextual*: Forming and upholding of *guanxi* is contextual, as it is the situation that decides whether a gift is seen as bribe or not.
- *Long-term*: *Guanxi* relations are long-term, and can even continue from one generation to another, if preserved properly.
- *Personal*: Personal relations build *guanxi* between organizations, consequently the organization loses *guanxi* when the connector leaves; hence *guanxi* has no group effect.

Not only are relations important for favor exchanges but also when choosing business partners, investors or suppliers. Yeung and Tung's (1996) study indicated that over 80 percent of managers in China considered trust as a vital condition for *guanxi*, and that *guanxi* could not exist without it. To access the required crucial information for investment, partnership and other business purposes three main factors are crucial (Li et al., 2004; Li, 2009):

1. The actor's history and reputation (*ex ante* monitoring information).
2. His financial status and profit prospects (interim monitoring information).
3. His identity and assets (*ex post* monitoring information)

These factors are needed to know whether X has a bad record in business dealings, whether X is capable of doing something he/she is indicating, and in case of failure, where to find X and claim assets. In addition, to having good relationships, the "face" is to be developed and maintained at all costs (Li, 2009).

#### 2.1.4 The Chinese mianzi (face)

*Mianzi* is the Chinese word for “face” (面子) as in to lose “face”, and the concept relates to an individual’s reputation, credibility and self-respect (Chen, 2001). Chen (2001) stated that, “It (*Mianzi*) denotes a social standing based on one’s character and reputation within a given social group” (Chen, 2001: 72). *Mianzi* is a ritualized way of showing and receiving respect, which allows the formal building of relationships and mutual trust, hence having a *mianzi* gives advantages such as good credit history, or social currency in business and social circles (Chen, 2001).

*Mianzi* is a concept that exists in relation to others, which means that it has to be reciprocated. If people give you *mianzi*, you would have to do the same: this would be perceived as honorable and strengthen the business relationship (Chen, 2001).

The more *mianzi* one has, the easier one can develop more *guanxi*; thereby *xinyong* (trust) gets stronger. Hence, the “face” concept influences the behavior of individuals, both in a private and in business context. Therefore, every individual seeks great achievements and public recognition, in order to have and maintain a good name for himself and his family.

By developing *guanxi* and saving *mianzi*, *xinyong* (trust) is created between persons and is one of the critical components for the long-term success in a relationship, which forms the foundation of business networks in China (Ambler et al., 2009). By having *xinyong* (trust), decisions between people is easier because there is no formal process or due diligence that is required (Redding, 1990). Further, the Chinese notion of trust is not a matter of faith, but an exchange between parties in order to build mutual confidence (Chen, 2001). For non-family members, trust has to be built while for family members *xinyong* is given (Tong, 1996).

## 2.2 China as a transition economy

Political changes in a country, such as fall of communism, have resulted in economic reforms, thus opening up markets and international trade. Countries that have opened up markets are the ones facing institutional changes (Jansson et al., 2007). China along with Russia are examples of such countries.

China has undergone significant changes from a planned economy to a market economy with socialist features since 1979. China introduced market forces and established new economic laws and regulation, which aimed for a more democratic system and to protect property rights, and divesting the government from businesses (Li, 2013).

The development and changes of corporate governance are shown in table 1 and can be arranged into three phases: 1983-1992, 1993-1997 and 1998 to present.

Table 1 Transition phase and changes, developed by authors

<b>Transition phase</b>	<b>Changes</b>
<b>1983-1992</b>	<ul style="list-style-type: none"><li>- Development of a more market-based (Stock exchange) (Ho, 2003c).</li></ul>
<b>1993-1997</b>	<ul style="list-style-type: none"><li>- Company law – major legal requirements</li><li>- Opening up for private ownership (Li, 2013).</li></ul>
<b>1998- now</b>	<ul style="list-style-type: none"><li>- The Securities Law: China's Corporate Governance development.</li><li>- Accounting Law changes</li><li>- Publishing rules for: establishment of modern enterprise, code of corporate governance and guidelines for listed companies (Ho, 2003c).</li></ul>

Recently, on the 11<sup>th</sup> December 2001 China became a member of the World Trade Organization (WTO), which caused China to commit to a system based on a market

economy and the rule of law (Gold, 2004). WTO works to remove barriers to trade and create a forum for negotiations between countries where they can resolve trade-related disputes. The purpose is to increase international trade by advocating the liberal ideology of belief in the free market (Gold, 2004). Five years later, China adopted the International Financial Reporting Standard (IFRS), which provides more stringent standards and open criteria for the public to access and evaluate a firm's financial information (Li, 2013). The fact that China is converging toward IFRS shows that the Chinese stock market is increasingly relying on publicly released financial information (Qu et al., 2012).

A powerful driving force that has contributed to the transition is the Chinese work force (BSR, 2012). The social security system and rights have strengthened through the implementation of a number of laws and regulations such as: "Labor Contract Law", "Labor Dispute Mediation and Arbitration Law" and "Regulations on the Negotiation and Mediation of Enterprises" (BSR, 2012).

Changes in the labor contract law have caused all employees to have a written contract (fixed term, continuing, or contract for a specific task) that contains working hours, overtime pay, fees, social insurance, employment, probation and teaching. It also requires time-limited contracts that should be turned into indefinite or open-ended contracts after the other renewal. The new law prohibits more than 36 hours overtime per month and the minimum wages are RMB 1500 in Shenzhen (1400 Norwegian kroner).

All these changes towards a more transparent and open system can show that China is in transition. WTO membership and implementation of IFRS are great steps towards a more open system for international investors and businesses. Even the changes in labour law signify that there are internal changes in China. Li (2013) has examined the Chinese governance system over time to evaluate China's transition by using two tools; The Economic Freedom index (1980-2012) and the World Bank's World Wise Governance Indicators (1996-2013).

The Economic Freedom Index (EFI) measures the degree to which the policies and institutions of countries are supportive of economic freedom in five broad parts

(Gwartney et al., 2014). These are: 1) size of government; 2) legal system and property rights; 3) sound money, 4) freedom to trade internationally, and 5) regulation. Li (2013) examines China's transition in three areas; legal system and property rights, freedom to trade internationally and regulation. A summary rating from these shows that China's EFI has grown from 3,64 in 1980 to 6,39 in 2012.

The World Bank's Worldwide Governance Indicators (WGI) measures six governance indicators (World Bank, 2013):

*Voice and Accountability:* The degree of a country's citizens' participation in selection of their government. In addition, the freedom of speech, freedom of association and independent media.

*Political stability and Absence of Violence/terrorism:* Political insatiability, that includes terrorism.

*Government Effectiveness:* The quality of public and civil services, and the degree of their independence from political pressures and the government's commitment to the implemented policies.

*Regulatory Quality:* Formulation and implementation of sound rules and regulations that allows and supports private sector development.

*Rule of Law:* The trust and acceptance of the rules of societies by agents. Rules such as contract enforcement, property rights, independent police and courts, in addition to the probability of crime.

*Control of Corruption:* The degree of exercising public power for private gains that includes all forms of corruption.

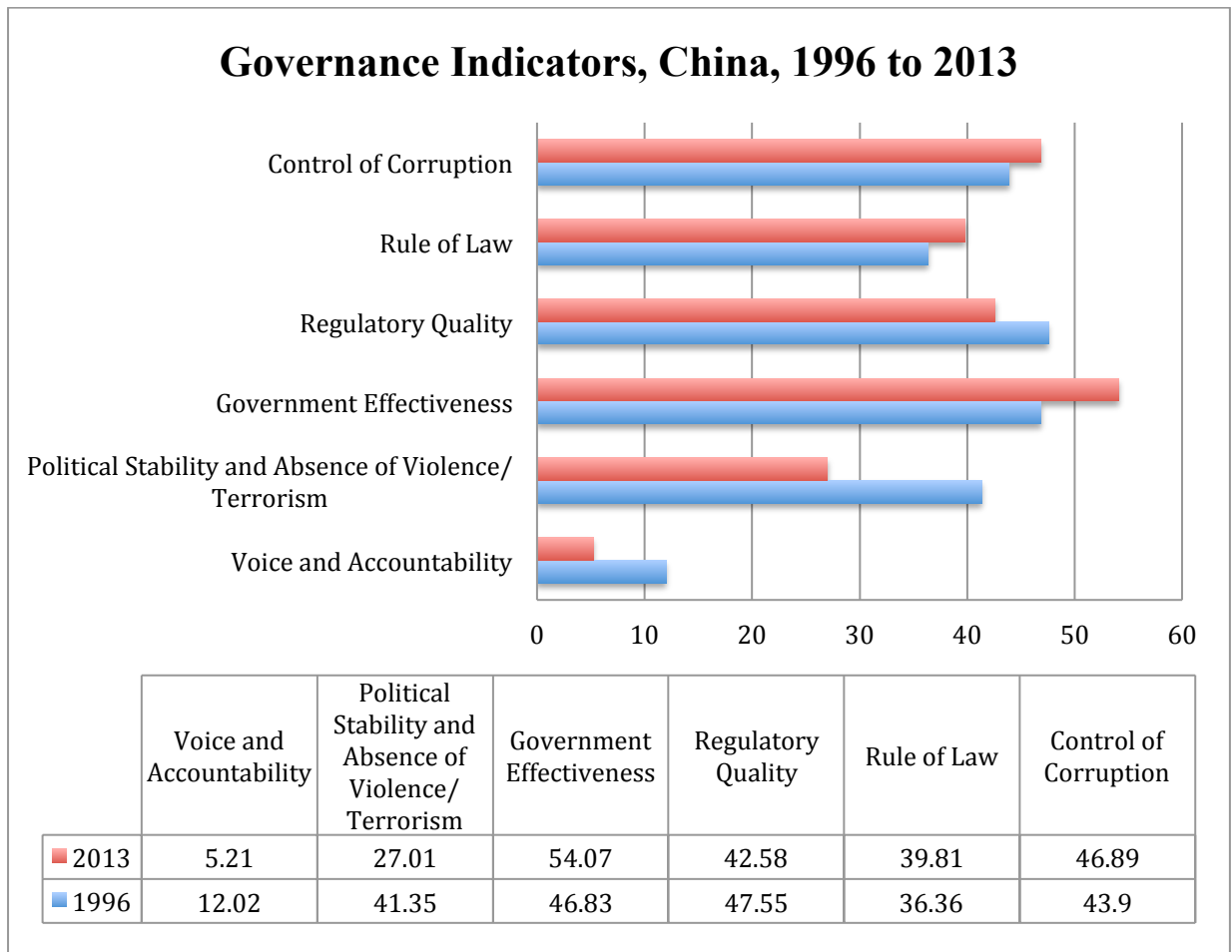


Figure 1: Governance Indicators, 1996-2013, Source: World Bank, 2013

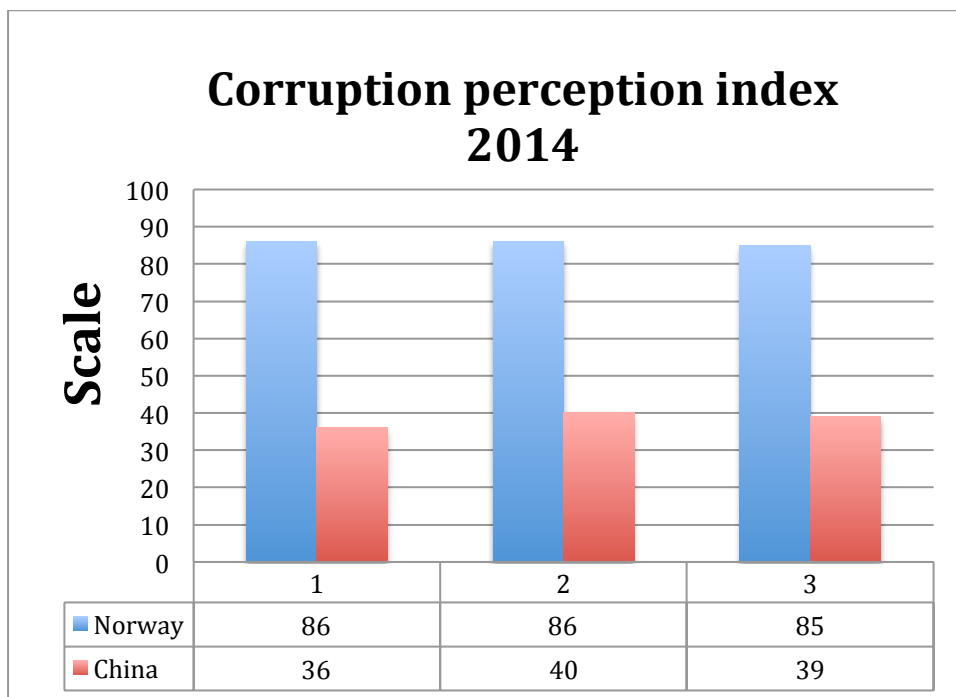
From 1996 to 2013 it can be seen that China’s governance indicators in *Political Stability and Absence of Violence/terrorism*, *Government Effectiveness*, and *Rule of Law* have been retreating after becoming more rule-based. Li (2013) clarified that China’s transition (or lack of it) is emerging. China’s economic reform shows its great effort towards more public rules (Li et al., 2004; Li, 2013). As China has made great strides towards becoming an institution with more public rules, the government has become bigger and more powerful due to the lack of accountability, which in turn fuels corruption (Li, 2013).

The Corruption Perceptions Index ranks countries based on how corrupted the public sector is recognized to be. The degree of a scale goes from 0 to 100, where highly

corrupt countries are 0, while a scale of 100 is very low. Table 2 shows that China compared to Norway have higher corruption, with a score of 86 in 2014. Even compared to other countries, China's ranking indicates high corruption with a rank no. 100. In contrast, Norway is ranked as no. 5 (Transparency, 2014).

Table 2 Corruption perception index 2014, Source: Transparency, 2014

Country Rank (Scale)	Country	Score 2014	Score 2013	Score 2012
5	Norway	86	86	85
100	China	36	40	39





## **CHAPTER 3 THEORETICAL FRAMEWORK OF THE RESEARCH**

The theoretical framework consists of three main theories that will address various perspectives on trust: Hofstede's theory, governance theory and institutional theory.

First, we start with Hofstede's cultural dimensions to understand the main differences between Chinese and Norwegian culture and values, and how it influence how trust is perceived. Further governance theory is used to give a detailed explanation of rule-based and relations based societies by Li (2009), to understand the perceptions of trust in different societies. Then, the institutional theory will be used to understand China's shift from relation-based to a rule-based system, which the governance theory and Hofstede's theory do not comprehend. At the end of the Chapter, the combined theoretical framework for our research is presented.

### **3.1 Hofstede's cultural dimensions: China vs. Norway**

Cultures foundation and developments are intangible concepts and therefore need comprehensive work to fully comprehend. To understand the main differences between China and Norway's culture, Hofstede's cultural dimensions are described below.

Geert Hofstede provides one of the more convenient models; national culture dimensions, which focuses on the difference between cultures. Hofstede (2001) defined culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another" (Hofstede 2001: 9).

- **Power distance (PDI):** Power distance describes the acceptance of unequal power distribution, the degree of equality, or inequality between people in the society (Hofstede et al., 2010). Inequality can occur in several areas, such as physical or mental characteristics, social status and prestige, wealth, power, and privileges (Hofstede, 1980).

The Chinese culture is considered as high power distance, which has a high tolerance for inequalities among its members. The relationship between subordinate and superior tends to indicate a strong sense of vertical order and a strict hierarchical system. The Chinese society acknowledges hierarchical order, thus justification for people's role and place is not needed (Hofstede et al., 2010).

In contrast, the Norwegian culture is characterized as low power distance, where the power is decentralized and flat bodied. The interaction between the manager and the employee can be categorized as common, which means that involvement in decisions is valued. The Norwegian culture focuses on equality rights, expects people to be independent, make their own decisions and to be autonomous (e.g. at work) (Hofstede, 1980).

- **Individualism (IDV) vs. Collectivism (COL):** Individualism as opposed to collectivism describes group loyalty, and to what extent that culture supports individual or collective achievements and interpersonal relationships (Hofstede, 1991). Individualism is described in term of "I" focusing on taking care of themselves and their immediate families. Collectivism characterized as close community where individuals expect exchange from their families or partners (Hofstede, 1980). Simply put, it is how people's self-image is defined in terms of "we" or "I" (Itim International, 2007).

The Chinese culture is described as a collectivist society, which means that the importance of strong group relations are stressed, patriotism is the ideal and a group's needs are put before the needs of the individuals (Hofstede et al., 2010). Individuals are born into extended families or other in-groups that provide protection in return for loyalty. Good personal relations are very important and necessary for being able to build trust (Hofstede, 2001). Relationships are considered as more important than rules; no matter what the rule say, it is important to protect family, friends or groups (Hofstede et al., 2010).

In contrast, the Norwegian culture is considered an individualistic society, which means that "Self / I" is essential and personal opinions are respected. The citizens look

more after themselves and take responsibilities for their own actions (Hofstede, 1980). The interaction with citizens is open and clear, but at the same time privacy is respected. The relationships between stakeholders are based on contract/ written agreements, which means that they are applied to prevent misunderstandings and to solve problems.

- **Masculinity (MAS) vs. Femininity (FEM):** A masculinity society is driven by competition, achievement and success, which are the main driving forces to being the “winner” or the “best”. Opposite is feminine society, which motivates and inspires people to do their best (Hofstede et al., 2010).

Chinese culture’s dominant values are material success, competitiveness, ambitions, power, assertiveness and distinct gender roles (Hofstede, 2001). The Chinese are characterized as working to achieve the best results. Chinese “live to work” and sacrifice leisure time and family to achieve success, therefore being successful is the greatest motivation (Hofstede 1980).

The Norwegian culture is known as a feminine society, which means that cooperation, friendly environment and employment security are important and valuable. Value orientation of gender roles is considered as equal; women and men are treated equally, resulting in lower gender discrimination. The decision-making between the citizens is through involvement and dialogs in groups/teams. In addition to work, Norwegians balance their work and social life and the leader supports and involves employees as well as focusing on their wellbeing (Hofstede, 1980).

- **Uncertainty avoidance (UAI):** Uncertainty avoidance is related to the degree to which one deals with uncertainty, and how many rules one needs to feel safe (Hofstede, 1991).

Chinese societies have low uncertainty avoidance, hence they do not mind unstructured circumstances, are flexible to unstable environments and prefer fewer laws and rules. For the Chinese, uncertainty is a normal and an accepted feature of life (Hofstede, 2010).

In contrast, the Norwegian culture is considered to be a moderate uncertainty avoidance one, which means that Norwegians citizens feel either uncomfortable or comfortable in unstructured situations (novel, unknown surprising and different from usual). Norwegians do not feel that the future has to be under control (Hofstede, 1980).

- **Long-term vs. Short-term orientation (LTO):** Long-term vs. short-term orientation focuses on the degree the society embraces, or does not embrace, long-term commitment to traditional, forward thinking values (Hofstede, 2001).

The Chinese culture focuses on long-term orientation or pragmatism, thus fostering values concerning the future. More precisely, it gives importance to rewards, thriftiness and education and sees little value in leisure time. The Chinese believe that truth depends on the situation, context and time. Time requires achieving goals, building trust and good long-term relationships (Hofstede, 2010).

Norwegian culture is characterized as a short-term oriented or normative, considering the present or past to be more important than the future. Norwegians prefer to maintain time-honored traditions and norms while viewing societal change with suspicion. Norwegians decision-making is made quickly and the focuses are on achieving fast results. This dimension reflects the general trust that citizens establish the absolute truth: Normative in their thinking (Hofstede, 1980).

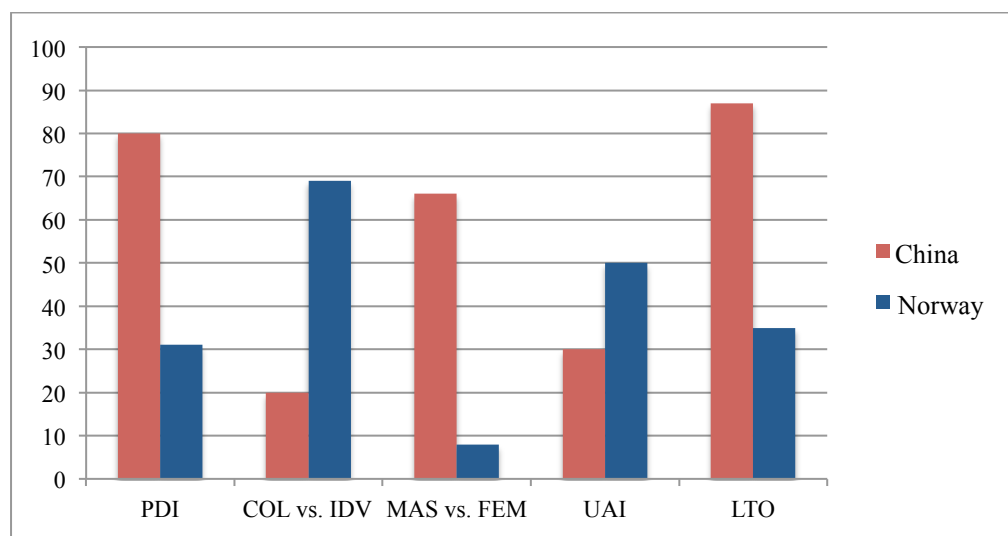


Figure 2: Hofstede's cultural dimensions: China vs. Norway. Adapted from source: Geert-hofstede.com, 2015

To summarize, a detailed comparison from Hofstede's cultural dimensions between China and Norway is presented above (Figure 3). It is shown that these two countries represent very big cultural differences. In particular, China scores higher than Norway on Power Distance, Masculinity and Long-term Orientation. However, Norway scores higher on Individualism and slightly higher on Uncertainty Avoidance. This means that there is scope for trust challenges for Norwegian managers, as trust is perceived differently in these dimensions. In China trust is perceived by a long-term oriented process where relations must exist. This is in contradiction to how trust is perceived in Norway. Hofstede's culture dimensions can be seen in connection to other theories that distinguishes China and western cultures trust differences.

