Purchasing office in China

- Selecting a purchasing structure and managing the purchasing office

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Abstract

What is it like managing a purchasing office in China today? What are the purchasing structures to be considered? These are two fundamentals which this thesis aims to find out. What can be done to ease the process and avoid problems before they are actual problems are matters that will be discussed. The thesis is delimitated to the Chinese market and the effects and implications by working there. Further the research in the thesis is delimitated towards companies that are involved in trade and that have purchasing offices in China. A case study will guide the reader into the ways of doing purchasing in China. By going over several incidents that may occur when working in China the reader will through a case study form an opinion on what the situation may be like for many foreign purchasing offices existing in China today. Views from both Chinese and expatriated foreign staff will be given in the case. The case study will be focused on the implications occurring during an actual purchasing process. The data in this thesis comes from interviews at one of the major clothing chains in northern Europe and from selected articles relating to the industry. When analyzing the data provided by the selected company a hermeneutic perspective has been used. A deductive method has been used to derive empirical data that has been published in some form. The major conclusions is that a company need to come prepared, setting up an office takes time and routines that work at home doesn’t necessarily work in other unfamiliar locations. The structures necessary for the purchasing office may depend on factors such as size of the company and cultural values. Ways of improving the purchasing process may be to rely more on IT systems. Purchasing offices should have a certain degree of autonomy when doing purchasing in China. Having employees seeing the whole picture of the company may be important due to the head office often being far away. Reengineering jobs to become more multi dimensional, thus providing a greater understanding of the purchasing process for employees is one solution. Cultural issues are to reckon with and there are certain issues that must be resolved either by integrating different ideas or adaptation by locals and expatriated employees. As can be seen in the case of “Workplace Shanghai” there may be difficulties but they can be overcome as will be further assessed in this thesis.
Acknowledgments

During the work with this thesis I have had the opportunity to meet and take part in what it is like working in China. I have had an opportunity to get a peek in to the actual daily life for both foreign nationals and locals in Shanghai, China.

It has been rewarding meeting several of the employees through this thesis. Due to confidentiality and the implications this thesis may have if read by the media, the interviewees will and shall remain disclosed upon the request of involved party. They all have assumed names in the thesis.

For those that have taken the time to talk to me. My gratitude goes out to my supervisor Sten Söderman, whom has given me an opportunity to conduct this research in China along with his guidance, thank you. For all others, I thank you for sharing your time and knowledge!

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1. BACKGROUND

Today as more foreign companies are planning or sometimes even feel forced to set up office in China a trend starts to appear. “China” is the buzz word of the day and more companies want to join in, in the rush to get in before competitors. Companies come to China in the search of lowering their costs; these companies may often feel the urgency in doing this if they are a sub supplier of a major corporation. Others go to China to take over a part of a purchasing process that before would belong to trading companies, wholesalers or agencies. This thesis aims at exploring structures of purchasing offices as well as focusing on managing the human resources issues that should be considered if a company decides to take actions on its plans of setting up a purchasing office in China.

1.1 The early days

In 1979 the goal had been set; China would launch itself on to the global arena – it was about to become “The factory of the world.” Previously we had seen “Made in Hong Kong”, then we saw “Made in Taiwan” then finally we got to see “Made in China” on many of the labels being chunked out of China today. In the 1980s money started flooding in from all parts of the world, mostly from Chinese living in the developed world, from Hong Kong and Taiwan. It would take until 1990s till today when mid level companies would dare to enter the Chinese market on their own. In the beginning joint ventures was the way of entering the market. Today there are an ever increasing number of companies that are setting up either WOFE (Wholly owned Foreign Enterprise) or RO (Representative Office) which is today becoming more common among companies interested in sourcing from China. RO are today becoming an ever popular alternative for purchasing when companies are interested in doing sourcing that is to be exported out of China. Having this alternative has lead to an influx of companies interested in setting up their own operations from China and cut out previous middlemen.¹

1.2 Problem discussion

Today more companies are interested or feel pressured to open up a purchasing office in order to stay competitive. Problems related to purchasing and human resources are to reckon with when entering a market such as China. Companies usually have different approaches. Some leave it in the hands of others and focus on what they know best. Others try venturing in to a new market on their own or with the help of a consultancy bureau in related field. For many venturing in to countries such as China it is a large step with many uncertainties. Many feel they aren’t ready, others may feel forced to enter in spite of this. There are a number of companies, often calling themselves consultancy bureaus with an expertise in the Chinese market and the ways of doing business there. However these companies cannot supply a company with all the solutions. A lot of work has to be put in by the companies themselves; otherwise problems may surface earlier than expected and be more difficult to deal with. Therefore without proper preparations, it may not be such a good idea entering China.

A co-worker at the Swedish chamber of commerce in Shanghai explains these issues further. He concludes that three out of four Swedish companies should stay in their home markets; they are simply not prepared or ready for such an undertaking. He means that many

companies allow a higher level of uncertainty when entering China compared to what would otherwise be allowed in other countries. Today there are around 250 Swedish companies in China and approximately one company enters China every week. This is a sharp increase from just a year or two ago when only a smaller number of companies would enter every year into the Chinese market. Around 30-40 of all Swedish companies are in China to set up production, while the majority wishes to sell, and a smaller number are there strictly for purchasing. These are companies such as Swedfashion, H&M, Claes Ohlson, KappAhl and Biltema. Thus most companies entering China are related to sourcing its production. However most companies are inclined in doing purchasing in some form. Companies that are placing most of their purchasing needs in China are on the rise. Thus this is a new field to be studied in the time to come. Studying its effects will be interesting as more companies are planning on entering China.

For some companies it may be wise to stay in its home market. For many companies interested in sourcing, setting up a purchasing office may be of interest. However many questions arise as how this should be done in the best possible way. Further, setting up purchasing offices will now be further discussed as this aims at narrowing down this discussion towards an area less studied.

As more companies now enter China aiming at setting up a purchasing office, a suitable purchasing structure is in need. Examples on how this has been conducted can only be seen on the larger corporations as it is only in the past year or two that small and mid-sized companies has started to enter China in this purpose. H&M was a pioneer among Swedish companies to enter the Chinese market with the purpose of strictly doing purchasing. Thus the ever increasing number of companies entering China may learn something from these early pioneers. They had problems, and it took them a long time to find the formula that best would work for them. Most problems were related to finding a suitable structure for the purchasing and how to effectively manage the local employees. Other problems were related to whether other structures within the organization were to be the same as in their home market. Such as the financial structures around the office. Whether they should remain the same or change had and still has to be considered.

Getting senior management on board may not always be easy; however this is an essential part for the China venture. One major problem emerges here; whether it is a good idea to enter or not and if entering is a good idea then how should it be resolved for respective company. This will all have to be considered by the senior management. How they should go about doing this need to be built upon research on how other companies has done in a similar situation.

Thus we shall return to a formula which has been adopted by many of its followers. H&M is a company that early on adhered to a purchasing structure that was and in many ways is highly centralized till this day. That is that the head quarters has most of the power in the purchasing process. This gives them a greater power, they purchase for all countries that they operate from. Many companies are operating under a similar mode, Swedfashion which will be further assessed in this thesis, has chosen a similar approach.

As will be seen in this case there are advantages as well as disadvantages having a highly centralized purchasing structure, while local purchasing offices carry out its orders. Since

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3 http://www.cleanclothes.org/companies/henm.htm, April 30th 2006
head quarters are often far away, problems in communication and lack of understanding between the entities have a tendency to occur. Another possible way is to decide to go with a more decentralized structure. That is leaving more power in the hands of each separate purchasing office. The problems may here be that more companies lose control over its China office, since they become less familiar with how it works. This can make it harder for head quarters to give general directions and make policies. This may be especially true in an initial face when setting up the office.

Further, how local staff should be managed, is a key issue. Once the structure has been put in place it is equally important that the purchasing is working correctly and it is the people working in the process that needs to be managed. Often when managing local employees, Chinese, differences occur that was not anticipated on by many companies. Another problem is here finding the right people for the job, people who speak near fluent English and that has relevant experience is not always easy to find. Having employees remain loyal is another issue that are essential for a successful purchasing office.

Problems managing a purchasing office may be many and managers can find themselves in frustrated situations. Swedfashion is one of the major clothing retailers in northern Europe. Their purchasing office in Shanghai tackles several issues, which may not always be easy to solve. Problems around an office can be seen throughout a case study conducted in this thesis.\(^4\) Karin, the country manager at the purchasing office in Shanghai feels that she is in constant need to double check. This is often a feeling or a need many in the upper management do and it may be more common than they wish. Management often feel they need to be in control by double checking assignments handled by their subordinates, at the cost of lack of freedom to act in accordance to employees own judgements. Employees may than feel like they are not trusted. On the other hand in China, clear directions are common and expected by employees. This may turn into a somewhat of a “catch 22” for the management which finds that they have to balance these two interests. This is a dilemma which may be true in other countries or cultures, but they may have to be handled differently in China than in other regions of the world.

A purchasing office can also have difficulties in handling the sense of belongingness within the organization amongst the employees. That is, integrating the employees with the whole of the organization. The organizations’ head quarters are often far away from the purchasing office in China. This leads us into the issue of loyalty. Loyalty is not often as high as in other countries. If an employee find themselves to get more favourable terms else where, the step towards joining another firm is not often far away. In the case of Swedfashion, the previous country manager managed to get key players to come with him, to the despair of the Shanghai office. Keeping employees in China, especially retaining the good ones, are constant issue that has to be considered by the management of purchasing offices in China. How this can be handled is a focus by many companies and especially when they are in a market they often know little about. The best way of solving this deserves to be further assessed as retaining valuable employees is of the essence to a company’s success.

The size of the company may call for different measures. Larger corporations may chose to set up several purchasing offices and having them compete between each other. That is, for example, Swedfashion they have several offices in low cost regions of the world, China, India and Pakistan to name a few. Smaller companies on the other hand may choose to have only in China. Concerning larger companies, with purchasing offices in several countries, it is often

\(^4\) See case study, chapter 5
essential that each office strives to do their best; otherwise they will not receive the orders. That is, one of the company’s other purchasing offices will get the order. Getting employees to understand this importance may be difficult.

