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How far east?

A study of the choice between outsourcing markets

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Abstract

Outsourcing is an important subject in the industrial business. Most of the companies in Sweden have some sort of outsourcing relations with foreign countries. The last decade many Swedish companies have moved their production to China through outsourcing relationships. In the recent years there are signs of a shift in the outsourcing trend. The trend includes Swedish companies to move their production from China to closer markets, for example, countries in Eastern Europe. This is mainly caused by changes in external factors, such as increasing transportation cost, increasing labor costs in China and the lack of flexibility have made companies reorganize their production alternatives.

The purpose of this dissertation is to explore the factors that lie behind the decision to outsource and if there are any differences when it comes to the outsourcing process depending on the market.

The research was conducted through interviews with companies with existing outsourcing relations in those markets. The purpose of the interviews was to obtain an insight of the outsourcing process, how factors importance vary from situation to situation and what complications that have occurred.

The result shows that there often are more complications with China than with Eastern Europe. That smaller companies seems to have more difficulties when the outsourcing relations with China are established. The result also indicated that if flexibility and speed-to-market is important parts of the companies' business model it is more likely that an outsourcing relationship with Eastern Europe will be beneficial.

The contribution of the dissertation might be of importance for smaller companies who are in the process of outsourcing or consider to start an outsourcing relationship with a foreign market.

Key words: Outsourcing, factors, Swedish companies, Eastern Europe, China

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1. Introduction

This chapter of the bachelor dissertation includes five parts, presented in the following order: Background, Problemization, Research Purpose, Research Question and Limitations.

1.1 Background

Outsourcing started when companies were looking for cheaper labor in low-wage countries; even Adam Smith in the late 18th century discussed outsourcing to countries with the labor was cheaper (Smith, 1804). Since the mid-80s, there has been a trend to outsource to companies in China and Asia. In the beginning of 21st century the outsourcing trend started to shift. Nowadays, many companies move their production or outsourcing back to Europe, especially Eastern Europe (Cagliano, De Marco, Rafele, & Arese, 2012). The main force to outsource to Asia was the cost reductions. Nevertheless, according to Edgell, Meister and Stamp (2008), customers and service providers matured and realized that only focusing on cost saving would gain a minor profit from outsourcing. Instead the organizations acknowledge the additional benefits of outsourcing, factors such as new skillsets, greater innovation and better speed-to-market for new products and services. Other possible factors could be the cultural and language skill barrier (Edgell, Meister, & Stamp, 2008). Ha, Karande and Singhapakdi (2004) mention that major cultural differences, the language, laws and regulations, business practices and attitude often are the source of miscommunication resulting in unsatisfied relationships. Instead, by building a satisfying relationship with the partner company will lead to a positive affective state. A positive affective state is defined as satisfied performance, fairness, policies and benefits. Hence, good relationships will result in a more positive attitude and lead to greater satisfaction (Ha, Karande, & Singhapakdi, 2004).

Despite some language and cultural differences the market of outsourcing has grown in Eastern Europe. Western European companies in Germany, Netherlands and Scandinavia prefer to work with countries in Eastern Europe rather than Asian ones, because the language and culture differences are not as big between the European countries (Edgell, Meister, & Stamp, 2008).

Nowadays the question is not if a company should outsource or not. That question has been on the agenda for many years, most companies have at least considered the alternative of outsourcing market. The companies are more likely to discuss what parts of the production to outsource and what country or region that is the most profitable. This report focus on the reasons for this new trend. Basically, reasons for companies to move their production back to countries where the labor is relatively more expensive. There are benefits and disadvantages of outsourcing to a country geographically and culturally closer to the Headquarters, in this case Europe. (Christopher & Holweg, 2011).

Furthermore, this study investigates the main arguments in the company's decision making process regarding outsourcing countries. Even though there is a small shift in the trend, for some companies it could be more suitable to outsource to places within a closer distance than Asia from a Swedish perspective (Cagliano, De Marco, Rafele, & Arese, 2012). The cost benefits are often mentioned in those situations, including transportation, labor costs and raw materials. However, there might be other elements that affect the decisions and for example, the size of the companies, the type of industry, the geographic location of markets and raw material resources. It might also be easier to control the production and have a stronger influence if the producer is closer. Additionally, the trust and commitment between the different parties are usually better when the distance is closer. All businesses in any industry are undoubtedly striving for profit, where partnerships in business are unavoidable. Which means commitment from each part is essential, in order to have a good business relation. Trust is working as a link for the commitment and a functional relation (Friman, Gärling, Millett, Mattsson, & Johnston, 2002; Morgan & Hunt, 1994).

1.2 Problematization

This dissertation investigates which are the most important factors that affect what region the companies choose to outsource to. Studies show that there are a lot of differences in the factors depending on what kind of industry the company is operating in, the size of the company and the distances between the outsourcing options. Therefore, different studies show different results if you explore the area on a more detailed level (Stanko, Molina-Castillo, & Munuera-Aleman, 2012; Quélin & Duhamel, 2003). The more general areas seem to be more alike. The five most common factors are cost reduction, focus on core competence, speed-to-market, flexibility and innovation (Lonsdale & Cox, 1998; Quélin & Duhamel, 2003). Those factors are of a general nature and is used by the majority of outsourcing companies (Cagliano et al., 2012; Dabhilkar, Bengtsson, von Haartman, & Åhlström, 2009; Edgell et al., 2008; Ha et al., 2004; Quélin & Duhamel, 2003)

There are studies that show that certain factors weight differently depending on the area of outsourcing. The aim is to compare the factors found in the material and the information that is gathered from interviews with companies that have outsourced to both China and Eastern

Europe. The dissertation will therefore clarify what lies behind the choice of outsourcing market. As mentioned, there is a new shift in the outsourcing trend where companies rather choose a partner located in a country within a closer distance. There is a gap in existing research when it comes to the decision making process about this matter.

The existing research, as it is today, barely mentions the reason behind why so many companies have chosen to move their production to a country that is closer. There is existing research investigating similar areas, as this dissertation does, but the outsourcing trends are moving fast and when those researches where made the conditions were not the same. In a certain situation where the exact same question was asked five years ago and today the answers could vary a lot. That creates a gap in the current business researches within the outsourcing area.

1.3 Research question

How does a regions specific characteristics influence the choice of market outsourcing?

1.4 Research purpose

The purpose of this study is to explore how companies' prioritize different factors in their outsourcing relationships. Are there any differences between these factors if the companies are outsourcing to China or Eastern Europe? Furthermore, the aim is to determine what factors lay behind those decisions and what is needed to create a sustainable trustworthy relationship that increases the possibility of a long-term relationship.

1.5 Limitations

This paper is about the shift of outsourcing production, where companies move their outsourcing relations from China. In this dissertation we have chosen to focus on the outsourcing shift of Swedish companies from China to Eastern Europe. The focus is Swedish companies that outsources to Poland, Czech Republic, Estonia, Latvia and Lithuania and are or have been outsourcing to China.

One of the choices made is to focus on an industrial market, instead of finding influences from markets with fresh goods like the food industry. Likewise this paper focuses on producing companies rather than service companies.

One assumption made in this paper is that the Swedish companies have decided to outsource or already are outsourcing to countries abroad. They are not in the decision making process of make or buy. The question is where to outsource to; likewise by choosing to focus on the relationship of outsourcing without comparing similar relationship like off shoring and subcontractors.

2. Literature Review

This chapter will introduce and explain the chosen theories. Five factors of outsourcing and three models will be presented. Finally a model will be presented to clarify the aim of the dissertation.

2.1 Introduction of theories

The relationship between the buyer and supplier, or in this case outsourcer and their providers, are built on certain factors. Companies that outsource have their reasons, often related to cost and efficiency. When a variety of sources have been compared, there are five factors that seems to be more important and decisive than others (Edgell, Meister, & Stamp, 2008; Quélin & Duhamel, 2003). By using different models we are investigating whether the markets affects the importance of those factors.

The theories and models, primarily used in this dissertation are the five factors for outsourcing, Kraljics Matrix, CAGE Distance Framework and Key Mediating Variable Model (Kraljic, 1983; Ghemawat, 2001; Friman, Gärling, Millett, Mattsson, & Johnston, 2002).

2.2 The five factors for outsourcing

The five reasons and factors for outsourcing are: cost reduction, core competence, speed-to-market, flexibility and innovation (Cagliano, De Marco, Rafele, & Arese, 2012; Dabhilkar, Bengtsson, von Haartman, & Åhlström, 2009; Edgell et al., 2008; Ha et al., 2004; Quélin & Duhamel, 2003).

The first factor is cost reduction. In this case we are talking about the cost of outsourcing. There are three categories that you divide the different costs into. First Cagliano, De Marco, Rafele and Arese (2012) mention the static costs, then the dynamic costs and at last the hidden costs. When they talk about the static costs they mean the costs that are normally included in the outsourcing moment. Static costs can be transportation costs, quality controls and insurance in the current country. Dynamic costs, in contrast, are related to changes in the demand. There are certain risks for companies, that they cannot prevent, like miscalculation of a demand shift, costs related to lost sales or extra costs of transportation to cover an unexpected gap in the delivery. The third category is the one that is the hardest to calculate, the hidden costs. Those costs are affected by politics, both on local and global level. For instance, the political decisions may affect the outsourcing costs, such as increasing or decreasing currency, energy costs that affects the transportation or changes in the price for labor. All specific benefits and reductions should be calculated as temporary. Those kinds of decoys are often used in an introducing phase to attract companies to invest in a certain market or country. As soon as the country is established enough they can safely remove the benefits and reductions without losing too many investors (Cagliano et al., 2012). In general the hidden costs are underestimated by companies, but also the dynamic costs. Studies show that real costs for outsourcing often ends up being twice as high as the predicted cost (Platts & Song, 2010).

The second factor for outsourcing is core competence. Core competence is the material, technique or knowledge that the company adds to the product to make a difference for the end-customer compared to the competitors and their product. Traditionally, this part of the production is held in-house and protected as a corporate secret. There are basically three factors that identify the core competence. The first factor is that it adds a significant value for the end customer. Secondly that it is hard for the competitors to copy. The third and last factor is that it helps the company to reach out to a wide and varied market (Parry, Mills, & Turner, 2010), although there has been some changes in this area too. Within the constant search for lower costs and better prices it has become more important to be able to focus the companies own production on their core competence that adds the most value, by outsourcing more of the other parts in the production. There are companies that have started to outsource more than the traditional parts. Nowadays, there are even companies outsourcing key parts of the production with crucial effects on the company's control of the end-product. On the positive side, the company cuts a lot of costs and this creates a surplus that could be used for other important sections of the production or on another core competence that seems more important to keep in-house (Edgell et al., 2008).