Trust can be understood differently between cultures, as many of the aspects of trust are perceived differently in the distinct cultures (Blanchard, 2010). According to Rousseau et al. (1990), understanding a culture might help the parties to overcome barriers and succeed. Thus, trust is an essential factor in the business process when two or more organizations/managers attempt to build strong and effective relationships. Several scholars (e.g. Mayer et al., 1995; McAllister, 1995; Rousseau et al., 1998) have spent years of studying the functions of trust in business, and that it is important to emphasize that no differences exist between how important trust is. Everyone, regardless of their cultural background, has a strong desire to develop relationships; hence trust is a crucial factor (Luo, 2007). Trust can be built or destroyed through personal perceptions and behaviors (Blanchard, 2010), or may be achieved through control. Hofstede (1991) regarding the dimension of Power Distance. The main differences between types of trust rely on how people from different societies work towards building a trusting relationship (Huang & Bond, 2012). Here, it is clearly recognized that trust, especially in China and the Western culture are completely different (Luo, 2007).

As China is a relation-based society, trust is mostly built on relations (*guanxi*) and reciprocity, therefore people build trust before doing business (Schoorman et al., (2007). Morality is essential for considering trustworthiness (Huang & Bond, 2012). The Chinese business emphasizes personal trust, which exists between people from the same group (in the same *guanxi*); trust is therefore never presumed outside of it (Schoorman et al., (2007). By Hofstede's culture dimensions (1991) it can be explained

through collectivist and individualist dimension. While trust in the Chinese society is highly time consuming, the level of trust can be achieved permanently (Huang & Bond, 2012). It can be supported by Hofstede's culture dimensions' categorization of China as long-term oriented (Hofstede, 1991).

Western countries, including Norway, perceive trust in a different light. Trust is built on rules and contracts through social and legal systems (Luo, 2007). When the negotiations are completed, the agreement of both parties of signing contracts is the value of trust. Trust is therefore placed in the organization and not in individuals. Moreover, people in the Western societies feel more comfortable managing business and building trust at the same time (Mayer et al., 1995: 712). The Western managers stated that openness and reliability are the main factors of trustworthiness, but the degree of following proper rules and regulations are the main factor to gain trust in a business society.

To summarize, it is clear that Chinese and Western cultures have two different perceptions of trust. Additionally, when doing business in China, building trust through relations is fairly necessary and appropriate while the Western culture relies more on people's honesty and openness, as well as written agreements (Mayer et al., 1995).

### **3.2 Governance theory**

Governance can be used in many contexts, such as national governance, international governance and corporate governance. The concept of governance can be explained in many ways, for this research a more convenient explanation by OECD (2003:6) that can be applied on corporate governance is shared:

*“Governance comprises a country's private and public institutions, both formal and informal, which together govern the relationship between the people who manage corporations and all others who invest resources in corporations in the country. These institutions notably include the country's corporate laws, security laws, accounting rules, generally accepted business practices and prevailing business ethics.”*

The explanation of the concept shows the connection between a national governance and corporate governance. The sum of a country's laws that are implemented and monitored by the government include corporate laws, security laws, accounting rules, generally accepted business practices and prevailing business ethics. Therefore, the national governance have an impact on corporate governance. However, there are mainly two different types of governance systems; relation-based and rule-based governance systems.

### 3.2.1 Relation-based versus rule-based societies

There are two main different systems, which form the core scientific models of the Chinese and Western cultural society: Relation-based and rule-based society (Yang, 1994; Guthrie, 1998; Li, 2004). In a society where the rule-based environment exist, the laws are made in a transparent and fair process, the courts enforce them fairly and efficiently, the judges are honest and impartial, and organizations and individuals tend to rely on the public rules to solve disputes and protect their interests (Li, 2013). In rule-based societies trusting formal contracts is valid in organizations. The commitments to colleagues, managers, employees and customers are predictable, which means that if someone does not like the terms, there are few barriers to leave the organization or partnerships as long as this does not violate the contracts (Li, 2009). To the extent that Western societies are rule-based, actors such as suppliers or partners do no need to pay attention as long as they follow their contractual agreements. The benefits of rule-base society are e.g. low entry- or exit barriers for partners or suppliers in business (Li, 2013).

In contrast to rule-based societies, there is little academic study on relation-based societies and their impact on the businesses (Li, 2009). Therefore relation-based societies can be understood by comparing it with rule-based societies. When generalizing, the East typically tends to use personal relations to govern business transactions; hence relation-based societies characterize Asian societies (Li, 2009).

In contrast to rule-based societies that are based on formal contracts legitimated by the government, relation-based societies are based on personal and implicit agreements that a third party cannot verify (Li, 2003). In developing countries, governance by

public rules and information disclosed by publicly listed companies are fragile, inefficient and regarded as untrustworthy; hence, relations are the basic mechanism to protect socioeconomic exchanges and interests (Li, 2009). A more detailed Table of differences between relation-based and rule-based societies is presented below (Table 3).

Table 3 Differences between relation-based and rule-based societies

<b>DIFFERENCES BETWEEN RELATION-BASED AND RULE-BASED SOCIETIES</b>	
RELATION-BASED SOCIETIES	RULE-BASED SOCIETIES
<ul style="list-style-type: none"> <li>-Relying on private and local information</li> <li>-Complete enforcement possible</li> <li>-Implicit and non-verifiable agreements</li> <li>-Person-specific and non-transferable contracts</li> <li>-High entry and exit barriers</li> <li>-Requiring minimum social order</li> <li>- Low fixed costs to set up the system</li> <li>- High and increasing marginal costs to maintain</li> <li>- Effective in small and emerging economies</li> </ul>	<ul style="list-style-type: none"> <li>-Relying on public information</li> <li>-Enforcing a subset of observable agreements</li> <li>-Explicit and third-party verifiable agreements</li> <li>-Public and transferable contracts</li> <li>-Low entry and exit barriers</li> <li>-Requiring well-developed legal infrastructure</li> <li>- High fixed costs to set up the system.</li> <li>- Low and decreasing marginal costs to maintain</li> <li>- Effective in large and advanced economies</li> </ul>

In general, Western societies base their laws and enforcement practices on the assumption of rules and contracts (rule-based societies), while East Asian countries are more inclined towards relationship-based societies (Li, 2009; Lau and Young, 2013). There are no countries that are purely rule-based or purely relation-based, but rather



more of one than the other. This makes it difficult to distinguish countries on the basis of their governance system, as there are countries that are midway between these two. However, theory does not say much about a society where a combination of these two governance system exist, and only take into account that either one if it is more of a rule-based or more of relation-based society.

To find out which countries that are more rule-based than others, Li (2009) conducted a survey where five governance-related indicators were measured. These are as follows: political rights, rule of law, free flow of information, quality of accounting standards, and public trust (Li, 2009).

Li (2009) explained that the simplest method to categorize the countries is to divide them into two groups: one with negative and one with positive Governance Environment Indicators (GEIs). The five indicators used in the study relate more on rule-based governance environment, than relation-based environment, which mean that the higher the degree of the five indicators, the higher degree of rule-based governance in a country.

Results (Table 4) show that Iran is ranked as the least rule-based country, followed by China (-5,92), while Western countries like Finland, Sweden and Netherlands are the most rule-based societies. This indicates that Scandinavian countries in general, including Norway, are the most rule-based countries (Li, 2009).

Table 4 Governance Environment Indicators (GEIs) by country. Source: Li, 2009, p.21

Country	GEI	Country	GEI
Finland	6,41	Taiwan	-0,13
Sweden	6,18	Romania	-0,63
Netherlands	5,7	Thailand	-0,84
Germany	4,53	India	-0,85
United Kingdom	4,35	Ukraine	-0,86
Switzerland	4,34	Indonesia	-1,1
New Zealand	4,04	Bulgaria	-1,75
Hong Kong	4,02	Mali	-1,81
Australia	3,73	Peru	-1,92
South Africa	3,11	Brazil	-2,06
United States	2,3	Zambia	-2,64
Cyprus	2,28	Turkey	-2,75
Slovenia	2,23	Argentina	-2,75
France	1,97	Malaysia	-2,91
Japan	1,79	Egypt	-3,04
Poland	1,32	Moldova	-3,43
Spain	1,18	Colombia	-3,69
Ghana	0,95	Morocco	-3,7
Italy	0,94	Mexico	-3,71
South Korea	0,24	Russia	-4,34
Trinidad & Tobago	0,12	Vietnam	-5,19
Chile	0,12	China	-5,92
		Iran	-8,13

### 3.2.2 Rule-based vs. relation-based trust

There exist many definitions of trust (e.g. Mayer et al., 1995; Rousseau et al., 1998). More appealing definitions of trust in this context are from the Western scholars Mayer et al., (1995) and Rousseau et al. (1998):

*“Trust is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party”* (Mayer et al., 1995: 712).

“Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another” (Rousseau et al., 1998: 395).

The definitions emphasize that trust is when the trustor has a positive expectation on a particular action or performance from the trustee without the trustor monitoring the trustee’s performance. This puts them in a vulnerability state, because of the uncertain outcome. These two definitions can be applied in both the Chinese and Western context, because the definition of trust are not different in the West from China, but the difference is rather where the trust is placed and how much trust is needed. In generalized trust the trustor has positive expectations from the system, while in the particularized trust, the trustor has a positive expectations from the relations. In both particularized and generalized trust the trustor is put in a vulnerable state.

However, there are dissimilarities when reviewing trust in the literature of Western and Chinese culture (Schoorman et al., 2007). Li (2009) divided the differences between trust in a rule-based and relation-based societies in terms of *Generalized* and *Particularized* trust.

The *generalized* trust is when people trust the public, including strangers. A society with a high level of generalized trust relies on public laws and trusts information given publicly, thus no personal relation is needed to be established in order to get reliable information. In contrast, people that have little confidence or faith in strangers rely on people they know well (family or close friends) and thus have *particularized* trust.

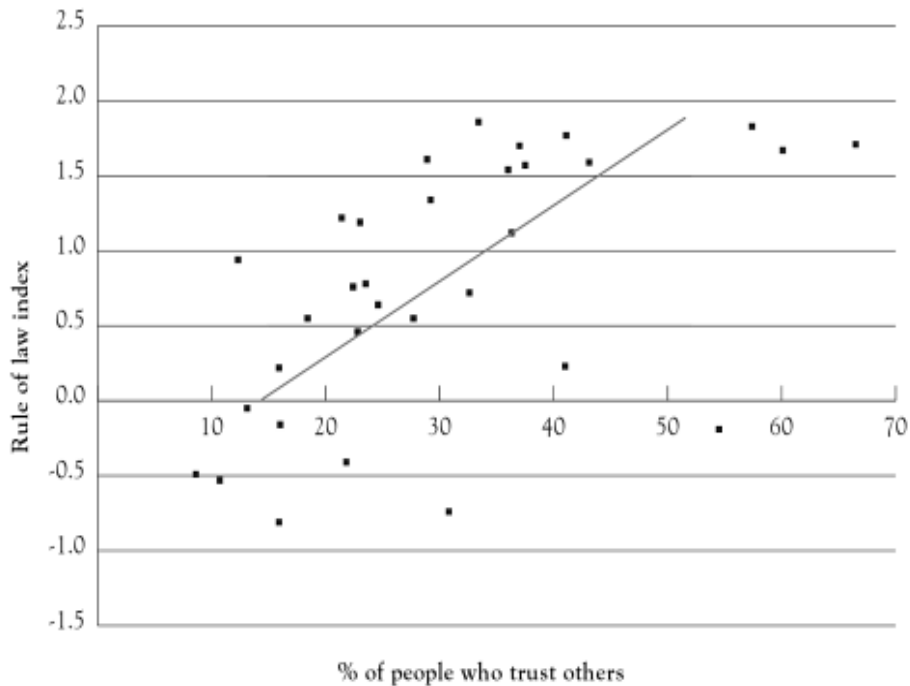


Figure 3: Trust and rule of law, Source: World, value survey (2005), Gwartney and Lawson (2002)

The Figure 3 above demonstrates the connection between degree of rule of law and the percentage of people who trust others (Li, 2009). It shows that people trust others more in a countries with a high degree of rule of law, Western societies, and less in countries with low degree of rule of law, e.g. Chinese society (Li, 2009). This explains that in rule-based societies, where the rule of law is high, there is more generalized trust i.e. people trust others more. While in relation-based societies, where there is a low rule of law, trusting other people is rare, especially those with whom you do not have a relation to e.g. a particularized trust.

### 3.3 Institutional theory

#### 3.3.1. Introduction

Institutional theory involves a broader and stronger understanding of social structure and considers normative, regulative and cognitive aspects to explain social behaviour (Scott, 2008). Institutional theory will be one of the main theoretical “lenses” used for this study, especially to analyse the findings and to build the discussion.

This theory was developed as a criticism of traditional contingency theory that considers organizations as rational actors influenced by their technical-economic environments (Scott, 1995; 2008; Greenwood et al., 2008; Mineev, 2010). Overtime, organizations were not only seen as production systems, but also social and cultural systems. Even though there are no universal agreements on a single definition of institutions, the institutions concept defined by most of the scholars consists of regulative, normative and cultural-cognitive structures (Scott, 2008; North, 1990; Jansson et al., 2007; Campell; 2004). It examines the formation, adaptation, adaption and diffusion of these components over time. The cognitive institution is the shared ideas and perception that compose the nature of social reality and their meaning (Scott, 2001). It specifies cause-and-effect relationship (Campbell, 2004). The normative institution involves values, norms, attitude and identities (Campbell, 2004). The regulative institution consists of rule setting, monitoring and sanctioning activities (Scott, 2001: 52). Different institutional components are shown in Table 4.

Table 4 Regulative, normative and cognitive elements associated with organizational change. Source: Palthel, J. 2014, p. 61

	<b>Regulative</b>	<b>Normative</b>	<b>Cognitive</b>
<b>Legitimacy</b>	Legal systems	Moral and ethical systems	Cultural systems
<b>Central Rudiments</b>	Policies and rules	Work roles, habits and norms	Values, beliefs and assumptions
<b>System Change Drivers</b>	Legal obligation	Moral obligation	Change values are internalized
<b>System Change sustainers</b>	Fear and coercion	Duty and responsibility	Social identity and personal desire
<b>Behavioral Reasoning</b>	Have to	Ought to	Want to

The difference or similarities between the regulative, cognitive and normative institutions of two countries is defined as institutional distance (Kostova and Roth, 2003). To recognize and measure institutional distance between countries, one has to compare their institutional profile i.e. the cognitive, regulative and normative

components. However, when these components change in an environment, it is considered as institutional change (Kostova and Roth, 2002).

Exogenous conditions impact organizations. Institutionalization and institutionalized is defined by Meyer and Rowan (1997). The process is defined as “social processes, obligations or actualities come to take on a rule-like status in a social thought and action” (Meyer and Rowan, 1997:341). It can be understood by something that is institutionalized is recognized over time (historicity) and is commonly shared. There are mainly three signs of institutionalized practices: they are widely followed, without debate, and exhibit permanence (Tolbert and Zucker, 1983: 25). This institutionalized concepts develops institutional pressures on organizations.

Institutional theories of organizations claims that organizations adapt to both technical pressures as well as pressure from what they believe is expected from them, which leads to *institutional isomorphism* (Meyer and Rowan, 1997). Institutional isomorphism is explained by DiMaggio and Powell (1983) as a result of the competitive pressures that forces organizations to adopt a structure that is more fitting to their survival. Institutionalized isomorphism can mainly be divided into three forms. *Coercive isomorphism* occurs when organizations submitted to external pressures, due to cultural expectations or pressure from other organizations whom they are depend to. *Normative isomorphism*, as coercive isomorphism is forced by external pressure. However, here the professional networks are the influencing source. *Mimetic isomorphism*, in contrast to the two other ones, occurs when organizations are uncertain, and thus display mimetic behavior when adopting other organizations structure. (DiMaggio and Powell, 1983)

### 3.3.2 Institutional change

Globalization and the increase of international trade have resulted in institutional environment changing more swiftly (Jansson et al., 2007); hence institutional change is a widely used term within the institutional theory in recent times (Meyer and Rowan, 1977; DiMaggio and Powell, 1991; Newman, 2000). More recent work pays attention to social processes and explains how both individuals and organizations innovate and

contribute to institutional change. However, there has been limited understanding of institutional change, because of the excessive role of individual actors and ignorance of broader institutional contexts (Lounsbury and Crumley, 2007; Mineev, 2010). Even though, institutional scholars stress the importance of social life, there are some contradicting features. The relationship between institutional and organizational change is applied differently in studies of organization fields, although according to Scott (2008) it is the most significant concentration of institutional theory, yet the least familiar.

There are mainly three different views to handle the institutional and organization change in the neo-institutional literature; unplanned interactive process, purposeful strategic action or adaption of the institutional environment (Scott, 1981; Mineev, 2010). In this study the focus will be on the latter view.

The theoretical position on this view is that the change can be explained by how institutions have a stabilizing effect on organizations (DiMaggio and Powell, 1991). If the institutional pressure is high, the organizations tend to develop formal structures (Meyer and Rowan, 1977). It can be claimed that the institutional environment of organizations (context) play a key role (Scott, 2008). Institutionalization is the process by which “social processes, obligations, or actualities come to take on a rule-like status in social thought and action” (Meyer and Rowan, 1977). Therefore the key concept here is to pay attention to the institutional context, its development and impacts on organizational change. Today’s knowledge of interplay between institutional and organizational change has some blind spots. The context-driven perspective explains the origin and change occurring in institutions (the macro-level) (Mineev, 2010), therefore this thesis will attempt to throw light on this topic, by looking at how changes occurring in China challenge Norwegian managers’ trust relations.

The main ingredients of the transition process (IMF, 2000) are: liberalization, macroeconomic stabilisation, restricting and privatization, and legal and institutional reforms.

- *Liberalization* is the process of allowing most prices to be determined in free markets and lowering trade barriers that increase contact with the price structure of the world's economy.
- *Macroeconomic stabilization* is primarily the process through which inflation is brought under control and lowered over time, after the initial burst of high inflation that follows liberalization and the easing of the demand. This requires discipline in the government budget and the growth of money and credit i.e. discipline in fiscal and monetary policy, and progress towards a sustainable balance of payments.
- *Restructuring and privatization* is another key factor, which is the process of creating a viable financial sector. This means reforming the enterprises in these economies to make them capable of producing goods that could be sold in free markets and of transferring their ownership into private hands.
- The last transition process is *legal and institutional reforms* which redefine the role of the state in these economies, establish the rule of law and introduce appropriate competition policies” (IMF, 2000).

These components can be understood by how a country's transition process indirectly relates to how rule-based a country is. All these components are dependent on a country's governance system, particularly whether it is based on rules rather than relations. For example is the liberalization process dependent on businesses following certain rules, especially in international trades. The rules are set and monitored closely by the WTO. The system is transparent and highly sensitive to corruption. Similarly, macroeconomic stabilization requires disciplines, thus it is evident that certain rules and regulations have to be followed at a higher level in the country. The point here is to highlight that the main ingredients for transition process are highly dependent on a system that is transparent, trustworthy and reliable.

Institutional imperfection is “the gap between the existing and the desired institutional arrangements and governance systems. It is the degree to which institutions (e.g.,



structures, practices, legitimating actors) are not well defined and established as well as the inconsistency between these institutions”(Kostova and Roth, 2003: 315).

The transition process from a relation-based governance system to a rule-based governance system can be understood as institutional imperfection. The existing institutional arrangements and governance systems in transition economies are more relation-based and the desired one is more a rule-based. However, it may also be that during the transition period the old institution may have a stronger grip, while the new one is not yet established. This gap between the existing and desired one determines whether the transition process will go fast or slow. The bigger the gap, the more imperfection increases and the more insecure the members get about what values, structures, principles and practices to follow (Kostova and Roth, 2003). The transition from relation-based governance to rule-based governance make the members insecure about where rules are to be followed, where and how much to rely and trust the government, and how much to still rely on relations.

Times of transitions are characterized by serious institutional imperfection, which is reduced over time as a result of development of the desired state (Kostova and Roth, 2003). How difficult the transition and the progress of the transition can be is determined by how much the prior institutional environment is embedded in the society, i.e. the intuitional baggage (Kostova and Roth, 2003). Establishing new institutional arrangements is tough when the institutional baggage is high (North, 1990). North (1990) points out that the formal rules can change overnight by political and judicial decisions, but the informal restrictions such as traditions, codes and norms are more impermeable to change and to execute policies. Even though the members acknowledge the need for change, it may be difficult as they will be powerless due to the high institutional baggage (Kostova and Roth 2003). During institutional change, ceremonial changes may occur, when new rules and regulations are implemented, but are not followed in practice. These ceremonial changes occur due to the pressure to establish legitimacy (Meyer and Rowan, 1977; Tolbert and Zucker, 1983).

Institutional upheaval is characterized as the changes in corporate governance system (central planning to market economy), which Kostova and Roth (2003) emphasize as a transition economy. Newman (2000) defines institutional upheaval as “a rapid and

pervasive change in the norms and values that underlie and legitimate economic activity, which results in fundamental change in a society's political system, its legal and regulatory frameworks, its economic system and its financial infrastructure” (Newman, 2000: 603).

Berger and Luckman (1996) argued that organizations becoming isomorphic caused institutional decoupling. *Institutional decoupling* is commonly understood as a gap between actions and structure (Meyer and Rowan, 1977). There are mainly two forms of decoupling: *Policy-practice* and *Means-ends*.

*Policy-practice* develops when rules are not fully implemented and continuously followed and violated constantly, thus there is a gap between policy and practice (Tolbert and Zucker, 2012). Policy- practice decoupling occurs due to implementation of policies that are inefficient policies for the core activities. *Means-ends decoupling* occurs when there is a gap between means and ends. It contains a relationship between organizations goals and contradicting policies. Organizations have to decouple because rules and policies that are implemented, do not assurance organizations outcome. Thus, formal structures can said to have real organizational consequence (Tolbert and Zucker, 2012).