The above problems can be found on many levels today, both small and large corporations, and in many different industries. Why these are problems today, is due to many rushing in to China, without proper planning. Often these problems have to be solved along the way. This may result in high costs and many companies may face themselves loosing money. A descriptive perspective on how a purchasing office may be run can be one approach to find solutions to the problems. Doing proper research before venturing in to China is necessary, especially for small- and midsize companies that want to save costs on the actual initial process when entering China. In addition to this a high focus has to be given towards organizing the purchasing office, its employees will become equally important. Time and a lot of consideration shall be given. The lack of this concept among entering companies has lead to problems being repeated by an ever increasing number of foreign companies in China. A co-worker at the Swedish Chamber of Commerce make it clear: “On average an establishment will take double the time, and cost double the amount as the Swedish management anticipated on from the beginning”.5

Why problems occur at a purchasing office situated far away from the head office may have many answers. There is a tendency among many companies to feel that they are in control. This may be true no matter where a company is contemplating on setting up a purchasing office. Being in control is often argued being essential for the success of a company. The problem may here be that the head office wish such a high level of control that local employees feel they are not trusted or belong to the company as a whole. In China or other sourcing countries this may have a negative effect on a foreign purchasing office. Putting to much pressure on locals can work against them. It may be true that it is essential to take one step at a time when entering a new market. This would make it easier for involved companies to understand problems as they surface in markets they are less familiar with. Be it Bangladesh, Turkey or China, making the employees feel a part of the company is not always easy.

For those companies that have decided on entering China, there are a lot to consider. Problems related to local employees and foreign managers deserve being focused more upon. In addition to this, choosing a purchasing structure which makes the local purchasing office interact more effectively with head office and delimit problems must be studied to delimit problems. Finally as one senior executive (wishes to be disclosed) at a leading European chain described her job in China as being “a problem solving job”. In what way and how to find solutions to the problems will be given attention in this thesis.

1.3 Problem statement

The overall aim that this thesis strives towards answering is:

1. What are the purchasing structures to be considered for a purchasing office in China?
2. How should arising human resources issues be resolved when managing the purchasing office?

1.4 Purpose

The purpose is to by a descriptive approach depict the reality of managing a purchasing office in China. It shall through research be possible to limit problems that otherwise many companies have, often those who rush into China without thorough planning. Therefore the purpose is to identify situations so that can either be avoided or adhered to. Common problems can be avoided by studying others. The aim is not to develop new theories. Finding a structure that is most suitable for the company can give it advantages towards others. Therefore relevant options shall be given. Some companies may even find that entering China with their own purchasing office is not a good idea, then this thesis has given a valuable contribution in that sense. Perhaps they are not ready? By depicting the reality, in part by a case study, a first glimpse on what it may be like structuring and managing a purchasing office in China can first be considered. Ultimately this thesis is meant to be reflective on the reader and they should ask themselves what this would mean for them or others being in a situation of entering the Chinese market. Thus through relevant background research on the subject the thesis aims towards identify a number of factors that are to reckon with when operating in China; enter or not, is the majority of the middle and senior management really on board or are they truly convinced to go ahead, find the most suitable purchasing structure for individual companies, and managing employees under the new purchasing office.

1.5 Delimitation

The thesis is delimitated to the Chinese market and the effects and implications by working in China. This thesis does not aim at providing the reader with all the cultural aspects of doing business, rather this will more briefly be considered. For the interested reader in the subject there are a great number of sources to be found. Further the research in this thesis is delimitated towards companies that are involved in trade and that have purchasing offices in China. Thus its main focus is not on industries that are interested in a manufacturing office or sales office. The focus is on purchasing offices.
1.6 Outline of the thesis

The thesis differs from many others in a certain aspect that the reader may now be aware of. This thesis also provides and is in essence based on a case study “Workplace Shanghai” which is outlined in chapter 5 under case study. Further, the outline can be depicted as follows:

*Figure 1.1 Thesis outline – Chapters (By author)*
2. METHODOLOGY

The methodology will guide the reader in how to perceive the quality of the research and the conclusions drawn from it. The chapter starts with which research approach that has been taken in consideration to the problems stated in the earlier chapter. This is followed by the perspective as well as which methods that has been taken, data collection and relevant credibility of it. The chapter is completed by stating relevant alternative methods and finally outlining the research design of this thesis.

2.1 Research approach

The research is based on purchasing theories. Its aim is to assess the purchasing structure that may be necessary for a company contemplating on setting up a purchasing office in remote locations, usually unknown territories for the company. How to structure an organization has been studied continuously for many years, mostly in organization theory. However this research aims at focusing on the purchasing structure that may work best, especially in a market like China. This leads us to purchasing theory being the first research approach. Today many companies are entering China without the necessary knowledge, this sharp increase in entrants, are a new phenomenon that has taken place in larger numbers when smaller companies move in. This has given room to a number of articles which will also work as a foundation of this research. The second research approach focuses on managing the human resources issues arising in a purchasing office in China. That is exploring relevant ways of how to manage employees in a purchasing office situated in China. In the later many research approaches are available, perhaps the most common one being assessing cultural differences. This will not be on a strict focus in this thesis. Here a focus will be given on several issues that are related to a case study of a purchasing office in China. This part is based on interviews with a foreign owned purchasing office in China.

2.2 Research perspective

First this thesis aims at giving a descriptive approach of the reality. A descriptive approach works through empirical methods which can be observed in the real world. This is meant to be used throughout the case study. That is, follow their thoughts and actions in a number of situations. A deductive approach has been considered, meaning that the other research has been based on existing theories and published empirical research and the aim has not been to develop new theories, rather adapt to or modify existing ones.

Even though the aim is to describe what it may be like structuring and managing a purchasing office in China, the research can be seen through another perspective; a hermeneutic approach. This approach focuses on understanding rather than explanation. As such, in the interpreter’s tradition it is not possible to establish causal relationships between phenomena that holds true across time and space.

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7 Gilje, N., Grimen, H, "Samhällsvetenskapens förutsättningar", 2003, Daidalos, chapter 2
valid for the case study in which, as stated in the purpose, it is necessary for the reader to ask them what this would mean for them in a similar situation. Several articles to guide companies what this would mean for them. Therefore in the hermeneutic approach there is an aim to understand and interpret the meaning of certain situations thus rendering in an understanding of the current situation on what it is like working in today’s China.

2.3 Research method

Since the end of the 1960’s it has been common to make distinctions between quantitative and qualitative methods.\textsuperscript{10} The object of qualitative research is mainly to give a view that is holistic of the research problem or question.\textsuperscript{11} It is also permeated by the quest to understand, as opposed to a quantitative research which objective is to prove something through collecting data from several different sources or statistically.\textsuperscript{12} The research in this thesis is done on a qualitative method. Qualitative methods aim to show investigated phenomena in its correct context and circumstances. The qualitative method often involves participant observation from the researcher, in-depth interviewing and document analysis.\textsuperscript{13}

2.4 Case study

A case study can be defined as follows:

“... a description of an actual situation, commonly involving a decision, a challenge, an opportunity, a problem or an issue faced by a person (or persons) in an organization. A case allows you to step figuratively into the position of a particular decision maker.”\textsuperscript{14}

To figuratively step into the position of the Country Manager over China, by taking part in situations they take part in; can give the reader an understanding beyond most empirical data. The case study has been conducted on location with Swedfashion in China. The qualitative elements in this thesis consist of in-depth- interviews and to a smaller extent by telephone interviews. Face-to-face interviews may give the interviewee more space to freely tell their own story in a language with which they are familiar. When writing a case study it is essential to asses not only the information provided by the interviewee but also the emotions or the feelings expressed. It is often this that later transcends to the actual mode of the case. Therefore when interviewing it may be advisable to have a questionnaire, however it is the follow up questions that arise when discussing certain incidents that are most essential when writing a case. Further the case has been written in a way that it should be able to be studied independently by individual reader or work groups. The structure does therefore differ in the way of it being more of an article. This is to make it make the reading more enjoyable. Finally it should be noted by the reader that the company, Swefashion, is an assumed name in order to protect the company.

\textsuperscript{10} Borell, K., Brenner, S ”Att spegla verkligheten”, 1997, Studentlitteraturp. 13
\textsuperscript{11} Hollensen, S., ”Global marketing”, third edition, 2004, Prentice Hall p.143
\textsuperscript{12} Gustavsson, B., ”Kunskapande metoder inom samhällsvetenskapen”, 2004, Studentlitteratur, Chapter 1
\textsuperscript{14} Leenders, M., “Learning with cases”, Third edition, Ivey publishing, 2005, P. 2
2.5 Data collection

There are various ways of collecting data and the following section outlines where the data of this thesis have been retrieved from. Both primary data and secondary data have been collected.

2.5.1 Primary data
Primary data is information collected first hand. The generation is therefore done by original research; this collection has the advantages of giving information that is fine-grained, of current interest and highly relevant.\(^{15}\) Disadvantages are mainly the high cost and time the approach requires. This thesis has been written around a case study. In order to conduct this case study it has been essential to interview face to face. The interviews which has been done overtime, on separate occasions with one company has been a way of getting a “behind the scene” look on what is the actual status quo. The information retrieved by doing this is essential to build a valid case study.

2.5.2 Secondary data
This entails information that is not originally generated, thus it was created for other purposes than that of the current researcher. Advantages with secondary data are primarily the low cost and time the approach requires. Disadvantages are the low specificity in the data and its generality.\(^{16}\) Several sources were used in addition to primary data. This mainly consists of articles published by China Briefing, Shanghai Business Review and McKinsey publishing. Retrieving secondary data through articles is a way of further assessing the current situation. Most articles were considered due to the author’s knowledge in the field. China Briefing has been working with companies entering China for almost two decades and has their own publication. McKinsey publishing has experience in this field as well and is highly respected in the business world. Shanghai Business review is another business magazine directly related to business in and around Shanghai which is relevant to the case study company.

2.5.3 Selection of companies
The selection of the case study company was exerted from a number of companies involved in trade and provided to me by the Swedish chamber of commerce in Shanghai, China. Many qualitative research studies adopt this view in their choice of research objects. Glaser and Strauss\(^{17}\) describe this as a process of discovery. This is a very fitting strategy for a qualitative research as it discovers new facts and therefore new sources. It is a type of selection that moves forward and delves deeper into the subject by gathering new information sources continuously. Me, Christoffer Magnusson, live and work in China, this has given me an opportunity to get access to a wide range of companies. This has benefited me in striving to complete this thesis.

2.6 Discussion on credibility

When evaluating the credibility in a thesis or in a research there are two main aspects that are reviewed: The validity of the research and the reliability of the research.

2.6.1 Validity

The specific term validity has several different meanings, in this context it takes on the meaning of a relationship of accuracy between the responses and the reality the responses were intended to capture. What needs to be measured, has it been done, is a common way of looking at it.18 This is considered for the case study. Further it is easier to assess the validity of the information provided under a dialogue, where the interviewee feels freer to speak. This has been the case throughout the collection of primary data. Further for secondary data, several articles have been collected to ensure the validity. Further all interviews were taped in order to easier recollect the information. They were then typed so passages and information could be more easily assessed. This made it possible to read certain passages many times over to ensure the validity in the text. The actual purchasing process of Swedfashion, the case study company, was written down with the country manager to ensure its accuracy. Together with the information provided in the interviews it was then easier to capture the meaning of parts of the purchasing process.