The third factor is speed-to-market, which basically means how fast a new product can go from an idea to a finished product available in the market compared with the competing companies. Many of the current researches have shown that being late into the market with a new product is critical for a company's economy. It results in a higher development and manufacturing cost and a lower profit margin. It has also shown that firms could lose their market value and market share. Hence, the common suggestions are faster, better and cheaper (Stanko, Molina-Castillo, & Munuera-Aleman, 2012), even a survey based on 197 managers shows that faster speed-to-market is related with higher quality and lower costs (Stanko et al. 2012). But some researchers do not agree in this matter, they says that quality will be lowered due with increased haste (Chen, Reilly, & Lynn, 2005; Sethi, 2000).

The forth factor is flexibility. Flexibility in outsourcing is about how well a company adapts to quick changes of the customers demand, in other words wants and needs, but also changes internally within the company and the external partners. According to Tan and Sia (2006) flexibility in outsourcing relationships can be described in four dimensions, robustness, modifiability, new capability, and the ease of exit. The first dimension, robustness is the ability in outsourcing relationship how to handle the operational changes in demand. Volume fluctuations are for example, sudden shift in demand that exceeds the capacity of the production facility. It also means a company's adaptability in an urgent situation where variation is required; in both standard and details. The second dimension is modifiability, by modifiability means changes of the service attribute in addressing changing business requirements. An example of this is new configuration setup, alteration of processing workflow, business rules or new reporting requirements. New capability is the third dimension, which means changes in innovative capability, such as revamping the production to the latest technology, to innovate the process of production and be able to use functional breakthroughs. The fourth and last dimension is ease of exit, the ability to switch from outsourcing relationship to another vendor or in-house production, examples of this is: premature termination, pricing disagreements or disputes (Sia, Koh, & Tan, 2008).

A good example of both speed-to-market and flexibility is the successful cloth retailer, Zara. In addition to the quick changes in fashion and the customers demand, Zara's designers draw sketches, send them to the manufacturer who produces the new product in rapid speed and sends the product back to Zara's central warehouse (Christopher & Holweg, 2011).

The fifth and last factor for outsourcing is innovation. Innovation is the significant source of a corporate sustainability (Chou & Chou, 2011). New technologies in new products or services might lead to lower production cost and new attributes that lead to a company's comparative advantage in the industry. Today's customers seek products or services that attract them; an example of innovating products that gave a company comparative advantage is Apple Computers with their iPod, iPhone and iPad (Chou & Chou, 2011). As mentioned, an innovation could results in a more competitive product. In order to have the opportunity to gain that competitiveness the companies have to free more resources and must invest in more inventors to deliver innovation ideas to the final product. A corporate innovative process is in most cases kept as an in-house research and development department (R&D), even though that might be inefficient. The reason is that innovative projects are time consuming, expensive and need more resources to be implemented. A solution could be to outsource the R&D projects. However, most companies still prefer keeping the innovative projects in-house to keep their knowledge and technologies as a cooperative secret, which also is a way to keep the control. So far the most common reasons and factors for outsourcing have been presented, now we will move over to the models that are used to explain the research question.

For this dissertation the five factors will contribute in the basic understanding of outsourcing but also to compare if the preferred factor is different in regions. For the region the main focus is to investigate the China and Eastern European countries.

2.3 Models of outsourcing relationships

The models that are used to explore the reason for firms to choose one specific region over another will be presented and explained in the following section. First comes an introduction of Kraljics Matrix, secondly the CAGE Distance Framework and thirdly the KMV Model are presented. Finally a model combining the three previous models is presented, the Market Evaluation Model.

2.3.1 Kraljics Matrix

Kraljics matrix is mainly built to map the relationship between buyers and suppliers and help to identify how different providers' relationships are affecting the partnership. The model is based on that the purchases are seen as a secondary function in the buying company and the main function is to lower the prices from the suppliers. The matrix is based on two axes (see Fig. 1). The first one is the profit impact-axis with a scale from low to high. The second one is the supply risk-axis, also this one with a scale from low to high. The profit impact-axis shows how big the influence is on the buyer's total values of sales. When a provider is placed high on this axis, they are more important for the company but with a comparatively simple product. The supply risk-axis shows how hard it is to replace one supplier with another. If the supplier is placed further to the right that means that the product is more complex or that the competition is lower in that industry, which makes it harder to replace those suppliers. Moreover, the harder it is to replace a provider the more power is given to them (Kang, Wu, & Hong, 2009).

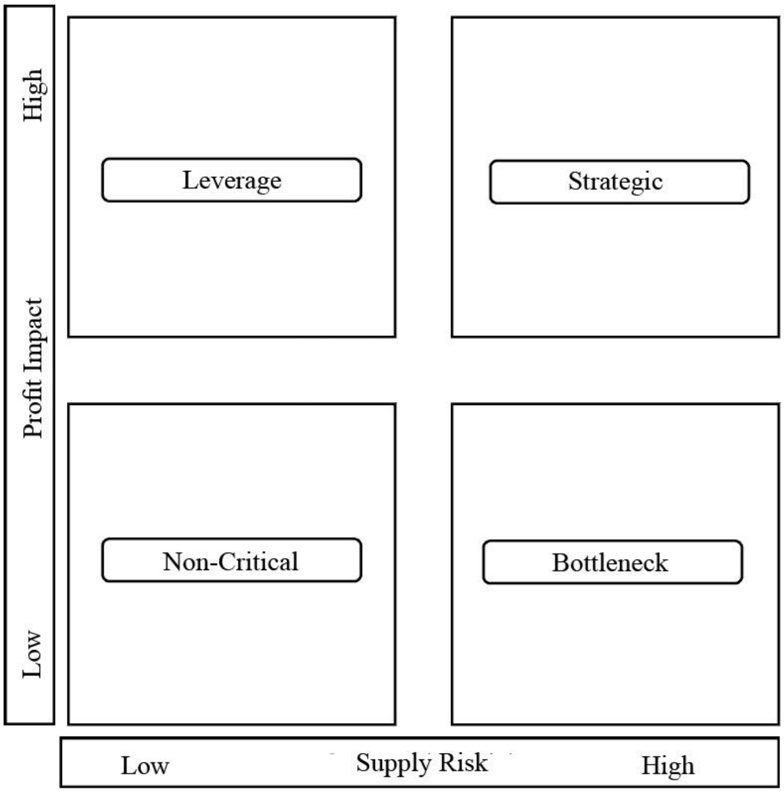

Fig. 1 Kraljic Matrix. (Based on Kraljic 1983)

There are four different categories that divide the suppliers in different types of relationships with different levels of dependencies. In the first box (see Fig. 1) non-critical relationship, the provider is not very important for the company on the whole and is therefore, quite easy to replace with a similar provider who can deliver, if not the same, a similar product that works just as well. The second box is leverage relationships where the provider is of greater importance for the business but the high competition in the specific areas still makes the provider fairly easy to replace. The third box is bottleneck relationships with high supply risk and low profit impact. Therefore, is the providers impact on the buyer limited, only a small part for the business volume of sales are affected, but the product is special and difficult to find from another supplier. This rarity makes it more challenging for the buyer to change provider.

The fourth box in Figure 1, strategic relationships, is the one most companies aim for. In this kind of partnership the providers are hard to replace and they delivers a predominantly and important part of the business volume of sales (Kraljic, 1983). This category is built on more equal conditions where both parts have the same power and share interest in the partnership. The relationship between the partners is more likely to last over time. The commitment and trust in such a long-term relationship could be measured by the KMV Model. But at the same time the further to the right you are on the supply risk axis the more power and control the outsourcer loose (Kraljic, 1983).

This model will contribute in form of understanding of how firms evaluate outsourcing partners in the process of choosing partners. The four: non-critical, leverage, bottleneck or strategic suppliers' could be being preferred differently depending on what region. In other words this model is used to measure the importance of the partners.

Kraljics' well-used theory it is also criticized for the lack of consideration for partnerships with other countries and the international arena. Another problem is that it is not sufficiently adapted to the current complexity of business relationships (Gelderman & van Weele, 2005). Therefore, the CAGE Distance Framework is used as an additional theory (Ghemawat, 2001).

2.3.2 CAGE Distance Framework

The CAGE model is used to show the difficulties of cooperating with companies over distance. The differences in the world are shrinking and the different continents are becoming more similar demand wise (Ghemawat, 2001). Many companies are underestimating the distances between themselves and the country they are outsourcing to. The distance mention is not only the distance in miles. There are four different distances that affect the outsourcing action according to the model by Ghemawat (2001), culture, administration, geographic and economic (CAGE). Depending on what kind of business the company is running those distances have different importance. There is not one situation that is identical with another one.

Table 1. CAGE Distance Framework. (Based on Ghemawat 2001)

	Cultural Distance	Administrative Distance	Geographic Distance	Economic Distance
Attributes Creating Distance	Different Languages Different ethnicities; lack of connective ethnic or social networks Different religions Different social norms	Absence of colonial ties Absence of shared montary or political association Political hostility Government policies Institutional weakness	Physical remoteness Lack of a common border Lack of sea or river access Size of country Weak transportation or communication links Differences in climates	Differences in consumer incomes Differences in costs and quality of: - Natural resources - Financial resources - Human resources - Infrastructure - Intermediate inputs - Information or knowledge

Culture Distance (see Table 1) is in many cases underestimated and has not been adequately investigated. The success rate is for example three times higher if the two countries have the same language. Another complication is the social norms, which first of all is hard to spot even for a trained eye and secondly is not changed in a trice. The Chinese are used to transmit rather than create and innovate themselves, something that many Western companies have had problems with after moving production over to China. Different preferences are a similar case where colors could be a major concern. Take the color red; in Russian it means 'beautiful', while red in major parts of Asia is a 'vulgar' color. Americans are known for appreciating large cars with a lot of space, meanwhile the Japanese prefer smaller once (Ghemawat, 2001). Different trends on different continents make it hard for companies to go global without adapting the product to the demand in the new market. Also religions are linked to the same types of issue, as some are not allowed to consume beef and others do not eat pork. Finding those differences in general is not that complicated, but creating different products for different markets and still be profitable could be more of a challenge. Differences in what way a business relationships work are also very diverse. For example, it is common in the Chinese culture not to take responsibility for mistakes, a written contract does not mean that it will be kept and a partnership does not automatically include both taking and giving. If the giving part is not clearly expressed it will most certainly not happen (Wendell, 2009).

Administrative Distance is mostly based on political decisions. Boycott is an extreme solution and not very common. Nevertheless countries use different tools to complicate the free competition and trying to complicate some relations between foreign countries to benefit the domestic suppliers. Examples of those tools are tariff, quotas, laws and special restrictions for international investors and favoritism in national regulations. Furthermore, there are significant differences between countries that have had a colony – colonizer relationship, where the partnership works far smoother and more successfully. Similar observations have been done when two countries use the same currency or are in the same political union, like the European Union (Ghemawat, 2001). Countries with a lower income are more likely to benefit local partners. In most cases, they do not have the same requirements for safety, human rights and environmental standards (Eisenhardt, 2001). The more enlightened the society is the more do those requirements matter. Environmental issues for examples have been a much debated area the last decade and the end consumers make more conscious choices (Olsen, 2008).