### 3.3.3 Institutional trust

There is a connection between how trust is perceived in a governance system and how trust is perceived in the business environment. In China with a relation-based governance system, the business world has always been done through *guanxi* i.e. norms and values, because the system has not been optimal and stable and therefore it has been the only option. However, in Norway, with a rule-based governance system, business is done relying on the system, in other words institutional trust.

Institutions are relatively stable sets of rules generally accepted and followed, and can be divided into formal and informal dimensions (North, 1990). The formal dimension includes political rules, judicial decisions and economic contracts. The informal constraints include socially sanctioned norms of behavior, which are embedded in cultural values and ideology (Scott, 1995). Levi (1996) argues that “governments

provide more than the backdrop for facilitating trust among citizens; governments also influence civic behavior to the extent that they elicit trust or distrust towards themselves” (Levi, 1996: 51). Farrell and Knight (2003) argue that institutions foster trust, by creating rules, incentives and sanctions for people to behave in a trustworthy manner. By relying on and trusting the formal institutions, contracting parties channel each other’s behavior to a more predictable and acceptable manner. Thus, the greater and more reliable the formal institutions are the more predictable and stable trust in informal institutions is.

It is clear that trust is an important factor in both rule-based and relation-based societies, but due to the difference in the institutional development in China and Norway, there is a difference where trust is placed.

### **3.4 Building multiple theoretical framework**

There have been arguments about whether China will ever transfer from relation-based governance to rule-based governance. Some scholars have argued that China will not transfer due to its unique cultural heritage (Wang and Zheng, 2012; Lau and Yong, 2013). However, Li (2013) emphasizes that similar cultures to China (Taiwan and Hong Kong) have a governance system that is largely rule-based. Hence the culture argument does not hold up. He further argues that the transfer will take place, but when and how is not clear. Also there is need to analyse where China is on the curve of the shift from relation-based to rule-based governance system (Li, 2013). Therefore it is uncertain how far they currently have reached in their transition, and which may be causing challenges for foreign business managers.

It should be made clear that unlike mathematics, the study of business culture is not very accurate. Generalizing cultures based on previous research, in both social and business context, cannot be 100 percent valid. Saying that all members of particular culture behave in certain way, would lead to them being stereotyped, and therefore should be dealt with carefully. However, it is worth mentioning that it is very difficult

to not fall into this trap, and the reader should therefore bear this fact in mind at all times.

At the same time, China is a huge country and to consider its environment and culture to be uniform in all regions would be misleading and give misconceptions about China. However, such details cannot be dealt with in a justified manner and is too extensive for a thesis like this.

In this chapter China's and Norway's institutional environment can in comparison be considered to have a substantial institutional distance. However, it is interesting to see how previous challenges regarding institutional distance between Norway and China and how the current Chinese transition are causing additional challenges for Norwegian managers doing business in China. Thus to understand it is necessary to see it from the three different perspectives that the three alternatives theories provides.

An important factor for China that is undergoing an institutional change is that Hofstede's National Cultural Dimension, which is a static model, might not hold weight as it is based on the IBM (International Business Machines Corporation) study, which was done for more than 30 years ago. Hofstede (1991) states that it is a connection between a nation's economy and some of the dimensions. There are countries that have developed, both industrially and economically, since the survey was conducted, therefore the economic growth can give possibility for Hofstede's dimensions not reflecting the current situations in all countries, especially for transition countries. As it doesn't look at the dynamic aspect. However, it can be used to described how work norms and behavior in a country is influenced by culture. As there is no other updated equally comprehended empirical studies done on national cultures, this study will use Hofstede's culture dimensions. It will help to give a clear picture of what cultural values have strong roots in china and thus still exists today, and what values that have changed due to the transitions. Additionally, it will help to understand and explain the identified challenges Norwegian managers might be facing, due to cultural differences.

However, governance theory will provide a different perspective then Hofstede. It can help to see the shift from relation-based, where China has been, to a rule-based

governance system, where they are headed. Intuition theory will fill the gap in between this shift, which neither Hofstede's culture dimensions and governance theory provides. As institutional theory involves understanding of social behavior from social structure and considers all the three normative, regulative and cognitive aspects, it give the study an overview from another perspective.

Combing these multiple theoretical perspectives will provide a clear picture of the challenges Norwegian managers face. Additionally, it will show a connection between trust challenges and China's transition.

Below is a theoretical framework, which shows a model of how institutional pressure influences Norwegian managers due to China's transition. The theoretical framework summarizes and gives a better understanding of the Governance Theory, Institutional Theory and Hofstede's Cultural Dimensions (Figure 4). As there is a gap in the literature and research, these theories are used as a foundation to build the theoretical framework to better understand the thesis phenomena, rather than comparing it with past and similar research.

The model illustrates that there is a connection between China's past (traditional economy), present (transition economy) and future (market-based economy).

There is a theoretical gap on the phase in between rule-based and relation-based governance system (Li, 2009), therefore it is interesting to understand how much of the prior environment that was based on cognitive and normative aspects still influences and is based on the present transition economy, and how much of the market-based economy that is based on rules and laws influences the present transition economy.

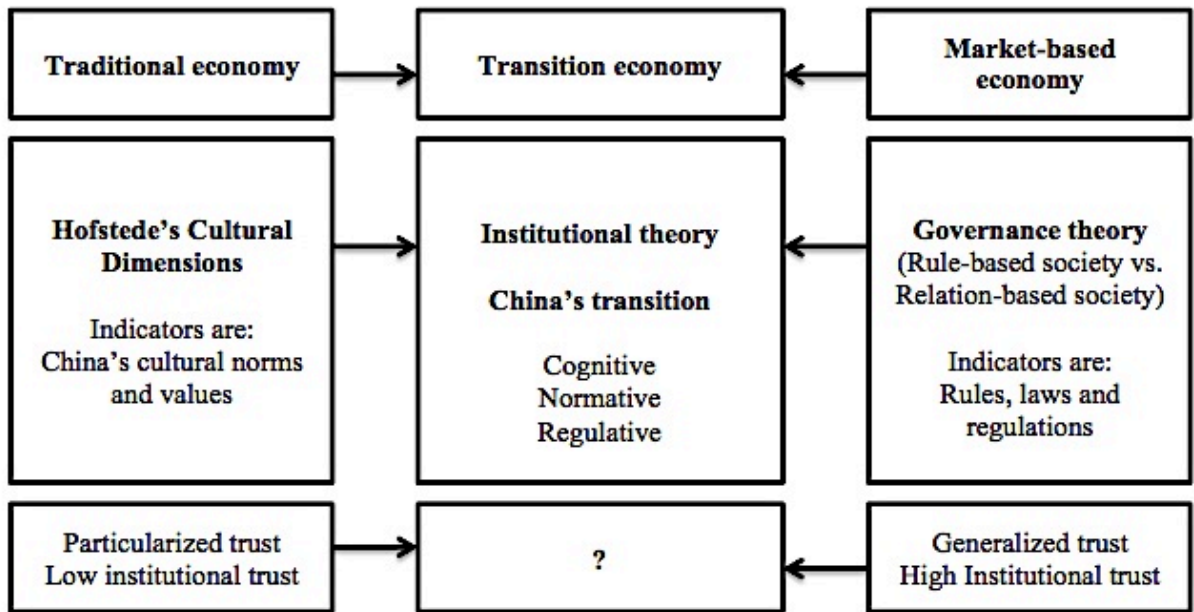


Figure 4: Theoretical framework. Developed by the authors

## **CHAPTER 4 RESEARCH METHOD**

This chapter presents approaches that have been chosen in this study. The purpose of the research method is to undertake a valid study in order to answer the research question in the most effective and reliable manner (Saunders et al., 2012). Trust relations are complex concepts and to answer the research question in the best way a well-considered and reflective research process, that has detailed explanation of the choices made, is significant.

### **4.1 Research philosophy**

The foundation for the choice of the research design is based on which philosophies one follows (Saunders et al., 2012). There are mainly two main contrasting ways to look at the nature of the world and how to inquire into the nature of the world; positivist position and social constructionist position (Saunders et al., 2012). From a positivist position the social world exists externally and assumes that reality is external and objective, thus its properties should be measured through objective methods. In contrast, a social constructionist position does not assume the reality to be external or objective, but rather found between individuals.

This thesis topic is best suited to be inquired from a social constructionist position, as the concept of trust and management challenges due to transition economies can only be understood by people. The assumption of the world is not based on a single reality that can somehow be discovered, but rather many perspectives on the issue: individual interpretation of interviews is required, where research progress is done through gathering rich data from which ideas are induced, and not statistical analysis (Easterby-Smith et al., 2012). It is especially important as China is a transition economy, thus managers' thinking would also understandably change over time.

## 4.2 Research design

As this thesis aims at exploring and understanding the trust challenges Norwegian managers face because of transition economies, applying *qualitative methodology* is most appropriate.

Trust is a complex concept and a qualitative method suits this research in a social and cultural context. The research question is believed to involve individual and contextual interpretations of reality, and adds to this choice of method. Kvale (2004) argues that the qualitative approach's strength is that it captures the variation in the informants' perceptions about a subject, thus giving a picture of a diverse human world. Jacobsen (2000) argues that this type of research emphasizes that the phenomenon must be understood as a complex interaction between individuals and the particular context in which they are a part of.

When choosing a qualitative method, understanding and interpreting informants' information is important. Additionally, going deeper into the context to understand *how* and *why*, the qualitative research establishes trust, access to meanings and give in-depth understanding of the phenomenon (Saunders et al., 2012).

As mentioned above, contextualizing the individuals' interpretation gives this thesis a more holistic social constructivist approach, rather than individualist, positivist approach (Saunders et al., 2012). To understand the chosen phenomenon, the individual and the world cannot be separated. This means the phenomenon can be understood from the individuals' culture and environment in which they live and construct knowledge from, i.e. from a holistic, hermeneutic approach (Bryman and Bell, 2011). It will be difficult to find an objective, quantifiable truth when studying the challenges facing Norwegian managers. This thesis is therefore inspired by the *hermeneutic point* of view (figure 5).



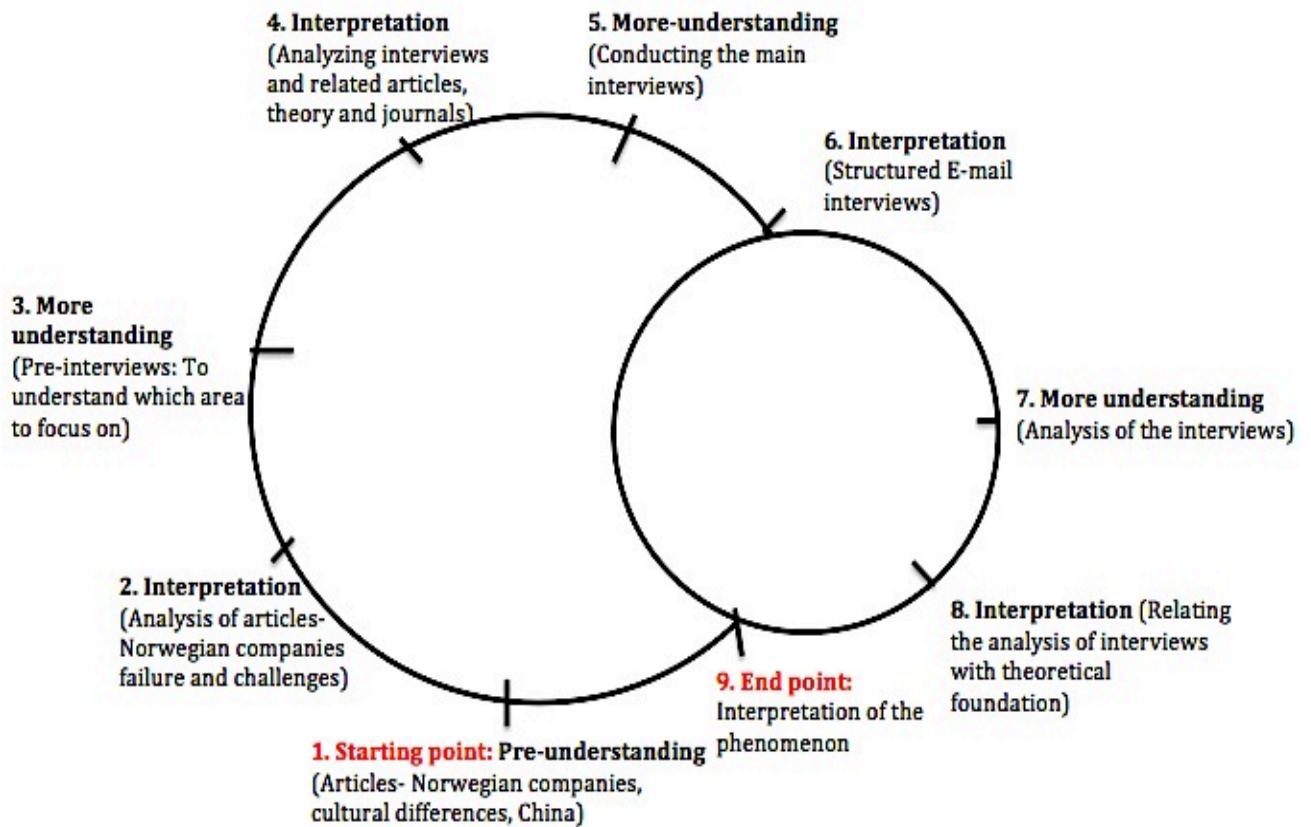


Figure 5: Hermeneutics circle applied in this study, customized by the authors, 2015

Figure 5 shows a detailed explanation of the hermeneutic circle that starts with a pre-understanding of the research area. The entire process started at the beginning of January 2015 where we showed a great interest in China and a numbers of articles (stage 2): among others, “*China’s (Painful) Transition from Relation-Based to Rule-Based Governance*” (Li, 2013), “*How to succeed in China*” (Cao, 2014), “*China is still critical to Norway*” (Bakken, 2011) and “*Business in China means relations*” (Farbrot, 2014).

Without any prior knowledge about China, the researchers wanted to gain a deeper understanding and contacted various researchers/scholars to hear about their business experiences in China, thus pre-interviews were conducted (stage 3). The following two questions were asked:

1. *What are the biggest challenges for Norwegian managers in China?*
2. *What are the main cultural differences in Norway compared to China?*

Understandably, there were several challenges highlighted due to cultural differences, such as communication, language, trust and relationship-building. Although, all of these topics are very interesting, it was not possible to research them all, due to time constraints. As we discussed back and forth, the perception of trust was chosen, as there is limited research available particularly from a Norwegian management perspective due to China's transition from a relation-based to a rule-based society.

Pre-interviewees recommended sources as well as articles, which allowed us to greater conceptualize what was being studied and led to us to seeking to understand more about it. However, as stated little research has been done about precisely this chosen research question, so exploring the field to gain more knowledge was needed. Through studying theories and literature about different governance systems and national cultures, some grounds was covered, though to a relatively basis level. The phenomena will be explored on the bases of preliminary understanding of the subject, and we will continue exploring the subject together with the informants, gaining new and better knowledge about the research question (stage 4).

This paper attempts to lay the groundwork for future research; hence an exploratory research was the most suitable design for this paper as the research aims to seek new insight into phenomena, to ask questions, and to assess the phenomenon in a new light (Saunders et al., 2012).

### **4.3 Case study**

For the purpose of the current research, the study focuses on studying Norwegian managers' trust challenges in the context of China. The reason for choosing China as a case study is to understand why the globalization concept is not working, hence the need for a context where tension is expected. In this regard Norway and China are not only geographically distant, but also historically, politically and culturally. Consequently, this case study has focused on China's transition from a relation-based to a rule-based society in which Norwegian managers can be considered as rule-followers or relationship-builders.

As mentioned earlier, there already exists a general theory about Chinese governance, culture and their relationship to trust, hence there already exists a general conceptual framework for this study. However, since there is little research on trust in transition economies, particularly in China, and managers' challenges in relations to that, this thesis starts on "little" theory and conducts data gathering with the purpose of establishing a new theory as well as modifying existing theories based on our findings.

This thesis is also inspired by the induction approach that involves the development of a theory as a result of the observation of empirical data. Therefore, this research is an abduction approach, which moves back and forth, in effect combining the deduction and induction approaches (Saunders et al., 2012).

There are several conceivable methods to use in qualitative studies with exploratory research design and an abduction approach (Saunders et al., 2012). However, a case study is the most suitable method for this thesis as this approach opens up new areas, of focus, i.e. Norwegian managers' in China, and develops new understanding of the phenomenon of China's transition.

A case study can be defined as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2003: 13).

The definition clearly specifies why this approach is best suited for this research. There is an empirical inquiry that investigates Norwegian managers' current situation in China. There are mainly two types of cases, a single and multiple case designs. However, there are in general four types of design, which are shown below (figure 6) (Yin, 2003).

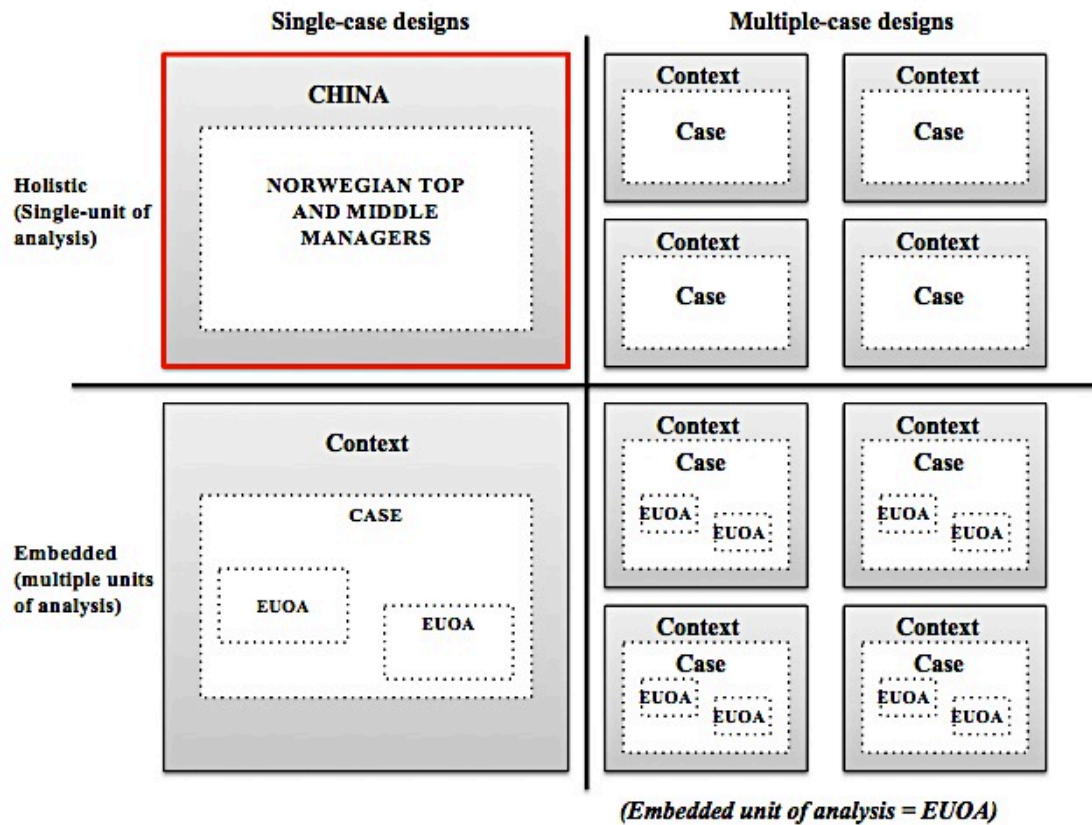


Figure 6: Basic types of designs for case studies, adapted from source: Yin, 2003. p. 40

As we want to study a tension area in transition economies, choosing China as a single case is based on economic, cultural, geographical and demographical reasons. Thus it is no room for studying multiple-case design that may include other transition economies. This is because China is a huge country and the different regions in China itself comprise and can be considered as a “country”. Additionally, the timeframe of this study best suits a single case study, to have a deeper understanding and to not have a superficial research. The advantage of choosing Norwegian managers, as a single-unit of this study in addition to the possible tension area that exist between China and Norway, there is little existing empirical research on Norwegian managers in China. However, our cultural background and understanding of the Norwegian and Chinese culture would not only benefit us, but the research to. The research ask a “How” question, and thus a single-case design with a single-unit would be the best to answer a “How” question. The situation can therefore not be manipulated as well as it is not possible to measure effects in a laboratory.

The multiple case methods would have been suitable if more than one country had to be analysed or if the focus would be on the difference between companies, their background and industry. According to Flyvbjerg (2006), multiple case designs are often considered more compelling and their answers/information more robust. Multiple cases have proven to be rated higher in terms of overall quality than single case studies because they increase the chances of a good case study (Flyvbjerg, 2006). However, due to time constraints, this was not possible.

To summarize, this research undertakes (1) to answer the “how?” question; (2) manipulation of the informants cannot be done and it is not possible to measure effects in a laboratory or by manipulating the environment; and (3) contextual conditions are relevant to the phenomena (Yin, 2003). Because all these conditions are met in this thesis, a single case study with multiple units was chosen.

## **4.4 Data collection and analysis**

Collecting and sorting data is one of the main tasks when working with a case study as the quality of this thesis is dependent on the quality of the information and data collected (Saunders et al., 2009). The data can be drawn into two categories: primary and secondary data, however the focus have been on primary data.

### **4.4.1 Sampling**

Primary data is data collected precisely for the research project being undertaken, which is not publicly known (Easterby-Smith et al., 2012). Access to primary data information is crucial in order to conduct a reliable analysis. In this thesis primary data is needed, as there has been no prior research conducted in this particular area and would therefore be most capable of answering the research question. Therefore, the qualitative method in both highly and semi-structured interviews with Norwegian managers working in China provided us with valuable insight.