2.6.2 Reliability

Refers to whether or not the same results occur over and over again.19 A highly reliable result would be if a person weighed himself twenty times within one hour and all results gave the same weight. In this research the reliability of answers might correct if the interviewed individuals held the same opinion if asked once again a week later. It is my belief that opinions on these matters are relatively reliable and that this specific bias has been limited. To ensure the reliability of this study, same questions were asked again, to ensure its reliability. Further the names of involved parties would be concealed in this thesis. This was a request from Swedfashion, thus this implies that the information given is more reliable.

2.7 Critique of Methodology

When reviewing the methodology utilized in the thesis there should also be awareness over the flaws that are a possibility. Having knowledge of the weaknesses in methodology is helpful when aiming to keep a realistic and accurate view on data and upon the entire thesis. Points of criticism in this thesis may be that interviews have been done with one company. Another criticism is that the respondent may answer the questions with bias. A concern might be that a company may wish to give off a certain image to the public and therefore provide answers in a certain way, which is not entirely truthful. This is also called “Social desirability bias” where the respondent wishes to give off a good impression and therefore answers untruthfully.20 Several interviews have been done at the company over a period of time where on occasions the same questions have been asked again to follow up their accuracy.

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2.8 Alternative methods

There are alternative ways of solving the problems in this thesis. One way would be to launch a survey in order to find out what the opinions are at many different purchasing offices in China. However this is an approach that would be time consuming as many companies are protective of their ways of doing business in China. This is especially true when it comes to the human resources issues or managing your employees. Another approach would to participate in an ethnographic field study. That is, working for a while in a purchasing office in China. This would truly give an insider view and the research is less likely to become biased.

2.9 Research design

The research has been structured in below figure. The research questions were the foundation for the primary data collection. All throughout the dialogues or interviews the two fundamental questions in the problem statement of which this thesis aims at answering were kept in mind. This was also true when searching for the secondary data. To analyze this data, several theories were chosen related to structures of the purchasing process and management of employees.

*Figure 2.1 Research design (By author)*
3. THEORETICAL FRAMEWORK

The theoretical framework is a focus on relevant theories related to purchasing management as well as relevant theories on human resources management that may be related to this field. The chapter is divided up in the two areas that are to be considered in relation to the problem statement in earlier chapter. That is; (1) What are the relevant purchasing structures to be considered for a purchasing office in China? (2) How should arising human resources issues be resolved when managing the purchasing office? This framework is meant to aid in the process of analyzing the data further on. It should be used as a way to see what purchasing structures are to be considered for companies contemplating on setting up a purchasing office in China, it will ultimately be a choice for each individual company. Finally this framework will be used to construct an analysis in chapter 6 which will have relevant conclusions emerge from this.

![Theoretical Framework – Model](By author)

The above model aims at clarifying the theories stated in this chapter. They are all related to the problems. The first section tells us what purchasing structures are to be considered, when setting up purchasing office, problem one. Further there are a number of factors to be considered when managing the purchasing office, problem two. This is a process which companies will face. It is as follows:
3.1 Purchasing structures

There are several theories in the area of purchasing. That is, what is the appropriate structure for purchasing, with a focus on China? When selecting a structure there are factors to consider. One of them is the effectiveness of the purchasing process. Some processes need a high reliability, often characterized by speedy communication to prevent default. In the book “Strategic Management of e-business” there is a focus on virtual sourcing which is aimed at providing the users with correct information and delivery from suppliers on time. By implementing an extranet that is meant for suppliers as well as employees the purchasing structure becomes more effective.\(^{21}\)

Another theory concerns the entry mode which should be considered when internationalizing the business. There are several modes which may be considered depending on the companies’ needs and the new markets demands. This concerns if they are to select a structure which already exists in one form, such as joint venture, or focusing on setting up their own structure.\(^{22}\) There are several factors which relates to the environmental factors of the market, such as the present and future situation analysis. The experience of the company or individuals within the company should be assessed. Here the present situation should be evaluated in accordance with the knowledge needed and the knowledge possessed.\(^{23}\)

Relation marketing is considered as an “interaction in a network of relations.”\(^{24}\) The relations that exist between a mother company, often the head office, and a daughter company, here the purchasing office, could be further assessed by studying the actual network and interactions between the entities. Should the daughter company in China correspond to the values of the mother company? This is a further approach to consider when structuring the China operations.

The above theories here considered are all relevant, though this theoretical framework aims at focusing on the actual structure that shall be put in to operation, rather than focusing on all parts that it may include as outlined above. Thus in the following, four different structures, described by Day and Farmer in their book “Handbook of purchasing management” will be outlined; Centralization, decentralization, atomization and federal structure.\(^{25}\) These are to be considered and how they may fit in best with a company contemplating on setting up office in China. The below models depicts the four models:

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3.1.1 Centralization

This model is meant to act as a powerful central purchasing office that buys on behalf of the divisions (see figure 3.1). Centralization may be both an effective and ineffective tool for purchasing. A summary of the advantages and disadvantages can be seen below.\textsuperscript{26}

The advantages with centralization rely on several factors. Economies of scale may be apparent in several aspects. By letting the purchasing be centralized a larger corporation may find that they have a stronger advantage when negotiating for lower prices. Standardization is another key element in this formation that also has the ability to lower the overall cost. An idea may here be to let different purchasing divisions adhere to the same database being used within the corporation. Policy deployment is a process that may be more easily controlled. By letting decisions being taken centrally the policies may be followed more in practice. Financial control can more easily be up to date and followed. Auditing may be complex and thus having it centralized may ease this complexity. Policing may be more effective since less

individual division is given less freedom to have their own budgets and so on. Common information systems, united corporate systems create an effective formula of keeping operations under control. Staff exchange creates an increased possibility to create an overview of the organization. This gives staff the chance to develop expertise in different areas of purchasing.

The disadvantages may be that there is resentment in different regions where they feel power is taken away from them. Locals may also ignore standard systems and use sources for their purchasing which they believe benefit their division, not the corporation as a whole. A large central office may sometimes even slow down response to divisional offices. Providing the correct information to these offices may at times be a difficult task for many of the larger centralized organizations.

Thus in a centralized organization it is said that the degree of decision making is concentrated to the upper levels of the organization. Lower level managers have a mere role of carrying out the directives from the upper level managers. The problems may here be that actions can not be taken as quickly.

### 3.1.2 Decentralization

The central office still makes policy and does the overall deals while the divisions are responsible to purchase on their own behalf (see figure 3.1). In this figure Day and Farmer has outlined what can be seen as the opposite of centralization. The managers on lower levels get closer to the decision making. The advantages are; autonomy, variety/diversity, local prudence, cross-deals, local satisfaction, inter-divisional competition and staff exchange. The cross-deals may be that a division makes other divisions aware of suppliers that work well and between divisions they exchange members of staff. Further autonomy for the divisions is a way of enhancing their diversity and exploiting the variety of options considering local suppliers. The disadvantages may be; suppliers divide and confuse, skills shortages/cost anomalies, duplications, lack of financial control and local covert deals.

The decentralized system calls for a more quick way to solve the problems, as more people that are close to the issues gives their views on the decisions necessary to do effective purchasing. This is also a way to encourage local employees to be more involved in the process of purchasing.

### 3.1.3 Related structures

There are also structure which cannot be seen either as centralized or decentralized, rather they are a mixture of the two. The first one is atomization and the second federal structure.

**Atomization** – means that the central purchasing office plays a small part of policy making while the responsibility for the sourcing and management is given to the offices holding separate budgets (see figure 3.1).

The advantages are; departmental autonomy and responsibility, simple controls, procurement cards, removes budgeting anomalies, purchasing as a school or specialist and quick response. The disadvantages are; personal favorites, suppliers divide and confuse lack of control on prices, commercial risk, overload on support staff and systems update dislocation.

A greater autonomy is here given; the budget holders may here receive procurement cards for example which to a greater extent will give them more independence in their purchasing. The head purchasing department may work as a “school” for these divisions.

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The federal structure – means that an organization is meant to work as a federation where common rules and procedures will be agreed upon (see figure 3.1). Then within these there may be local ways of conducting purchasing; however these are not to be in conflict with corporate policies and strategies. In a way power has here been given away to the divisions which is meant for it to be used in a way where decisions can be taken at the lowest level possible.

The advantages are; agreed rules, dual citizenship, subsidiary, minimal central control and cross-fertilization. The disadvantages are; complex arrangement, unclear hierarchies, central bureaucrats and risk of instability.

Dual citizenship aims at providing the employees with the feeling that the generation offers them two sides; working for the best of the corporation and also the local division. In the same way cross-fertilization is meant for the company to work as a mean of getting the best out of central and decentralized methods.
3.2 Managing the purchasing office

This is the second part of the theoretical framework and it is related to the second problem statement, which is the human resources side of opening up a purchasing office in China. (See figure 3.1 earlier in the chapter). In the following section a more focus will be put on the separate divisions or purchasing offices. First we will focus on the employees and how the organization can be reengineered to function more effectively. Further, ways for employees and managers to interact with one another will be explored. Finally, the cultural aspects to consider when entering China will end this section.

3.2.1 Managing employees

Reengineering an organization takes time and it should be done in a structured way to receive a more effective and competitive purchasing department. This is what Hammer and Champy explains in their book “Reengineering the Corporation”30, where they have outlined a number of ways to reengineer an organization. The most relevant ones will here be presented.

- **A move from simple tasks to multidimensional work** – This is a way of making employees feel they take a greater part in the whole working process. They shall get a sense of completion, closure and accomplishment.
- **A reversal of power relationship** – Instead of expecting employees to follow rules, but within the boundaries of their obligations they are expected to by themselves agree upon deadlines, productivity goals, quality standards and so on.
- **From training to education** – Instead of teaching worker to perform in a particular way, education means that when an employee are at the stage of taking on employment they are a person who already know how to learn.
- **Payment for value added, not payment for attendance** – Instead of traditionally being paid for ones attendance a reengineered company is meant to compensate for value created and outstanding performances come in the form of bonuses, not pay raises.
- **A change not a reward** – When receiving a bonus this may not necessarily mean that an employee should be up for advancement. Advancement should entail a function of ability, not of performance.
- **Employee focus, going from concern for the boss to concern for the customers** – It is important that the employees truly believe they work for the customers not their boss. The company need to understand that to accomplish this it is essential to make employees understand rewards and punishment.
- **From supervisors to coaches** – Bosses need to work more as coaches; the coaches will help employees to solve problems.
- **The flattening of hierarchies** – When a process becomes the work of a team there is less need for an excess of managers, since many of the issues will be dealt with within the team.
- **Change in executive behavior** – Executives have a responsibility to ensure the function of the processes, they should be designed in a way where the workers can do the job required and that they feel motivated by the management.

