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*Cross-Border Competence Management  
in Emerging Markets*

Voices from China and Russia

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Cross-Border Competence Management in Emerging Markets: Voices from China and Russia

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# 1 INTRODUCTION AND OVERVIEW

This book is on cross-border competence management in Russia and China. Corporations are facing a number of problems and challenges in their international operations, to which there typically are no simple solutions. For instance, they need to understand and respond to cultural and institutional diversity and ascertain that their foreign units are integrated with the rest of the corporation. Throughout this report we will discuss a range of challenges confronting firms as they seek to develop their capabilities to operate internationally. Some of the challenges are clearly case specific, and although this book aims to offer research-based advice to practicing managers there is a potential danger in applying lessons from other companies to the own firm. Our hope is that our analyses of the challenges facing Finnish corporations in China and Russia reported together with extensive quotes from our interviews and insights from other recent studies will help readers draw their own conclusions as to how to deal with issues related to competence management across borders. With this book we also aspire to contribute to the academic literature by providing new insights into cross-border competence management in general and the operations of Finnish corporations in Russia and China in particular.

What, then, is cross-border competence management? In brief, competence management deals with the question of how to make sure that the corporation has the ability to carry out value-creating activities in a superior way. This requires that attention is paid to the *human capital* (knowledge, skills and abilities), *social capital* (close trustful relationships between individuals, teams and units in the corporation) and *organizational capital* (practices rooted in systems, procedures, and tools) of the corporation. In this report we discuss a range of issues related to how multinational corporations (MNCs) try to manage these interrelated forms of capital in connection to their operations in large emerging markets with a particular focus on Russia and China.

A recurring theme in this book is that corporations need to develop new capabilities for the Russian and Chinese markets. *Dynamic capabilities* consist of the ability to learn how to expand and transform existing operations. It is partly a question of how firms adapt to previously unknown contexts by creating new ways to operate. However, in fast environments like those examined in this study, it is also a question of how to acquire knowledge about these changes and learn how to successfully incorporate this knowledge into business decisions and operational routines.

Most of the material presented in this book is based on the close to 150 interviews that we have carried out in four case companies during a two year collaborative research project financed by Finnish Funding Agency for Technology and Innovation (TEKES) and the participating corporations. We would like to take the opportunity to thank all these persons who generously gave of their time to participate in this study. The majority of these interviews were conducted with local employees in China and Russia; and it is to a significant extent their voices that you can hear in this report. We have slightly adapted most of the quotes to facilitate comprehension but also to safeguard the anonymity of the interviewees, especially when referring to sensitive issues. An overview of the research methods used in this are presented in the appendix at the end of the book.

Russia and China are treated in parallel throughout the book. These countries share a number of characteristics as contexts for competence management. Both are emerging markets embedded in a history of planned economy and their political systems exert considerable influence on business conditions. Both economies have grown rapidly. While Russia has witnessed an economic growth of approximately 7 percent per year since the financial crisis of 1998, China's economy has grown by more than 10 percent per year since the economic reforms were initiated in the late 1970s. Using purchasing price parity estimates, China is the world's second largest economy (after the US) with a GDP per capita of 5,300 US dollars. Russia's economy is smaller but its GDP (PPP) per capita is higher: 14,700 US dollars. Both countries have recently received large amounts of foreign direct investments, amounting to 45 billion US dollars in Russia and 75 billion US dollars in China in 2007. For the case companies, both countries were relatively new contexts in which they faced many similar challenges of starting up and developing their operations.

However, there are of course also a number of cultural and institutional differences between Russia and China. Therefore, in our analyses of the case companies reported in this book we have indicated which country a particular quotes comes from. We have also attempted to highlight some of the differences between the two countries that emerged from the research material.

The book is structured as follows. We begin by discussing how to build the *dynamic capabilities* needed not only to gain a profound understanding of the local Chinese and Russian contexts but also to thrive in these markets. The first part is much about the necessity to create and deploy local expertise in operations, but without forgetting the need to integrate the overseas units with the rest of the MNC and the potential advantages of *sharing knowledge* and sensible and sensitive *transfers of corporate 'best' practices*. The latter themes are dealt with in the two subsequent sections.

In the sections that follow these we discuss *intercultural sensitivity*, and elaborate on challenges related to language *skills and inter-cultural communication* as well as the building of interpersonal and inter-unit *trust*. *Talent management* is the final topic area of the research report. We close the book with a brief summary and some reflections on the possibilities and challenges of competence management in MNCs.