As mentioned, Norwegian managers were chosen as subunits and can be explained as the population in this case study. A population refers to all the members of the group the subject relates to (Easterby-Smith et al., 2012). In general, it is impossible to study

the whole population, because it is time consuming, expensive and simply difficult to reach out to the whole population (all the Norwegian managers in China): a sample of few criteria's had to be sufficient.

In mid-March, we undertook a systematic random sampling based on a list on the Norwegian Embassy in China and Innovation Norway's web page. In total there were 212 Norwegian companies, where 95 of the companies are located in Shanghai and Beijing (detailed list in appendix 6). Due to time constraints, we contacted 50 different companies through contact informant available on their websites, independent of the specific industry. This was because we wanted a holistic perspective from managers in various industries/sectors.

For the purpose of this research, we established four criteria that had to be fulfilled:

1. Norwegian middle or top levels managers that currently work in China.  
The reason for focusing on middle and top-level managers was because we wanted to find out how China's environment challenge Norwegian companies. Therefore, it is logical that managers are the ones first and foremost affected first changes in the macro environment. Additionally, they are the decision makers and implementers for all internal changes in organizations. Moreover, big cities such as Shanghai and Beijing were chosen because of the vast culture difference in China. The largest differences are between the big cities and the small cities.
2. The manager should have more than two years experience in China as well as experience in Norway. This was because of their ability to make a qualified comparison as well as being able to compare personal experiences from both countries.
3. The manager should have Chinese external stakeholders to ensure that Norwegian managers meet the Chinese business culture up-close, as the external Chinese stakeholders are shaped by the work life in China and not by foreign owners.

4. 50/50 gender balance. The researchers want to have a gender balance in order to get information from different viewpoints.

In total, 50 (25 males and 25 females) qualified top-level and middle managers of 95 Norwegian companies located in Shanghai and Beijing were contacted via e-mail in the middle of March. A detailed description of the researchers, topic and the timeframe were added in the e-mail in order to get the manager's attention and interest, and to schedule the interviews fairly early. Of the 50 managers that were contacted, only 7 managers (4 males and 3 females) gave a positive response.

Below is a short description of the seven informants (Table 5):

Table 5 Description of the seven informants, created by the authors, 2015

<b>Informant</b>	<b>Title</b>	<b>Gender</b>	<b>Years in business</b>	<b>Industry</b>	<b>City</b>	<b>Company size</b>
<b>1</b>	Project manager	Male	9	Transport	Beijing	Large
<b>2</b>	Founder & managing director	Male	8	Energy	Beijing	Large
<b>3</b>	Top & Academic manager	Female	10	Education	Shanghai	Small
<b>4</b>	Founder and managing director	Male	3	Consultancy	Shanghai	Micro
<b>5</b>	Executive Vice President	Male	3	Finance and bank	Shanghai	Medium
<b>6</b>	Founder & managing director	Female	4	Health-care	Beijing	Micro
<b>7</b>	Top manager	Female	4	Shipping	Beijing	Large

#### 4.4.2 Primary data collection

The qualitative interviews conducted in this thesis were both semi-structured and highly structured depending on whether the interviews were done face-to-face or through e-mail. Two of the interviews were done through e-mail, as the informants were in China and did not have time for a video-call through Skype. The interviews done conducted via e-mail were highly- structured (Appendix 1), as structured interviews give more concrete information, and was the better approach as we were unable to ask additional questions and use laddering techniques. Laddering techniques are used to reveal and get a better understanding of the individuals' value base (Easterby-Smith et al., 2012). The disadvantage of highly structured interviews sent through e-mail was that we could neither see nor hear the informants; hence we could not know whether what factors could be influencing the informant answers. However, the advantages of highly structured interviews are that the informants cannot talk away from the questions and the method is less time consuming as well as less expensive.

Due to the Easter holidays, five of the informants had planned to travel to Norway, which provided us with an opportunity to conduct the interviews face-to-face in Oslo, Norway during the first week of April 2015. The advantages of face-to-face interviews are the open dialogue with the informant, as well as being able to ensure no or minimal influencing factors influencing during the interview, which can occur through Skype/Internet interviews. These interviews were semi-structured, guided open interviews with three main topics (appendix 2), and a laddering technique was used. "Why?" and "how?" questions were asked as well as additional examples to have a deeper understanding. Moreover, the interviewees ensured that there were monologues without interruptions. Sometimes, the researchers said, "that is interesting" and showed some emotional reactions such as smiles, in order to create a comfortable atmosphere.

Both of the researchers were present under all the interviews. One led the interviews while the other observed and took notes. There was a good tone between the researchers and the informants during the interviews. The interviews started with a brief presentation of the subject of the thesis. Additionally, the interviews were recorded on both computer-software and a mobile phone, with the informants' permission; to ensure that all the information was secure and to stay focused on the



informants. The interviews were conducted at the informants' home, work place and at a café, all according to their preference so they could feel more comfortable.

As all the informants are Norwegian, it was more practical to conduct the interviews in Norwegian and to later translate the interviews to English. The timeframe of the interviews was approximately 40-90 minutes, depending on the interviewees' condition. The interview-guide and the research question were not given prior to the interviews because we wanted the informants to answer the questions based on their own experience rather than information that could have been found by other sources (Internet or other people). Each interview was transcribed word by word into Microsoft Word documents and analyzed immediately after they were conducted.

#### 4.4.3 Interview guide

The questions in the interviews were formed on the basis of the theoretical framework (Figure 4). The questions were divided into three main topics:

- 1) China's culture, values and norms
- 2) Trust in the government system
- 3) China's transition.

The semi-structured interviews had three big open-ended questions while the highly structured interviews had additional guiding questions in order to ensure that all topics were covered. The quantity varied according to how deep an understanding of each topic was desired. See appendix 1 and 2 for the highly- and semi-structured interview guide.

##### 1. China's culture, values and norms

In order to understand how the Chinese culture will impact a Norwegian manager's company and their position as a manager, it was essential to know how important the Chinese culture still is and which norms and values still exist in the Chinese business world today. The value of *guanxi* (relations), *mianzi* (face) and trust were considered to be especially relevant concepts to inquire about.

## 2. Trust in the government system

Theoretically, there is an essential difference between China and Norway regarding where trust is placed in the business context. It is therefore important to know where Norwegian managers place their trust when they are in China; in the system or in relations. This information will also show how China's transition phase can be understood.

## 3. China's transition

Regarding the research question, it was important to know whether the Norwegian managers have observed any changes in the cultural, regulatory or/and normative aspects in China, and if this has an impact on their company or their position as a manager. Through this questions, we can more easily understand whether Norwegian managers face this "additional" challenge regarding China's transition as well as which trust challenges that arise.

## **4.5 Credibility of the research**

In order to increase the quality of the case study and overcome traditional criticisms of weakness, validity and reliability are discussed below (Yin, 2003).

### 4.5.1 Validity

Johannessen et al., (2011) described validity as how accurate the data collection resembles reality. This means how relevant and true it is for the phenomenon that is being studied. Yin (2003) classifies validity in three groups: Construct validity, internal validity, and external validity

*Construct validity* is the relation between the data and the phenomenon that has been studied (Johannessen et al., 2011). This means that the data is a good representation of the overall phenomenon and if the authors could measure what they wanted to measure. Therefore, construct validity is necessary, enabling the research results to be meaningful and to be interpreted and transferred to other cases (Yin, 2003).

Throughout the interviews, the researchers focused on asking suitable questions in relation to the research question. As mentioned, the researchers used a semi-structured interview technique when conducting face-to-face interviews. This provided opportunities for changes, which made it possible to ask detailed and supplementary questions during the interviews. The researchers were constantly attentive to providing the informants the opportunity to talk openly as well to allow them to bring new themes that they considered important. When the researchers observed insecurity of informants, definitions and explanations were provided in order to ensure that the questions were clearly understood. In this regard, Johannessen et al. (2011) explained that if the researchers were able to attain differences and broadness in the interview, thus specifying the findings, it would increase the validity of the results.

Additionally, questions such as “Your experience” and “How does it affect you and your company?” were added in all questions in order to give the informant the opportunity to give their own examples. Moreover, this was also to ensure that the informants had understood the questions and that it corresponded to the topic that was being investigated.

Lastly, at the end of the interview document the informants were asked about the possibility of contacting them further. This was to ensure that the researchers had a chance to contact the informant if there were any additional questions or uncertainty about the answers.

To reduce the risk of ending up with poor validity, transcribing (semi-structured interviews) and analysing the information were done after each interview was conducted, in order to reflect whether the questions had to be more obvious to lead the questions more closely to the research question.

*Internal validity* is the extent on a casual relation in which the changes in one variable affects on others (Yin, 2003). In a qualitative study internal validity is hard to measure (Yin, 2003). However, Johannessen et al., (2011) explain credibility as an evaluation criterion in which the findings and results can be trustworthy, which better suits a qualitative method.

Questions during the interview were created in a way that the informants could bring their own experience. This was to better understand the informants' answers. Additionally, the researchers chose to ask the same question twice in the semi-structured interviews to make sure that the information had the same sense as the previous question. This was to investigate whether the researchers could trust the information. However, an assessment on their objective credibility was challenging, as their experience is subjective in nature.

*External validity* is the extent to which the research can be generalized (Yin, 2003).

It is difficult to generalize a qualitative study as each case study is unique and the research results cannot be directly applied in other case studies. Moreover, to generalize a case study for a whole population is challenging because in-depth interviews normally have a small sample size. As mentioned, 7 managers represent the research from 212 registered Norwegian companies in China. Since China is a large country and it is uncertain how many Norwegian managers there are in total, the authors argue that the chance of generalizing the data to an entire population would be difficult in this case. However, an analytical generalization can be done as similar theories from this study can be used in other contexts, which can be of value in studying other companies such as for managers from a rule-based society working in relation-based society (Flyvbjerg, 2006).

#### 4.5.2 Reliability

Reliability refers to the extent to which the data collection technique procedures will yield consistent findings, similar observations or conclusions reached by other researchers (Saunders et al., 2012). Easterby-Smith et al. (2012) argue that the absolute replication of qualitative studies is very difficult to achieve since it reflects realities at the time they were collected and in a situation which is likely to change.

For instant, a careful and systematic collection of data is vital in order to gain a high level of reliability in this research. In order to strengthen the reliability in this thesis, a number of measures were undertaken: all information during the interviews was recorded into three software devices to present more reliable evidence and avoid any

bias which might happen if the researchers attempted to remember the conversation. Moreover, three devices were used to ensure that all information was recorded and that we had an extra backup if a sound recorder would run out of battery or experience other technical difficulties. However, recording might influence the informants' answers, as they became nervous at the beginning of the conversation. Nevertheless, it appears that the informants forgot the recorder after a short while as they spoke more openly and fluently. Additionally, all the questions were worded clearly and asked in a natural tone of voice in order to enable the informants to understand what the researchers was asking for. Moreover, all the informants were given the opportunity to explain their own experience and thoughts without any invention from the researcher, which would create a bias.

Additionally, transcriptions were done right after the interview, as the information was still "fresh" (in mind). Further, to ensure that all the information during the interviews was correct, transcriptions were sent to all the informants in order to read through and adjust them if any misunderstanding had arisen between the researchers and the informant. Another important factor is the anonymity. The informants were assured anonymity, which might have enabled a more open dialogue with more honest answers, which strengthen the reliability of the data.

Moreover, after five semi-structured interviews, the researchers saw that the same topics were repeated. To ensure the answers, the researchers conducted highly structured interviews via e-mail to the two remaining informants. The researchers recognized that the same topics were also mentioned, thus it can be concluded that the information from the interviews is reliable.

Furthermore, to strengthen the credibility that is done through strengthening the validity and reliability of the research, triangulation strategy was used.

A triangulation strategy can be explained as the combination of different methods, methodological perspective and/or theoretical viewpoints in the study (Guion et al., (2012). This means that it can reduce and eliminate personal and methodological biases and increase the probability of generalising the findings of a study, as the data is gathered from different angles and by different methods.

Guion et al., (2012) illustrated different types of triangulation strategies, however, this thesis used *theory triangulations, methodology triangulation and investigator triangulation*, which are discussed below:

*Theoretical triangulation* draws upon alternative or competing theories in preference to utilising one viewpoint (Kimchi et al. 1991). Throughout the whole thesis, theoretical concepts have been used and discussed from different perspectives to better understand the trust concept, hence, Hofstede's theory, governance theory and institutional theory.

*Methodological triangulation* is the concept where different methodological approaches in a research have been used (Kimchi et al. 1991). This research use both primary and secondary data, where the secondary data has provided valuable information for the primary data. This strengthens the credibility of the research.

*Investigator triangulation* is a process where two or more investigators work together in the same phenomenon (Kimchi et al. 1991). This study is developed by two researchers. The advantages of this is that "two heads are better than one" and produce more reliable results. By working together, understanding and interpreting the theory as well as analysing the empirical data from different perspectives increase the reliability of the findings. The use of investigator triangulation removes the potential for bias that may occur in a study conducted by one person. However, the disadvantages of using investigator triangulation methods is time consumption, as there are many opinions that have to be reflected upon, making it challenging to gather all information and theory into one thesis.

## **4.6 Research ethics**

There are ethical principles and legal guidelines researchers should respect when conducting research (Johannessen et al. 2011). The National Research Ethics Committee for Social Sciences and Humanities (NESH) has adopted several ethical guidelines that researchers should consider. Some of the most important are: consent, confidentiality and trust (NESH, 2014).

During the interviews, it was important for informants to feel that their values and integrity was ensured. All seven informants were informed of the purpose of the research, identity, recording and the right to cancel at any time. The personal information of all participants was carefully protected through anonymising their names and not mentioning the company for whom they work.

To provide the informants security, their transcriptions were sent to all the informants in order for them to be assured that the “right” information has been used.

## CHAPTER 5 EMPIRICAL FINDINGS

Interviews shape the primary empirical foundation of this study and are the basic part of the design of this study. This chapter contains the main findings of the research. Following qualitative study procedures, important quotes from the interviews are provided. All the interviews are translated from Norwegian to English.

Each informant is mentioned as Interviewee 1-7 in order to protect his or her identity. We will present our data according to three perspectives, corresponding to our theoretical framework presented in Chapter 3. The two subsections in this Chapter comprise the sub-questions in Chapter 1.

### 5.1 Trust in Chinese cultural norms and values

It is clear that the Chinese culture has a huge impact on the business culture in China. That is why trust has always been an essential factor while doing business in China. Based on the interviews, all informants work actively to build trust with their internal and external members. To build trust the practice of relations (*guanxi*) i.e. norms and values is extremely important. All the informants, independently of the industry or work experience in China, clarified that it is impossible to do any kind of businesses, if relations (*guanxi*) are not established. As one of the interviewees put it:

*“Guanxi is absolutely central in the Chinese business culture today. I would say it’s the alpha and omega for most businesses. If you don’t have the right relations and trust towards your business partners, it becomes very difficult to do any kind of businesses in China today.”* (Informant 6)

In particular, as many informants emphasized, perception and importance of trust on a cultural level has a direct impact on how business relations get built and managed.

*“I would never have a deal or sign any contract with someone I don’t trust and don’t know well. I take a lot of precautions. I try to work a lot with someone to get to know them better, before doing any kind of partnership with them.”*

(Informant 3)



*“Contracts are worthless in practice. If someone has the wrong intentions, they will do it in spite of contracts. I have few privileges here dependent on what is written in the contracts. Therefore I trust people more than contracts”*

(Informant 5)

*“If you are a small foreign company and are competing against a Chinese company, then you are doomed to fail. So even if there is breach of contracts there is no point in doing something about it. Relations are extremely important to the police and local officials.”* (Informant 7)

The importance of guanxi was emphasized by how business transactions were done with their partners. One of the informant emphasized that oral agreements are needed despite written contracts.

*“A contract I have with the company X, can be seen as rather loose. We have made policies and practice that goes beyond a written contract, in a way. It is based on relations we have with the company. This is very important. To be able to follow the contract, are relations needed, otherwise we have very little security”.* (Informant 3)

One of the informants disclosed that to strengthen the relationship with their Chinese partners they invited them to Norway, which had a significant effect on the development of trust and relationships. An indicator of the importance of relations can especially be noticed by rather long visits of the Chinese partner to Norway. Hence, in the Chinese business culture, relations are built over a longer timeframe.

*“You cannot just knock on a door and present yourself. You have to build a friendship and trust over a long-time.”* (Informant 1)

*“You build trust over time and through personal relations (guanxi)”* (Informant 6)

*“When we invited our Chinese partners to Norway over a longer period it was to build trust, to improve and to build relations. We saw that they had a good relationship with*

*many actors. They enjoyed the visit with big respect, which means that we enjoyed it too.” (Informant 2)*

However, building trust-based relationships can be challenging. Many informants expressed that the concept of *guanxi* is difficult to comprehend and that the trust building is time-consuming and there is no shortcut to it. It appears from one of the informants that any signs of haste or mentioning of time is interpreted by the Chinese as an unreliable situation and a cause for distrust:

*“It can take several weeks or months for instance before trust is developed and agreements can be made” (Informant 2)*

*“We had contact with a partner for several months. Once at a meeting, I mentioned my time restriction. Strangely, I didn’t hear from them in several months, after that meeting.” (Informant 1)*

It was also pointed out from the informants that the Chinese focus more on individuals than the overall company. This can be supported by, for instance the importance of a good first impression at the meeting and having a good face (*mianzi*) further on. As one of the interviewees mentioned:

*“To beat around the bush and to be diplomatic was my strategy in China. Take your time and make a good impression. You have to be careful to not offend anyone, at least not a manager in a higher position. The trust is gone if you argue or directly criticize a person. You should always bear in mind that it is normal to bring and receive gifts. The tradition is to give and then also to expect something in return. If you break it this norm, then you may be off the track.” (Informant 1)*

As the informants said, trust-building is done quite early on. It is clear that giving a good first impression is extremely important in the Chinese business culture. The importance of face value was especially mentioned, which also includes gift exchanges. This can be understood as reciprocity where if a person gives you something, they make an implicit “promise” to have further contact, especially to “retaliate” the received gift, hence building a relation to gain trust. However, it is

interesting that most of the informants see the exchanging of gifts as a challenge to keep a good face. This could be understood as Norwegian managers' insecurity about where to draw the line between politeness and bribery, as the value of gifts is understood differently in Norway and China. Thus, being reluctant to receive and give gifts might lead to loss of the face and trust, thereby risking bad relations.

*“Receiving gifts can be challenging. It is about the value and I have to find a balance. In the West, this might be perceived as a bribe, while in Asia it is a part of the business culture.”* (Informant 1)

Moreover, informant 1 illustrated the importance of face through conflicts occurring in his company that resulted in the Chinese employees losing face. Informant 3 illustrated the face concept by pointing out that confronting or questioning the employees about their work was not an option, therefore she has to rather double check it herself.

*“Face is very important (...). We have experienced what it means to lose face for the Chinese. Things we find quite normal in our business culture, such as to point out defects and deficiencies, can be very dramatically for Chinese employees. We didn't know about this, and that has caused a lot more conflicts than what we would have thought.”* (Informant 1)

*“I have a saying: Assumption is a role of a mother fuckups. So I assume nothing. I don't say anything, but I check and ensure things to clarify things many times”*  
(Informant 3)

It appears from all of the informants that there is no distinction between job and private life in China as in Norway. To build trust in China means to know a person's private life, and thus bringing up family over a business meeting is not unusual. One of the informants claimed that private life and business life in China are connected to each other. The large family business market that still exists in China might explain the importance of relations. There has been no distinctions between private life and business because of that, thus these norms have been brought along and do not only influence family businesses but the whole business culture in China.

*“It was totally strange for me to talk about my family over a business dinner, a dinner where I was supposed to discuss and agree on a business contract.” (Informant 2)*

Overall, there is no doubt that the Chinese history and culture has a big impact on the informants. The informants clarified that the importance of building trust is based on the strong Chinese history and culture. Considering that the Chinese history is over 2000 years old, it is interesting to see that the Confucian thinking is still valuable in China today.

*“The Chinese history and culture has a huge impact when doing business in China today. I would say the Confucianism values, especially the authoritarian mindset is still extremely important today as it has been for 2000 years. It is important to respect your parents, manager and the government.” (Informant 4)*

It can be noted that it is “especially” important to show respect to people that are in a higher position, thus emphasizing the importance of hierarchy. Another informant highlights that even the degree of trust depends on your hierarchal position. This can be seen in correlation to a society with high power distance.

*“You cannot think like a Norwegian in China. It is very time-consuming to do business in China and difficult to find someone you can trust and vice versa. It depends on where you are in the hierarchy. (Informant 2)*

This explains why it takes longer time; only the “right” person in the hierarchy can perform the specific activity. It can be interpreted that a relation-based system is very ordered, which can be understood by lack of systematization that is established in a rule-based system. Thereby, the needs for such unwritten norms are necessary to make the relation-based system more organized.

Some of the informants also stressed a concern and were annoyed by the fact that only people in the same position could communicate and could come to agreements with external partners. One of the informants specified that only people in the same

position, for example an executive director could speak to an executive director, and not a sales manager for instance.

*“It is not acceptable for a Chinese project manager to make decisions, he can only negotiate. The top manager, however, makes the decision. I, as a project manager, cannot ask or communicate directly with a director or an executive director. He will not take it seriously, therefore I would have to call my director with the same position as him, to communicate with him.”* (Informant 2)

An informant also elaborated on the relationship between trust and the hierarchical position by illustrating the importance of business cards in China:

*“I will normally be sent to people in the same position as me, when I show my business card. Thus business cards are extremely important to bring with you at all times, especially at the first meeting. Positions and titles are carefully studied.”* (Informant 1)

Similarly the hierarchy system is observed internally in the companies. Employees avoid disagreeing or having discussions in order to not ruin the harmony, especially with the managers. All the informants pointed out that this was a challenging area, because the leadership techniques they used in Norway could not be applied in China. One can clearly argue that a group's need are put before the needs of the individual, as all the informants said it is impossible to get their Chinese employees to express their own opinion about different matters. This can also be understood as lack of individuality as the Chinese are afraid of making mistakes and thus reducing their face value.