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3.3.2 Management approach

Leading production offices may differ where in the world it is based. However there are a number of unanimous rules that should be adopted no matter where you are. In the book “Buying for Business”\(^{31}\) it is outlined how managers can change to become of a more coaching nature. In figure 3.2 the different approaches are outlined.

![Figure 3.3 Management approach (By Whitehead & Barrat)]

*Directive – Expert:* Starting in the top left corner where a manager is depicted as an expert while they are telling people what to do. This situation may suit well when people don’t know what to do and especially if the risk is high.

*Non-directive – Expert:* This is when the manager knows what to do and working to coach employees each in their unique individual way is stressed. Here there may be a risk of failure but it may be worth letting the personnel experience it as a mean to increase their learning curve.

*Non-expert – Non-directive:* Here a focus is laid on coaching. Since the manager is not an expert they don’t have all the answers, and you don’t need to since the employee’s most likely possess them. The manager just needs to coach them to finding the right answers. It goes without saying that the risk may be high here since they know the manager is not an expert it they are freer to make their own decisions.

*Directive – Non-expert:* This a dangerous position to be in and should by all means be avoided since being direct while not being an expert is not a good combination.

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Which one that is to be preferred by managers is varied from one organization to another and in purchasing management it may be argued that purchasing people might prefer a degree of coaching. Therefore middle left may be most suitable for purchasing offices. However there are instances where it may be valued being expertly directing based on the management purchasing experiences. The reason being that it may limit more individually set employees, where they may feel they are not able to grow and do the best they can. Being an expert may make it difficult being non-directive. Managers’ may need to learn on how to trust their employees’ individual thinking.

3.3.3 Cultural aspects

Theories related to purchasing would not be complete without considering the cultural aspects. This is especially true when contemplating on setting up or managing purchasing offices in China. The following figure\textsuperscript{32} is what should be valued by both expatriated employees and local employees.

\textit{Figure 3.4 Development of cross-cultural competence (By Briscoe & Shuler)}

\begin{center}
\begin{tabular}{ccc}
\textbf{Awareness} & \textbf{Respect} & \textbf{Reconciliation} \\
Increased awareness of one’s own cultural perspective & Appreciate cultural differences & Resolve differences \\
& & Integration \\
& & Adaptation \\
& & Increasing transcultural competence \\
& & \\
Education & Experience & Reflection & Openness & Feedback \\
\end{tabular}
\end{center}

The above process is something that most employees working in a production office will go through one way or another. However going through these steps should not be done independently, rather it should be shared amongst the employees. The above first three steps are all challenging; however they must be experienced to truly understand them. It usually first start by education or schooling in related field, then out on the field it may be time for reflection which creates a broadened views that an employee ultimately may get feedback on from co-workers. This process takes time and it may take time for employees to reach an understanding of the cultural aspects.

4. BACKGROUND – RESEARCH

The previous theoretical chapter with its two sections will in a similar way link the following two chapters together. The first section related to question one and the second to question two which will be further assessed in the analysis in chapter 6. What is happening in China today, with its speedy development, has created an influx of companies wishing to enter China in pursue of direct purchasing. This is a trend that has spurred up in the recent years. In the theoretical studies today there is mostly larger corporation that has been studied. This will change as more companies are now entering China. The following is a background research to the latest developments that are to find today in related area to the problems stated in chapter 1. Here examples will be given on problem one; the structure for the purchasing office that would be of interest when entering China. In addition to this, section two will more focus on how to manage the purchasing office as in problem two. This chapter is based on several articles, all of them related to managing local employees and issues related to the purchasing process when operating from within China. In chapter 5, the following chapter, a case study on the topic will be presented.

4.1 Structures and approaches for the purchasing office

Finding a purchasing structure is what troubles many companies setting out on going to China. What is most common is a centralized system where head office remains most of the purchasing controls or the opposite, the decentralized system with local offices having more control. Often there are many different systems that are to be found in between these two extremes. Sears is one company involved in the retail market that decided to centralize their purchasing system. In order to stay competitive in a market characterized by very rigorous purchasing controls, finding the most effective way to do purchasing is essential. They decided to centralize most of the management within the various purchasing departments, then to work closer with their suppliers and having the major negotiations taken place centrally. This saved Sears $1 Billion in the first 18 months.33

There are more examples on companies that have managed similar purchasing structures. However there are also accounts of companies that decide to go with a different approach. That is combining the both a centralized way and a decentralized way together with a high focus on the culture of the company and its specific needs. Robert Kane is a director for General Dynamics; he explains the need of a purchasing organization which focuses on a mixed mode. He has implemented a centralized purchasing system which shares common resources for all separate offices. However they still keep a decentralized purchasing organization, but with more control by the centralized organization which offers constant support.34

4.1.1 Structuring the purchasing office

Structuring purchasing offices in foreign markets is an experience many companies lack and this may be especially true for China. When setting up a strategy for the purchasing process that is about to be implemented there are a number of steps that may be considered first.35 A

33 Ayers, J., “Handbook of Supply Chain Management”, 2001, APICS
34 www.purchasing.com/article/CA6255689.html, May 5th 2006
35 China-Briefing, January 2003, Issue 1
local company helping foreign businesses to set up offices in China explains what they have encountered over the years. It is advisable to take it step by step before going all out on its China operations. The first step would be to send out personnel to do research on how the purchasing in an ideal way should be carried out. This would not be very costly for the company and it would give it the first ideas on what to expect. The next step would be to most likely open up a Representative Office (RO) which is preferable to purchasing offices since they have no aim at selling in the Chinese market. However prior to go all out on an office and acquire all necessary licenses it may be wise to set up a temporary project office in China where operations could be tested short term before going on a long term solution. The next step would be to evaluate the structure needed when doing the purchasing; the structure should preferably match the company’s culture. It is here important to evaluate the company’s needs in terms of foreign staff versus local staff. More complex operations may call for a higher ratio of foreign staff. The key would here be the human resources when setting up the structure of the purchasing office. The companies need to ask themselves if they wish to outsource certain functions such as quality control, logistics and so on.

4.1.2 Approaches for the purchasing office
Before setting up a purchasing office it is essential to plan your operations. Without proper planning a company may face great difficulties implementing effective purchasing procedures. In the article “Planning your China Business”36 it is said that when contemplating on hiring locals a company need to evaluate their need of foreign (expatriated staff) and locals. For certain operations it may be wise to have a higher ratio of locals and vice versa. It is argued that foreign companies should not expect miracles by their local staff when coming to China. It will be far more difficult for them to comprehend the business operations. In the early stages of setting up an office it may preferable to send expatriated staff to run operations. These managers should then have great experience with the company and truly understand its operations and its core values. It is further argued that it may be easier having expatriated managers to run operations due to the fact of they may have more confidence in the ability to make decisions and manage. It is also essential for the head office, often far away, to give their local managers the attention they need as well as they make sure the local managers truly have an interest to understand the essence of the company’s Chinese operations. In the article there is also a focus on not changing too much from its current operations. After all China may not be that different and leaving well known territories for the company might do it more harm than good.

4.2. Managing the purchasing office

Setting up an office in China is becoming a more common event those contemplating on it, it is becoming a goal for many in related industries who yet haven’t decided on setting up an office. In the article “Building the best team”37 Mark DeCocinis, Vice President at the Portman Ritz-Carlton Shanghai Hotel, describes what it may be like opening up operations in China. These are fundamentals that a foreign employer may have to focus extra on and can also be adhered to a purchasing office. He outlines a number of key points which are summarized in the following:

- Respecting people as individuals no matter what regardless of the job they are doing.
- Recruit people that correspond to the company’s core values

36 China-Briefing, October 2002, Issue 10
37 Shanghai Business Review, May/June 2004, Volume: 1 Issue 3
Before recruits actually start work an orientation of the company is given over several days where they also get to meet all managers.

Give an employee promise, a pamphlet in the local language telling the employee what they may expect from their new employee and what they as an employer expects from them.

Training is constant happening and a minimum number of hours should be achieved annually.

Bonuses tied to both revenues and profits.

Yearly job satisfaction survey to ensure the employees have no worries.

The idea of truly focusing on the employees is something which may be encouraged since it for many Chinese companies today may be a rare event. Thus this may be very well received by the locals and thus remain loyal staff.

4.2.1 Monitoring the purchasing

In the article “Getting sourcing right in China” the author explains what the key issues are to consider when sourcing from China. Many of the larger companies now sourcing in China have experiences from other set up operations in low cost regions of the world. However there are always difficulties when setting up new operations, such as how to find high quality suppliers. There are a few fundamentals which should be considered. From the article they can be summarized as follows:

- **Address organizational change at the head office** – This means that the senior level, the executives, needs to be aligned in the idea of the fundamental changes and thus fully support it. Further a thorough research should have been done. Relevant calculations may be transportation costs, risks, services, licenses, customs and human capital needed.

- **Monitoring suppliers as closely as possible** – This may involve testing samples to ensure quality requirements and also how the products are to be shipped out once production is completed. Making sure the suppliers meet their deadlines may be a constant struggle in China and thus requires a close relationship. For larger companies it may be wise to monitor the raw material deliveries to suppliers as well.

- **Set a firm goal for sourcing** – What should be achieved in the initial stages and what are the goals that may be realized in the long run, are questions that should be asked.

Further there are a number of ways to act differently than most companies would. These may prevent delays in delivery and keep mishaps from occurring. They are outlined as follows:

- **Cutting cycle times by** – Ways of doing this may be to approve samples directly in China, close to the company’s suppliers. This limits the use of the head office which is often far away. Streamlining this process has saved numerous of companies’ time to market, sometimes cutting it in half from a half year to less than three months.

- **Relocation of postproduction activities** – Ensuring that labels are being attached on sight in China are one way of responding to the market in a quicker and more efficient way, not to mention possible cost saving. Another is packing which can be pre-packed for distribution once it hits warehouses in the home-markets.

- **IT infrastructure** – Enabling more information and images (such as samples) to be easily shared may be important as the office broadens its physical locations. This

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should be done at an early stage so that the staff gets a chance to become accustomed with the new systems.