Our research methods are described and discussed in the appendix of this report.



## 2 DEVELOPING THE ABILITY TO PURSUE BUSINESS IN CHINA/RUSSIA - A CHALLENGE OF DYNAMIC CAPABILITY

### 2.1. Executive summary

A general challenge for firms entering Russia or China is that of dynamic capability. Dynamic capabilities involve both the ability to expand existing operations into new geographic or product areas (e.g. through existing routines for carrying out product development, establishing local operations or making acquisitions) and the ability to build new competence to achieve these ends. For our case organizations establishing and developing their operations in Russia and China the following dynamic capability related challenges turned out to be paramount: Developing adequate local understanding and competence, acquiring the needed speed of decision making and calibrating the ability to take risks.

Useful practices that may help organizations overcome such challenges include:

- Establishing a local competence center
- Developing project teams including both local managers and managers with more international experience
- Investing in boundary spanners
- Involving well-connected locals to deal with local authorities

### 2.2. Introduction

Quite a lot has been written in the past concerning the importance of knowledge-based resources and the creation of new knowledge or competence for the overall competitiveness of firms. Classical MNC theories argue that firms go to foreign markets to exploit their organizational advantages and the underutilized resources in such markets (Hennart, 1982; Dunning, 1988). Indeed, deploying existing resources and capabilities are key factors for organizational success (Rumelt, 1974) and much research has sought to understand how and in particular what resources allow organizations to enjoy long-term competitive advantages (Barney, 1991). But classical MNC theories focusing on capability exploitation fail to illuminate the importance of capability building (Luo, 2002). More lately it has been argued that one of the key underlying sources of competitive advantage of MNC's is the capability to share, integrate and develop knowledge (Kogut and Zander, 1993). Considering today's world of continuous and fast change it has also increasingly been argued that *dynamic capability* is of particular importance (Teece, Pisano and Schuen, 1997). Dynamic capabilities involve both the ability to expand existing operations into new geographic or product areas (e.g. through existing routines for carrying out product development, establishing local operations or making acquisitions) and the ability to build new competence to achieve these ends (Winter, 2003; Eisenhardt and Martin, 2000)

Dynamic capability, and the development of this capability, is a particular challenge for firms entering large emerging markets like those of Russia and China. These markets are clear examples of high velocity markets where “market boundaries are blurred, successful models are unclear, and market players... are ambiguous and shifting” (Eisenhardt and Martin, 2000: 1111). Both markets are thus characterized by considerable environmental complexity, uncertainty of industrial structures, and specificity of the business cultures (cf. Luo, 2002).

In such radically new and fast changing contexts, organizations need both more systematic *learning capability* (Zollo and Winter, 2002) and more ad hoc short term problem-solving and coping capability (Eisenhardt and Martin, 2000). Learning is most often a complex and path dependent process. Path dependency basically means that ‘history matters’ (David, 1985), i.e., that a firm’s current and future decision capabilities are imprinted by past decisions and their underlying patterns (Arthur, 1989; Cowan and Gundy, 1996).

We also know that managerial cognition plays an important role in directing and orchestrating learning and overcoming path dependencies (Tripsas and Gavetti, 2000). Social psychological research stresses the tendency of organizational actors to act in favor of consented current thought (Esser, 1998; Janis, 1982) and to avoid confrontation with deviating negative feedback and signals (Miller and Nelson, 2002; Tripsas and Gavetti, 2000). Previous studies have also found that managerial perceptions are often self-serving, deriving from the need to make sense of external events, to take credit for firm performance, or to justify previous or intended courses of action (Gioia and Thomas, 1996; Rao, 1994). All these affect managerial sense-making activities and increase the likelihood for ‘competency traps’ (Levitt and March, 1988). Such competency traps may become particularly difficult to overcome when entering emerging markets like China/Russia since, as Simonin (1999) posits, causal ambiguity increases with increased distance between national cultures. The more unclear the relations between inputs and outputs are, the more difficult it is to achieve a mutual understanding within organizations concerning the needed adjustments of old competences and the development of new ones.