Geographic Distance (see Table 1) is not only about the distance in miles, even if there are benefits if that kind of distance is shorter. More important is the infrastructure, like access to water transportation and the ocean. The communicational infrastructure is also important, such as post, telecommunication, internet access, television and also printed media (Arvis, Mustra, Panzer, Ojala, & Naula, 2007). The geographic location is clearly affecting the transportation cost, even if it is not the same situation for a company in the fashion industry as it is for a company dealing with heavier materials like concrete or steel. But it is not only transportation that is affected by the geographic distance. The number of financial transactions drops when the distance increases. In addition, a different time zone also complicates both the communication and partnerships in general (Ghemawat, 2001).

Economic Distance is a bit more important to take into account if the company is planning on entering the foreign market with their products (Ghemawat, 2001). When the relationship is limited to outsourcing the economic distance is mainly based on the low labor costs. In recent years studies have shown that the labor cost is increasing in China. The trend shifts to producing not only low cost articles but also parts of the core businesses and more innovating products, which lead to more accurate controls on certain skills of the labor (Kang, Wu & Hung, 2009; Ghemawat, 2001). Again, depending on what type of industry the business is in the effects are different. The currency is another important factor that affects everyone who is dealing with a foreign country. The profitability can dramatically change with the currency as the only factor (Ghemawat, 2001).

CAGE Distance Framework is a model that will as a tool to measure the advantages and/or disadvantages for a certain region. Therefore, in different industries look advantages and disadvantages differently, which this model could support in the model that will be presented in section 2.4.1.

2.3.3 Key Mediating Variable Model

The KMV model that stands for Key Mediating Variable model can analyze the outsourcing relationship (Friman et al., 2002). The key of this model is to improve the long-term relationship which depends on seven factors. The seven factors are relationship termination costs, relationship benefits, shared values, communication, opportunistic behavior, relationship commitment and trust (see Fig. 2). The seven factors can be divided in two tiers, the lower tier which builds up the higher tier. The higher tier is used in order to reach the main goal, long-term relationship. The lower tier consists of the first five factors: relationship terminal cost, relationship benefits, shared values, communication and opportunistic behavior. The higher tier consists of the last two factors relationship: commitment and trust. As mentioned, the aim of the model is to establish long-term relationships and the core factor for that is relationship commitment which is affected by the other six factors. The higher the commitment is in the partnership with the partners the longer the relationship will last.

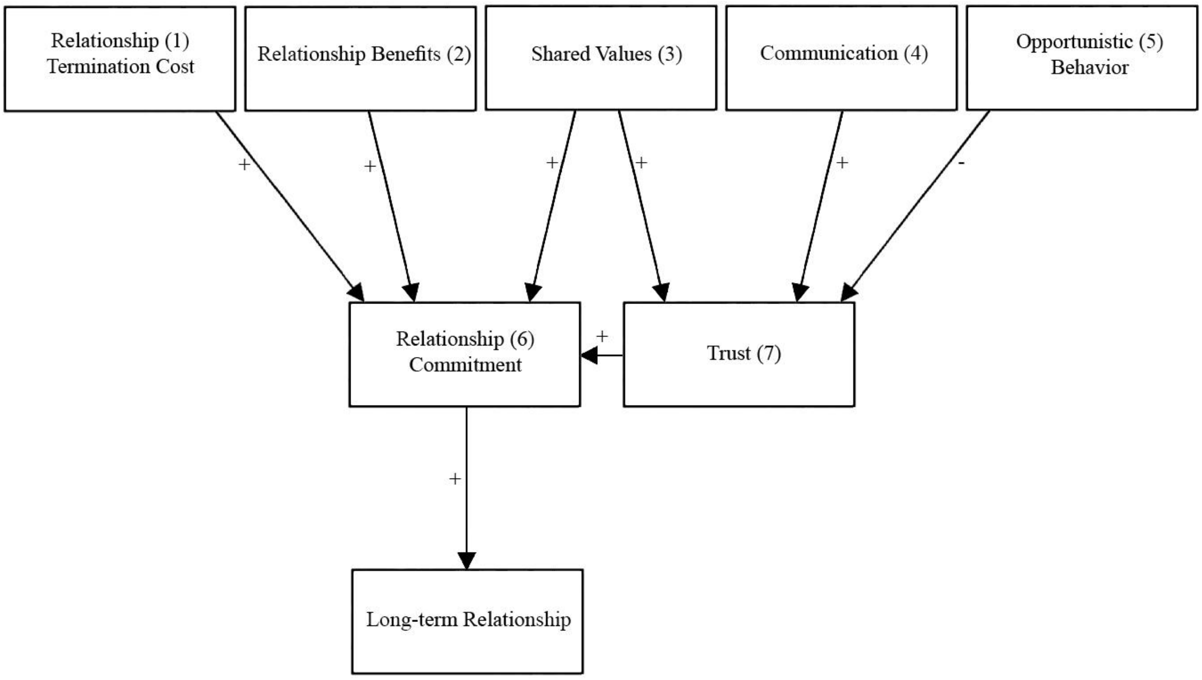

Fig.2 KMV Model. (Based on Friman, Gärling, Millett, Mattsson, & Johnston, 2002)

The first factor (see Fig. 2), relationship termination cost, means that depending on how much a company will suffer if both parts end the contract the more willing to commit to the relationship. The higher risks of losses there are for both companies the higher their commitment is for outsourcing relationship. The second factor is about the benefits the companies' gains from having relationship with other companies. It is not only about exchanging technology, increasing the profit or gaining more knowledge. It could also be more indirect, such as commercial value, word-of-mouth and social benefit. The third factor, shared value, is when both partners share the same values in their business and both values the business equally high. If this factor is higher, the higher tier, commitment and trust, will also increase. The shared values are depending on that both companies trust and believe in that the partner is equally serious and trustworthy. Sharing information and communicating in an appropriate way is the key for trust, the fourth factor. As one of the questioned companies said in a study: *"We know each other, we can call each other, ask questions, raise issues…"* (Friman et al., 2002, p. 406). By understanding and solve problems whenever it occurs is one of the source for higher trust between the companies. Lack of communication would cause poor relationship, therefore, less trust. The fifth and last factor of the lower tier is opportunistic behavior. If one part of the business relationship thinks egoistically and only cares about maximizing their own profit; in other words they value the business differently, as one part values the business highly and the other does not. Such a situation will most likely lead to mistrust and lack of commitment in efforts and time. This decreases both trust and commitment. Trust is also defined as reliability, honesty, benevolence and the most important, communication. One company in a study said *"Trust is the belief that one's partner is reliable, stands by its words, fulfills promised obligations and is honest."* (Friman et al., 2002, p. 405). This means to gain trust from the business partner ones have to be reliable, honest and a will to communicate.

There are two factors in the higher tier (see Fig. 2) commitment and trust. Morgan and Hunt (1994) also say that the key-mediating variables, are central to all relational exchanges. Trust can be defined in different ways but researchers do agree that Sullivan and Peterson (1982) definition is the most common: "*When the parties have trust in one another, then there will be ways by which the two parties can work out difficulties such as power conflict, low profitability, and so forth*" (Ulaga & Eggert, 2006, p. 315). This means that if trust is reached between the companies then relationship commitment is strenghten and a relationship might work better. Trust is the willingness to rely on an exchange partner who they have confidence in (Friman et al., 2002). Ekelund (2002) explained trust as following: ”Trust in the partners honesty is a channel members belief that one partner is reliable, stands by its word, fulfills promised role obligations, and sincere” (Ekelund, 2002)

Corporate relationships are created by mutual commitments (Ulaga & Eggert, 2006). Commitments come from a desire to maintain a valued relationship, if the relationship is worth the effort. Hence, a high level of commitment can stabilize the relationship. Friman, Gärling, Millett, Mattsson, and Johnston (2002) also mentioned that commitment is the basis for a good business-to-business relationship.

In conclusion, the KMV model shows how the factor leads to long-term relationship consisting of one core factor that is built by six others. Through the model (see Fig. 2) the first three factors, relationship terminal cost, relationship benefits and shared values (1)-(3) have a positive effect on relationship commitment (6). Additionally, shared values and communication (3)-(4) have a positive effect on trust (7). In contrast, opportunistic behavior

(5) leads to mistrust. Finally trust (7) also leads to a better relationship commitment (6), and it is the core factor which is the main ingredient for a long-term relationship to work.

With this model a better understanding of the relationships between firms and outsourcing partners in a specific region is explained. In this case Swedish companies, with outsourcing partners in Eastern Europe or/and China.

2.4 The Market Evaluation Framework

The Market Evaluation Framework is a process framework created by using the previous models to analyze, compare and evaluate different regions. The model is divided into two parts, the first part is before establishment of outsourcing and the second part is after establishment of the outsourcing. When a company decides to outsource they usually have certain expectations and goals. The reason to outsource is mostly seen using the five factors: cost reduction, core competence, speed-to-market, flexibility and innovation (Cagliano, De Marco, Rafele, & Arese, 2012). Depending on what factors the outsourcing company has chosen to focus, the distance in culture, administration, geography and economy is compared in the different regions. The most suitable region is then decided. The second part of the framework is used when the region is chosen and the relationship is established, the KMV model (Friman et al., 2002) will be used as a base to analyze how satisfied the company is with the relationship. The outcome of this framework will be used to compare the differences between the regions, which will benefit and how it can influence the business.