4.3. Where to go from here

As stated in this chapter there is numerous of approaches when structuring and managing the purchasing office. How relevant human resources issues should be resolved for each individual company or what kind of purchasing structure is to be preferred? These are all questions this thesis aims to clarify or perhaps advice upon. Each company is different with their own specific needs. However other companies have been through many different as well as similar situations. Thus learning by studying others, that is what the following chapter will add on to where this chapter ends. The following chapter is meant to give an inside look in what kind of purchasing structure a company operating from within China has chosen and how they are managing a purchasing office in China. The company is based on a number of situations that has occurred and their ways of dealing with them. Perhaps a company may find other ways that are more appropriate to their specific needs. The case will then hopefully guide them along in their thinking.
“We have nothing to do with this? Talk to…!”

Karin grew more frustrated, yet remaining calm. It wasn’t the first time she had been through this. So she said what was only meant to be heard by her.

“Yes, yes, I know; talk to someone else.”

There was no point. Karin hung up the phone and sighed in despair. The phone had been ringing all morning and everyone was saying the same thing, no one was to blame. Everyone was blaming each other; her own merchandisers, merchandisers back at the headquarters, quality controllers and the supplier. Everyone was blaming everyone.
Karin looked out her window, gazing at the silhouette of skyscrapers. It was in the midst of summer and the haze so characteristic for Shanghai, was weighing heavily on the city, creating its often unbearable humid whether this time of year and this day was no different from so many others. “Being out there, ha, what a relief, anywhere but the office” she thought. Time past and the problems kept building up in her head. “How can I make them understand the importance of it all?” she thought. “How can I make them understand what we are doing here?”

A shipment had gone all wrong, the goods were wrong, the stores in Europe had all the wrong goods, everything was wrong, what had gone wrong?

Karin was a young manager who had rapidly been rising through the ranks of Swedfashion. A Swedish company in the fashion industry with a history since the 1950s selling mainly women’s and children’s wear. Today it is one of the leading fashion chains in northern Europe. Karin had started her career at the Headquarters in Gothenburg, Sweden, where she had been working at first as an assistant buyer. She was then signed on for work at Swedfashion Bangladesh office for what was to last a six months period. Finally she was asked to come to Swedfashion’s Shanghai office where she after a short while became country manager. She had gone from an assistant to senior merchandiser, to country manager in just four year. The Shanghai office had only been running for five years and she was now about to take over from her previous boss, Hans Rosenberg. He was a widely popular boss amongst his employees. Hans had started it all up; in fact, he had started all the Asian offices for Swedfashion and was widely acclaimed for his success in doing so.

At first she had been torn on taking on the new job. Would she be able to take over? Would she be able run the office for the whole of China, a very important country for the company as a whole? The company was to an extent dependent on China for its sourcing purposes. At the office they were altogether thirty employees, twenty-seven of them women and most of them local Chinese. The foreign staff consisted of three Swedes, one in charge of financial operations, one senior merchandiser manager and now Karin as the Country Manager. Through her experiences at Swedfashion, she knew that she had people to turn on for guidance and she was up for a challenge.

Torry, Karin’s assistant was on the intercom, enthusiastic as always she uttered “Headquarters on the line”. Karin looked up. “Now, what?” she thought. It was Peter, he wanted to know the updates for the orders and when a new one could be placed. Karin explained she was on it and that she would sort it all out. As soon as she got off the phone she called in the merchandiser who had been assigned to this project. One senior merchandiser, one of her more experienced employees entered Karin’s office, seemingly weary. “Hi Jess, come in!” said Karin. “Are there any problems Karin?” “Problems” Karin said with a higher tone than she had anticipated on. She continued.

“Well, I was hoping you could tell me?” Karin had been through it before; Jess had “the look” as she called it. The look that tries to tell you “I have no clue what is going on look”. Over two years in China she had become used to it but had a hard time accepting it. A shipment had gone all wrong, the goods were wrong, the stores in Europe had all the wrong goods, everything was wrong, what had gone wrong?
With a grin on her face Jess explained that the orders with this factory were handled by her and that she had followed orders from Headquarters. She had done nothing wrong she claimed. Karin noted that she said it with pride, stating that she had done an impeccable job at this project. She thought that everyone plays apart in this. “Perhaps the orders got mixed up and that it was a failure in communication from headquarters side” she thought. She shrugged her shoulders and figured it was unlikely this was the case. She knew the procedures at the headquarters all to well for a simple mishap to take place. During her years as an assistant there she had been drilled in the rigorous routines implemented from designer ideas to effective merchandising controls.

Karin leaned back in her chair “Ok Jess. I want you to look in to it and see what the likely cause may be”.

Jess looked at her boss “Perhaps you should talk to Jinyuan Garments, the supplier, what went wrong?”

“Jess, are you saying the factory is behind this?”

“Likely!”

“Well, how would you know this?” Karin persisted.

“Well, because they failed to follow the orders, right?” she swiftly replied.

Karin was not about to give up, the blunder was simply too big and something had to be done about this. “Jess I would like a written report on your handling in this matter and also talk to the factory!”

“Ok, Karin, will do!” said Jess as she exited Karin’s office.

“No one did it? Unbelievable, no one wants to take on responsibility.” Karin thought.

Two months earlier. Karin was sitting by her desk and as on every Monday she would meticulously go over the order lists. This was so she would be able to know what her employees were up to. She had taken on a habit to follow up and go through what they are currently working on. Often she would take a tour around the office to see what people were up to. If she wouldn’t, a “pitfall” would be created as she so often said. These pitfalls often occurred when you count on people to do what they should, she had learnt it the hard way from her first months on the job. Then she would rely on people to ask when they hadn’t understood. Here they rarely raised their voice if they had failed to understand. At first Karin had a hard time accepting this. When she first joined Swedfashion as an assistant she would often ask numerous questions, often stupid ones in her opinion. She probably wouldn’t be where she is today if she wouldn’t have asked so much. Her theory was that better ask as an assistant than doing it in a managing role when a mistake could have serious consequences.

Now, facing challenges in China, she soon discovered that employees rarely don’t ask even if they don’t understand. She knew she had to be direct and not general. If she wanted something done she would say when and how. After saying this she would double-check it, sometimes more than once. In her own opinion she thought that she had improved, she was no longer as meticulous as she used to be.

Jess, looked up “Shit, here she comes again” Karin approached Jess’s open-air desk. Her boss Karin was now leaning over her desk looking right at her papers. Karin uttered “How are you Jess, everything going ok?” Karin was still looking down on Jess’s papers. Jess, cleared her throat and tried to gather as much confidence as she could “Ah very good, thank you”. “So there is nothing you wonder about?” said Karin, still looking down at her papers and now also fiddling with one of Jess’s samples, a pink hair band. Jess now pulls out a list under her desktop. On it are numerous of questions for Karin. “Oh, what would this place be like if I wouldn’t check in with them all the time?” Karin thought for herself, still remaining a kind grin on her face. For a half hour Karin went over Jess’s queries. As Karin heads out on her office run again,
she can’t help wondering if she is patronizing, if she creates the feeling that she don’t trust her employees. “I hope they understand that I’m actually a great person for doing this” she thought as she strode off.

Jess still sitting by her desk watching her boss walking over to her colleague, also a merchandiser, for questioning. I wish Hans could be here now; “he wouldn’t do this at least,” she thought. Hans was the previous boss at the Shanghai office before Karin took his position. Amongst his former employees he was widely acclaimed for his easy going style, people felt at ease when he circled the office. Maybe it was so because he had been there from the beginning, he had been the one who had given them a shot to come work for an international company. Many of the employees had little, if any experience from working with a foreign company. Many believed that Hans had confidence in them when few others had. Perhaps due to this reason they felt a stronger bond with their former employer.

Jess, deep in her thoughts, was reading her enquiry from the headquarters in Gothenburg, for the third time. It was an enquiry on a pink hair band with two small flowers on it. The purchaser at the headquarters wanted a price on “2p” as it said on the specifications. Jess looked at the two flowers on the hair band, “should be no problem” she thought. She prepared the enquiry to be sent out to three possible suppliers whom she believed could manufacture this particular item. In just four days Jess had received a quotation on the hair band from two of the suppliers. After receiving a sample from both of the two factories Jess forwarded the quotation along with samples of the hair bands to headquarters for their evaluation. The purchaser had received two other similar samples from two of their other offices, one in India and one in Bangladesh. This was the procedure when an order was about to be placed. The designers prepared sketches, measurements, laundry notifications, labels and other related specifications which were then sent out to their offices around the world. This was the frontline as they so often called it back at the head office. After an order had been sent out to various purchasing offices around the world, they all had to battle it out. Ultimately the one, who won the order, would win the battle, and thus strengthening their office position for future orders. They would compete on quality, price, and lead time.

The purchaser at the head office in Sweden favoured the quotation given by Jess with one of the suppliers and let her know that they wished to place the order with them. The Shanghai office had won the battle over the order. In the notifications it stated “urgent”, they needed 40 000 pieces in 4 different colours, within the period of two months from today’s date, the 27th of July. Especially the price was seemingly favourable on this order; this was the view from headquarters side.

As soon as Jess got the message from headquarters she started the procedure of clearing everything. Getting approved from head office would not be enough. Now, they had to take care of all the handling with the supplier. This could often be time-consuming; samples going
back and forth, misunderstandings were all a part of the process. Swedfashion had through years of experience been doing this kind of purchasing. They had worked up rigorous procedures to avoid mishaps. However every country they have entered has proved to be different out of obvious reasons, such as cultural differences. China was certainly no exception.

Jess, felt slightly nauseous and did not feel at ease with how she should explain herself.

During the coming two weeks Jess was receiving numerous samples from the supplier, each one being sent home to head office for approval. All this time a hair band sample with two small flowers on it was sent home. A common procedure before production is about to start. Finally, all details were set and a final go ahead was given. As always during production a quality controller was sent out to inspect the production line as well as picking up a sample right from the production line. “A mid-time production sample” was now being sent back to head office for inline approval.

It was a knock on the door. Roger, the head office mail man with his usual cheering attitude “samples, samples, samples” he said to Anna as he dumped a number of packages on her desk. “Oh great” she thought and gave Roger a grin of approval. It was Monday morning, Anna, the purchaser at the head office in Gothenburg sat by her desk inspecting her packages. As she was going through her pile, sorting them out, she found one with the text “urgent” on it. Looking at the postage she could see it was from their Shanghai office. As she opened it a small pink hair band fell out. In the approving process she had seen it several times before. Only this time, it was meant to be exactly like it should be in production, the way it should look like in the stores, complete with all necessary labels on it.

“But!” she said out loud for herself. “I ordered 2p!” “Where are my two pieces of hair bands?” she almost shouted out. “This better not be true?” was all she could think of. She looked at her watch, the Shanghai office, was still open. “Larry, would you please get me Jess at the shanghai office for me” she told her receptionist. A few moments latter she was put through. The conversation that followed:

“Wèi” (Hello)
“Jess, is that you?”
“Yes, how may I help you?”
“This is Anna from head office, how are you?” Anna tried to speak as clear as she possibly could; she knew that Jess would have a hard time following her if she would not be extra clear on everything she said. Jess continued and said clearly.