Critical learning may often be triggered either by crisis or unthinking behavior and in general it tends to be local (Winter, 2003; Chia and Holt, 2006). Dosi et al. (2000: 1) goes as far as suggesting that organizational capabilities are not the result of planned corporate conduct. Rather they emerge incrementally from daily interaction and therefore are often considered as ‘somewhat mysterious social phenomena’. In line with this argument, Montealegre’s (2002: 528-29) evidence shows that the development of dynamic capabilities in the organization that he studied was “not a one-act play staged by efficient managers who rationally visualized early on the specific capabilities and resources required.” Instead, it was a process that managers struggled to understand. “In this struggle”, he continues, “there are no predefined scripts or choreographic moves; instead, actions and decisions associated with the development of capabilities, and combinations of external, organizational, and technical resources, emerge as the situation unfolds” (Montealegre, 2002: 529). This corresponds to the experiences of most of our case companies which, despite some successes, also went through difficulties and setbacks in their experience accumulation on the markets of China and Russia. Many of these were due to their path dependent competences and processes.

However, the inevitable tendency to learn through crisis, without predefined rules or scripts, still needs to be counteracted by as-rational-as-possible preemptive actions.

In this chapter, and more broadly in this workbook as whole, we try to convey some general challenges, and solutions to these challenges, in terms of acquiring, developing, articulating and sharing competencies and capabilities in the four case companies in connection to their entering the markets of China and Russia. All the case companies involved in this research project have enjoyed a long-term competitive advantage in their existing operations due to specific path dependent combinations of resources and capabilities. Despite this, upon entering China/Russia they all faced challenges of creating or developing their existing dynamic capabilities which would allow them to successfully pursue their strategies in these markets. The dynamic capability was specific for each company, i.e. partner collaboration and investment project management respectively in China and acquisition and/or greenfield investment capability in Russia. Regardless of these specific challenges and the lack of “ready choreographies”, some general lessons can be learned which are worth reflecting on by firms entering or planning to enter Russia/China.

### **2.3. The need for a long-term view, local understanding, flexibility and fast decision making – and the challenge of risk taking**

A common theme in our interviews, and in recent reports as evidenced by the citations below, is the need to be both long-term oriented and flexible in the approach taken in China and Russia.

“An all-too-common misconception is that Russian business is quite difficult. The truth, as always, lies somewhere in-between: for those companies who are prepared to do all the groundwork and take the market seriously, yes, Russia usually is a good place to do business. However, Russia is not for everyone, and it takes a special temperament to succeed here. Business in Russia is not for the timid middle unimaginative, or the unadventurous entrepreneur who has never worked outside his country, nor for the easily frazzled or frustrated. Meeting the challenges of doing business in Russia requires all the stamina, fortitude, perseverance, and patience one can muster.” (Source: [http://www.ruscontact.com/faq\\_1.shtml](http://www.ruscontact.com/faq_1.shtml))

“To accelerate investment successfully in China over time, you need to bend the rules that otherwise might prevail inside your company. You need to be able to allocate more management talent, more senior time and attention, and more investment than the near-term financial returns might otherwise warrant. If the regular rules say you need a two-year payback from the day you set up operations, you have to understand that a China investment probably won’t achieve that goal. Companies that have achieved breakthroughs in China – establishing a presence in places other than Beijing and Shanghai, achieving more product customization and localization, establishing deeper distribution channels – bent the rules to make China a priority. Not every company makes it past that threshold (Overcoming the Challenges in China Operations, 2005).”

A major challenge for MNCs in Russia and China is strategic decision-making related to the development of their operations in business environments which are changing rapidly and are perceived by executives at headquarters as risky.

*A Chinese voice:* “It’s risk avoidance very much, due to the fact that people at headquarters don’t know. If you don’t know, and you look from a very remote psychic and/or geographic distance, everything becomes risky and...people are not confident making decisions about things that they don’t know about. That’s the reality of life. So I think that’s something we should look upon in this organization very much...how to bring the realities of these emerging markets to the knowledge of the decision-makers. You know, we are not talking about individuals, we are talking about common sense. If you were in the same position, you would probably do the same. You know, visiting a country or market once a year or even more often, and trying to make the decision of a large investment. You know, you tend to think quite many times...”