*“The first meeting in China was a cultural shock. I expected everyone to contribute in the meeting. However I talked for two hours, without any interruptions or contribution from anyone, it was completely quiet.”* (Informant 5)

In a similar vein, informants have emphasized that their employees expect a powerful manager that gives clear instructions and has everything under control. Thus to meet their Chinese employee's expectations, they need to adopt Chinese values. Therefore a dominant manager, who delegates tasks and gives clear guideline, is seen as a good

manager with control and that can be trusted. Thus, signs of weakness by the manager are seen as dishonorable and makes the employees doubt the leadership, whom they feel they cannot trust. The informants emphasized this as challenging, as they are from a rule-based governance system where there is more flexibility and less attention on control.

*“It is important to have control. If you in general don’t emphasize control your employees will think you have lost control, and thus you might lose both their respect and control. This is a sign of weakness, which all managers are afraid for.”* (Informant 4)

*“My employees have to get specific instructions. (...) If I give more general instructions, I don’t trust the work getting done. Therefore I have to show control and give them direct orders”.* (Informant 2)

Further, an interesting observation from the interviews was that all the informants said “he” every time the term of power was mentioned. It is clear that power is linked with the male gender or at least the dominant gender regarding power. Moreover, this was emphasized by a female informant, who had experienced her Chinese male colleague not taking her seriously as a manager. It can be understood that gender roles still have a big impact on Chinese business culture today.

*“The Chinese are very old fashioned when it comes to gender equality, age discrimination and such Western values (...) It was a male manager who had a strange attitude towards me and I felt that he didn’t take me seriously as a manager.”*  
(Informant 3)

To summarize the findings about China’s cultural values, it is clearly that the informants expressed trust as very important when doing business in China. However, there is no doubt that trust is built through relations (*guanxi*). The informants have to follow the cultural norms and everything related to relations, which is not always comfortable or suitable for them. They do share some values, such as pleasing and having a harmonic atmosphere. However, the informants have to adjust to the other values, such as being authoritative and commanding. Moreover, there appears to be

three main challenges for informants: 1. Relation-building (*guanxi* and *mianzi*) 2. Power distance and 3. Control.

## 5.2 The shift from relation-based to rule-based system

As mentioned above, relation-building, power distance and control are perceived as the most challenging aspects for the informants. These factors feature in a relation-based governance system. It can be argued that the relation-based system is still highly preserved in China. There is a common viewpoint and assessment about trust towards the Chinese governance system, expressed by most of the informants: there is no or very little trust towards the regulatory system. When the topic was first brought up, most of the informant laughed, as if it was a foolish question. However, when they realized the seriousness, some expressed it directly and some indirectly. It was expressed in this manner most directly:

*“I have generally a good dose of skepticism in most situations relating to trust to the Chinese governance system.”* (Informant 7)

*“The reason is that Chinese institutions are not mature, you cannot rely on or trust the system. The only thing you can trust is your own *guanxi* and of course yourself.”*  
(Informant 4)

Interestingly, informants 1 and 2, that have the Chinese government as their customer, used the term “we” as if they were representing their company when they at first did not wish to give a comment and mumbled carefully a positive attitude towards the system. It can thus be interpreted as if they were not giving their own personal opinions.

*“We haven’t had much trouble with the government, we trust the government and find them reliable”* (Informant 1)

However, they later had an indirectly contradicting opinion where they expressed that they could sense corruption in the system. Thus their confusion with governance questions, can be interpreted as “who would trust a system that is corrupted.”

*“We work with the Civil Aviation Authority, which is clearly politically regulated, and the people working there have attained their positions through political means. That is why we try to keep a neutral view, and don’t bring up any controversial political topics”.* (Informant 1)

All the informants either explicitly or implicitly expressed the following three reasons for distrusting the Chinese governance system: it is unpredictable, non transparent and unaccountable.

The informants specified the system as very *unpredictable* as new laws can appear all of a sudden that influence their planning and processes in the organization. An informant explained these unpredictable circumstances as something one has to get used to, as it was the government’s way of creating stability in the form of control. The unpredictable situation in China causes the informants to feel insecure, hence: trust in the governance system is reduced. The informants’ distrusting towards the legal regulatory system might be greater than what an average Chinese citizen has towards the regulatory system, as the informants are used to a stable regulatory system, where changes occur based on democratic decisions. However, the informants also mentioned The Nobel Peace Prize event when they discussed trust towards the government. The connection can be understood by the way China handled the situation. It has caused unpredictable situations for the informants, especially regarding visa for multiple entries to China, thus causing distrust.

*“I don’t trust the government system in China because it is very unpredictable. There may come rules that fall into someone’s head suddenly that can change everything. You cannot trust that it is either persistent or well thought through. I feel it is very accidental, something might come along that you are not prepared for, but you have to adapt to it anyways. It can turn in any direction and you never know what will happen. You just have to keep focusing on your own setting, until it works.”* (Informant 3)



*“ The risk is that there will always come some changes, so I have lived under many rules that had to be followed and they changes constantly all the time, depending on the governments. “ (Informant 4)*

*“The risk it that changes always occur. My industry is not equity regulated, however it is strictly regulated in China, so I have followed many strict rules that change all the time.” (Informant 5)*

One informant specified the distrust towards the system by pointing out that what is promised to be done is not necessarily in China’s favor. And even if the policies that are made, the implementation of these policies would not be done successfully.

*“I have no trust in the system because it is unpredictable. I do not trust the system to want the best for its country. I don’t trust that the governance system will successfully implement what they say they will. ...And this makes it difficult to work in the country when you don’t trust the system.” (Informant 4)*

Remarkably, it can also be argued that the new rules appear frequently. It shows the government is doing its utmost to make the country more rule-based although, as most of the informants pointed out, the regulation system is weak, e.g. *“laws are quickly proclaimed, but slowly regulated.” (Informant 7)*

The informants also expressed unease towards how opaque the Chinese system is. Not only is the regulatory system *non-transparent*, but also are other actors such as big Chinese companies. Some of the informants pointed out that their Chinese customers would never tell them what they used the informants’ product for, even though their partnership with them was close and trust was established. The transparency can therefore said to be miniscule. Another important factor for transparency is freedom of speech and free media, which is highly controlled in China. The informants are used to a democratic, transparent regulatory system, thus finding this very challenging. It leads to suspicion and distrust of the system.

*“It is difficult to work together because there are many people that keep their work to themselves. This means that they don’t share anything. We have experienced that there are a lot of secrets.”* (Informant 2)

The informant also expressed the unnecessary control exerted by the government that reduces transparency, and thus causes distrust. A transparent system is feature of a rule-based system, thus a non-transparent system would be a feature of relation-based system. Hence, the informants from a rule-based system are challenged in a non-transparent system.

*“When the riots started in Hong Kong I was watching BBC News and suddenly my whole screen went blank for a minute (...) I later found out that all live broadcasting in China isn’t really live”.* (Informant 1)

*“It is very strange to be in China and not be able to watch Norwegian news at NRK.no, because it’s blocked. Many webpages and companies are blocked, this is because they want control”.* (Informant 2)

*“The system is very control-oriented (...) In China the debates in communities about different important matters are absent, because there are restrictions placed on what you can talk about without criticizing the government.”* (Informant 3)

Besides the nontransparent system, an *unaccountable* system is also a relation-based feature of society. What is interesting is that even though business contracts are an obvious way to establish security in a rule-based society, it seems like most of the informants have to take risks and take their chances on the agreement. The lack of faith in the judiciary is the obvious reason. Directly and indirectly most of the informants expressed that they are doubtful about the information given in the contracts and the possibility of a breach of contracts is high.

One of the informants says that breaches of contract often occur in China and mostly do not lead to any serious consequences. Another informant mentioned payment issues from customers, hence the contracts where not upheld, with no consequences. One specified that there is little point to going to court with such issues, as the locals have better lawyers that knows the system better, plus the payment will eventually come.

Some of the other informants expressed the same concern. A noteworthy connection is that informants with small companies expressed the greatest distress. It can be observed that Norwegian small firms are very small compared to their Chinese counterparts so the power and advantage the locals have is huge. The governance system contains a weak legal regulation, which means that major consequences do not follow when someone breaches their contract, especially in a favor for locals.

*“The juridical system is very poor. You can’t trust it, because it is one party nation, and that one party manages the judiciary, all the laws and the whole judicial system. Therefore you can’t expect to have a fair treatment in a trial.”* (Informant 3)

*“I don’t trust that the system will implement what it is supposed to”.*  
(Informant 4)

Several informants have emphasized the little faith in the information given in the contracts, breach in contracts and low trust in Chinese people in general, particularly those informant that speak Chinese. It demonstrates the connection between informal and formal institutions. And that those who understand the language have a better understanding and are aware of what is actually happening around them. It can also be seen in parallel to the relation-based governance system, where particularized trust is common. However, several of the informant also use interpreter during their business meetings with their Chinese partners, which they see as rather an unfavorable situation. They cannot trust the translator fully, and they do not know whether the job is being done in the favor for them or not. Informants emphasized distrust towards Chinese people stating:

*“(…) I waste a lot of energy confirming things all the time, to ensure that everything is as it is supposed to be. This is because I trust very very few people. I can’t count on anyone or anything”* (Informant 3)

*“We have had Chinese translators with us during many business meetings, and that is obviously not so beneficial”* (Informant 2)

Another informant pointed out that often they and their Chinese partners do not have a common understanding of what is being agreed on and hence being written in the contract. There is a doubt and uncertainty about whether the Chinese pretend that they do not understand, whether they interpret the contract differently or that there are actual communication problems. Thus it indicates that there are trust issues between Chinese partners and the informants.

*“The difference between Norway and China is the transparency and honesty regarding contracts, which is absent in China. There is a lack of common understanding in China and what is regulated in contracts. I don’t trust the contracts regarding legislation”.*

(Informant 7)

However, the informants from the large companies, feel more secure, and expressed they could trust the contract, even though compared to Norway the trust was reduced. It can be argued that since larger companies have more power, they feel more secure, and have access to valuable resources that protect them.

*“It is mostly the government we do business with, not the political government, but a governmental organization. We haven’t had much trouble after signing the contracts, so yes, we trust the government and the system”* (Informant 1)

It can be argued that the judicial system is not transparent, and people (actors/business) are not convinced that corruption or prejudice will be brought to justice. This is particularly due to the judiciary not being independent, and therefore will not be accountable. The informants’ distrust in the legal regulatory system might be greater than the distrust an average Chinese citizen has towards the regulatory system, as the managers are used to a stable, transparent and accountable regulatory system in Norway.

*“Clearly, corruption is a big problem. The Chinese understand that if they get exposed it will be unacceptable, thus they never expose themselves for us, but regardless we know there is something fishy and underhand going on back in the chain.”*

(Informant 2)

*“There is a lot of corruption in China, even though I haven’t experienced it where I work. I have clearly seen it, but it hasn’t affected me. (...) I don’t trust it because it is corrupt... corruption is very widespread.”* (Informant 3)

*“It is clear that those companies that are involved with the government are more corrupt, there are more corruption higher up in the system, at least more than what is further down in the system. (...) If the government owns the companies, then it is very difficult to stay away from corruption, because they still play by the same rules.”*  
(Informant 4)

*“...I have very little trust in this. Unfortunately, there is a lot of corruption, which often destroys the fair treatment of cases.”* (Informant 5)

Thus, it can be argued that in general the informants feel that the government and the regulatory system lack credibility, hence the informants have low generalized trust.

Despite the changes occurring in China, which are, is apparent for everyone in the world, it can be argued whether people inside China feel it to the same extent. When the informants were asked about China’s transition, they were a little confused about it and could not name or notice any changes at first. However, after a short discussion, they could name a few. Overall, informants did not observe any cultural and normative changes. However, all of the informants mentioned some general changes.

*“Cultural changes; I will say that China has become more and more Westernized.”*  
(Informant 1)

*“When it comes to people, the transition is much slower than the technology.”*  
(Informant 3)

*“There haven’t been any big revolutionary changes in Chinese people’s mindset since I have been in China”. (Informant 7)*

Furthermore, informants have noticed changes in the practice of gift giving, because of stricter laws. The large and valuable gift giving, which is a part of *mianzi* and *guanxi*, have been reduced in recent years as well as invitations to large dinners, although small gifts and dinners are still an obvious and ongoing tradition. It can be arguable whether only foreign businesses are most affected by these rules, or in general all domestic companies as well.

*“It is clear that there have been fewer dinners and fewer valuable gifts in recent years. It seems that laws have become stricter. Especially exchanging gifts, which can be understood by us as corruption.”* (Informant 2)

The informant from one of the large companies pointed out that importance of relations has decreased, though face value is still very important. It can be interpreted as relations being less important when you are a large company with a good reputation. However to preserve your reputation in the market, face value is important. It may be also correlated to the fact that changes are happening, although very gradually, as only one of the informants emphasized it.

*“Face value is extremely important, I think now it is more important than *guanxi* for business purpose”* (Informant 7)

As mentioned earlier, the power distance that contributes to the hierarchical system is still a challenging factor for the informants. Thus all of the informants tried to change the organizational structure, with different outcomes. One of the informants emphasized:

*“I have few employees that are over 40 years old. It is clear that they have greater difficulties in accepting changes in the organizational structure in contrast to the younger employees.”* (Informant 7)

It is recognized that it is more challenging for the older generation to accept the changes from a highly centralized top-down structure to a more decentralized, flat hierarchy. The power distance has been transferred from generation to generation. Therefore it can be argued that the difficulty of changing the older generation can be

interpreted as the younger generation finding it easier to accept changes, and are thus more open-minded.

Moreover, several informants expressed the challenges to get employees to contribute or work together in large groups, develop new ideas and be more open-minded. This may be seen in parallel to the fear of losing face (*mianzi*).

*"Normally, they wait to get all the ideas from me and expect me to tell them what to do. I don't or won't work like that. So I have to constantly say that all good thoughts are important and all ideas will be considered and listened to. It's fine to express an idea even if it is wrong. This is something the Chinese don't understand."* (Informant 4)

The few or very insignificant cultural and normative changes can be explained by the unique Chinese history. Several informants emphasized that the Chinese are very nationalistic and therefore do not see the need for change.

*"What is important to think about is that the Chinese are very proud, they are very proud of their own culture and country. And a lot of them don't see the need to get influence from outside, because they can manage it themselves. They have done it in the past and throughout their history."* (Informant 3)

Even though informants emphasized no big changes they have experienced in general, most of the informants emphasized regulatory changes.

*"In a way it has become more secure, because you have good documentations and check what you do more closely. You have greater legal protection as a company, which I think the Chinese government works a lot with"*. (Informant 3)

*"I sense a more deterrent attitude from the government, and that they have started to become stringent on immoral behaviour at every level"*. (Informant 7)

Changes in the regulatory system were observed through implementation of more and stricter laws, with a particularly remarkable legal change in terms of corruption.

*“Corruption turnover has just been insane. We notice it clearly in our office. Human Resource policy has changed; there have been fewer bonuses. We’re not allowed to eat at expensive restaurants anymore because we have to keep ourselves within the company’s regulations. It has been stricter the last few years. So we have definitely noticed it.”* (Informant 3)

*“The most noteworthy changes are how the political parties introduce very strict sanctions on corruption. But winning a case on corruption is not so normal anymore.”*  
(Informant 4)

*“Now there are fewer Chinese companies that use bribery and illegal businesses in China, which is positive. A focus area for governments is to overcome the corruption that exists today. But having a good relationship with customers and suppliers, is still as important as before.”* (Informant 7)

Even though many of the informants clarified that corruption had been reduced, they also emphasized it could still be found higher up in the system. This means that corruption has not been necessarily been reduced in China *per se*, but it might be explained by government’s separate regulations for foreign investors and organizations. Their trust towards the legal regulatory system has not increased, despite the government’s effort of reducing corruption, which means that indirectly they still sense and observe corruption.

Two of the informants also mentioned that the Chinese had become more materialistic, and the increase in this dimension can be linked to an increase in corruption, and thus informants distrust towards other actors (people).

*“In terms of social culture, I would say that there is a strong tendency towards a materialistic mindset. More than ever, it is now about earning money and getting rich. Morals and principles that were important before are not in focus anymore.”*  
(Informant 6)



Another important factor is having free press for more openness and to be able to expose these matters and hold officials to account. The informants have experienced a great amount of censorship in the media in the past years, especially for international (social) media. Media is seen as the fourth estate or fourth power. Because of its influence and power, it can therefore be argued that the government does not want to lose their existing means of control and power, as they have already lost some power by opening up to international trade and an open market. Hence control has increased. Its effect on corruption is rather bad, as it is difficult to uncover corruption scandals when the media is highly regulated and therefore distrusted. Transparency is imported in monitoring business sectors especially corruption.

*“It is a lot more censored on the social medias now, than before.”* (Informant 1)

*“Facebook is not allowed, Instagram is not allowed. All media that can easily and quickly disseminate information is censored.”* (Informant 5)

*“As you know, the Internet censorship in China is quite strict. Internet sites like Google, Facebook, YouTube and Instagram are blocked. How can we then trust the government?”* (Informant 6)

An interesting noticeable thing is that all the informants mentioned control in some way when changes in China were mentioned. It looks like the Chinese government is trying to exert more control in the past few years. The Nobel Peace Prize event was also mentioned by all of the informants, and they stated that it had caused them more practical difficulties such as Visa restrictions, but none had been directly affected in any other way. The Nobel Peace Prize event has even caused restrictions on who comes and goes to Norway from China. It can be interpreted as control intensification; where the government is trying to control and minimize the influence from outside the Chinese borders.

*“It’s difficult to get a visa with multiple entries now. I have to apply every time and it takes much longer than it took before. But we have not been exposed to a direct contradiction in political unwillingness.”* (Informant 1)

*“There are many Chinese that are not allowed to travel to Norway from their state. (...) It was easier to get multiple entries, one year ago. (...) But if you have a good relationship with the embassy, then you might get two entries.”* (Informant 4)

*“The biggest change or problem is regarding the Nobel Peace Prize. China has lost face and Norway had an influence. It is not the political background as people think, but rather how the way Norway responded which Chinese people cannot understand. And it is a debate that Norwegian companies have received, influenced and started negotiating over. So within a few years, when Norway has apologized in some way, then things will be better, but China have clearly lost face. And they have done it globally.”* (Informant 5)

The interesting observation is that even though rule of law has improved and even slight regulatory improvements have been observed, some informants implicitly and some more explicitly expressed that they still have to rely on relations, and additionally follow rules.

*“I can’t predict that contracts are followed (...). We have made rules and procedures that go beyond legal contracts, which are based on relations. This is extremely important. Relations have to be maintained for the sake of contractual procedure to go right, otherwise you have very little security”* (Informant 3)

*“Rule of law and relations exist side by side. Rule of law is in addition to relations.”*  
(Informant 4)

Concluding, the findings show that the smaller the companies are the lower the generalized trust is. Hence, it is indicated that large companies have more generalized trust, though it is still low. Furthermore, small businesses have to rely more on relations compared to large companies. However, it should be noted that relations are important independent of size of industry type, the difference being the degree of importance. Table 6 shown below is a summary of the empirical findings. The table describes different trust indicators and whether there are any changes noticed.

It is clearly that China's culture and history still has a big impact regarding trust in today's business culture, hence the practice of relation-building and the hierarchical system. The indicator of corruption has clearly reduced from the past, as well some aspects of *mianzi*, where it can be linked to bribery. Additionally, this has led to significantly stricter laws and regulations, which means that control has increased. These changes can be linked to the shift from relation-based to a rule-based system.

Table 6 Trust indicators: Before and after, customized by the authors, 2015

<b>TRUST INDICATORS</b>	<b>BEFORE</b>	<b>AFTER</b>
<b>Practice of <i>guanxi</i></b>	Great value: - Extremely important for everyone	Great value: - Extremely important for small companies - Very important for large companies
<b>Power distance</b>	Important	Important
<b>Corruption</b>	Huge	Less (decreased)
<b>Control</b>	Much	Excessive (increased)
<b><i>Mianzi</i></b>	Great Value: Very important	Important (decreased)
<b>Rules</b>	Little regulation	Many more rules: - Better regulation for larger companies (increased)

## **CHAPTER 6 RELATIONSHIP-BUILDERS OR RULE-FOLLOWERS?**

In this Chapter we will discuss how findings presented in Chapter 5 may be interpreted and explained through the theoretical framework built in the Chapter 3. Our interest is to examine and understand organizations, particularly managers' trust challenges in transition economies, through the lens of multiple theories. Institutional theory will be used to explain the findings and answer the research question. The structure of the empirical work is in accordance to the theoretical model. The findings indicated that Norwegian managers face challenges due to China's transition. The challenges that have been found relate to both the relation-based system and the rule-based system.