“Well I was hoping you could tell me about the in line production sample of the hair band you have sent me?”
“Oh, ok! I have sent you all information, yes?”
“The problem is not the information you have sent me, the problem is the actual number of samples you have sent me. I was promised 2p, two pieces, or one pair of hair bands, for production. However why am I in my hand only holding one piece, when it should be two?”
“Ah, I’m sorry you have two?”
“No, I want two per package!” Anna persisted.
“But, I have made it with two flowers on it, did I make a mistake?” Jess said.

Confused Anna continued.
“A mistake? Well, I want it with two flowers on it, what do you mean?”

Anna paused and almost dropped the phone, shit, all along the merchandiser, Jess, had thought she meant two pieces of flowers. “Since when doesn’t a merchandiser know the meaning of two pieces, 2p?” Anna collected her thoughts and said.
“Well you’re in luck Jess. At least they haven’t hit the stores yet? Call the supplier, the factory, and make sure that they package them in two pieces.”

Shanghai. Jess, felt slightly nauseous and did not feel at ease with how she should explain herself. “I will!” was all she could get out of her mouth. Jess hung up the phone. She felt empty, like she had been working out all morning. “How am I about to solve this one? Production is already in process. Oh no, I better not tell Karin, oh I should, but how, I can’t afford screwing up any more.”

Jess was in deep thoughts as she realised “Wait, I haven’t screwed up! I followed instructions, exactly like it said in the papers. I had nothing to do with this!” She shrugged it all off and picked up the phone to call the factory. Still, the problem had to be resolved, before it “turned in to a thing” as Karin often said.

“Well, hello, this is Jess, from Swedfashion, I’m calling you about the order. In my specifications to your factory I stated that I want two pieces of the hair band. However for production I only see one per package, what is the problem?”

“The problem, you wanted two flowers per hair band, no?” the factory merchandiser on the other line said a bit taken back.

“Well, according to my instructions there are supposed to be two, and I have given these instructions to you!” Jess said.

The merchandiser on the other side, said a bit confused. “Well, I guess there are two packs then!”

“Very good, you may proceed with production with no other alterations”. Jess hung up the phone. She felt reliefed she had just avoided a mishap and the best of it all; she had avoided anyone knowing any of it. “Since it is no longer a problem, there is nothing to be said.” Jess thought. She looked across the office floor. On the other side of the room, through the windows, she could see Karin sitting over her desk, in deep thoughts, working hard as always. “I wonder if I could ever do what she is doing” Jess thought for herself as she rose to walk over to her colleague Annette, the young girl in charge of logistics. Jess just wanted to brief Annette on the dates for shipment of her latest production orders. She explained one of her orders, the hair band. It was urgent; it needed to be shipped by air freight to the central warehouse in Sweden by the end of July. Air freight usually took 8-10 days to arrange so there was time according to Annette. “Sounds great!” said Jess. Now, both happy and relived as she strode off for lunch.

Down in the luncheon were at least ten girls from the office chit chatting. She grabbed a salad and as she was about to sit down she saw Karin entering the restaurant with a girl she has never seen before.

Karin sits down, ordering in two salads for her and her friend. It is Janice, her Chinese friend from Sweden. Janice is born in Sweden, but both of her parents are Chinese and she speaks fluent Chinese as well as Swedish. Karin often takes the chance whenever she can to find out what is going on around the office. Janice is about to ask Karin a question as she notice her roaming the roam with her eyes seemingly deep in her thoughts. “What are you thinking about Karin?”

“Well, I can’t help wondering what they are always talking about. They all seem to know each other so well” Janice looked at Karin and said. “The looks fool you!”

“What do you mean?”

“All they talk about are general stuff, you know things to do, who is doing what, who are up for promotions, they talk about the success of people they know, and just a lot of general stuff, you know?”

Karin looked a bit confused. “Well, why? I know when I am among friends I’d like to talk about life, perhaps not with everybody, but at least with my friends!”

Janice smiled and said. “That’s just not how it is done in China. You rarely talk about things which could lead to disputes. You see, when they only talk
about general things, they have nothing to disagree on, they can all agree and they often get together in larger groups.”

“Janice you are on to something. Interesting, I think you’re right. Just look at all of them having lunch. I see the logistics girl having lunch with the garment technician for example, they never have anything to do with each other at work, and still they are at ease just getting together for lunch. In Sweden at a workplace, you often see small constellations of friends. You know, a few friends that almost always do everything together, whenever they can at work. However here, they all seem to hang out with each other.”

“Karin you are right, however the good thing is that they are at ease communicating beyond certain boundaries, however history has had its effects, but when you have known them for awhile at a deeper level, they are far more likely opening up to you.”

“I should get through to them somehow, I have to come up with something” she said as she chewed away on her salad.

Gothenburg. Anna, the purchaser in Sweden, entered a nearby store, just a fifteen minute walk from head office. As she was going through the aisles she was passing by her latest orders that had recently hit the stores. She stopped and took notes on a red sweater which had wrong product placement. Notes were taken and she carried on. Many of the products in the store had come to being through her work, and she couldn’t help feeling a bit of pride. She loved what she was doing. “This is the true pay off” she thought. As she walked over to the accessory area of the store, she saw necklaces from India, ribbons, bracelets and hair bands. On promotion, she could see a large stack of hair bands, laying out on offer. With a big promotion sign hovering over it, it declared “hair bands – SEK 20:-.” Anna looked down, ran her hand through the large stack of hair bands. “No, no, no” was all she could utter, she was dumb with astonishment. In her hand she was now holding a one pack of hair bands being sold for the high price of SEK 20:-, which you were supposed to get two for.

All this time, through endless communication to ensure the success of their products, this one had slipped all the way through. It had gone through the entire Swedfashion purchasing process. Despite of all the safety measures being taken to avoid default, this one had slipped through. Within a minute Anna was on her cell phone, dialling the number to the central warehouse.

“Hi, this is Anna from purchasing. Hair bands with delivery dates 2 days ago, shipment from China office, have the orders been spread across Europe yet?”

Harry, the guy in charge of all warehouse operation, was slowly sipping on his early morning coffee as Anna called him. “Come again?” Harry said without the slightest worry in the world.

Anna felt she was about to tick off. “Check your computers, have this shipment gone out or not?”

“Ok, ok, relax, I’m checking, I’m checking” Harry said.

Anna waited, a minute went by. “Darn it, what is taking him so long” she wanted to scream.

“Ok-i-doki, I see: Sweden, Finland, Norway, Denmark and Germany. Anything else miss? Anna went silent, her jaw dropped, an order had just spread across Europe, they had all hit the stores. She was powerless to do something, everything had gone all wrong.

1. Should Karin, still keep on double checking everything, or give her employees more freedom?
2. What must the employees understand about the functions of a purchasing office?
3. What may the implications be and what should be done to solve the problems around the Shanghai office?
Aftermath – The pink hair band

It is fall in Shanghai. Karin has now been working for two years at the Shanghai office. When asked on the problems with running a purchasing office in China she says:

“I believe the big difference in China compared to Sweden is that here (read China) one does their own job and rarely expands their views. There is a problem looking at the whole picture and what the actual implications may be if they act in a certain way. The curiosity amongst employees is quite low and raising objections or asking questions is a rare event. If I have told them the routine then they will go ahead and follow it according to the routine. However if a problem would occur out of the ordinary, then they are not curious enough to ask themselves; what would happen if I would do it this way?”

In retrospect the incident with the pink hair band could have been avoided by the senior merchandiser Karin concludes. Simply by focusing on the whole picture. The problems in this case revolved more around malpractice around the Shanghai office rather than with the supplier. The incident with the pink hair band later gave Karin an idea to create a role play around it. Karin describes the training programmes.

“…every group gets a title. One receives the title of merchandiser, quality controller, purchaser in Sweden or supplier. In the case of the pink hair band the merchandiser (Jess) had just avoided it and simply concealed the problem. I later created a role play on this incident. It really stirred up feelings amongst the groups. Each group were assigned to take their standpoint in accordance with their assigned roles. Then one group gets to make a telephone call to another group and express their views. The participants all held a position in the game that in real life belonged to someone else. This then created the opportunity for them to put themselves in to others’ (read employees) situations. Now, why did I do this? If one makes a mistake, never conceal it. It is ok to make a mistake, never twice, and never conceal it.”

The pink hair band created problems for the Shanghai purchasing office. Jess the senior merchandiser at the Shanghai office concealed the fact that there was to be 2 pieces when she at a late stage in the process discovered her mistake. To fix the problem Jess claimed that the factory had misunderstood her and committed the mistake that she in fact had committed. She failed to see the whole picture and the implications of even the most minor mistakes. Perhaps due to the reason of keeping her job, today she still remains at the same position at Swedfashion. It could have been avoided, but how?

In the following chapter, the analysis, this will be assessed by looking focusing on the problem statement of this thesis. Further, the three questions stated in the case study will be assessed. The short answers to these three questions can be found in appendix B.
To structure the analysis section, selected theories will be gone through to related research conducted in this thesis. In the earlier chapter of this thesis a problem statement was given. That is; (1) What are the purchasing structures to be considered for a purchasing office in China? (2) How should arising human resources issues be resolved when managing the purchasing office? This is what the thesis strives towards answering. The core of the thesis shall base itself on the case study and on the relevant background research. If there would be one theory that would be appropriate, the relevance of this thesis would be low. Each company is unique in its own way and thus there may be a variety of factors to consider, perhaps a mix of several different structures will be needed. Each company may have to do their own modified purchasing structure. Further, there are a number of mistakes that can be avoided, related to problem 2, managing the purchasing office. By reading the case and looking at different incidents that may have occurred there are a number of things that deserves being further analysed here.

Figure 6.1 Analytical approach (By author)

1. FINDING A RELEVANT STRUCTURE
   Following the needs of the company

2. MANAGING THE PURCHASING OFFICE
   Changing the mindset within the purchasing function
   Management approach towards employees
   Cultural aspects to consider

The above model adds on to the model in chapter 3 (see fig 3.1). The chapters follow these to sections, 1 and 2, which correspond to the questions, 1 and 2 in the problems statement. The two sections will be analysed in this chapter.
6.1 Purchasing structures to consider

Finding a purchasing structure that fits a corporation is a process that deserves devoted time by the management. Each structure may have its advantages. Considering differences on where a production office is being set up also adds to the difficulty of selecting a structure. Also consider that structuring a purchasing office differs from one industry to another and it may not always be a simple process to launch in any organization.