*A Finnish voice:* “The biggest challenge for western companies operating in China is the special decision-making which is totally different here than in Europe. The European ways of doing things is so thorough, everything is predicted and planned. So we also try to predict and thereby strive for control. But here it doesn’t look like that. I don’t think that all the Chinese companies are calculating, they are just making investments, more in a way based on gut feeling, because people tend to think that there is still room enough. I don’t say that we have to go in that direction, somehow we have to balance between these things. US companies might, to some extent, be quicker decision-makers than we. You have to be a quicker decision maker here, you have to seize the moment when it comes. And that’s then a big challenge for us.”

*A Finnish voice:* “The biggest challenges are no doubt that we “research the projects to death”. The process is too slow, and we can’t get the numbers to be profitable. A related issue is that we have a tendency for ‘golden quality’. Perhaps this is not always needed....”

Similar attitudes were reflected among Russian interviewees, albeit they were often more critical towards Finnish decision makers and reflected the eagerness of Russian managers to make progress, to accomplish big things and to be respected in the local business community.

*A Russian voice:* “Generally working with Finnish companies, it is very, very difficult to encourage them to do some big things, i.e. to take risks, extremely difficult...”

*A Russian voice:* Finns are afraid of Russia. Even when their company has been here for quite some time, even in that case they do not know the Russian market, they do not know the Russian management style and that’s why they are afraid. They are afraid of our criminal situation, they are afraid of our legislation problems. Of course in Russia it is not so good as we want, it is clear. But I think that the normal way of solving these problems is to say that, OK, yes there are some risks. We must understand what the risks are, create some list of risks, and then we must understand for each type of risks what measure we must use to eliminate this risk. And then go on. This attitude seems sometimes to be lacking.

*A Russian voice:* Being an employee in a Finnish firm I should be happy that I will not be fired and they will always find some place for me. But from the point of view of a man who has targets to fulfill, I am not happy, I do not need such stability. If I was picking my nose sitting here, I would still be getting money. Russia now is a different country. Dynamics here is such that if you sit and pick your nose, you are less than nothing from the societal point of view. A man has to be on the move. This is very important.

Enhancing the understanding of local conditions among MNC top and line management higher up and further away in the organizational hierarchy was viewed as an important endeavor and severe challenge by several of our interviewees. The key issue of

managerial cognition in orchestrating organizational learning and adaptation is also evidenced by prior research (Tripsas and Gavetti, 2000). We deal with this more in the section ‘Internal transfer of knowledge’. Here we turn to discuss the need for localization, i.e. including and involving more local staff and local operating procedures in the host country in question, and how organizations can go about in creating the needed local competence and combine that with global resources.

#### **2.4. Learning to combine local and global expertise**

One aspect of doing business both in China and Russia, which may be difficult for Western managers to fully learn and accept, is that the rules for making contracts and the attitudes towards contracts are often different from the corresponding ones in the industrialized world.

*[In China]*“contracting tends to be based around relationships and connections (guanxi) rather than formal, legal documents. These are the basis of mutual trust, with ‘due-diligence’ on potential business partners performed by checking their network ‘connections’, as opposed to formal ‘market’ mechanisms. Relationships with the right connections are critical. Developing guanxi connections with the wrong partners creates obligations that may act as a trap. Contracts on their own are just the starting point, not the end”. (Collinson, Sullivan-Taylor and Wang, 2007)

“It often seems that many Russian businessmen do not view the 'contract' in quite the same way as a foreign businessman might. In some cases, a contract seems to serve more as a "statement of mutual intentions" which need not be implemented if some initial assumptions turn out not to have been valid after all, or if the situation changes. In addition, it is often the case that a contract is less important than the "relationship"; these ways of doing business will be quite familiar to people doing business in Asia or in some other parts of the world. Given that the Russian legal system still has relatively little experience as a mechanism for enforcing commercial agreements, this is perhaps not such an unreasonable point of view”. (Source: [http://www.ruscontact.com/faq\\_1.shtml](http://www.ruscontact.com/faq_1.shtml))

Thus the challenge is to develop a capability to understand and manage the institutional context. Many local respondents clearly favored a much greater use of local expertise than was initially felt to be necessary by people from the headquarters (although the latter’s attitudes tended to change over time).

*A Russian voice:* “I think that the best what they [THE FINNISH MNC] could do is to really create a Russian management group and trust them. Trust them to be just shareholders, to manage it, not like a separate company of course. It must be linked by many links to many headquarters functions and so on, but it must have a Russian budget and be allowed to develop...”