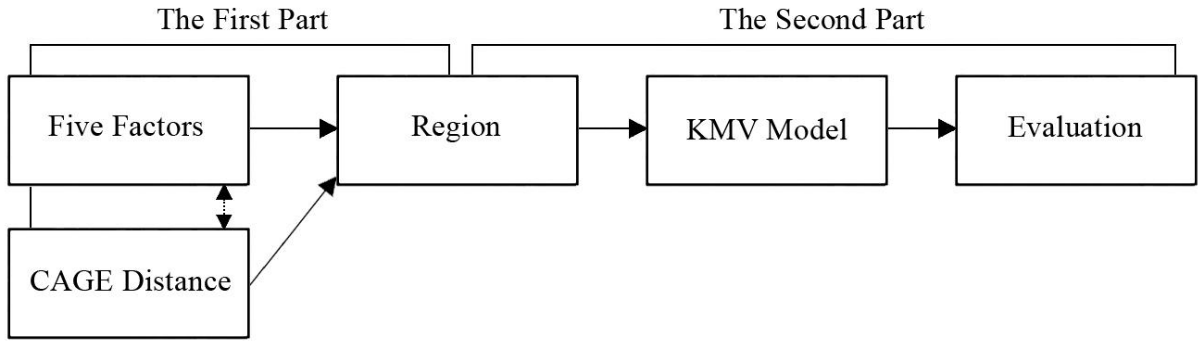

Fig. 3 The Market Evaluation Framework

2.4.1 The First Part: Five Factors & CAGE Distance

The first part of the framework is the process for what purpose the outsourcing is striving for and the decision of what region. The purpose is as mentioned based on the Five Factors: cost reduction, core competence, speed-to-market, flexibility and innovation. But for deciding what region it is not that simple. CAGE analyzes the pros and cons depending on the different distances in the regions. Therefore, using both Five Factors and CAGE Distance Framework with consideration of each other the decision of the most suitable region is chosen for a firm. Cost reduction can be seen in different ways. If labor cost is a big part of the final cost of the product, long distance transportations are more profitable, than it is for a product that could be produced with the help from a robot or a machine; in that way decrease the labor cost in the home market. Similarly, it is more profitable to move a lighter product, since it is easier, than it is for heavy and unwieldy products. If a firm chooses to outsource their core competence they are more vulnerable and depended on a great long-term relationship than a company that outsources smaller parts of the final product, mainly to reduce costs. The greater the parts of the product the company chooses to outsource the more critical it becomes.

Distance problemizations do not look the same in different situations and the differences in distance are not the same in different regions. Depending on the structure and the purpose for outsourcing, the distance does not have the same influence. The outsourcing factors affect what kind of distance problems that might arise (see Fig. 3). The knowledge of the distance problem affects the choice of market. After being aware of the distance problems with CAGE distance framework, that knowledge affects the choice of region.

2.4.2 The Second Part: KMV Model & Evaluation

The second part is investigates the established relationships in between the partners to find what difficulties a partnership might have encountered. The aim is to find in what way the choice of region affects the business relationship. By analyzing the outsourcing partner from the foreign country with KMV model a conclusion of pros and cons can be evaluated, and also if the firm have reached the predicted and desired profit.

3. Methods

This chapter will include the research method, based on choice of method and approach. The other section in this chapter is empirical methods, including strategy and data collection.

3.1 Research Perspectives

To describe knowledge when research is made there are mainly two perspectives. The first perspective is positivistic, which means that literature and theories are first studied and after that conclusions and hypothesis are drawn. Positivistic perspective is also used to find causal relations to explain the real situations (Bryman & Bell, 2011). Which means it is basically how we as human receives knowledge and interpret an object or situation. The second perspective is hermeneutic perspective, where interpretation of written text, personal involvement, opinions and experiences are a part of the research. This also means that it is nearly impossible for another researcher to do the study again and receive the same result. Furthermore the hermeneutic perspective states that we as human beings never can be completely unaffected of our own values and opinions (Bryman & Bell, 2011).

This study is made from the positivistic perspective, since it is the most suitable perspective for our research question. The research question of this dissertation is about how the businesses relations can differ depending on the outsourcing country, through different theories and interviews. The research question is based on an ongoing trend where companies change their outsourcing markets which make it natural to use a positivistic perspective.

Furthermore, a motivation for the choice of method is presented in *3.2 Qualitative Methods*. In this case the method is qualitative and is implemented through interviews, which makes it more appropriate to use the positivistic approach.

3.2 Qualitative Methods

After choosing the positivistic perspective there are two types of methods. One is quantitative, where a survey is made and answers are treated in a statistical computer program. The method that is used to collect the primary data in this study is qualitative, which usually is more common to combine with the hermeneutic perspective. This perspective is more known for its objectivity. Bryman and Bell (2011) say that if those two methods are compared, the qualitative is less structured and strict. The results do not need to be measured the same way when this method is used; the analysis and the will of finding a connection are the focus. It also gives more descriptive findings and provides a more profound insight to the question.

This method is created within the belief that the personal opinion always affect the outcome and that it always is more than one way to interpret the data that is collected (Bryman & Bell, 2011).

The area that is treated in this dissertation is hard to measure and takes place in a real situation where the outcome is hard to estimate. Then it is better to use a method where you can follow up with additional questions. What we are trying to capture is the companies' opinion about the differences between the two markets. A qualitative study also summarizes the special character of the studied phenomenon. This makes it more suitable to use a qualitative method, with less strict structure.

3.3 Inductive and Deductive Approaches

To approach the theory there are two ways; inductive or deductive reasoning. Inductive reasoning's first step is to start collecting the empirical data and then use it to draw conclusions and create theory. Deductive reasoning, on the other hand, studies the existing theory and then test it on a collected empirical observation (see Fig. 4).

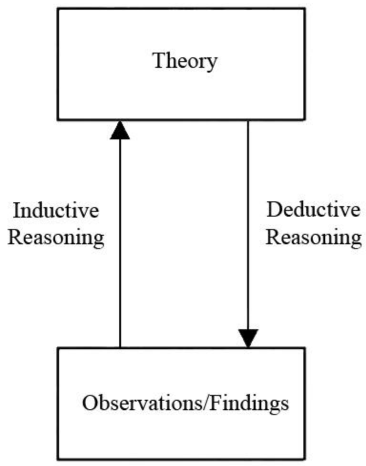

Fig. 4 Inductive/Deductive Theory. (Based on Bryman & Bell, 2011 p. 13)

According to Bryman and Bell (2011) inductive reasoning is usually associated with qualitative research and deductive with quantitative research, there are exceptions to this general statement. In conclusion, the differences between the two approaches are that inductive reasoning involves collecting the data before building a model or hypotheses and deductive is the opposite (see Fig. 4). Our decision was to study the existing theory presented in scientific articles and then interview companies. This means a deductive approach is used for a qualitative research. If the empirical data of a deductive reasoning correspond with the theory model, it results in higher conviction of the model, but it does not prove its validity (Alvesson & Sköldberg, 2008; Bryman & Bell, 2011). A deductive approach is therefore used in this dissertation.

3.4 Data collection and analysis

The purpose of this dissertation is to find the most important factors and reasons a company prioritizes when decisions are made of outsourcing to either China or Eastern Europe. Our research is based on three Swedish companies which have outsourcing to China, Eastern Europe or both. The most common way of gathering data is by either a quantitative or qualitative study. As mentioned the quantitative study is finding measurable results and compares them with each other, while qualitative study gives a deeper understanding of the subject. We have chosen to use qualitative study since a deeper interview is necessary. To gather the data, interviews are made by telephone or physically. The interviews are divided in three sections.

The research question of this thesis is based on a new trend, where there is a research gap considering the understanding behind the decisions that leads to the movement of outsourcing markets. The data collection is made through interviews, to be able to get a deeper understanding and more analytical responses.

As mentioned the qualitative research data is collected through both telephone and physical interviews which means this has to be taken in consideration when the answers are analyzed. Since the answers from the respondent can vary, depending on the interview situation it is important to minimize the effect and be careful with drawing conclusions between the different types of interviews. The interviewer effect is mostly stronger in a physical meeting than when the interview is done over telephone. The replying answers have a tendency to be shorter by telephone, which might require follow-up questions of a more specific nature (Sturges & Hanrahan, 2004).

With the aim of creating knowledge and deeper understanding concerning the outsourcing relations, with a foreign country and if there is a difference between the Chinese and the Eastern European market, semi-structured interviews are implemented. A semi-structured interview means that you have an interview guide and a prepared questionnaire. But in a situation where follow-up questions are required or needed to obtain a certain formulation specified and clarified the structure of the interview allows that (Qu & Dumay, 2011). Quota sampling was also used which means that there is one interview with each company. There were no second meetings where other questions could be asked and reflections made (Bryman & Bell, 2011).

Another choice made is to use a recorder during the interviews. The benefits of using a recorder is that you can focus on the interview, be there in the moment and be more involved in what you are talking about. If you do not use any similar equipment there is another option, which is taking notes of what is said. Taking notes could be done in two ways; the first one is the possibility of taking notes at the same time the interview is done, but with the risk of missing information and not being able to focus on the interview. The second way is to capture the general feeling of the interview and remember as much as possible, right after the interview write down all the things captured within the memory. The risk with this method is that some information never reaches through and that the interviewer is busy trying to remember the answers during the interview. Another positive aspect with the recorder is that the interview can be repeated over again and the exact word and intonations can be perceived (Al-Yateem, 2012). The difficulty with recording the interview is that the interviewee could feel inhibited by the knowledge that the information is recorded. When the benefits and difficulties had been weighed, the benefits of using recording equipment were predominant.

The interviews were divided in to three different parts. The first question treats the area of why the company started to outsource to the specific market. The purpose of the first part of the interview is to understand the factors behind the outsourcing and how that affects the rest of the process. The next area is about the distance problemization that the company has run into. What complications that possibly have affected the partnership. The aim of this section is to find if the companies have different experiences of the distance problem depending on which market they are active in. The final section of questions is to evaluate the relationship through seven areas from the KMV model, where the purpose is to find if there are different benefits and disadvantages in the two markets and, if so, when the situation makes it more profitable to outsource to one or the other.

We have chosen to start every section with a question where the respondent has the chance to speak freely about the subject. This is done to minimize the interview effect. After that there are follow-up questions, where we try to steer the conversation to the area that is important for this study. In cases when the interviewee floats away and is going in the wrong direction the follow-up questions purpose are to help them to keep the focus on the subject. This method is used to be sure that the right things are covered in the answer, since it is easy to omit parts both consciously and unconsciously.

3.5 Selection

There are three interviews, all with people who are responsible for or with insight in the companies' outsourcing process. The desire was that all the interviews would be meetings between the interviewer and the interviewee, but as the interviewees are senior managers within the companies their time is limited. This led to that some compromises had to be made; two of the interviews were therefor telephone interviews instead.

The criteria for the interviews were first of all that an outsourcing relationship existed with China, Eastern Europe or both. A company that outsources to both, and can compare the differences within the markets were preferable. As mentioned in *1.5 Limitations*, only Swedish companies were chosen. Furthermore, the focus has been on industrial companies but in different sectors. Where one is an industrial equipment manufactory, another is within the furniture business while the third company is also a manufacturer for instance within safety of traffic and constructions.

The first two interviews are both telephone interviews. The following interview was the one that took place face-to-face at the interviewed company's office. The goal was to create a questionnaire that delivered a result that is fair and where the differences in the results should not depend on the questions. The desire and ambition was to find more companies to interview, but considering the time limit that was not possible to implement.