In the theoretical chapter there were several different structures that were outlined, namely; Centralization, decentralization, atomization and federal structure. The research has found that it depends on various factors. One is culture, another is the ratio of employees working in the in the local divisions and a third one the size of the company. Larger corporations, such as the retailing chain Sears, may benefit from a highly centralized system, as they have the capacity to receive favorable terms when all the purchasing offices act as one. Atomization or federal structure could be considered if they employ foreign nationals to the purchasing office in China that are key personnel in the company. As these individuals understand factors such as culture and value of the company they can be the ones in charge of the decision making. This may therefore be more beneficial to smaller companies as larger companies benefit from centralized purchasing due to its purchasing power.

6.1.1 Purchasing structure – Swedfashion

First let’s analyse and evaluate the structure of Swedfashion’s’ purchasing process. It can be seen in more detail on the following page in figure 6.2 and figure 6.3. Swedfashion has several purchasing offices around the world, most of them located in low cost labour countries. To describe the process three of their most relevant purchasing offices has been depicted; India, China, Turkey. As can be seen in figure 6.2, a centralized structure corresponding to the theory of centralization is depicted. The head office in Sweden is responsible for design and coming collections that are to be put up in stores across northern Europe. The way of ensuring good quality, low prices are by letting their purchasing offices compete on the same product. A hair band that has been selected for production has first been quoted by all relevant purchasing offices. The purchasing office that is most favourable in price, quality and lead-time will receive the order.

*Figure 6.2 – Swedfashion: A centralized structure (Modified by author)*
This may be a way of ensuring the quality and competitive prices as well as shorten lead-times, since there is a competition between the purchasing offices at Swedfashion in various countries all trying to get the order. The purchasing offices then take more actions towards finding a number of different qualified suppliers. These are clear benefits for an organization in search of cost advantages which are essential to their overall operations. A mix between of a centralized structure with a certain degree of autonomy is what can be seen that mostly characterises Swedfashion. The head office in Sweden designs the collections and thus makes the over all policy that can be related to the power given to the purchasing offices, thus a centralized approach. The actual purchasing takes place on behalf of the head offices by the local office. Certain positions such as quality control are based in China, and the samples will get approved locally first before they get sent off for final approval at the head office, thus a certain degree of autonomy. However it is the central purchasing department that makes the decision if the order will be placed, as will be outlined below.

Further looking at the model in figure 6.3 there is a long road towards shipping of goods. Even a confirmed sample means that several samples will be sent back and forth till final confirmation can be given. Making this part of the process effective may be time consuming and finding the best solution can take place gradually. In the case “Workplace Shanghai” samples were being sent back and forth to ensure the success of production. Managers may feel this is their only option of ensuring that nothing defaults. However this back and forth process also gives room for misinterpretations. There are measures that can be taken in accordance with a more decentralized structure which advocates that the central office makes the overall policies. Therefore Swedfashion is using a modified central purchasing structure. Thus they have a responsibility to ensure the effectiveness of the constant communication between purchasing office and head office. Supporting operations with an IT infrastructure can give them an advantage in the terms of shorten lead times and improve the understanding of how the products should be changed and improved. This may create a greater understanding and ultimately create better results.

We have here seen an example in the case study on how a purchasing office may be structured and larger companies strive towards finding all the benefits of large scale purchasing. Swedfashion for example have three offices in three low cost labour countries all competing for the same orders. These give incentives for a centralized purchasing structure which may at times be hard to fully understand by all employees.

Question 2 in the case study reads; what must the employees understand about the functions of a purchasing office? What is essential for the office success is simply looking at the whole picture, which is depicted as the overall structure in figure 6.3. By wining an order a purchasing office have a responsibility to complete it successfully and on time. All company offices around the world are often competing for the same orders. Thus a well functioned office gets a chance to grow as it receives more orders. This gives incentives for involved parties to strive towards wining the order so to speak. Since several purchasing offices in a company create competitiveness internally that ensures products of higher quality and cost effectiveness. What the employees also must understand is that by constantly focusing on seeing the whole picture they will also be able to grow within the organizations. A powerful purchasing office gives them more opportunities. Making employees realize their importance even though they may be far away from head office may be one of the determinant factors for the success of a purchasing office. Thus learning how to work more effectively together will have a greater impact on the organization as a whole.
Figure 6.3 – The purchasing process of the hair band order (By author)
6.2 Managing your employees – Swedfashion

Managers often find that ways of conducting business in China can at times be very different. In the case of Swedfashion there were at times difficulties between management and employees, an understanding of each other may at times be difficult to perceive. Why titles are so important and why expatriated staff always feel they have to double check are common views from management in China. Karin, the Country Manager over China, in the case sometimes feel that there are times when she is afraid that she is being patronizing, when all she really want is to make sure everything is under control. She feels that the constant double checking is unavoidable but necessary. This leads us to the first question in the case; should Karin still keep on double checking everything or her employees more freedom? Karin often felt that she had to look in on her employees. As she put it, she simply had no choice. It is more common that employees in China receive clear directions, rules and how to take action under certain circumstances. Employees at the purchasing office are no different; they expect to have clear roles and what they have been told by management they try to follow. Thus seeking new ways of thinking differently may not always apply in China, not if it doesn’t have to do with the job directly. However certain actions may end up affecting the company as whole and other individuals in the company. A way of solving this may be to break the pattern of having the employees rely on others to correct them all the time. Letting the employees have more freedom under more responsibility may then be a solution. Letting employees take a greater part in the overall process by having employees going from more simple tasks to multidimensional work. That is increasing employees’ power to take actions in the process. As we could see in the case the roles are clear and there is a tendency of some employees to rarely relate to implications certain actions may have.

6.2.1 Reengineering

Things more often than not are done differently in a foreign firm than a national Chinese one and making the Chinese employees aware of this are something that may deserve its special attention. Reengineering the ways of doing purchasing may be a choice of preference. As could be seen in the case of Swedfashion this section is highly related to the third question; what may the implications be and what should be done to solve the problems around the Shanghai office? Several views can here be taken in to consideration and many different actions are applicable. They will be further assessed below in this section. Specific actions can be educational programmes, experience home market, individual factory visits, hiring of the right people and resolving issues around titles. Other ways of actions should also be taken into consideration. This can be ways of improving the purchasing process may be improved by relying more on IT systems. This may be a way to resolve the back and forth process of samples. Direct communication via media may help to resolve issues that otherwise may be difficult to avoid. Other issues are related to what kind of employees that should be employed. Perhaps job descriptions may have to change. A way of doing this may be to reengineer jobs to become more multi dimensional, thus providing a greater understanding of the purchasing process for employees. Cultural issues are to reckon with. There are certain issues that must be resolved either by integrating different ideas or adaptation by locals and expatriated employees.

Reengineering is a concept of how to change fundamental ideas of traditional ways of doing business. A different approach may be necessary when doing business in China as we have seen in the case. Today the Swedfashion office has a focus on; training programmes, experience home market, individual factory visits, hiring the right people, titles and the
constant double checking. The theory of reengineering can have its effects on Swedfashion in the following way.

**A move from simple tasks to multidimensional work** – At Swedfashion there are clear rules and assignment for each worker. It is common that Chinese employees ask for clear rules adhering to their job. What is not in accordance with their job description belongs to someone else. A way of breaking this may be to have employees take a greater part in the overall process. This may give employees a greater sense of involvement and being able “to see the whole picture” as Karin wanted so much in the case.

**A reversal of power relationship** – Giving employees a greater sense of power that they themselves learn how to set quality standards and goals related to the business. This may be a way for the employees to work more together and take a greater part in the overall success of Swedfashion, a concern otherwise expressed by Karin, Country Manager. In the case we could see that there are contradictions like in the cafeteria incident. In groups they often work well together, however the reason being they often avoid problems which could stir up disagreements or recent amongst others, perhaps this is the key to the problems. A greater sense of power by participating more in the overall purchasing process may give more incentives on working together effectively.

**From training to education** – When employees are being employed by Swedfashion it may be of the essence to employ people that are willing to go beyond following rules, they should have the skills or the willingness to ask themselves why things are done in a certain way and if a certain task can be done differently. Finding these individuals may not always be easy, but it should be in the mindset of the management. Portman hotel has managed to attract a number of staff that corresponds to the values of the company and they all have to have a minimum number of hours of training or education on the job. This has given them high ratings in employee’s satisfaction

**A change not a reward** – Employees that have done a job well done should be compensated through bonuses and not necessarily a promotion, however as in the case of Swedfashion most employees are interested in advancement through titles. Breaking this will be hard! A higher title for the employees will mean that they are entitled to a pay raise and when looking for other jobs they are more in demand. Trying other measures rather than rewards can be done through incentives such as, factory visits. Being able to travel is usually highly regarded in China. Portman hotel has managed this through offering bonuses tied to both revenues and profits, still highly rare in China.

**Employee focus, going from concern for the boss to concern for the customers** – This is something that is relevant at the Swedfashion shanghai office. Employees at the office have a tendency to work for their boss, who the customers are, is of less importance. This may be an obvious implication from being far a way. Swedfashion has tried to deal with this issue by having them go to Sweden and experience the core of the business. Giving employees the opportunity to travel can be an incentive by companies to further involve their employees. An opportunity to make them understand the processes related to their company. It can be considered easier if you have seen the store and the warehouse. This gives employees a greater understanding of an order and the implications of a defaulted order. They may then get a greater understanding on what this all means for the customers. Swedfashion should keep stressing the fact that employees need to see the whole picture and that must start from the customers’ perspective.
From supervisors to coaches – Double checking may be a necessary event at the Swedfashion office since smaller mishaps at the office has a tendency to develop into a big ones if not details are looked into. The idea would here be to coach the employees to come forward. At Swedfashion around half of the staff come and check things with management voluntarily. For the rest of the staff it may be necessary to have continuous meetings as a mean of forcing necessary information to come out that may otherwise have implications on the business if it wouldn’t. This may also encourage more people to step forward with their queries. As in the empirical research it is necessary to set a firm goal for the purchasing process, letting employees know the goals and that there are various ways to achieve it, which way they chose they will be responsible for. Rather than giving clear directions by management on exactly how to carry out certain procedures. There is also a tendency towards avoiding problems in the case as a mean of staying ahead of other employees in terms of advancement and even keeping their own jobs. Therefore it should be encouraged by the management to let employees know that it is better to tell about a mistake than not, and that this will be valued by management. However the mistakes should not be repeated, employees need to understand the importance of learning of mistakes committed.