### **6.1 First signs of transition**

Since 1979 China has been undergoing significant changes, starting with economical reform. Gradually, significant changes have also occurred in corporate governance, such changes have been in stock exchange (Ho, 2003c), company law (legal requirement), opening up for private ownership (Li, 2013), accounting law (IFRS) and guidelines for listed companies (Ho, 2003c). All these changes have taken place with the aim of China's economic growth. This transformation is said to be essential to a country's long-term development process. Changes in the economical forces in the institutional exogenous environment, such as the transition from a traditional economy to a more market-friendly economy in China, are forces for institutional change. The institutional changes can affect the normative, cognitive and regulatory institutions. The transformation progress varies among countries, relative to the degree of internal resistance that comes from a country's culture and history, which also includes its legal heritage. Its impact on institutional change is great, and determines the speed of change. In China's case, with its unique and rich historical and cultural roots, the transformation is expected to progress rather slowly. However, the findings reveal that within some areas, i.e. the cognitive and normative, there are no significant developments at the moment. This can be understood as the early phase of transition

where these areas are resistant to change. This is supported by North (1990) that points out that the formal rules can change overnight through political and judicial decisions, but the informal restrictions such as traditions, codes and norms are more impermeable to change and to policy execution. Significant changes in cognitive and normative institutions have not been noticed, which can be explained by Kostova and Roth's (2003) concept of institutional baggage. The Confucian mindset and its cultural value base will be especially resistant to change. This will have and has had an impact on the transition from a relation-based to a rule-based governance system. Relations' (*guanxi*) importance was a common recognition among all informants, and was considered crucial for a company's external environment. It can be argued that it may slow down China's transition or it can also be possible that China would never fully transform to a rule-based governance system, at least not as a Western rule-based system.

Interesting findings about transition came to light from the empirical study. There is a clear indication that China has increased its control after its economic transition. It indicates that the transition has caused more controlling policies that have a negative reaction and have caused distrust towards the regulatory system. It can be considered that the government has calculated the possibilities of uncertainty during the shift from relation-based system to a more rule-based system. Increased control can thus be interpreted as the Chinese government's strategy to maintaining control during the transition. Increasing control can therefore be said to be reasonable. Moreover, it can also then explain the increased restrictions on visa entries into China after the Nobel Peace Prize event in 2010. It can be viewed as the Chinese government's approach to keeping control in a transitional phase with high uncertainty. It can be implied that the relatively inconsistent and gradually evolving control that originates from the Chinese government has contributed to distrust towards the formal institutions, and in fostering a low generalized trust

As China is now a member of the World Trade Organization, and is committed to following certain rules and regulations, regulatory changes can be expected. More accurate and stricter rules within corporate governance have been established (World Bank, 2014), which affects corporate governance both in a negative and positive way. It should be noted that China is a relation-based country and has always, as other relation-based societies, had many formal rules. However, the avoidance of these rules

has been because of unfair enforcement methods. In recent years when rules and regulations have become stricter, and there is a rapid increased of foreign direct invest in China, changes in regulative institutions should be expected.

A common understanding among the informants is that the legal regulatory system is not accountable; it does not have fair enforcement, nor is it transparent. Arguably, it may be that the informants' trust perception makes the situation worse than what it actually is. Having a background and value base from a welfare state can make their expectations and expectations of a governance system higher, and therefore they cannot trust the formal institutions in China even though there are opportunities for it, although compared to Norway it may be very weak.

The empirical findings show sign of both a relation-based and rule-based governance system. There are evidently changes going on that are implicitly affecting them, however, the informants are very static and have not noticed many changes. It can be argued that they have not noticed them yet. Firstly, it should be pointed out that the confusion among the informants about whether there are any changes occurring in China at all, indicates there might be possibility that they do not take the opportunities that have been given to them. There is an opportunity of using the rules hat have been established in favor for international business in China, such opportunities may be seen in the reduction in gifts values (*mianzi*). Room is left for the implementation and practice of these rules. At the same time, some of the changes have started to be realized by the informants, implicitly. Nevertheless, legal and regulatory changes are not only apparent on record, but the empirical findings also clearly indicate changes. New rules have been implemented and some are enforced. These are signs of a shift to a more rule-based society.

China is going through a transition where there is increasing implementation and advancement of more rules that are fair, transparent and efficient are advancing, this should in fact foster generalized trust and reduce particularized trust per se. Weak institutions cause distrust and uncertainty for formal institutions, which also has an effect on informal institutions. Other's behavior cannot be predicted, and thus foster distrust in informal institutions as well. The only approach is to build trust based on relations, thus force particularized trust (Li, 2009). There is a connection between

degree of rule of law and people who trust others (Li, 2009). The transformation phase will determine the degree of formal trust and existence of generalized trust, and thus forms informal trust and importance and need of guanxi can be reduced.

Theoretically and empirically it shows that institutions have a great impact on organizations. It is apparent that most of the informants have particularized trust, and therefore need to invest in relations. Generalized trust can only be found among the informants from large companies. This in fact can be argued for regulatory changes are being prioritized on larger foreign companies at this stage of transition. It may also be that the large companies have certain power that would make their partners reluctant for doing any kind of fraud, and the system keeping an extra eye on these companies. In this case, where rule of law has increased, trusting other people should then also have increased, and thus reduced the value of particularized trust (Luo, 1995). However, the informants have low generalized trust, though in theory where regulatory institutions have improved, generalized trust should be present. The key feature of relation-based societies is exactly the reason why the informants have low trust towards the formal institutions: rules are not fairly made and constantly applied. It can therefore be understood that the perception of trust indicates a more relation-based society than a rule-based society.

Surprisingly, most of the indicators for trust challenges noticed in the findings, indicate occurrence of ceremonial changes. The shift from a relation-based to a rule-based system in China has resulted in the establishment of new rules and policies. The system has started to change, but it is not homogeneous. However, these changes are rather ceremonial, which means that things are not implemented in practice. Some changes being followed, others are ceremonial.

The Chinese government has since it opened its doors to international trade emphasized a war against corruption. Many rigid rules targeting corruption have been implemented and regulatory changes have even been noticed. The informants noticing reduction in corruption can be explained by the rules and regulations mainly being concentrated towards foreign companies as statistically corruption has increased in China in recent years. The observed reduction in corruption may also be explained by China's gradual change and with the starting point being the foreign companies, which

in fact is logical as it makes foreign direct investment easier, thus attracting more foreign direct investment, which clearly will give China more economic growth. It may have facilitated a quicker adoption of rules for foreign companies in China. Adaptation of IFRS and social security systems are perfect examples on the implementation of rules directed at foreign companies in China. Cross-border interactions between various actor groups push the system and force institutional change faster than what it would have been without cross-border interactions. However, problems and conflicts between different institutional logics globally can be considered as a major source of institutional change or a major source of challenges. Thus one may say that foreign players follow a set of rules of the game, while different classes of domestic players follow a different set of rules. The co-existence of dual regulatory institutions during the whole transition period provides plenty of opportunities and work as a catalyst for corrupt practices. This can explain the highly observed reduction in corruption by the informants, while the overall corruption statistics for China tell us otherwise. Informants that are from a highly developed institutional system regard these laws positively and see them as an opportunity for further investment, however domestic views can be different, and can take the opportunity rather in the opposite direction. It gives the domestic companies a competitive advantage over the foreign ones. However, it will make the transition period more difficult, challenging and disadvantageous for foreign companies in China. It can thus be argued that it is a possibility that foreign companies decouple, where there is a gap between policy and practice for corruption, because of the disadvantageous position they are placed in.

Although, the significance of corruption laws is highlighted by severe penalties, China has still been ranked as no. 100 in CPI index (Transparency, 2014). It can thus be argued that it is rather a sign of ceremonial change. As these changes have been implemented but not in practice. The possibility for a ceremonial change can be argued to be a result of external pressure and the requirement from WTO after China's membership. The lack of trust in the legal system among most of the informants can be understood by the increased uncertainty that has been created by the ceremonial change.

Corruption seems to influence directly on the trust of formal institutions, and thus on informal institutions, which was highlighted by several informants. The lack of trust



towards the formal institutions indicates that laws remain ink on paper and are not fairly and efficiently enforced. The steps towards implementing rules are established, however the next step should be towards credibility of enforcement of rules that exist

## 6.2 Decoupling

Regarding the shift from a relation-based to a more rule-based system, it can be understood that the relations-based system has more impact in China than the rule-based system.

Relations were essential for getting things done when the legal institutions were immature. *Guanxi* is seen as a transactional mechanism in countries where institutions are undeveloped (Li, 2009). After China's economic reform and becoming a major player in the global arena (Sheh, 2008), it would seem like the importance of relations would decrease. However, it seems otherwise; its importance remains. It can be argued though that the need for *guanxi* is not only due to the lack of legal rules or weak laws in China. Otherwise greater changes affecting *guanxi* would have been visible. However, it is embedded in the Chinese people through Confucianism.

The practice of the *guanxi* concept in the organization is rather a requirement than a choice for the informants and is a result of institutional pressure from regulatory institutions and cognitive institutions, (Meyer and Rowan 1977). Use of relations in organizational activities, which is rather time consuming and costly, can be considered as institutional isomorphism and institutionalized practice in China. The *guanxi* concept is institutionalized because it has a rule-like status, which has to be followed during all business exchanges, and is resistant to change. The practice is not questioned domestically and without the practice in the organizations activities, the organizations fail to gain legitimacy and are doomed to fail. The practice there to secure transactions and to secure social approval (legitimacy), which provides survival benefits. Findings indicate that the informants have reduced organizational efficiency, as they are used to a more efficient system, where processes take a shorter time. It can be argued that to reduce relations' importance and to formalize the arrangements, the only option is to reinforce legal regulations and political sanctions. Although reducing its value can be

argued for, whether it will ever disappear in corporate governance is rather a foolish prediction as it is not only needed due to regulatory pressure, but also because it has long roots in Chinese history. This has been passed on from generation to generation, and is widely accepted and applied, without debate. Hofstede (1991) highlighted this relational phenomenon as long-term orientation (LTO), where China is found to have one of the highest ranks.

As discussed earlier, the practice of *guanxi* is still highly regarded and is a critical success factor when doing business in China. Surprisingly, the importance of relations (*guanxi*) in an organization is highlighted by the occurrence of several decoupling. However, this case identified sign of two types of decoupling.

The decoupling occurred when the managers opposed their own organization's policy by not taking any legal stand against their external members when they were supposed to (Bromley and Powell, 2012). Taking a legal stand is a normal organizational policy when issues such as delayed payment and property rights. It was stressed that good relations are very important to preserve, and a legal stand should only be taken in extreme situations or as a last resort, as there is a great risk of breaking relations (*guanxi*). There might also be a risk of losing the face and thus the reputation among other external Chinese members. Breaking relations may reduce the organization's efficiency, as *guanxi*'s role in organizations activities is as a support system, especially during transition period with high uncertainty. Therefore, decoupling from organization's policy and saving the *guanxi*, is needed. However, policy-practice decoupling may become less common, when the formal institutions are more developed and emphasize transparency and accountability. In other words when the transitions is more mature and the rule-based governance system is the dominant system and the relations-based governance system the weaker one. It can also be argued that the decoupling occurs because an organization is not able to achieve its goals if there relations are not preserved. This indicates a means-ends decoupling, where there is a gap between means and ends.

There is a difference between how relation-based and a rule-based system manage contracts. In a rule-based system most of the transactions are based on impersonal and explicit agreements, where the state can fairly enforce contracts (Boundy, 2010). Thus,

the need of trust between contractual parties is not needed; the trust is rather placed in the system. In a relation-based governance system, companies largely rely on relations; hence personal and implicit agreements, where in general the state is not able to impartially enforce contracts. Therefore, mutual relations are the basis between two transaction parties. Even though China is in transition, the need of *guanxi* is still there. When managers, from a rule-based governance system have a transaction with managers from a relation-based governance system, sign of means-ends decoupling may show. In addition to written contracts, the managers have the need to communicate oral agreements, as written contracts tend to not be followed fully. Further, contracts do not hold the same position for the rule-based managers, and thus the establishment of relations is a must. Oral agreements based on relations are a more trustworthy mode of agreement, in addition to the written contracts. It can be argued that keeping a balance in between these two modes, are necessary. Decoupling between means and ends may occurs when the managers want to prevent real organization consequences and not wanting to risk work activities and thus the organization's outcome. In this situation managers do not follow formal structures. Such formal structures may be, as informants indicated, to do transaction agreements both written and orally, where it is clearly room for misunderstandings. Thus, means-end decoupling can explain why managers implement a set of practices, such as oral agreements.

As corruption that has been the main focused area for improvements and changes, the practice of gift exchange (*mianzi*) has also been considered. The regulatory focus is specific to the value of the gift/favor, to differentiate between bribery and gift. However, gift exchanges are still an ongoing practice, though partially reduced, and can be argued to be another sign of ceremonial change. By following the policy and without the practice, getting the work done in China is rather difficult. Therefore it can be argued that the practice of exchanging gifts can also be seen as a policy-practice decoupling. Especially as it is can be considered as a ceremonial change, and not been fully implemented and is weakly monitored. The practice is still a necessity for companies in China as the practice is rooted in the Confucianism teachings and thus highly regarded in China. It can therefore be argued that the decoupling occurs in order to maintain *guanxi*, which help the organization's activities to be more efficient. As the practice allows the formal building of relationships and mutual trust, hence having a

*mianzi* gives advantage such as good credit history or social currency in business and social circles (Chen, 2001). It may be argued that these ceremonial changes increase uncertainty for the managers, as the policy have shifted from a relation-based to a more rule-based system but in practice the shift is stagnant.

It may also be considered as means-ends decoupling, where the implementation of the rules for gift exchange may cause managers to not be able to reach their targets and get their work done. Especially as it is can be considered as a ceremonial change, and not been fully implemented by all actors and is weakly monitored.

In a transition economy, such as China, where the government is intensively implementing new rules, decoupling might appear. From the findings this was stated as rather demanding and challenging. The managers are put in an unpredictable situation, where they have to be ready for any kind of changes, constantly. It can be argued that these unpredictable situations are tougher on the informants because they belong to a society with higher uncertainty avoidance than Chinese societies. Chinese societies have low uncertainty avoidance and are more flexible to unstable environments (Hofstede, 2005). However, this unpredictable situation may cause managers to decouple from their own organization's policies and formal structures because of the gap between means and ends. Following organization's objectives and the long-term strategy plan may result in organization's outcome not being reached. Regulatory pressure in this transition process may require a more flexible objectives and strategy plan, and thus the need of decoupling from the fixed strategies and objectives may occur.

In this ongoing transition process, decoupling has been identified. For the managers it brings dilemma. Does the decoupling bring opportunities and flexibilities, where managers can now choose between these dual situations or does it bring uncertainty about how to behave?

The Norwegian organization structure has its base from the ideology behind the welfare state model "The harmony model". This means that different social classes, employers and employees, and the state and citizens have common interests, societal respect for each other's roles and a common understanding of rules. The model assumes that groups in the society do not oppress one another, but are interdependent

(Bru, 2013). The flat organization structure can thus be said to be institutionalized practice in Norwegian companies. The typical practice of vertical structure is widely accepted and resistant to change.

The Norwegian culture is based on values such as democracy, the rule of law and freedom of speech, and features a strong feeling of fairness and egalitarianism. Norwegians tend to emphasise emotional independence, privacy, and individual need. Positive consequences of their own actions and goals are preferred. These features can only be conserved by a decentralized management, and symbolize the Norwegian welfare state. The decentralized management style is a standardized practice, which is expected to be found and executed in Norwegian companies. It can thus be considered as an institutionalized practice, especially because the practice is a result of institutional pressures from all the three cognitive, regulative and normative aspects.

However, in contrast to Norwegian organizational structure, the Chinese organization structure is in a hierarchical order. The hierarchical system is a normative demand based on moral principles from the Confucian teaching. This can also be supported by Hofstede's Power Distance Dimension, which China is categorized as. The top-down organization structure is regarded as an institutionalized practice and considered institutional isomorphism in China, because it has a rule-like status.

As Norway, the Chinese management style is based on "The harmony model". However, they are rather seen in contradiction to one another. The Chinese management style is highly centralized and is based on Confucius teachings. It can be explained by the Confucius saying, "Let the ruler act like a ruler, the subject do his duty as a subject..." (Chan and Young, 2011:24), where a ruler's (or manager's) duty is to show responsibility and control, and a subject (or employee's) is to obey and get the work given done. Harmony is achieved when everyone obeys their civic duties (Lau and Young, 2013). The Chinese harmony model prioritizes group harmony and long-term relationships. Whereas in the Norwegian harmony model prioritizes individuality, which Hofstede (1991) describes in his theory. These are unwritten laws that are embedded in Chinese cultural roots and are thereby difficult to change. Thus, the centralized management style is an institutionalized practice and can be found in Chinese organizations.

The transition from a relation-based system to a rule-based system has not yet affected the view on power distance that forms the organizations structure and management style. This case shows that a nation's values and norms have a strong influence at an organizational level, which the informants stressed. These norms and values go against and are opposed to Norwegian managers' values and work norms.

In Norwegian companies with Norwegian managers in China, these contradicting work norms and values are challenging factors. These challenges were clearly emphasized by the informants. The challenges arise because the Norwegian managers work most efficiently under a flat organization structure and decentralized management style, whereas the Chinese employees work more efficiently under a hierarchical organizational structure and centralized management style. It also has an affect on trust perception. In Norway, trust is understood as being open and honest to their managers, employees and subordinates, whereas trust depends on keeping someone face value by direct confrontations and arguments in China. Norwegian managers trust their employees when they have an open dialogue and commonly share ideas, which is contradicting to the Chinese employees trust perception. Chinese employees trust their managers when the managers show control and delegate the work task systematically, for the work is done in a more efficient and in a correct manner. To support this, Hofstede's cultural dimensions show China and Norway as one of the opposing countries regarding power distance (Hofstede, 1980), and thus explain the challenge informants face.

The Norwegian managers are confronted with distinct sets of isomorphic pressures and institutionalized practices from both the Chinese and Norwegian environment. The necessity of maintaining legitimacy from both sides challenges Norwegian managers. This dual intuitional situation causes managers to decouple.

The decoupling that occurs is because of the gap between policy and practice. The response can said to be a form of decoupling: where the managers maintain internal structure, flat organizational structure, to signal legitimacy. On the other hand, they signal the adaptation of certain practices to the external environment, such as centralized decision-making. Thus, the decoupling can said to be a loose one, from

both sides, to maximize the organizations efficiency. This also sustains both employees' and the manager's trust. The it indicates that balancing between both relation-based and rule-based systems are necessary in transition economies.

In summary, at the conceptual level, our analysis suggests that institutional contexts are complex. China's cultural values are, empirically and theoretically, indicated to be constant. Thus it can be argued that China will probably not have a rule-based governance system similar to the West, but rather go in its own direction. As long as the new institutions dominated by rule-based governance system are not established, the need for a more relation-based governance system will not be reduced. It is clear that the absence of generalized trust requires particularized trust. Importance of *guanxi* is thus still essential as there is low informal trust.

Even though a greater number of formal rules and regulations have started to change towards a more rule-based governance system, relying on the new rules is still likely to outweigh their benefits. Existence of both rule-based and relation-based systems has caused a hybrid situation. The changes that are observed can be understood as signs of ceremonial changes. The ceremonial changes are mainly because only polices have changed, but in practice, the rules are not enforced and transactions are done in the same manner as in a rule-based system. The hybrid situation has brought opportunity for decoupling. Interestingly, signs of decoupling have mainly been seen in a move away from the rule-based practice rather than towards a more rule-based practice. This in fact, implies that the transition phase is on an early stage and has a long way to go. Therefore, relying on relations continues, and will probably exist despite the implementation of rules and regulations.

Earlier, there was only one way to behave; now there are two. It indicates that it has caused uncertainty and trust challenges for the managers, rather than opportunities and flexibility. Thus, the challenge is mainly to find a balance.

# **CHAPTER 7 CONCLUSIONS**

## **7.1 Theoretical contribution**

Today international business is inspired by the idea of globalization and sets the world as one big market without borders. Globalization has never ended to be a subject of international business, however today more than ever this process provides evidence that the global marketing concept ignores national differences and the changing aspect of other economies. As a result, the challenges for managers in international business, particularly in transitioning economies, have not been addressed to a beneficial extent. The understanding of international business has so far been a general consideration of different cultures. The complication is that they were perceived as rather static and did not pay attention to the mobility factor. Our research shows, in transition economies there are processes that can challenge the picture of one big market without borders; processes such as transitions in governance system. In transition economies processes are found to be hybrid. These hybrid systems cause uncertainty and additional challenges for the international business processes. This study indicates that transition economies are totally different creatures, and thus the concept of one big market without borders does not hold. To conclude, it can be stated that for transitioning economies the challenge lies not in the shift, but rather finding a balance.

## **7.2 Practical implication**

This study was rooted in practical problems, where it aimed to explain the foreign managers' challenges in transition economies. In contrast to rule-based societies, there are few academic studies on relation-based societies and their impact on business (Li, 2009). There are especially few studies conducted on how the transition from a relation-based to a rule-based governance system transpires, with the transition phase in between these two phases. The findings of this study indicate that China's transition from a relation-based to a rule-based governance system is a complicated matter.

A theoretical insight provided by the study is how emerging and transition economies' ongoing institutional transition impact foreign managers' trust perceptions. From our



empirical findings as well as theoretically, the foundation of trust can be considered as context-dependent. Firstly, there is a connection between trust and its relationship with the institutional environment and further with corporate governance. Relatively weak institutions force companies to hold on to relation mechanisms in corporate governance. Institutional pressure from cognitive, normative and regulatory mechanisms is immense in transition economies so foreign companies have to adapt to external conditions, to prevent failure. However, an interesting finding was that even though relations are still highly persevered mechanisms in corporate governance in transition economies, the emergence of new rules and their importance have increased and hence they have to be followed as well. All things considered, as a result of the transition process, a shift from relation-based governance to a more hybrid governance system is indicated. This hybrid system makes the transition phase challenging, because finding the balance between these two systems is difficult. The challenge is to find the balance between being both a relation builder and rule follower at the same time.

Firstly, Norwegian managers should understand that a transitioning country continues to undergo changes, and thus the findings in this study only refer to the current situation. Finding the balance between being a relation-builder and a rule-follower would help the managers in a transitioning economy with the unstable environment. This research recognizes the significance of maintaining flexibility when managing in China. It might also be important for the managers to take into consideration management control mechanisms; to direct, monitor, assess, regulate and integrate to achieve its objectives.

### **7.3 Limitations and recommendation for further research**

This study has limitations that should be commented on and taken into consideration when interpreting the results.