The selection of interviewees has been a combination of different types of selection methods. Some of the companies have been contacted through convenient sampling, which means that the contacted companies are companies where an already existing relation was established. Another selection method was to choose companies placed within a close distance. The geographic selection was used for two reasons; the first one was that we thought there was a greater chance to get an interview with a company in the same region who are familiar with the university. The second reason was that we wanted to have the interviews face-to-face in the largest extent possible. A self-selecting strategy has also been used, this means that several requests for interviews were sent to companies who matched our selection criteria and the ones who answered were further contacted.

3.6 Conceptualisation

The first section of questions, question 1 to 8, treats the reasons why the company chooses to outsource in the first place. Which one of our factor categories, cost reduction, core competence, speed-to-market, flexibility and innovation, that are the closest one and if they got the result that they were looking for in the partnership. Those factors are the once represented in the first box of the Market Evaluation Model (see Fig. 3). This part of the questionnaire is asked to be able to compare and contrast the companies answers further on.

The second section, question 9 to 15, is about the market they have chosen to outsource to, how the company's decision was made and if the factors affected the choice of market. Moving over, the possibly encountered problems, where specific questions are asked, regarding the CAGE Distance Framework; culture, administration, geographic and economic distances. The questions within this part of the interview are adapted depending on how much and what kind of contact the Swedish company has with the outsourcing market. Those questions represent the second box in the Market Evaluation Model (see Fig. 3) which shows the problems that they have ran into and the differences between them.

Last section, question 16 to 26, is an evaluation about how satisfied the company is with the outsourcing relationship and what types of complications they have ran into during the partnership. This part is reflecting the satisfaction between the Swedish company and the outsourcing company. This reflection and evaluation is built with the KMV Model (see Fig. 2) as a base and is represented in the last box in the Market Evaluation Model (see Fig. 3).

The full lists of interview questions are attached in Appendix 1 Interview Guide, Swedish Questions and Appendix 2 Interview Guide, English Questions.

3.7 Reliability

Reliability is basically how trustworthy the results are in a research and if the study is repeatable, if so, will it reach the same result. Reliability is more connected with quantitative research, it usually measure if the questions are stable (Bryman & Bell, 2011). For a qualitative research it is difficult to reach a high reliability, due to that the social environment is constantly changing. This means that in order to create a close replicate of the original study one needs to set themselves in the similar social role as the original researcher. If a qualitative study should be reliable, ones need to take in consideration that the results are taken from a certain situation and might not be useful under other circumstances.

Researches show that there is a negative effect on the reliability caused by the interviewer effect. The interviewer effect is the effect the interviewer has on the interviewee. It could be a leading question that does not give the respondent a fair chance to answer the question unaffected or that the respondent gives an answer that they think is what the interviewer expects. The questions prepared are for our interviews as open as possible. The questions have been examined and approved by a third party. Though qualitative studies are time consuming we have therefore decided to do three interviews for this research.

3.8 Validity

Validity is seen as the most important criteria of research. It refers to conclusions that are generated from the empirical data, if the conclusions or measurement in the study is successful in investigating what is intended. That means that if the methods or empirical data are of low validity, the research results are most likely invalid. It is significant that the findings of this dissertation are valid, there should be a relation between the qualitative research and the theories that are mentioned. To ensure this, we have carefully chosen companies that suits the criteria; outsourcing to China and/or Eastern Europe and in the industrial production (Bryman & Bell, 2011).

4. Results

This chapter will present some information about the companies that were interviewed and then the results of the study including outsourcing factors, distance problematization and evaluations of the existing relationship. Finally, a table that summarizes the most important information and conclusions is presented.

4.1 Empirical Data

The following part of the dissertation describes the data that have been collected through interviews. The data is presented first separately, one company at the time with the most central information from the different interviews. Further on, there is a conclusion of the information from the interviews, a comparison is also presented with the results from the three companies. A discussion of why and how the situations are not that different between the operators follows.

4.1.1 Company X

Industry: Furniture production and retailing.

Experience of outsourcing (in years): about 50 years.

Relation with China: Several production partners, mostly within textile.

Relations with Eastern Europe: Operating in Poland and other Eastern European countries mostly with wooden parts of the production is placed in Europe.

Company X is in the furniture business and they have a wide range of products with everything from textile to shelf sections. The company does not only have a wide range of products, they also have an extensive selection of partners in all parts of the world. The choice in their case was either to own the facility or to buy the product by outsourcing the production. Company X owns the rights to all their products, which means that the relationships where the production is in a factory that is not owned by Company X, their relationship is considered as an outsourcing relationship. There is a constant focus on their outsourcing relations, but over the years it has been more prioritized to see the supply chain as a whole and concentrate on the long-term perspective.

Company X said that cost reduction definitely is the most important factor and the driving force for them is to constantly look for new options that will improve their competitiveness. They have different types of core competence, where one is production. In the case of the furniture business and especially for this specific company, the changes are quite slow compared to the fashion industry for example. It takes time to develop the product from an idea to actual product that the costumer can buy. Flexibility is not very important for Company X, mainly because their central focus is control of all the sections throughout the production. This makes it harder for them to be flexible at the same time, therefore, they have chosen not to put too much effort into the flexibility of the production. Innovation is an important part, but not in the production as much as in the creating process on the products, which makes it more irrelevant in this matter.

The company talked about the similarities within the process when they choose the market, no matter which parts of the world it is. The first step is to look at what kind of product that is considered to be outsourced. Their expertise, of their products and the markets that they already operate in, helps them to narrow the area that probably is the most profitable for that type of product. Then a quotation is sent to different operators in the area to see who can offer the best deal.

This company is of such a large size that they are not affected by the changed transportation cost in the same way as a company that cannot use the economy of scale. Since, speed-to-market is not that important for the company’s structure some severe difficulties with operating in China are excluded, such as transportation time and flexibility in both order and production. When the costs are calculated in the decision process, the sustainability has to be considered. If the sustainability is higher for a certain company than another, but the costs are also higher, that sustainability is most likely the decisive factor. The reason for that is that the startup costs and the effort it takes for two partners to establish a relationship requires both a lot of time and funding. Company X talked about the importance of considering all the possibilities and costs to create a fair picture of the situation. Even though, it always occur new situations and costs that were not included in the calculation from the beginning.

The existing relationships are overall very positive. The company has been dealing with foreign countries for more than 50 years, which makes them very experienced in those situations. In many cases, learning from mistakes and adapt to the new knowledge in the future gives an advantage compared to more inexperienced operators. Company X takes their responsibility concerning human rights, shared value and social responsibility seriously. Entering a new county that is not as used to international trade makes the startup period more critical. Law and regulation is one example of an area that is hard to change when entering a new market. If the country is not used to international trade in the specific business the laws are probable not adapted such a situation either. When a country is not as developed it is easier to find cheap labor, but in most cases the corruption is so predominantly that it is hard to trade with the county in a way that we assumes and requires in Sweden.

4.1.2 Company Y

Industry: Manufacturer of industrial equipment.

Experience of outsourcing (in years): More than 10 years.

Relations with China: Production of a specific product that will be sold in the Asian market.

Relations with Eastern Europe: Production of components and ovens in Estonia.

Company Y is working on a project to establish one part of their production through outsourcing for the Asian market in China, by collaboration with a Chinese producer. About five years ago Company Y had an ongoing outsourcing partnership with a producer in the Chinese market. The differences in mindset, communication and culture clashes made it too expensive and uncertainty to continue. Therefore, they are now in the process of establishing a new outsourcing relation through a Swedish company that has a better communication with Chinese companies. They have chosen to use the Swedish company to avoid a situation similar to their earlier experiences, but also to minimize the language complications and cultural clashes. The driving force for collaboration outside of Sweden is first of all cost reduction, but also to be able to focus more on the company's core competence. The project in China is mostly based on cost reduction but also the factor speed-to-market. This is because the product produced in China is only sold in the Asian market.

They started to invest in the Eastern European relationships more than 10 years ago, when Eastern Europe was a growing market. A flight to Estonia would take approximately two hours and the cultural differences were not that predominant and with such a short distance it is easier to keep the control. The collaboration with the company in Estonia has not been that hard to adjust to. The cultural collusions have not been as immediate, the culture is similar and the communication works better. Undoubtedly there are differences and problems, Company Y mentioned that delivery time can cause problem since Estonia have a mindset to produce a specific quantity each week, instead of a flexible amount depending on the market demand. Another problem that you have to consider is holidays, their calendar is different from the Swedish one and could cause problem with production planning.

Choosing the Chinese market was mainly for the same reason. China is now a growing market, a place where they needed to be more active. However, Company Y's products are bulky which means sending them back to Sweden would not be profitable.

Company Y said that Chinese culture and their mindset is totally different, which makes it challenging to communicate and deal with. The sense of quality does not exist in the same extend as it does in Europe. Companies Y also mentioned that the Chinese were not trustworthy, in the sense of promising a thing one day and totally ignore what had been said the next day. The earlier collaboration ended, since the complications made it impossible to gain from the partnership. They are now giving the Chinese outsourcing a second chance but made some changes and believe that the market have been through some changes over the last years which will make it easier this time. They are starting up the new partnership through a Swedish company with longer experiences in China.

So far Company Y is satisfied with the collaboration in Estonia, but it took time to establish, longer than expected. They also mentioned that starting up a new outsourcing relationship with another country is time consuming and it requires a long-term oriented project. Therefore, sharing the same value, philosophy and policy is very important. The business partners are more likely to reach those criteria's if they are on more equal terms. Such a relationship is called Strategic in Kraljics Matrix, where the partner has a great influence and is hard to replace. Company Y's conclusion is that Estonia has potential to adapt to the Swedish business culture but China do not. As a Swedish operator you have to accept the Chinese way because the differences are too large to change.

4.1.3 Company Z

Industry: Safety traffic and construction.

Experience of outsourcing (in years): More than 10 years.

Relation with China: One standardized product with low margins.

Relations with Eastern Europe: One production relation with Czech Republic.

Company Z is currently outsourcing to both Eastern Europe and China, more specifically the Czech Republic. The decision to outsource to Eastern Europe was based on their lack of knowledge. They were seeking for a partner to be able to develop the product faster, even if cost reduction still was of importance. China, on the other hand, was only chosen to minimize the production cost. Company Z said that the different choice of outsourcing market depends on the product. The product in China is one with very low margins and that makes it impossible to both be profitable and produce in a Western country. All their competitors are importing this specific product from China which makes the competition even harder. For both countries cost reduction is an important factor; stakeholders' performance requirements are constantly something that have to be considered. That is one reason for the company to keep looking for the lowest possible costs in order to satisfy them. Flexibility is also a crucial factor. The production of Company Z is limited and the capacity of their own production lines is maximized; instead of starting a night shift which led to extra costs, they use external partners from whom they can buy the product. Company Z also has a Swedish company group that already has an established relationship in China, Shanghai. That means that any possible complications with language, cultural and other things are minimized.