*A Russian voice:* “It’s very important to transfer the (already accrued) experience of Russian managers and Russian specialists to further operations in the country. In our case people from headquarters tried to solve a problem in Moscow with too much involvement of Finnish persons. This was the biggest mistake, not to more strongly involve the local experience and expertise in the existing operations in St. Petersburg. We can be more effective and efficient if we go together.”

*A Russian voice:* “Because some people come and they start teaching you, teaching you elementary things.... I am generally a polite person but you know when they are eating your time with things that are not relevant, that is incredible.”

*A Russian voice:* “Our general manager and the whole management team, all of them are from Russia. And I strongly believe that this is also a success factor.”

*A Chinese voice:* “I do not believe a Finnish or Western person can run a project in China because we must have the local knowledge. We cannot do business in China in a Finnish or Swedish or Western way. This the company did not understand in their first attempt to increase investments in China. We have to do that in a Chinese way. In order to secure this, we must identify the needed local competences. We need to hire locals, we need to send them to Europe to create their network. Also people in the west must learn to work with people from the other culture.”

*A Chinese voice:* “The expatriates and other people from headquarters don’t understand the Chinese market and the local partner(s). In our case, they first tried to “macro-manage” a local partner (broad guidelines and follow-ups, loose monitoring). Then they found there was something that went wrong and they went back to micro-management. But they neither found the right way nor the right person to deal with in the local organization. They are not familiar with the market and people but they still design the strategy. It does not work.”

Further, virtually all local interviewees in China and Russia emphasized the virtues of localizing positions and transferring decision making authority to the national organizations also for other reasons than the ones relating to knowledge and understanding of local conditions reasons. This tends to increase the commitment of local employees, enhance competence development among local employees and increase the chances of breakthroughs in the local markets. Important learning usually tends to occur locally (Chia and Holt, 2006). The appropriate degree of MNC localization or local responsiveness in terms of people and operating procedures is a longstanding question (Yuan and Björkman, 1997; Lane, 1998) and is likely to depend on the type of subsidiary activity. What is clear, however, is that the use of locals in key positions tends to require many of the things dealt with in later sections in this workbook, like knowledge sharing and transfer of practices between different parts of the organization, linguistic and cultural competence and inter-unit activities that contribute to trust building.

Creating and sustaining competitive advantage in large emerging markets like Russia and China requires that MNCs make sure that they develop and utilize deep local knowledge while simultaneously capitalizing on their global resources and competencies. Thus, notwithstanding the need to localize operations and expertise, organizations still do invest in expatriates, however with increasing sophistication:

The reality is that the flood of expats coming to China has never been greater...The integration of China into global business necessitates expat participation. It would be wrong to believe that the era of the expat is over... [But] the role of expats has narrowed. The local China operations of many multinationals have become very large and complex. By necessity, as they grow, they must rely on local teams of managers. Expats play a particular and relatively narrow role in most major MNC operations. The MNCs that are in more of a start-up or exploratory mode are usually expat-driven, but companies that have mature operations in China rely predominantly on local Chinese managers. (Overcoming the Challenges in China Operations, 2005)

*A Finnish voice:* “I think there should be longer contracts [for expatriates] in China. Typically now it’s for three years, which I find to be too short a time even in continental Europe. You are learning, but of how much value are you to the company? That’s questionable, in particular in foreign cultures and above all in the kind of cultures where efficient interaction to a large extent is based on relationships. Of course this brings us to the issue that local operations can’t be based on expatriates. We have to move towards a more diversified organization where the number of positions filled with expatriates gradually goes down. This will also lead to locals experiencing that they have opportunities within the group. This is important for motivation and retention.”

Expats bring a huge amount of value...[But] smart MNCs have discovered the disadvantages of the three-years-and-out formula and have adjusted accordingly... They are seeking people for longer periods of time, and they are also relying on local managers or expats who have a commitment to being in China for longer periods. The reality is you just can’t manage a business by rotating a succession of people for two- or three-year time periods” (Overcoming the Challenges in China Operations, 2005).

Increasingly, however, MNCs are turning to Chinese executives to fill the ranks of senior and middle managers. One reason is that Chinese managers have the natural advantage of knowing the language and the culture. [Another is that expatriates are very expensive]. (Overcoming the Challenges in China Operations, 2005)

The above clearly illustrates the challenge of managing tensions and dualities (Evans, Pucik and Björkman, 2009). On the one hand MNCs need to transfer organizational knowledge and mindset (Kogut and Zander, 1993), one vehicle of which is the expatriate. On the other hand the MNC needs to expose organizational members to a diversity of challenging (leadership) assignments in order to develop them.