There is no doubt that the limited time and access to resources is a factor in this study. In this study the sampling covered only Norwegian managers in big cities such as

Shanghai and Beijing, due to limited time. It would be interesting to differentiate between company size and industry type in further studies, especially because findings indicated that company size could matter. It could also be interesting to find out whether a “nation-to-nation” cooperation could give other results, as it was observed in the secondary sources that the Norwegian and Chinese government is working to focus and to improve certain industries. Surprisingly, these industries turned out to be the large companies studied in this research. However limited time did not let us look into this factor.

Worthy of mention is the lack of previous research on Norwegian managers’ trust challenges and China’s transition from a relation-based society to a rule-based society, making the comparison between this study and previous research difficult.

Although the focus was particularly from Norwegian managers’ point of view, another perspective can be from Chinese employees’ and managers’ point of view, where their experience of Western culture compared to their own culture can be studied to give a better understanding and help Norwegian managers or Western managers for instance. Additionally, this research can be used for future studies to understand Chinese manager’s challenges in China. Moreover, as the results in this study reflect only the current effects of the institutional environment, a longitudinal study would be interesting to conduct since China’s transition is evolving over time.

Further, a quantitative method such as a survey would provide statistical data, which can give a different perspective between the degree of trust and different trust indicators. It will then provide additional understandings of what the main challenges are that Norwegian managers face. Comparing the result with secondary data would be much easier and yield better results.

However, it should also be underlined that the empirical findings are only from successful companies’ managers, thus leaving room for the existence of other challenges than those that have been discovered. Therefore, further studies can take into account studying Norwegian companies that have failed to establish themselves in China, to have a better understanding of the challenges. Future research can include firms from other highly developed institutions, to test whether the same challenges

occur, and provide more convincing evidence on how the institutional environment impact corporate governance.

In order to fill the research gap of how the companies deal with institutional differences, it is essential to gather a more comprehensive understanding of the specific industry and size of the company. Future studies should adapt strategy to consider what can be done to reduce the challenges. It can specify how the institutional environment impacts an organization's strategic decisions.

Furthermore, managers from highly developed institutional countries, such as Scandinavian countries, Germany and Netherlands, in other transition economies with weak institutions and strong political and cultural background, such as Russia, could be used for further study. It will also be interesting for further study to use field studies and longitudinal case studies. This will allow the indication of more changes as time will pass. Additionally, the same managers could be interviewed again at a later date.

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# APPENDIX

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## Appendix 1: Interview Guide (Highly structured)

First of all, we would like to thank you for your participation in our research project. This interview will be an important part of our master thesis at Bodø Graduate School of Business with specialization in International Business and Marketing. Our research objective is to investigate on Norwegian managers trust challenges in China.

We want to inform that you are anonymous, only your position, industry and year in business as a Norwegian manager in China will be mentioned.

If there are any additional questions regarding this interview, don't hesitate to contact us.

**Thank you so much for taking time for this, we truly appreciate it!**

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### Your background information

1. Can you tell about your position and work as a Norwegian manager in China?

Name:

Position:

Sector:

Year in business:

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2. Can you tell about the importance of relations (*guanxi*), face (*mianzi*) and trust when doing business in China today?

2.1 How does it affect your business?

3. Can you tell about your trust to the Chinese government system?

3.1 How does it affect your business?

4. Have you notice any changes in China and has that affected your business?

4.1 How does it impact you as a Norwegian manager in China?

4.2 Has it change your trust perception?

Is it possible to contact you and ask additional questions or review topics/questions already discussed?

**THANK YOU SO MUCH!**

## **Appendix 2: Interview Guide (Semi-structured)**

### **Introduction:**

First of all, we would like to thank you so much for allowing us to conduct this interview. This interview will be an important part of our master thesis at Bodø Graduate School of Business with specialization in International Business and Marketing. Our research objective is to investigate on Norwegian managers trust challenges in China.

We want to inform that you will be anonymous, only your position, industry and year in business as a Norwegian manager in China will be mentioned.

A transcription of this interview will be sent to you on e-mail, just to make sure that all the information is clearly understood.

The interview will be approximately 40-70 minutes with 3 open questions with additional small questions.

You can whenever you want cancel the interview.

If you have any additional questions, feel free to ask during the interview.

**Start recording**

---

**Background:**

---

1. Can you tell about your position and work as a Norwegian manager in China?

Name:

Position/title:

Sector:

Year in business:

---

1. Can you tell about the importance of relations (*guanxi*), face (*mianzi*) and trust when doing business in China today? How does it affect your business?

2. Can you tell about your trust to the Chinese government system and how does it affect your business?

3. Have you notice any changes in China and has that affected your business?

3.1 How does it impact you as a Norwegian manager in China?

3.2 Has it change your trust perception?

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Ask the informant if there are any additional information or questions?  
Are there any possibilities to contact you and ask additional questions or review topics/questions already discussed?

### Appendix 3: China's GDP (1995-2015)

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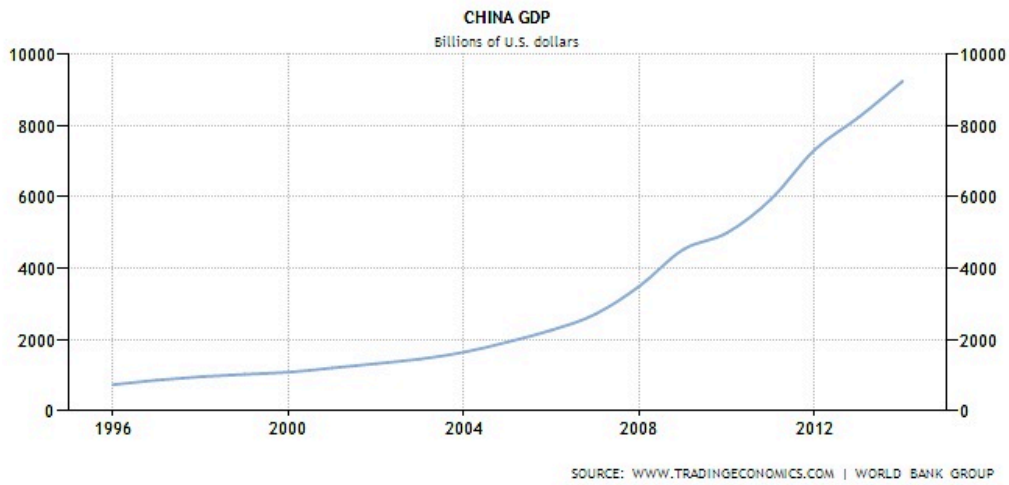


Figure 7: China's GDP (1995-2015), source: Trading economics, World Bank 2015

### Appendix 4: Countries with highest GDP (2015)

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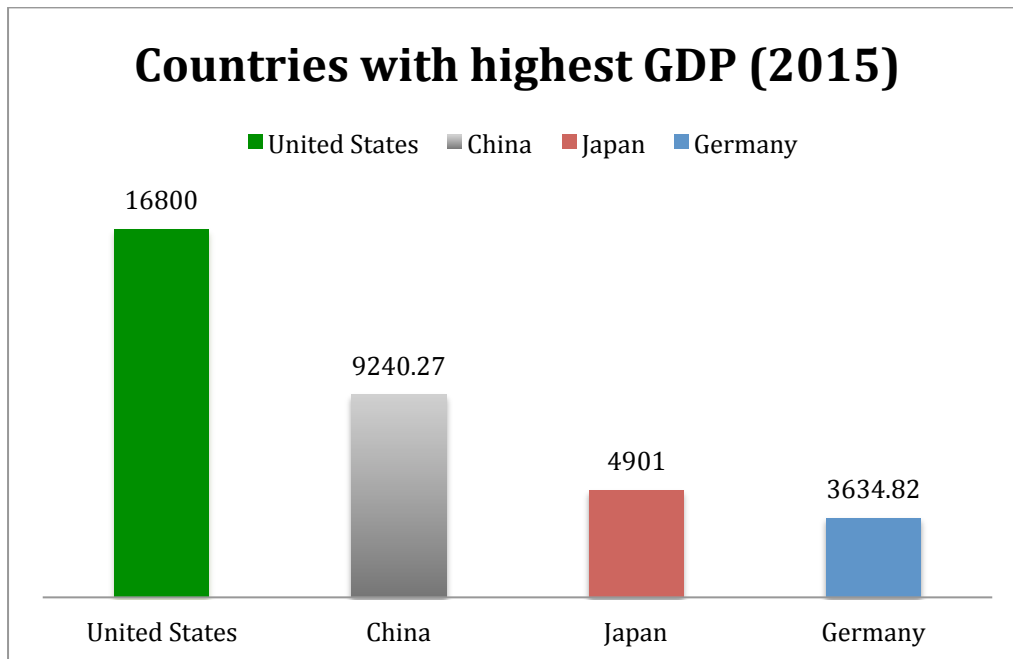


Figure 8: Countries with highest GDP (2015), Source: Trading economics, World Bank, 2015

## Appendix 5: Economic growth in GDP – top 4 countries (1995-2015)

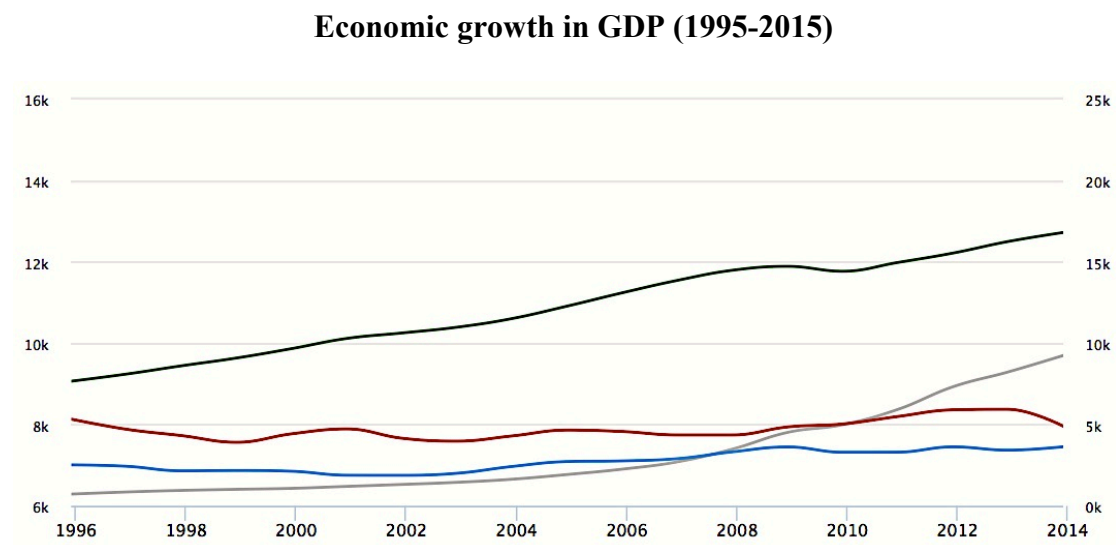


Figure 9: Economic growth in GDP – Top four countries (1995-2015)

## Appendix 7: Small and medium-sized enterprises

Table 10 Small and medium-sized enterprises (European Commission, 2015)

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	Or	Annual balance sheet total
Medium	< 250	≤ € 50 mill.	≤ € 43 mill.	
Small	< 50	≤ € 10 mill.	≤ € 10 mill.	
Micro	< 10	≤ € 2 mill.	≤ € 2 mill.	

## Appendix 6: Norwegian companies in China

In total, 212 Norwegian companies in China per se. 2014.

64 companies in Shanghai and 31 companies in Beijing.

Norwegian companies in China are geographically dispersed, but most of the Norwegian companies are located in the big cities such as Beijing, Shanghai and Hong-Kong.

Table 7 Norwegian Companies in China, Source: Innovation Norway, 2014

Name	City	Contact address
Aalesundfish AS China	Shanghai	<a href="http://www.aalesundfish.no/default.asp?menu=13&amp;view=app_person_list&amp;app_id=7&amp;app=7&amp;response=1&amp;body=0">http://www.aalesundfish.no/default.asp?menu=13&amp;view=app_person_list&amp;app_id=7&amp;app=7&amp;response=1&amp;body=0</a>
Aasly Marine's Shanghai Office	Hong Kong, Shanghai	<a href="http://www.aaslymarine.no/shanghai%20office.htm">http://www.aaslymarine.no/shanghai%20office.htm</a>
Aeron Energy and Technologies Co., Ltd.	Shanghai	<a href="http://www.aeron.no/aeron_world_wide/">http://www.aeron.no/aeron_world_wide/</a>
Aker Cool Sorption (Beijing) Technology Ltd.	Beijing	<a href="http://www.akersolutions.com/en/Utility-menu/About-us1/Corporate-structure/Process-Systems/Aker-Cool-Sorption-Beijing-Technology-Ltd/">http://www.akersolutions.com/en/Utility-menu/About-us1/Corporate-structure/Process-Systems/Aker-Cool-Sorption-Beijing-Technology-Ltd/</a>
Aker E&T (Shanghai) Co., Ltd.	Shanghai	<a href="http://www.akersolutions.com/en/Utility-menu/About-us1/Corporate-structure/Engineering/Aker-ET-Shanghai-Co-Ltd1/">http://www.akersolutions.com/en/Utility-menu/About-us1/Corporate-structure/Engineering/Aker-ET-Shanghai-Co-Ltd1/</a>
Aker MH China (Beijing)	Beijing	<a href="http://www.akersolutions.com/en/Utility-menu/About-us1/Corporate-structure/Drilling-Technologies/Aker-MH-China-Beijing/">http://www.akersolutions.com/en/Utility-menu/About-us1/Corporate-structure/Drilling-Technologies/Aker-MH-China-Beijing/</a>
Alpha Boat Manufacturing (Zhouzhan) Co., Ltd.,	Zhoushan (Zhejiang)	
Alu Rehab (Xiamen) Co., Ltd.	Xiamen	<a href="http://www.alurehab.com/contact">http://www.alurehab.com/contact</a>
AMI ENWA GLOBAL AS	Beijing	
Aqualyng AS	Shanghai	<a href="http://www.aqualyng.com/en/Contact/ContactInformation.aspx">http://www.aqualyng.com/en/Contact/ContactInformation.aspx</a>
ARWI Electronics (Suzhou) Co.,Ltd.	Suzhou	<a href="http://www.arwi.no/Contactus.aspx">http://www.arwi.no/Contactus.aspx</a>
Aximed	Hong Kong (Kowloon)	<a href="http://www.aximed.no/index.php?option=com_content&amp;view=article&amp;id=91&amp;Itemid=102">http://www.aximed.no/index.php?option=com_content&amp;view=article&amp;id=91&amp;Itemid=102</a>
BecoTek Precision Bearing Components (Suzhou) Co., Ltd.	Suzhou	<a href="http://www.becotek.com/article.asp?uid=21&amp;CID=21">http://www.becotek.com/article.asp?uid=21&amp;CID=21</a>
Belships (Shanghai) Ship Management	Shanghai	<a href="http://www.belships-sha.com.cn/contact.htm">http://www.belships-sha.com.cn/contact.htm</a>
Beta Moss Shipping	Shanghai	<a href="http://www.betamoss.com/main.php">http://www.betamoss.com/main.php</a>
BI (Norwegian Business School) Liaison Office	Shanghai	<a href="http://www.fdsf.fudan.edu.cn/nwmbatest/en/Contact.aspx">http://www.fdsf.fudan.edu.cn/nwmbatest/en/Contact.aspx</a>
Borregaard Shanghai Repr. Office	Shanghai	<a href="http://www.borregaard.com/About-us/Addresses/Our-plants-and-offices">http://www.borregaard.com/About-us/Addresses/Our-plants-and-offices</a>
Bring Logistics Hong Kong Limited	Hong Kong (N.T.)	<a href="http://www.bring.com/">http://www.bring.com/</a>
Cambi	Beijing	<a href="http://www.cambi.no/wip4/detail.epl?cat=10648">http://www.cambi.no/wip4/detail.epl?cat=10648</a>
CANDIS Group Ltd.	Beijing, Hong Kong	<a href="http://www.candisgroup.com/">http://www.candisgroup.com/</a>
Car Baby Seat Ltd./Win Helmets Ltd.	Huizhou	



Collicare Logistics AS- Shanghai Office	Shanghai, Xiamen	<a href="http://www.collicare.no/avdelinger/category376.html">http://www.collicare.no/avdelinger/category376.html</a>
Conax	Beijing	<a href="http://www.conax.no/en/contactus/">http://www.conax.no/en/contactus/</a>
COPIA	Hong Kong	
CSI Movable Cabinet (Changzhou) Ltd.	Changzhou	<a href="http://www.csinorway.com/en_contact.php">http://www.csinorway.com/en_contact.php</a> ( <a href="http://www.czrc.com.cn/njob/company.asp?id=17317">http://www.czrc.com.cn/njob/company.asp?id=17317</a> )
Dalian Dyrkorn Fishing Gear Company Ltd	Dalian	<a href="http://www.dyrkorn.no/default.asp?page=7962&amp;lang=2">http://www.dyrkorn.no/default.asp?page=7962&amp;lang=2</a>
DEFA Technology (Wuxi) Co., Ltd.	Wuxi	<a href="http://www.defatechnology.cn">http://www.defatechnology.cn</a>
DnB Asset Managment Ltd. (Hong Kong)	Hong Kong	
DnB Bank ASA Shanghai Branch	Shanghai	<a href="https://www.dnb.no/en/about-us/global-network/shanghai.html">https://www.dnb.no/en/about-us/global-network/shanghai.html</a>
Det Norske Veritas AS (DNV)	Beijing, Chongqing, Dalian, Guangzhou,	<a href="http://dnv.com.cn/">http://dnv.com.cn/</a>
EC Tech China CO., Ltd	Shenzhen	
ECCO (Anhui Ever-Clean International Trade Co., Ltd.)	Hefei	<a href="http://www.cn-ecco.com/">http://www.cn-ecco.com/</a>
EFD Induction (Shanghai) Co., Ltd.	Beijing, Guangzhou, Shanghai	<a href="http://www.efd-induction.com/en/Contacts/China.aspx">http://www.efd-induction.com/en/Contacts/China.aspx</a>
Eide Marine Tech/China	Kunshan	<a href="http://eidemar.no/contact-us">http://eidemar.no/contact-us</a>
Eight Custom Media	Hong Kong	
Ekornes (only through a Chinese agent)	Shanghai	<a href="http://www.ekornes.cn/cn/customer_care/contact_information/">http://www.ekornes.cn/cn/customer_care/contact_information/</a>
Elkem Carbon (China) Company	Ningxia	<a href="http://www.elkem.com">http://www.elkem.com</a>
Elkem Foundry China	Ningxia	<a href="http://www.elkem.com">http://www.elkem.com</a>
Elkem International Trade (Shanghai) Co., Ltd.	Shanghai	<a href="http://www.elkem.com">http://www.elkem.com</a>
Elkem Materials processing (Tianjin) Co., Ltd.	Tianjin	<a href="http://www.elkem.com">http://www.elkem.com</a>
Elkem: Dehong Elkem Material	Ruili (Dehong)	<a href="http://www.elkem.com">http://www.elkem.com</a>
Elopak (Suzhou) Co., Ltd.	Beijing, Suzhou	<a href="http://www.elopak.com/language=en/2130/">http://www.elopak.com/language=en/2130/</a>
Eltek Energy Technology (Dongguan) Ltd.	Dongguan	<a href="http://www.eltek.com/wip4/detail.epl?cat=23290">http://www.eltek.com/wip4/detail.epl?cat=23290</a>
Eltorque Automation Xiamen Ltd.	Xiamen	<a href="http://eltorque.no/contact">http://eltorque.no/contact</a>
Energy Micro AS	Hong Kong	<a href="http://www.energymicro.com">www.energymicro.com</a>
ETM Electrical Co., Ltd. Jiangsu	Changzhou	<a href="http://www.etman.cn/en/contact.asp?comid=2">http://www.etman.cn/en/contact.asp?comid=2</a>
Fearnleys (Astrup Fearnley)	Beijing, Shanghai	<a href="http://www.fearnleys.no/index.gan?id=472&amp;subid=0">http://www.fearnleys.no/index.gan?id=472&amp;subid=0</a>
Fenwick Shipping Services Ltd.	Hong Kong	<a href="http://www.fenwick-shipping.com/contact.htm">http://www.fenwick-shipping.com/contact.htm</a>
Frank Mohn Shanghai Ltd.	Shanghai	<a href="http://www.framo.com/default.asp?k=6&amp;id=36">http://www.framo.com/default.asp?k=6&amp;id=36</a>
FunCom AS Beijing Representative Office	Beijing	<a href="http://www.funcom.com/corporate/contact">http://www.funcom.com/corporate/contact</a>
Gard (HK) Ltd	Hong Kong	<a href="http://www.gard.no/ikbViewer/page/making-contact/contact?p_dimension_id=18030">http://www.gard.no/ikbViewer/page/making-contact/contact?p_dimension_id=18030</a>
Geno China	Shanghai	<a href="http://genocn.com/#ref=http://genocn.com/Inner/NewsPage.aspx?id=39">http://genocn.com/#ref=http://genocn.com/Inner/NewsPage.aspx?id=39</a>
Genomar Supreme Hatchery China Co., Ltd.	Haikou	<a href="http://www.genomar.no/?aid=9078096">http://www.genomar.no/?aid=9078096</a>
Glamox (Suzhou) Lighting	Dalian,	<a href="http://glamox.com/address-list">http://glamox.com/address-list</a>