The lead-time from raw material to a finished product is one of the greatest issues. In Company Z’s own facility in Sweden it takes one week to produce and transport the product. In Eastern Europe the same process would take about six weeks and if it would be produced in China the time would be twice as long, about twelve weeks. The main reason for that is that they ship the products for a reasonable transportation cost. Not only is that inflexible, but also the loss of control in the production is too much of a risk. A problem that has arisen during recent years is a tariff on one of the products that Company Z used to import. The European Union uses the tariff to protect the European market from the cheaper alternatives in China. This specific factor made Company Z find other alternatives. At last, currency and transport must be considered carefully before establishing in the foreign market.

Company Z is satisfied with both their outsourcing partners but it took quite a while before they were profitable. Company Z also mentioned that outsourcing has to be long-term orientated in order to work. However, hidden costs will always be an issue before the relation is established, this does not only apply within outsourcing relation. It is a similar situation when a supplier is replaced. Important points made by Company Z was that, when the outsourcing partner is relatively close and still a low-cost country the situation is optimal, since that increases both the flexibility and speed in the production.

4.2 Summery of Empirical Data

The empirical data presented separately in 4.1 Empirical Data is summarized in Table 2, Summary of three interviews, and the data is then compared and analyzed below.

Table 2. Summary of three interviews

	Company X	Company Y	Company Z
Factors for outsourcing	1. Cost reduction 2. Core competence 3. Innovation	1. Cost reduction 2. Core competence 3. Speed-to-market	1. Cost reduction 2. Core competence 3. Flexibility
Distance problems in China	- Politics & religious differences - Sustainability - Control of the production	- Keep agreements - Planning of production	- Transportation/delivery time - Lack of control/flexibility - Tariff to protect the European market - Harder to calculate, more variables
Distance problems in Eastern Europe	- Corruption - Slower development curve - Control of the production	- Misunderstandings caused by culture - Influences from planning economy	- Sustainability, never a quick fix - Currency
Evaluation of the existing relations in China	- Has the will & want - Lack of equipment	- Lack of trust, difficult culture and not that straight communication - Time of learning	- Inflexible - Hidden costs that is always unexpected before establishment - Same commitment and profit interest
Evaluation of the existing relations in Eastern Europe	- Poland's market is growing - Ukraine & Moldova is challenging due to the corruptions	- Adaptability - Time of learning	- Flexible, closer & faster - Same commitment and profit interest

To summarize the empirical data from the interviews the answers have been categorized into factors for outsourcing, distance problems and evaluation of the existing relations as mentioned in section *3.7.2 Interview guide*. Further analysis of Table 2 is presented in *5. Analysis*.

Table 2 consists of our evaluation of the answers from the interviews. The category factors for outsourcing consists of five factors from the literature, where the main reasons for the companies' outsourcing are presented in order 1-3, where one is the most important and three is a factor with less importance. Distance problem is based on an analysis using the CAGE Distance Framework with problems that had occurred during their partnerships with companies in either China or Eastern Europe. Finally, the last two columns are an evaluation of the existing partnerships for each company and region.

5. Analysis

This chapter will discuss, compare and analyze the empirical data that was collected through interviews and summarized in the previous chapter.

To summarize the interviews, the study shows that all the companies have the same reasons for outsourcing, no matter what market they are moving their production to. The choice of market depends more on the type of product, the industry and size of the company. It also depends on what market the product will be sold in and what relations the company already has established, either by themselves or through other companies or groups.

5.1 Analysis of the interviews

The Analysis will be made by mainly using the Market Evaluation Framework as a basis, and explained in the following order; Five Factors, CAGE Distance Framework and lastly KMV Model.

5.1.1 The Market Evaluation: Five Factors

All interviewed companies already had outsourcing partners or were in process of one. The first part of the framework will be used to observe if there is a pattern of the decision of regions since the companies already had outsourcing partners. Five Factors is the first in the line for analysis. Cost reduction is with no objection the main reason to seek outsourcing partners for all three companies, but the cost reduction type is different between them. Company X is buying companies abroad with lower labor costs which means in long term perspective it might cut costs even more and that will also gain better control in the production. Company Y on the other hand also lowers the production cost with lower labor cost but also transportation cost since the produced product will only be sold in the region it is made. That was their main reason to outsource, which is to gain speed-to-market for a better market place in the Chinese market. Lastly Company Z outsourced for two different reasons depending on region, to China it was mainly just to reduce the production cost since it was of a product that is not profitable to produce in higher waged countries anymore. Eastern Europe on the other hand was because to gain knowledge in a product instead of start from scratch which would cost even more for the company. So to summary the cost reduction, the three companies that were interviewed said that cost reduction is the one factor that started the whole process of outsourcing. They always hunt for lower production costs, higher margins and better results to show the stockholders or the board. When companies talk about a lower production cost and cost reduction they mostly mean labor cost. To be able to gain from such a production structure, all other costs also need to be calculated carefully, they all said.

When the discussion moved over to core competence the answers from the companies started to differ more. Through outsourcing the companies own production facilities they have more free capacity that they could focus on what they do best. Core competence is not the main reason for outsourcing. In many of those cases but this could be seen as a positive side effect, for example, some part of the production that requires more technology or specific knowledge that the low cost labor countries do not have to the same extend.

Speed-to-market varies in importance depending on what the product and the market they operate in. The Company X, in the furniture business, mentioned that they do not focus on speed. The company does realize that this is one of the weakest links of the company, but at the same times something that they do not have any plans to change. The fact is that the furniture market does not have the rapid changes that, for example, the fashion industry do. This makes it possible for Company X to stay the way they are today. Even though, Company X mentioned that they have to look out for changes in this field in the future, since the trend in general is that everything from technology to taste is moving faster and changes more often. Company Y's speed-to-market is a little bit differently as the theory; how fast a new product can go from an idea to a finished product available in the market compared with the competing companies. p. 12. Their speed-to-market was to gain market share by outsourcing, and also to achieve a market value in a fast speed in the new market. And lastly Company Z prioritizes speed-to-market much high than the two other companies. The reason for that is mostly that their backlog of orders could vary a lot, if the demand suddenly shift they need to have the products within days. To ship products from China takes at least six weeks. With the order and production time included, the whole process takes about twelve weeks. This is something that affects their business a lot and is one of the reasons why they do most of their outsourcing to Eastern Europe instead.

Flexibility was only mentioned by one of the companies, Company Z who also prioritized the speed-to-market the most. Again, this is caused by the shifts in demand in their operating business. They need to be flexible and able to adapt to the situations as they occur. Company Z was also the company that mentioned the pressure from the board and the limited ability to invest in new production lines, in addition to tie assets. This situation is clearly an effected by the structure of ownership within the company and profit requirements the board and stockholders are expecting.

Innovation is in a way linked with the changes in the market too. All businesses are depending on new products and innovations, but some more than others. Company Y within the industrial equipment manufactory market does not change their products that often and rapidly as the furniture business for example. None of the companies uses innovation as a factor for the outsourcing of the production. The furniture company did talk about design outsourcing to innovate their product. Since this dissertation focuses on the production outsourcing this will not be further investigated.

All the companies talked about changes in the market, that everything is moving faster. To be able to meet this new trend, companies need to change their business structure. Between ten and twenty years ago many companies started to invest in the fastest growing market, China. Even back then, the most common reason was cost reduction. But in today's society it seems that flexibility and speed-to-market become more important, in combination with cost reduction. Company Z actually started one of their relations entirely based on the knowledge of the other partner, to be able to develop the product faster and to a lower cost without investing in R&D and new production plants.

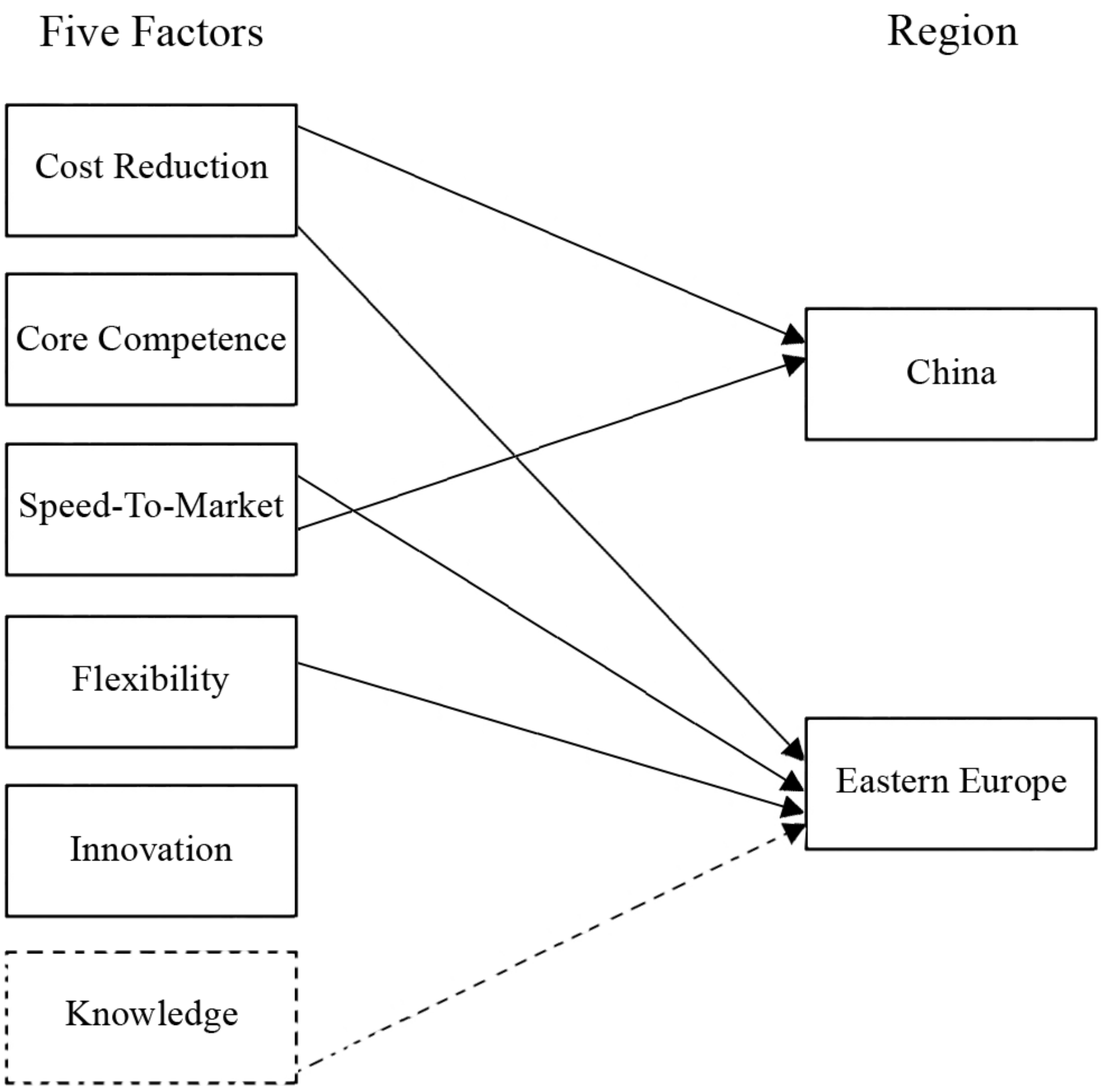

Fig. 5 Revamped Five Factor and Region

Cost reduction is the most important factor. Transportation time and flexibility are also both important when it comes to outsourcing. At the same time when companies prioritize speed-to-market they compare the transportation time from China to Sweden and from Eastern Europe to Sweden. When Company Z outsources it takes twice as long to transport from China as it does from Eastern Europe, which makes the choice quite easy. For Company Z flexibility towards the costumers demand is important for their business. The interviewee said that if the customer suddenly orders a larger quantity of a product than usually and their own production capacity cannot manage that amount within a short notice, the lead-times in the outsourcing and the transportation time become very important. To produce the order in Eastern Europe and ship it would take approximately six week, but if the same product were outsourced to China it would take about twelve to fifteen weeks before they would arrive to

Sweden. Flexibility has to be considered when choosing between outsourcing to Eastern Europe and China.