Facing the challenges in Russia and China, it is important to build a commitment to learning and a capability of knowledge creation (Luo, 2002). An important part of this are processes for knowledge articulation (Zollo and Winter, 2002) among local managers and managers with more international experience in order to interactively make sense of the challenges and possible solutions. In fast changing and radically new contexts this process is likely to involve a great number of ad hoc problem-solving activities and solutions (Eisenhardt and Martin, 2000). Below we mention two interesting solutions by our case companies.

*A Finnish voice:* “One way to proceed is to establish a competence center, which we did. This may be a virtual community of local and foreign employees which, over and above their “normal work roles” focus on developing the needed local competence and understanding. It may develop into a more formal organization, as it did in our company.”

*A Chinese voice:* “We have project teams where more experienced MNC employees and locals will be working side by side so that local competences will be developed. The experienced westerners are more like working pairs rather than owners of the things - in that way they are not replacing the local people, but coming to work aside with them.”

These are good examples of processes for knowledge articulation. But having locals and western employees working together side-by-side requires good language skills, cultural understanding, and from the western employees in particular, an interest in learning from locals as much as in transferring knowledge to locals. This is according to our evidence and previous research more likely to be the case among people with prior

international experience. Western MNC representatives need to accept and internalize the need to share knowledge, not (only) for the sake of the project at hand or issue they are currently personally responsible for but for the sake of developing global competence in the organization. MNC's competitive advantages lie precisely in this potential ability, i.e. to develop, share and integrate knowledge (Kogut and Zander, 1993). The challenge in realizing this ability is clearly indicated by the following remark by a westerner engaged in a project while being shadowed by a Chinese employee on a learning assignment.

*A Finnish voice:* "When engaged in this project which I was responsible for while being shadowed by a Chinese from our Chinese operations, I tried to give him different tasks, look into that, and look into this, and every now and then told the person that, look, if you can't find anything to do, then just follow, come to the meetings, read our guidelines, look at our contracts, just learn by being there. But when we were proposed by our project manager in that project to take some more Chinese on board the project, the reaction was: No, it cannot be true!"

This indicates an attitudinal resistance and true underlying complexity, largely due to cultural differences, different cognitive backgrounds and prior knowledge, in implementing training and knowledge sharing practices within the MNC. Such attitudes among western employees need to be overcome while recognizing that sharing knowledge may often be frustrating. Many of these issues are also elaborated upon in the chapters that follow this one.

## 2.5. Using boundary spanners

All the companies participating in our research project that had experience with the use of boundary spanners (Kostova and Roth 2003), i.e. people with specific competencies in terms of language skills and cultural understanding, considered this a very effective way to operate which clearly enhanced knowledge articulation and shared understanding within the corporation. The first quote below illustrates such a boundary spanner at the top of the organizational hierarchy with an acquired ability to span the boundary between the Finnish headquarters and the Chinese operations. This boundary spanner had, thanks to his experience, specific knowledge and understanding of the Finnish company culture and more generally the MNC home country point of view on the one hand, and local circumstances on the other. In addition he was fluent in both Finnish and the local language.

*Finnish voice:* "Of course we have many examples in the company. I think Mr. X, [a Chinese], is a good example, how you should do these things. He has a background of [studying] in Finland, then being in a kind of informal traineeship in different jobs within the company [in Europe], then heading sales in China and now he is the head of the Asia Pacific office in China."

The second quote shows that boundary spanners can be of great value also lower down in the organizational hierarchy.

*Finnish voice:* "We hired a translator into our organization. He spent a lot of time at the headquarters, helping in training sessions for the operators who were coming from Russia. Now he spends most of his time in production, here in Russia, helping in communication with the Finnish specialists that come. Because he has spent so much time in Finland, he already knows



about the processes and the production technology a lot. He knows the terminology, it has been very helpful. Because again externally you cannot get a translator who would come and be knowledgeable of a certain company specific production terminology. It's very specific, but we have built it in-house, this capability.”

The key role of boundary spanners turned out to be an important finding in the project. Sections 2, 3 and 4 all elaborate further on the idea and function of boundary spanners. The challenge for organizations is to find and/or develop them. Few companies appear to do this systematically and with a long-term view. Yet, the role of boundary spanners seems to be very advantageous.