Co., Ltd	Shanghai (salesoffice), Suzhou (production)	
Goltens Shanghai Co., Ltd.	Dalian, Guangzhou, Shanghai	<a href="http://www.goltens.com/g-shanghai_contact.htm">http://www.goltens.com/g-shanghai_contact.htm</a>
Green Interactions Ltd.	Beijing	
GreenStream Network AS Beijing Repr. Office	Beijing, Shanghai, Shenzhen, Hong Kong)	<a href="http://www.greenstream.net/content/contact-us">http://www.greenstream.net/content/contact-us</a>
Greenway Technology (Xiamen) Co., Ltd.	Xiamen	<a href="http://www.greenwayholding.com/gwxm/Default.aspx">http://www.greenwayholding.com/gwxm/Default.aspx</a>
Grenland Group Asia	Shanghai	<a href="http://www.grenlandgroup.com/index.php/about-grenland-group/locations/shanghai-china">http://www.grenlandgroup.com/index.php/about-grenland-group/locations/shanghai-china</a>
Grieg Shipping Group AS	Shanghai	<a href="http://www.grieg.no/companies/grieg-shipping-group">http://www.grieg.no/companies/grieg-shipping-group</a>
GSA Viking Travel Solutions Ltd.	Hong Kong (Kowloon)	
Hako Maskin AS Shanghai Repr. Office	Shanghai	<a href="http://www.hakomaskin.no">http://www.hakomaskin.no</a>
Hao Rong Development Company, Limited	Shanghai	<a href="http://www.bergengroup.no/?page=133&amp;show=1263">http://www.bergengroup.no/?page=133&amp;show=1263</a>
Havyard Group	Shanghai	<a href="http://www.havyard.com/default.aspx?menu=31#">http://www.havyard.com/default.aspx?menu=31#</a>
HTS (Hans Torgersen & Sønn AS)	Huizhou	<a href="http://www.hts.no/site/info_4.html">http://www.hts.no/site/info_4.html</a>
Hubei Tian En Petroleum Gas Transportation Co., Ltd. (TNGC)	Wuhan	<a href="http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125">http://www.skaugen.com/index.php?option=com_content &amp;view=article&amp;id=102&amp;Itemid=125</a>
Hurtigruten ASA	Beijing, Hong Kong	<a href="http://www.hurtigruten.com/Utils/Agents1/Asia3/">http://www.hurtigruten.com/Utils/Agents1/Asia3/</a>
Hydro Aluminium Suzhou Co., Ltd. (Suzhou)	Suzhou	<a href="http://www.hydro.com/en/About-Hydro/Hydro-worldwide/China/">http://www.hydro.com/en/About-Hydro/Hydro-worldwide/China/</a>
Hydro Beijing Repr. Office (Beijing)	Beijing	<a href="http://www.hydro.com/en/About-Hydro/Hydro-worldwide/China/">http://www.hydro.com/en/About-Hydro/Hydro-worldwide/China/</a>
Hydro Building Systems Company Ltd. (Beijing, Shanghai)	Beijing, Shanghai	<a href="http://www.hydro.com/en/About-Hydro/Hydro-worldwide/China/">http://www.hydro.com/en/About-Hydro/Hydro-worldwide/China/</a>
Höegh Autoliners Ltd.	Beijing, Shanghai	<a href="http://www.hoeghautoliners.com/ikbViewer/page/hainternet/regions/east_asia?p_dimension_id=56676">http://www.hoeghautoliners.com/ikbViewer/page/hainternet/regions/east_asia?p_dimension_id=56676</a>
I.M. Skaugen SE	Shanghai, Wuhan, Zhangjiagang	<a href="http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125">http://www.skaugen.com/index.php?option=com_content &amp;view=article&amp;id=102&amp;Itemid=125</a>
Industriverktøy AS (IV- Group, IV-Techmould)	Suzhou	<a href="http://www.industriverktoy.com/index.php?option=com_content&amp;view=article&amp;id=78&amp;Itemid=103&amp;lang=en">http://www.industriverktoy.com/index.php?option=com_c ontent&amp;view=article&amp;id=78&amp;Itemid=103&amp;lang=en</a>
Innotech Solar AS Shanghai Repr. Office	Hong Kong, Shanghai	<a href="http://www.innotechsolar.com/eng/contact_us/">http://www.innotechsolar.com/eng/contact_us/</a>
Integrasco	Chengdu	<a href="http://www.integrasco.com/en/contact">http://www.integrasco.com/en/contact</a>
International Trading Partners Asia (ITP Asia Ltd.)	Shanghai	<a href="http://www.itpgroup.no/contact/">http://www.itpgroup.no/contact/</a>
Intersys Ltd.	Shanghai	
IV-Techmould Suzhou Co., Ltd.	Suzhou	<a href="http://www.nep.com.cn/cms/english/investing%20company/2010-03-02/127.html">http://www.nep.com.cn/cms/english/investing%20compan y/2010-03-02/127.html</a>
Jiangsu Runwei Electric Equipment Co., Ltd.	Zhenjiang	
Jotun Coatings (Zhangjiagang) Co., Ltd.	Beijing, Chengdu, Dalian, Guangzhou,	<a href="http://www.jotun.com/">http://www.jotun.com/</a>

	Shanghai	
Jotun COSCO Marine Coating Co., Ltd.	Dalian, Fuzhou, Hong Kong, Guangzhou, Qingdao, Tianjin	<a href="http://www.jotun.com/">http://www.jotun.com/</a>
Jotun Xiamen Office	Xiamen	<a href="http://www.jotun.com/">http://www.jotun.com/</a>
KinaReiser AS Beijing Representative Office	Beijing	<a href="http://www.kinareiser.no">http://www.kinareiser.no</a>
Kitron Electronics Manufacturing (Ningbo) Co., Ltd.	Ningbo	<a href="http://www.kitron.com/Contact-us/Locations/Kitron-Electronics-Manufacturing/">http://www.kitron.com/Contact-us/Locations/Kitron-Electronics-Manufacturing/</a>
Klaveness Shipping	Shanghai	<a href="http://klaveness.com/offices/shanghai-office/">http://klaveness.com/offices/shanghai-office/</a>
Kongsberg Automotive (Wuxi) Ltd.	Shanghai, Wuxi	<a href="http://www.kongsbergautomotive.com/MediaAndNews/Multimedia/locations/">http://www.kongsbergautomotive.com/MediaAndNews/Multimedia/locations/</a>
Kongsberg Maritime China (Jiangsu) Co., Ltd.	Zhenjiang	<a href="http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China">http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China</a>
Kongsberg Maritime China (Shanghai) Ltd.	Shanghai	<a href="http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China">http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China</a>
Kongsberg Maritime China (Zhenjiang) Ltd.	Zhenjiang	<a href="http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China">http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China</a>
Kongsberg Maritime China Shanghai Ltd. -Site Office	Dalian, Guangzhou	<a href="http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China">http://www.km.kongsberg.com/ks/web/nobkj0407.nsf/WebKongsbergSubsidiariesCountry?ReadForm&amp;cat=China</a>
Kristian Jebsens Ltd.	Hong Kong	
Kværner	Beijing	<a href="http://www.kvaerner.com/en/About-us/Locations/">http://www.kvaerner.com/en/About-us/Locations/</a>
Lærdal Medical (Suzhou) Co., Ltd.	Beijing, Hangzhou, Hong Kong	<a href="http://www.laerdal.com/cn/Pages/ContactForms.aspx">http://www.laerdal.com/cn/Pages/ContactForms.aspx</a>
Lerøy Seafood Group, Hallvard Lerøy Kina	Beijing	<a href="http://www.leroy.no/no/Sales--Distribusjon/Salgsorganisasjon/Hallvard-Leroy-Kina/">http://www.leroy.no/no/Sales--Distribusjon/Salgsorganisasjon/Hallvard-Leroy-Kina/</a>
Leshan Nordic Commercial Consultancy Co., Ltd.	Leshan (Sichuan)	
Lorentzen & Stemoco (Greater China) Ltd.	Hong Kong	<a href="http://www.lorstern.com">www.lorstern.com</a>
Lorentzen & Stemoco AS Repr. Office	Beijing, Hong Kong, Shanghai	<a href="http://www.lorstem.com/Offices/">http://www.lorstem.com/Offices/</a>
Marine Aluminium AS (Ningbo) Co., Ltd.	Ningbo	<a href="http://www.m-a.no/ningbo.cfm">http://www.m-a.no/ningbo.cfm</a>
Marine Harvest	Beijing, Shanghai	<a href="http://www.marineharvest.com/en/about-marine-harvest/About-Marine-Harvest1/China/">http://www.marineharvest.com/en/about-marine-harvest/About-Marine-Harvest1/China/</a>
Marine International Survey Ningbo Ltd.	Ningbo	<a href="http://www.marinsurv.cn/contact_en.asp">http://www.marinsurv.cn/contact_en.asp</a>
Mascot Power Supplies (Ningbo) Co., Ltd.	Ningbo	<a href="http://www.mascot.no/?ItemId=1509">http://www.mascot.no/?ItemId=1509</a>
Motus AS	Guangzhou	<a href="http://www.motus.no/">http://www.motus.no/</a>
Mustad Fishing Tackle (Wuxi) Co., Ltd	Wuxi (Jiangsu)	<a href="http://www.mustad.com.cn/Index.aspx">http://www.mustad.com.cn/Index.aspx</a>
Navslide Trading (Ningbo) Co., Ltd.	Ningbo	<a href="http://www.navslide.no/index.php?option=com_content&amp;view=article&amp;id=54&amp;Itemid=65&amp;lang=nb">http://www.navslide.no/index.php?option=com_content&amp;view=article&amp;id=54&amp;Itemid=65&amp;lang=nb</a>
NBIM Norges Bank Repr. Office	Shanghai	<a href="http://www.norges-bank.no/no/kontakt/adresser/">http://www.norges-bank.no/no/kontakt/adresser/</a>
Nemko Shanghai Co., Ltd.	Beijing, Guangzhou, Hong Kong, Shanghai, Shenzhen	<a href="http://www.nemko.com/asia">http://www.nemko.com/asia</a>
Ningbo Scansafe International Trading Co., Ltd.	Ningbo	<a href="http://www.scansafe.no/newsread/scansafe.aspx?nodeid=5219">http://www.scansafe.no/newsread/scansafe.aspx?nodeid=5219</a>

Noratel	Foshan	<a href="http://www.noratel.no/content/view/full/4367">http://www.noratel.no/content/view/full/4367</a>
Norautron Suzhou Co., Ltd	Suzhou	<a href="http://www.norautron.cn/index_en.asp">http://www.norautron.cn/index_en.asp</a>
Nordic Concepts Ltd.	Hong Kong (N.T.)	<a href="http://www.nordicconcepts.com.hk/contactus.php">http://www.nordicconcepts.com.hk/contactus.php</a>
Nordic Harmony Ltd. Co.	Foshan	<a href="http://nordic-harmony.com/frameset.htm">http://nordic-harmony.com/frameset.htm</a>
Nordic Industrial Park, Co., Ltd	Ningbo	<a href="http://www.nip.com.cn/">http://www.nip.com.cn/</a>
Nordic Resource Group Ltd	Beijing (post address) Hong Kong (office)	<a href="http://www.nrg.hk/index-4.html">http://www.nrg.hk/index-4.html</a>
Nordic Semiconductor ASA	Hong Kong	
Nordic Ways	Beijing, Changchun	<a href="http://www.nordicways.com/english/index.php/action_category_catid_303.html">http://www.nordicways.com/english/index.php/action_category_catid_303.html</a>
Norgas Fleet Management Co., Ltd.	Shanghai	<a href="http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125">http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125</a>
Norminor/Høst	Kunming	<a href="http://verdieniavfall.no/">http://verdieniavfall.no/</a>
Norsafe: Jiangyin Norsafe F.R.P. Co. Ltd.	Jiangyin Jiangsu	<a href="http://www.norsafe.no/en/About-us/Norsafe-group1/Jiangyin-Norsafe/">http://www.norsafe.no/en/About-us/Norsafe-group1/Jiangyin-Norsafe/</a>
Norse Dragon Ltd	Hong Kong	<a href="http://www.norse-dragon.com/">http://www.norse-dragon.com/</a>
Norse Inspection Co., Lt.	Tianjin	<a href="http://www.norway-steel.no/Contactus/tabid/61/Default.aspx">http://www.norway-steel.no/Contactus/tabid/61/Default.aspx</a>
Norseman (Changzhou) Co., Ltd.	Changzhou	
Norway Shincon Co., Ltd. Shanghai Office	Kunming, Shanghai	<a href="http://www.shincon.net/en/contact.php">http://www.shincon.net/en/contact.php</a>
Norway-Asia Biotech (Shanghai) Co., Ltd	Shanghai	<a href="http://www.noa.cn/contact.asp">http://www.noa.cn/contact.asp</a>
Norwex China Co., Ltd.	Zhangjiagang	<a href="http://www.norwex.no/default.aspx?fid=1194">http://www.norwex.no/default.aspx?fid=1194</a>
Nory Pet Co., Ltd.	Shanghai	<a href="http://norypcl.en.china.cn/">http://norypcl.en.china.cn/</a>
NRS - Bridge Construction Equipment	Beijing	<a href="http://www.nrsas.com/contact/index.php">http://www.nrsas.com/contact/index.php</a>
Taicang		
NRS Suzhou Engineering Machinery Co., Ltd.	Taicang	<a href="http://www.nrsas.com/contact/index.php">http://www.nrsas.com/contact/index.php</a>
Odfjell Dong Zhan Shipping (Shipping) Co., Ltd	Shanghai	<a href="http://www.odfjell.no">www.odfjell.no</a> (Odfjell Norway owns 49% shares)
Odfjell Terminals (Dalian) Ltd.	Dalian	<a href="http://www.odfjell.com/Terminals/DalianTerminalChina/Pages/default.aspx">http://www.odfjell.com/Terminals/DalianTerminalChina/Pages/default.aspx</a>
Odfjell Terminals (Jiangyin) Co., Ltd.	Jiangyin	<a href="http://www.odfjell.com/AboutOdfjell/CorporateInformation/Pages/Odfjell%20Jiangyin%20Terminal,%20China.aspx">http://www.odfjell.com/AboutOdfjell/CorporateInformation/Pages/Odfjell%20Jiangyin%20Terminal,%20China.aspx</a>
Opera Software ASA	Beijing	<a href="http://www.opera.com/company/contact">http://www.opera.com/company/contact</a>
Orient Import	Zhongshan	<a href="http://www.orientimport.no/?ac_id=50">http://www.orientimport.no/?ac_id=50</a>
OSM Group	Hong Kong, Shanghai	<a href="http://www.osm.no/index.php/office-locator/china">http://www.osm.no/index.php/office-locator/china</a>
OTRUM Trading (Shanghai) Co., LTD	Shanghai	<a href="http://www.otrum.com/?nid=1383">http://www.otrum.com/?nid=1383</a>
Overseas Trading & Services Co. A/S (OTS-Trading) Shanghai Representative Office	Shanghai	
Prediktor (Suzhou) Software Co., Ltd.	Suzhou	<a href="http://www.prediktor.no/en/about/contactus/Pages/default.aspx">http://www.prediktor.no/en/about/contactus/Pages/default.aspx</a>
Profileringsspesialisten	Hong Kong, Foshan (Shunde)	
Profilo (HK) Co., Ltd.	Hong Kong	<a href="http://www.profilogroup.com/contact-us.html">http://www.profilogroup.com/contact-us.html</a>
Ragasco	Beijing	
Rainpower	Hangzhou	<a href="http://www.rainpower.no/about-rainpower/adresses">http://www.rainpower.no/about-rainpower/adresses</a>
Raufoss Technology	Suzhou	<a href="http://www.raufossindustripark.no/pbedrifter/raufosstech.html">http://www.raufossindustripark.no/pbedrifter/raufosstech.html</a>

Rodskog Shipbrokers Ltd.	Hong Kong	
Rolls-Royce (Shanghai) Marine Ltd	Shanghai	<a href="http://www.rolls-royce.com/china/en/activities/contact.htm">http://www.rolls-royce.com/china/en/activities/contact.htm</a>
RS Platou Shipbrokers	Shanghai	<a href="http://www.platou.com/dnn_site/Shanghai.aspx">http://www.platou.com/dnn_site/Shanghai.aspx</a>
Saferoad Trading AS	Shanghai	<a href="http://www.saferoad.com/Countries/China/SafeRoad-Trading-AS">http://www.saferoad.com/Countries/China/SafeRoad-Trading-AS</a>
Saga Forest Carriers Intl. AS Shanghai Office	Shanghai	<a href="http://www.sagafc.com/Default.aspx?Cat=45">http://www.sagafc.com/Default.aspx?Cat=45</a>
Salabim Restaurant	Shanghai	
Santana Lightships Limited	Hong Kong	
SAS Scandinavian Airlines International	Beijing, Shanghai	
Scana Skarpenord Shanghai (Service Station)	Shanghai	<a href="http://www.scana.no/en/companies/scana-skarpenord">http://www.scana.no/en/companies/scana-skarpenord</a>
Scana Volda Shanghai Repr. Office	Shanghai	<a href="http://www.scana.no/nb/nb/kontakt/adresser">http://www.scana.no/nb/nb/kontakt/adresser</a>
Scana: Leshan Scana Machinery Co.,Ltd (Steel)	Leshan (Sichuan)	<a href="http://www.scana.no/node/205">http://www.scana.no/node/205</a>
Scandinavian Global Limited	Hong Kong	
Scandpower Risk Management China Inc.	Beijing	<a href="http://www.scandpower.com/contact_us/our-offices/china/">http://www.scandpower.com/contact_us/our-offices/china/</a>
Seadrill	Shenzhen	<a href="http://www.seadrill.com/about_seadrill/company_addresses">http://www.seadrill.com/about_seadrill/company_addresses</a>
Shanghai Ochun Machinery & Equipment Import & Export Co., Ltd. (Joint venture with Rotek)	Shanghai	<a href="http://shop200911131102676960.en.china.cn/">http://shop200911131102676960.en.china.cn/</a>
Pan Asia Shanghai Branch	Shanghai	<a href="http://www.panasiachina.com/panasia/English/shanghaiCompany.asp">http://www.panasiachina.com/panasia/English/shanghaiCompany.asp</a>
Shenghui Gas Chemical Systems Co. Ltd. (I.M. Skauge SE)	Zhangjiagang	<a href="http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125">http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125</a>
Shenzhen Active Co., Ltd.	Shenzhen	<a href="http://activesz.sznetsoft.com/lxwm.asp">http://activesz.sznetsoft.com/lxwm.asp</a>
Sinodyne Technology (Shenzhen) Co., Ltd.	Hong Kong/Shenzhen	<a href="http://www.sinodyne.net/contact.html">http://www.sinodyne.net/contact.html</a>
Sino-Norwegian Trading (Shenzhen) Co., Ltd.	Shenzhen	
Skaugen (China) Holding Co., Ltd. (I.M. Skaugen SE)	Shanghai	<a href="http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125">http://www.skaugen.com/index.php?option=com_content&amp;view=article&amp;id=102&amp;Itemid=125</a>
Skipsteknisk	Shanghai	<a href="http://www.skipsteknisk.no/default.asp?menu=28">http://www.skipsteknisk.no/default.asp?menu=28</a>
Skigutane	Shanghai	<a href="http://www.skigutane.no/index.php/kontakt-oss/">http://www.skigutane.no/index.php/kontakt-oss/</a>
Skogstad International Ltd., Hangzhou Repr. Office	Hangzhou	<a href="http://www.skogstadsport.com/Kontakt-oss.aspx">http://www.skogstadsport.com/Kontakt-oss.aspx</a>
Skuld (Far East) Ltd.	Hong Kong	
Sotra Anchor & Chain	Shanghai	<a href="http://www.sotra.net/index.php?mapping=53">http://www.sotra.net/index.php?mapping=53</a>
Sperre China	Shanghai	<a href="http://www.sperre.com/contact">http://www.sperre.com/contact</a>
Statoil	Beijing	<a href="http://www.statoil.com/en/About/Worldwide/China/Pages/default.aspx">http://www.statoil.com/en/About/Worldwide/China/Pages/default.aspx</a>
Stolt-Nielsen Transportation Ltd.	Ningbo, Shanghai, Shenzhen, Tianjin	<a href="http://www.stolt-nielsen.com/Our-Business/Map.aspx">http://www.stolt-nielsen.com/Our-Business/Map.aspx</a>
Sto-Nor Industri Shanhai Repr. Office	Shanghai	<a href="http://www.sto-nor.no/com/">http://www.sto-nor.no/com/</a>
Stordal Furniture Flagship Store	Shanghai	<a href="http://www.stordal.com/Side.aspx?m=15">http://www.stordal.com/Side.aspx?m=15</a>
Suzhou Shopex Shop fitting Co. Ltd	Taicang	<a href="http://www.shopexchina.com.cn/">http://www.shopexchina.com.cn/</a>
Symbio	Beijing,	<a href="http://www.symbio.com">www.symbio.com</a>

	Chengdu, Hangzhou	
Team Metal Products (Joint venture: Team Rustfritt & ICS Norway)	Changzhou	<a href="http://teamrustfritt.no/Ansatte.html">http://teamrustfritt.no/Ansatte.html</a>
TeamTec Shanghai Co., Ltd.	Hong Kong, Shanghai	<a href="http://teamtec.no/partners-agencies/asia">http://teamtec.no/partners-agencies/asia</a>
Teknotherm Refridgeration (Wuxi) Co., Ltd.	Wuxi	<a href="http://www.teknotherm.no/hjem/kontakt-oss/">http://www.teknotherm.no/hjem/kontakt-oss/</a>
Telenor Global Services HK Ltd.	Hong Kong	
TKS Ningbo Repr. Office	Ningbo	<a href="http://tk-as.no/agri/norsk/mal/index.shtml">http://tk-as.no/agri/norsk/mal/index.shtml</a>
Tomra Systems ASA	Hong Kong, Shanghai, Xiamen	<a href="http://www.tomra.no/default.asp?V_ITEM_ID=93">http://www.tomra.no/default.asp?V_ITEM_ID=93</a>
TQM Total Quality Management Center Shanghai Ltd.	Shanghai	<a href="http://tqmcenter.leanlearning.no/velkommen">http://tqmcenter.leanlearning.no/velkommen</a>