As seen in Fig 5, our analysis has investigated a sixth factor, Knowledge. Knowledge and Innovation which are very close to each other but still not really the same since Innovation is more of inspiration to improve something. Therefore, knowledge in our case is about learning something entirely new. The most interesting about the analysis is the two factors, Speed-to-market and Flexibility. Speed-to-market basically had two definitions, which is either how fast a product will be produced from idea to finished product in the market or how fast to start business aboard in the new market.

With Five factors only it is hard to determine which region a company will outsource to except for Flexibility in combination with speed-to-market, if those two factors are vital for the business then most likely they would outsource to the market which is relatively closer in distance.

5.1.2 The Market Evaluation: CAGE Distance Framework

First of all, the smaller companies seem to think it is easier to deal with a company closer in culture, administrative and geographic distance. The economic distance does not seem to matter as much, mainly because economic distance between the two other markets, China and Eastern Europe, does not seems to be so far apart. This is because Sweden is not a part of the Euro collaboration, the EMU (Nationalencyklopedin EMU, 2013). This means that Sweden does not have the same currency as either China or Eastern Europe and the uncertainty and risk of changes in the exchange rate are the same in both markets.

Cultural clashes is another important factor that was brought to attention. Company X have been outsourcing for decades. They started by outsourcing to relatively close markets, then they moved the production and outsourcing further away geographically. Cultural complications have always occurred for them. Company X has been able to manage the differences and difficulties, mainly because of the size of the company and the amount of money they have invested to make those relationships work. That is one of the reasons why they highly value the sustainability. The cost to start up a new relationship is so high that they have to consider if the new partner will turn into a long term relationship early on. Because of those factors and what Company X has learned along the way, they have adapted their outsourcing productions. That turned out to be very profitable. In Company Y's case they do not have the same ability to adapt as well as Company X. Company Y neither has the same privilege as Company X when it comes to capital to invest in a new relationship nor the power that a larger operator brings. Company Y’s first partnership in China was not working at all and the miscommunication led to mistrust. As soon as there is lack of trust in a business relationship, it will never work over a longer time perspective. The solution was to use a third party to help them in the Chinese market, instead of finding a partner themselves. The third party will also handle the communication with the Chinese company and solve any complication that might arise. Company Z said that they do not have any complications with the Chinese market. The reason for that, according to them, is that they also use a third party to help them deal with the Chinese partner. If it were not for the third party Company Z would probably never had established a relationship with China in the first place.

There are studies that have shown a trend of outsourcing companies to choose a new outsourcing partner within a closer distance. A theory is that a closer country gives greater benefit for some companies, than it does to outsource to a country that is further away. The benefits would be in terms of; language barrier, culture differences, transportation time and shared values. This means if production is outsourced to China, when the products are meant for the Swedish market, the product has to be transported back to Sweden and this might not be profitable anymore. This is in some cases caused by the higher tariffs, changes in the corporate income tax or the increasing labor costs in China. However, for some industries those criteria do not have the same effect. Company X and Y, for example, have production facilities in China, but they also sell the products in an Asian market. As long as the company sell their products in Asia or in a market close to China, it is often important for them to keep producing there. One reason is to be in the market where the changes happen, to be able to adapt to them. Another reason is the transportation costs that will be lower, when the distance from production facility to the costumer shrinks. Company Z outsources a very standardized product to China and because of the low labor costs, the product cannot be produced profitable in a Western country. Company Z does not sell their products in the Chinese market, which means that the product is transported back to be sold in Sweden. The Chinese company only provides Company Z with one product; such relationship is not as equal between the partners as if the Chinese company had a greater impact on Company Z. According to Kraljics Matrix this relationship is a non-critical where neither of the axes is on the higher end. Company Z said that the optimal outsourcing partner today is a producer in a country geographically close with as low labor costs as possible.

In conclusion, all the companies said that to make outsourcing to China profitable today, China has to be at least a part of the sales market. A product that is easy to transport and that requires relatively much labor to produce or that the outsource product have a very small impact of the company are situations when China still is a good option. With a combination with Five Factors and CAGE Distance Framework it can help to determine which region a company will outsource to. Cost reduction is the main factor, Flexibility and Speed-to-market will lead to cost reduction in some industries. This means that what decides which regions mostly depends on what size the company is of and which industry it operates in.

5.1.3 The Market Evaluation: KMV Model

To sustain in the constant competitive market seeking solutions to be better than the competitors has always been vital for companies. Outsourcing is one solution to gain better sustainability, by gaining advantages in, for example, lower production costs. But outsourcing should not be seen as a short-term solution; to create sustainability in a relation trust and commitment are needed and essential. All the interviewed companies talked about those unexpected hidden costs that always occur before a new outsourcing partnership is completely established. Company Z mentioned that hidden cost appears, when changes are made in a relation of any kind, not only concerning outsourcing relations. There is a break-in period in all relations, before both parts have agreed on how thing should be done and handled. Outsourcing is only a solution when the company is searching for a long-term relationship. The companies also said that the hidden cost is very hard to calculate but the approximate cost should be taken into account.

This model is hard to use when we only have the answers from one side of the partnerships which might makes this model invalid for this report. But Company X did not mention any mistakes of bad relationships, this could be cause since they buy the companies, but also it might be something they would not tell us during the interview. On the other hand Company Y experienced a bad partnership in China before. The main cause of that was that they did not share the same value of the partnership and also miscommunications cause by language barrier. This led to mistrust and the partnership ended. Lastly Company Z did not mention any bad communications due to language barrier, one of the reasons could be that they are working the outsourcing through another company which means the culture clashes are minimized.

In conclusion it is nearly impossible to determine how the relationship is with only one side's perspective. But at it seems that following and successfully reach all the factors in the KMV Model will lead to a longer long-term relationship.

5.2 The shift from China to Eastern Europe

The shift in the outsourcing trend is to move the production from China to Eastern Europe. That have been discussed in the interviews and the companies had both differences and similarities in their opinion. Company Z talked about the industry that they are operating in, where they had noticed that many of their competitors are moving back their production from China, if not to Sweden, at least to Eastern European countries. They mentioned Poland as an example, where they have seen a new wave of establishments in the industrial production sector. Even if the labor is expensive in Poland compared to China, the shorter lead-time, flexibility and speed-to-market make it worth the higher labor costs. Company Z still has one of their products outsourced to China and has no plans to move back that part from China. Their reason for keeping the part of the outsourcing in China is because of the small impact of the company, that it is not worth to restructure the relations. If the situation occurs, where they had to look for new outsourcing partner they would turn to Eastern Europe, most likely the Czech Republic, since they already have some parts of their production there. Another alternative for Company Z would be to turn to a similar country like Poland, rather than China. It also emerged during the interview that if it was not for the company group, with an office in Shanghai, they would probably never had entered the Chinese market in the first place. The risks and effort would have been too high without a third party. Company Z mentions that it is still important for companies that sell their products to Asia to be active in the market. The shift concerns companies that ship the raw material to China to process the product and then ship it back to Sweden again to sell the end-product there.

Company Y talked about the problematic relationship they had experienced in China and compared it with Eastern Europe, where they have most of their foreign contacts today. When Company Y analyzed the situation, they came to the conclusion that it started with the communication problems, both in language and cultural misunderstandings. Those complications led to mistrust between both parties. When a relation has come to the level where they do not trust each other it is only a matter of time before the collaboration will fall apart. Despite the negative experience they had with China, they are now ready to establish a new outsourcing relationship with a partner in China. There are two major differences this time. The first one is that there is a third party that can help them with the contacts in China and will work as a link between the two companies. The second difference is that this time they will only produce products that are sold in the Chinese and Asians market, in order to avoid the increasing transportation costs.

Company X is in another situation compared to the other two companies. Company X is a global corporate group and can use the economy of scale in a way that is impossible for smaller companies. Those advantages, in combination with the many years of experience in the area of outsourcing makes the process easier for Company X. This is also a company that invests a lot of funding in their relationships around the world both to create better business relations, but also because it is a part of the company's vision to help developing countries economy to grow. Company X is still aware of the complications in the Chinese market but points out that Eastern Europe is not one unit in this matter. They said that Poland, for example, is more developed as a trading partner than Italy and Greece. Moldavia and Ukraine, on the other hand, are so corrupt that it is impossible to place parts of the production there. Those countries would have to change radically to be able to meet the standard that investing companies requires. Company X also mentioned that they have seen incredibly fast changes within the Chinese market. The largest problem China is facing now is the fact that the labor cost are increasing. China is willing to work hard, but the issue has been the defective operating systems.

6. Thesis Conclusion

This final chapter of the dissertation includes four parts, where the first part is a summary of the dissertation. The second part is theoretical and methodological contribution and the third part is practical relevance. At last further research is discussed.

6.1 Summary of dissertation

The aim of this dissertation was to explore an area which is very relevant today and where there is lack of recent studies and literature. There is an ongoing trend, where companies move back their production from China to Eastern Europe. This dissertation is trying to discover why companies choose the different markets by asking companies who outsource about their circumstances in the matter. The Research Question was how the differences between the outsourcing markets affect the choice where to move the production.

To gather the information for the research questions interviews were set up with companies with experience in the area. The questions asked to the companies about their outsourcing process are based on different models, frameworks and information gathered from literature. The combination of the existing research was made to capture the right angle of the outsourcing relations and to investigate the new trend. The theoretical conclusions in this dissertation are, with no objections, that cost reduction is the most important factor. All the interviewees confirmed that. When Swedish companies outsources the main reason is to find a partner with lower labor costs.