The flattening of hierarchies – When all members of a team are more involved in daily operations there should be an incentive for management at Swedfashion to lower their need to double check and be as involved as they presently are. Prestige is something important in China and a title often signals success. However a title in China can mean something very different than an equal title in the west. In the world, Swedfashion in general adheres to flat organisation, however in China they had to adapt to local ways so their employees felt they would reach a higher title; something very important in China. Therefore flattening hierarchies may meet great resistance from the employees and there need to be willingness from within, therefore resistance is likely to occur here.

6.2.2 Management approach
Referring to figure 3.3 in chapter 3 there are several approaches that may be taken. However as can be seen in the case of Swedfashion, each stage in setting up an office may take different individuals to run it. In the case of Swedfashion and for other companies in similar situations the approaches are follows:

**Directive – Expert:** When managing an office in China, especially within purchasing this may be a relevant option due to the reason that in the early stages of setting up office it may take some clear directions from an expert telling people what to do. Swedfashion did in the beginning have a highly experienced employee to start up the operations and work on setting up routines. He had experience in opening up offices all over Asia. Companies contemplating on going to China need to send relevant personnel and build a team that preferably that are native to the origins of the company and also speak the local language such as Chinese.

**Non-directive – Expert:** This is the stage where Swedfashion or other purchasing offices in related field may want to strive for. The Shanghai office is relatively small, thirty employees, this gives opportunities for management to give each employee more individual coaching, especially since the management are experienced.

**Non-expert – Non-directive:** This suits purchasing offices with personnel from overseas that are not as familiar with operations in China. Thus there is more of a focus on coaching. Here companies are advised against sending people like this in the early stages. In the case of Swedfashion they had access to highly trained staff in the early stages. Whether this step will be taken or not, it need to consider the consequences letting the employees be freer.
**Directive – Non-expert:** This has never been of consideration for Swedfashion it should be avoided by all purchasing offices in China since giving direction without proper experience may have obvious implications on operations.

Thus when analysing the above it can be stated that following the left side as in figure 6.4 may be the preferred approach to strive towards by the management when starting up in China.

*Figure 6.4 – Management approach – Preferential (Modified by author)*

6.2.3 Cross-cultural competence

Cultural differences are apparent and looking at the case and hearing the views from employees executive positions it show the relevance of how important cultural aspects are. A common word coming up many times is respect and as this may be true in most countries it has a special relation to China. It is of the essence here and at the Swedfashion office there is a strive towards an understanding and a willingness to achieve this. There are certain issues that must be resolved either by integrating different ideas or adaptation. At the Swedfashion office there were issues over titles and who had been working the longest to get a respectable title. Issues that is relevant to many of the Chinese employees. Even though it may be of less relevance for foreign nationals, in this case Swedes, it was necessary to adapt to the local ways and change the hierarchy in the company. There were problems of having people to be open at the Swedfashion office. Employees helping each other out may be a noble thought but it may not always be so when people are up for promotion. Thus cultural issues can in many ways be a matter to reckon with in China.
7. CONCLUSIONS

After analyzing relevant theories there are several conclusions that may be drawn from this. The following conclusions have been derived using the analysis as well as the case study. This thesis aims at answering; 1. What are the purchasing structures to be considered for a purchasing office in China? 2. How should arising human resources issues be resolved when managing the purchasing office? In the analysis these two sections were gone through. To clarify all parts, section one in this chapter will give relevant conclusions based on three parts; the case study, the empirical research and the theoretical framework. In the second and final section lessons to be learnt by reading the case shall be given as well as relevant theories that deserve being explored further in future research studies. The relevant factors below conclude the thesis:

7.1 Conclusions; Case, Empirical Research & Theoretical Framework

Workplace Shanghai
1. Management may find it common to follow up or double check; this may be seen as patronizing by some of the local staff.
2. Seeing the whole picture is sometimes a wishful thought by a foreign corporation. The Shanghai office is just one of several purchasing offices within the company that may receive orders.
3. Employees may avoid problems by claiming it is not their responsibility.
4. Employees wish clear roles and aim towards following rules.
5. Fear for loosing a title or not being promoted may cause local employees to go to the extreme. Concealing information or not telling the truth to save their position may thus occur to a greater extent in China.
6. Having a flat organization in China may be difficult to achieve, as in the case a flat organization was preferred. However they felt inclined on raising the hierarchy levels due to the fact that many Chinese are keen in climbing the latter.

Empirical Research
1. A centralized and decentralized purchasing structure should be considered depending on the size of the company.
2. A high focus among on employees may not be as common as many would like and should be essential to the foreign company to retain local employees.
3. It may be unwise for companies to change to much as they set up operations in China. If they feel it is a must, the changes should occur first at the head office, not the other way around.
4. Having local managers running operations should be considered at a later stage since in the beginning it is the expatriated staffs that truly understand the needs of head office. Possible local future managers should in the initial faces have more of an advisory role.
5. Try evaluating the possibility of approving samples locally, ie on spot in China. As this delimits events such as misunderstanding in communications between head office and purchasing office. This calls for more autonomy.
6. Having samples being sent back and forth may be a time consuming process. In addition to this it may also be a cause for errors. An idea explored in the thesis would here be to support the building of IT infrastructure.
Theoretical Framework

1. **The structure**: First it depends on the size of the organization. Smaller companies may benefit from decentralized structure and place key personnel at the local office in the initial face that can take charge of the decision making. Larger companies may face a higher purchasing power by centralizing. The structure of the purchasing office in China can be said to be in need of a certain degree of autonomy due to the reason of it being harder to strive towards effectiveness in the office in China otherwise.

2. **Reengineering**: Looking at the whole picture. More often than not employees are not focused on anything more than their immediate job responsibilities. Letting employees take a greater part in the overall process by having employees going from more simple tasks to multidimensional work.

3. **Management approach**: In early stages of setting up production office in China there is a need for highly experienced management. They should have experience in both the company as well as in undertaking similar operations in the past. This experience should also be used to focus more on individual coaching of local employees; they are seldom acquainted with how foreign companies wish to conduct the day to day operations.

4. **Reengineering**: A number of continuous meetings as a mean of forcing certain employees to talk about problems before they are actual problems. A tendency could be seen that many employees prefer keeping problems to themselves.

5. **Reengineering**: It can also be said that titles is of great importance in China. Breaking this will be hard. However being compensated through bonuses and not mediate promotion can also be a solution. Foreign firms may seek to lower their hierarchies. However this may meet resistance in China.

6. **Cultural issues** are to reckon with. There are certain issues that must be resolved either by integrating different ideas or adaptation by locals and expatriated employees. Employees helping each other out may be a noble thought but it may not always be so when people are up for promotion.

7.2 Lessons to be learned and ways of improvements

**Workplace Shanghai**

There are a number of ways of managing a purchasing process. Depending on the size of the company and its aims towards cost cutting in production costs it may be relevant to set up several purchasing offices as in the case of Swedfashion. This gives incentives for involved parties to strive towards wining the order so to speak. Since several purchasing offices in a company create competitiveness internally that ensures products of higher quality and cost effectiveness. Ensuring that employees have a greater part in the whole purchasing process may facilitate them in to a new thinking. That is they have to rely more on others and take a greater part in other parts of the purchasing process. They can simply not avoid problems by claiming it is not their responsibility. Being more involved in the purchasing process may help employees to avoid problems, due to them then being more involved and that they now can detect problems in other areas of the process which the employees before never would have taken a part in. They have to start looking at the whole picture and actions effects on it. Introducing training programmes where participants get to take part in what other employees job requirement are. Being assigned to work with tasks related to every employee’s job requirements is a small step that may lead them in the right direction.
Theories in related area – Thoughts
Setting up purchasing offices is becoming a more common event in the past decade. However it is in just the last few years has seen an ever increasing number of offices being set up, so relevant theories on the subject is yet in its early stages. Before it was common that larger corporations set up Joint Ventures with local factories or having to go through the procedures and sometimes facing hinders that was not possible for them to overcome when setting up Wholly Owned Foreign Enterprises (WOFE). When it became possible to set up Representative Offices (RO), a non legal entity, more mid-size companies had the opportunity to come to China, as a way of cutting off several middle men by sourcing themselves. This area deserves to be touched upon more in relevant literature that are coming out today. Fact is that many foreign companies are loosing money in China. Often they feel the urge to enter China in search of lowering their costs, perhaps they feel the pressure if they are a subcontractor to a major corporation.

Today a lot of literature is focused on the cultural aspects when entering China. Sure they may play a part when operating in China. However it is far from the whole truth when contemplating on how to structure and manage a purchasing office in China. When it comes to structuring the purchasing there are many ways that can be of consideration. An interesting approach would here be to study small scale or medium scale companies. How are they doing? What measures have they taken to manage the purchasing office? What are the most suitable structures for them? Can they do the purchasing by themselves?

There is here room for further research and theories. This could be related different ways of setting up and structuring these operations. This would be relevant to companies from different areas or industries and what their most favourable options would be. This would vary depending on the needs of different operations. This is especially true when it comes to China. An understanding of this market is more relevant now than perhaps ever before. Every corporation has different needs and often takes different approaches. What are different needs throughout different industries in China is something which deserves to be further looked into and theories in this field will most likely be welcomed. Further, interesting approaches are if differences in purchasing structures are in need depending if they also have sales in the Chinese market. Another approach would be to consider other options for companies not willing to set up a purchasing office on their own. Using companies that act as middlemen in the purchasing process is one alternative. Often they have a present in the market and knowledge on how it works, often they act as trading companies. How this work and other possible ways of purchasing China may be a valuable addition to further research.

To claim that above conclusions should be adhered to by all companies entering China would be wrong. China is a large country which probably more accurate to call a continent by itself. There are regional differences and generalising is common when describing its market. The primary data from this thesis is derived from a purchasing office in Shanghai. Implications on the purchasing process may differ depending on if the office is situated in the rural west or the prosperous east. Differences here are something that further may be studied in the future. The conclusions in earlier section should rather be used as tools to reflect on the purchasing process relevant to their company. Looking at other examples, mainly through the case study it is possible to think what this would mean for them. If they can learn something out of this that could otherwise have been avoided then this thesis has given a contribution to their development in the structuring and managing of a purchasing office. China is after all the world biggest emerging market at the moment and will continue being so for the foreseeable future.
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9. APPENDICES

9.1 Appendix A – Title of case characters and definition of titles

Case characters:
Karin: Country Manager, China
Jess: Senior Merchandiser
Torry: Secretary
Anna: Purchaser head office, Sweden
Roger: Janitor, mailman
Hans: Former Country Manager, China
Janice: Karin’s friend
Harry: Central warehouse employee

Definition – titles:
Country Manager: Overseeing all operations
Merchandiser: The link between supplier and head office
Purchaser: The link between head office and production office
Quality Controller: Overlooking control, independent from relevant factory
Garment Technician: Selection of fabrics