## 2.6. Political management

Political management is important both in Russia (Karhunen, Kosonen, Logrén and Ovaska, 2008) and China (Fernandez and Underwood, 2006). One needs to realize that MNCs in different industries or locations within a large emerging market are often treated differently by central or local governments (Luo, 2002). Depending on their bargaining power organizations also may have to think of different strategies (Story, 2003). In any case it is clear that the development of long term personal relationships with government officials is important both in Russia and China. MNC's thus need to invest in building the competence for that and one fruitful strategy is to engage local employees in handling such relationships (Björkman and Osland, 1998). Some of the case companies realized they could improve their political management skills, while most of them recognized their importance. Two examples of how the case companies invested in political management are given below.

*A Chinese voice:* “We have top management visiting China now and then, they meet some officials, talk about certain issues. But it is not in the systematic ways, you know, systematically identifying who the key figures in each administry are and deciding on who keeps regular contact with them. When there is a need in our project or existing production facility, it should be clear whom we should contact, initiate the dialogue with and so on. But so far, we try to cure or to amend the situation by building up a cooperative image in China to the public, we are thinking that the authorities acknowledge that. This is so far working pretty well, we arrange press conferences about our progress and projects in China now and then, and we introduce international bodies who have high international credibility like UNDP, IFC, etc. to the local officials”

*A Finnish voice:* We have hired a professionally very competent but also well connected Russian guy. The aim with that is actually to have better networking than our competitors. He has been working quite a lot with Finland in the past and he is personally a good friend to a high rank government official in Russia. This is not necessarily bad... On many levels, Russia is very networked as a society where politicians and government/municipal officials play important roles.

The following summary, delivered by a speaker at a session on ‘Making it in China’ at the University of Cambridge, appears to underscore both the challenge of creating needed dynamic capabilities and the need for a relevant localization when dealing with local authorities and regulations. In, addition, it seems to be equally relevant for both Russia and China:

Rule 1: China is a highly regulated country, in which one needs to learn countless regulations, understand and follow them. Rule 2: China presents a chaotic and

unpredictable operating environment in which anything is possible, in fact there are no rules. Rule 3: Rules 1 and 2 are simultaneously valid (Collinson, Sullivan-Taylor and Wang, 2007).

## **2.7. Discussion**

This chapter has illustrated some general challenges that Finnish (and more generally western) organizations have encountered, and some solutions they have resorted to, in adapting to the Chinese and Russian markets. There is no shortcutting the ambiguities and social complexities involved. China and Russia are today extremely competitive emerging markets, not the least because of the growing local competition. Both markets are far more complex, dynamic and fast-paced than the traditional Western markets which the majority of Western/Finnish managers are used to. It requires well informed adaptations of operational logics that western companies have used successfully in other settings.

We defined dynamic capabilities as involving the ability to expand existing operations into new geographic or product areas including the ability to build new competence to achieve these ends (Winter, 2003; Eisenhardt and Martin, 2000). In the case organizations' operations in China and Russia such dynamic capabilities involved (building competence for) the management of local partners, carrying out acquisitions, establishing greenfield operations, contracting and working with local suppliers and governmental bodies, not to mention the management of local employees.

We dealt with some basic challenges, the need to gain deep market understanding, to make fast decisions and the related ability to develop local competence and utilize it in combination with global resources. The needed speed of decision-making may require "bending some rules" that apply in operations in more mature markets. Developing market understanding and building and utilizing local expertise may be enhanced by setting up a local competence center, internally developing or acquiring local managers with experience from western MNCs (boundary spanners) as well as by a sophisticated use of expatriates. Political management, i.e. dealing with local authorities, becomes a key issue of concern and is enhanced by well connected locals.

In general, the interviews convey strong perceptions, in particular among Chinese and Russian locals, of the need for MNCs to engage and deploy local people in the management of businesses in both Russia and China. This was gradually becoming appreciated also by people from the headquarters of the Finnish case organizations. Host country nationals simply have a better understanding of relevant aspects of the environment, including when it may be appropriate not only to deviate from the ways in which Western companies are used to operating but also from the practices found in local corporations (Evans et al., 2009).