The responses from the companies also show that there are cases where the factors steer the choice of market, meaning the Five Factors for outsourcing. Flexibility, the possibility to free capacity in the own production and adapt to changes in demand, and speed-to-market, time for a product to reach the market, are examples of factors that are hard to combine with the Chinese market. The longer lead-time and transportation time in China are reasons for those choices. Companies that focus on those factors are more likely to choose a partner in Eastern Europe. The larger the company is, the less important are those factors. A larger company also has higher possibility to invest in and have influence on the relations. Companies which operate with large volumes gain more from relations with the Chinese market.

Language issues, culture clashes and the necessity of large investments are complications that the interviewed companies mentioned, in addition to the CAGE Distance Frameworks criteria's. In most cases it is too demanding for a small Swedish company to start a relation with China on their own. Some companies use a third party to ease the complications, some of the cost reduction is lost but a relationship is easier to establish. The study shows that the complications with Eastern Europe are the same as with China. The difference is the degree of complications. Even if there are still language issues with Eastern Europe, they are not as significant as the ones with China.

6.2 Conclusion

To answer to our resreach question *How does a regions specific characteristics influence the choice of market when a company is about to outsourcing* a model was created. The Framework created for this thesis is called The Market Evaluation Framework (see Fig. 3) is divided in to two major parts. The first part is created to explain the process of choosing an outsourcing market and the second to evaluate the existing relations the companies have with the outsourcing market.

By using the five factors in Market Evaluation Framework, further explained in Chapter 2, conclusions were drawn that if a company prioritized curtain criteria's over other that affected the choice of outsourcing market in the sense of distance, speed and costs. The second box in the model mentions different difficulties that can occur when a company is dealing with another foreign partner. This part of the model is called CAGE Distance framework, also additional transfigured in Chapter 2. The CAGE box in the Market Evaluation Framework is used as a base and examples for the interview questions, but the results shows that the difficulties are mostly concerning the same areas no matter where or how far away the other market is. What could differ is the size of the problems and how easy they are to deal with. The last box in the Market Evaluation Framework focuses on the KMV Model, see Chapter 2 for more information, which is the second major part of the Framework. This box focuses on evaluating the existing foreign relation that companies have. In terms of conclusions there are some similar traits between the companies who have their outsourcing in the same markets. That confirms that the choice of market and the effect if this choice could be matured and analyzed to create a long lasting and profitable relationship with a foreign partner depending on what the companies sees as the most important factor.

6.3 Critical Reflections

The most critical parts of the dissertation is the lack of diversity and the size of the interviewed companies. Since the purpose was to compare two markets the sampling criteria were quiet slim and made it difficult and time consuming to find companies who were willing to contribute to this thesis.

Furthermore, with the knowledge that we possess today the KMV Model was not the most optimum model to use, though it contains much information and is diffuse for a third party to understand within the limited time of an interview. Even if the KMV Model only were used as a base for the interview questions and as a tool to analyze the answers, it still affected the outcome and with another model used the evaluation of the existing relations might had been a bit more structured.

6.4 Thesis contribution

The outsourcing trend where outsourcing production is moved from China to Eastern Europe is a new area of research. The contribution of this dissertation is to clarify what the companies considers when the decision of outsourcing is made. This dissertation could be used as a framework, to learn from mistakes of others and help companies to contribute a better relationship with a foreign country. Existing theories were used as a framework for the interview guide when the empirical data was gathered.

In this dissertation a framework was created in order to observe the outsourcing process as a whole. The Market Evaluation Framework is a combination of a model, a framework and theoretical assumptions that are used separately to study different parts of the process. The framework is used to observe the links between factors for outsourcing, the choice of market and to evaluate the degree of satisfaction in the collaboration with the foreign partner.

6.5 Practical relevance

The practical relevance of the dissertation is based on an unexplored area in both research and literature. There are relatively new external factors that affect the outsourcing process and those have not been studied in the extent that could be considered essential. Therefore, the results of this dissertation could be a contribution for smaller companies and future researchers to understand what the underlying reasons for the changes are. The outsourcing trend is still growing in Sweden, although the shape of it seems to change slightly. This means that this study will provide relevance for the companies that are outsourcing or analyzing what markets to outsource to.

6.6 Further research

This study about Swedish companies that outsources to China and/or Eastern Europe have given us a wider perspective and a better insight regarding the outsourcing process. The collected data did confirm the validity in different parts of the theories and literature review.

The fact that the interviews were made in different ways, both by telephone and in person, have to be taken in to consideration. That means that the outcomes of the interviews are not fully comparable. Additionally, respondents tend to keep information about other failures and unsuccessful businesses to themselves. Even though, our view of the situation is that the interviewed companies were outspoken and honest to the expected extent.

There were difficulties finding suitable companies that had outsourcing relations with both China and Eastern Europe within the industrial market. A reason for those difficulties is that most companies do not boast about the fact that they use outsourcing as a resource, which makes it hard to find and contact companies that do. Furthermore, in the process of gathering the data would have been much easier if there was an opportunity for a second interview. The time limit aggravated that. In the process of interviews new knowledge and angles were conducted and it would be interesting to be able to compare with an earlier interviewee.

To continue this study it would be interesting to interview more companies, in order to reach an even higher validity of the dissertation. It would also be rewarding to contact the interviewed companies' foreign partners to contribute their vision of the relationship.

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Appendices

Appendix 1, Interview guide, Swedish version

1. Vilka världsdelar och länder har ni outsourcing förhållanden med?
2. Hur gick det till när ni valde att outsourca delar av produktionen?
3. Hur länge har ni använt er av outsourcing?
4. Utifrån teori har fem av de vanligaste anledningarna för outsourcing valts ut. Vilket av följande passar bäst in på er situation? Kostnads reduktion, kärnverksamheten tillverkning, speed-to-market, flexibilitet och eller innovation?
5. Finns det olika skäl till de olika marknaderna? Finns det något specifikt med Kina/Östeuropa?
6. Har ni olika anledningar för outsourcing om det gäller olika produkter?
7. Vilken/vilka produkter har outsourcat?
8. Vilka produkter har ni outsourcade till Kina/Östeuropa?

9. Hur valde ni till vilken marknad/land outsourcingen skulle ske?
10. Hur påverkade anledningen till outsourcingen, valet av outsourcing plats?
11. Vilken typ av komplikationer har ni stött på med de olika marknaderna Kina/Östeuropa?
12. Några specifika problem gällande kulturkrockar? Så som språk svårigheter eller missförstånd?
13. Har ni stött på några administrativa problem? Av typen annan lagstiftning eller politiska sanktioner?
14. Några problem med den geografiska distansen infunnit sig? Tidsskillnad vid kommunikation? Kostnads förändringar, tidsosäkerhet och oberäknelighet vid transportet?
15. Ekonomiska olikheter och komplikationer? Så som tullavgifter eller kvotering? Förändringar i skattelagstiftningen?

16. Är ni nöjda med era nuvarande relationer i regionerna Kina/Östeuropa?
17. Anser ni att ni har en jämställd relation till era samarbetspartners? Hur anser ni att det påverkat situationen?
18. Vad anser ni vara de största föredelarna med att handla med dessa länder/leverantörer?

19. Finns det något speciellt ni anser att ni vinner på relationen? Kopplat till de fem anledningarna, kostnads reduktion, kärnkompetens, speed-to-market, flexabilitet och innovation, anser ni att ni uppnått den anledning ni sökte i samarbetet?
20. Har ni fått de resultat ni väntade er av samarbetet? Har fördelarna varit de samma och lika stora som ni hade beräknat dem till att vara?
21. Har ni samma värderingar som er outsourcing partner? Anser ni att det är viktigt att företagen delar en grundläggande värdering? Hur fungerar det i situationer där ni inte helt delar samma värderingar?
22. Har ni stött på oväntade komplikationer? Som ni inte räknat med sen innan eller som blivit större än vad de varit beräknade till?
23. Överlag, hur anser ni att kommunikationen fungerar? Vilket är det största hindret i kommunikationen?
24. Anser du att tilliten till er outsourcing partner är god? Kan ni lita på den personliga relationen? Tror du att den information ni tilldelas är sanningsenlig?
25. Hur skulle du utvärdera deras engagemang och åtaganden? Är er outsourcing partner hjälpsam och bemötande vid till exempel reklamationer eller andra komplikationer?
26. Slutligen, vad skulle du saga är den största skillnaden mellan att outsourca till Kina/Östeuropa?

Appendix 2, Interview guide, English version

1. What parts of the world and countries do you outsource to?
2. What happened in the process when you decided to outsource parts of your production?
3. For how long have you been outsourcing?
4. In the research we have found five factors for outsourcing. Which of the following was or is the most important ones for your companies, cost reduction, core competence, speed-to-market, flexibility and or innovation?
5. Are there different reasons for the different markets? What is specific for China/Eastern Europe?
6. Are there different reasons for outsourcing concerning different products?
7. Which products of your production have been or are outsourced?
8. Which products have you chosen to outsource to China/Eastern Europe?

9. How did you choose market/country to outsource to?
10. Did the reason for outsourcing affect the choice of market?
11. What complications have you ran in to in the different markets China/Eastern Europe?
12. Have there been any specific problems concerning cultural clashes? Such as languages barriers?
13. Have there been any administrative problems? Difficulties with different types of laws or government policies?
14. Have there been any problems with the geographical distance? Time difference when communications is made? Changes in costs, uncertainties with deadlines or unpredictable transportations?
15. Economic differences or complications? For example, tariff or quotas? Changes in tax regulations?

16. Are you satisfied with you existing relations in China/Eastern Europe?
17. Do you see your relationship with your partners as equal? How do you consider that to affect the situation?

18. What do you consider to be the greatest advantages when doing business with China/Eastern Europe?
19. Is there something special that you think you gain from the relationship? Considering the five factors, cost reduction, core competence, speed-to-market, flexibility and innovation, do you think the factors you were seeking have been reached?
20. Is the result of the collaboration what you expected? Have the benefits been of the same type and size as you expected before the collaboration?
21. Does your company share values with the company you outsource to? Do you consider it as important to share values? How do you act and react in situations where the companies do not share values?
22. Have you met unexpected complications, that you had not considered before you entered the partnership, or situations where the complications have become large than expected?
23. Overall, how would you say the communications works? What is the largest obstacle concerning the communication?
24. Do you consider the trust between you and your outsourcing partner to be good? Do you trust the personal relationships? Do you believe that the information they give you is correct and trustworthy?
25. How would you evaluate their commitment? Is your outsourcing partner helpful and with a good attitude when you are dealing with reclamations for example?
26. At last, what do you consider to be the greatest difference between outsourcing to China and Eastern Europe?