Despite an emphasis on localization, i.e. involving locals and engaging in some local operating procedures, we do not suggest that MNCs should mimic local organizations. They should rather carefully consider how they can combine their international and local resources and competencies in their Russian and Chinese operations. Since there are clear advantages in integrating local units with the rest of the MNC, and with

drawing on valuable expertise residing in other parts of the corporation, a selective use of expatriates and visiting experts is still clearly important. But it requires a delicate balancing act and a focus on many of the issues dealt with in the sections below. Although one can and should study the experiences of other companies and learn from them, there is also a need to be aware that the situations in these emerging markets change rapidly. Therefore, what worked for one company in the past may not be the appropriate way to go for another one company today. Further, given the size and diversity of both countries, lessons from one part of the country may not necessarily be fully applicable in another (cf. Luo, 2002). However, most of the issues dealt with above and in this workbook as a whole represent quite generalizable challenges.

The fundamental dynamic capabilities that our case organizations needed to develop, partner collaboration and investment project management in China and acquisition and/or greenfield investment capability in Russia, were also related to many other competences which we deal with throughout this book. Such competencies include the ability to share knowledge and transfer practices between different parts of the organization, linguistic and cultural competence as well as the ability to create inter-unit activities that contribute to trust building. For each of these issues we devote a separate chapter. The overall challenge related to all of them is dynamic capability.

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### 3 INTERNATIONAL KNOWLEDGE SHARING

#### 3.1. Executive summary

This section covers topics associated with internal knowledge sharing, i.e., the exchange of information and know-how between the Chinese/Russian unit and the rest of the organization. Sharing relevant and important knowledge between the Chinese/Russian unit and the headquarters or other subsidiaries will allow units reap the benefits of insights gained elsewhere in the MNC as well as help to increase coordination and facilitate innovation within the organization. Useful practices that facilitate internal knowledge sharing include:

- Increasing headquarters understanding of the Chinese/Russian market by making sure the voice of local managers is constantly heard at headquarters, through ongoing face-to-face communication, visits, exchange programs, etc.
- Transferring knowledge from the headquarters to the Chinese/Russian units through multiple communication channels, such as temporary personnel transfers and boundary spanners.
- Sharing knowledge laterally between the different subsidiaries through internal benchmarking, cross-functional/cross-cultural training, meetings and projects/teams, and by making people accountable for collaboration.

#### 3.2. Introduction

Internal knowledge sharing refers to the exchange of information and know-how between the different parts of the company, and in our case particularly between the Chinese/Russian unit and the rest of the organization. The ability to share and integrate knowledge across the different parts of the firm has become one of today's key organizational challenges, and is commonly seen as a critical source of a firm's competitive advantage (Grant, 1996; Kogut and Zander, 1993). Effective internal knowledge sharing allows the organization to expand, refine, and modify its knowledge stocks (Kang et al., 2007), facilitates the coordination and integration of its activities across units (Martinez and Jarillo, 1989), allows the leveraging of best practices in various locations (Szulanski, 2000; Kostova and Roth, 2002), and provides a source of innovation (Doz et al., 2001; Hardagon and Sutton, 1997).

Internal knowledge sharing is particularly challenging in multinational corporations due to their geographical and cultural dispersion and complexity. On the positive side, MNCs have potential to access knowledge across a variety of different geographical, cultural and social contexts, the advantages of which include a wider variety of scanning and combination opportunities and an ability to integrate and exploit knowledge on a global scale (Doz et al., 2001; Westney, 2001). In fact, Westney (2001) emphasizes that "the focus of the study of the MNE has shifted from viewing geographic dispersion as a *result* of knowledge creation to seeing it as a *source* of knowledge creation" [emphasis added]. At the same time, cross-cultural aspects have been shown to pose significant

challenges for an effective internal flow of knowledge (e.g., Bhagat et al., 2002; Leung et al., 2005). Furthermore, knowledge sharing is particularly important in emerging markets such as China and Russia, in which the speed of change necessitates a frequent reassessment of learning points and ways of working.

The question of what knowledge is important depends on the company and the specific needs of the industry and the market. Furthermore, knowledge should be shared where it matters most, as it involves not only direct but also opportunity costs. *Relevant* and *important* are the two key words here: It is vital to make sure that important and relevant knowledge is both coming into the Chinese/Russian unit from the headquarters and other parts of the organization, and that the Chinese/Russian unit shares important and relevant knowledge with others. Furthermore, the key challenges for knowledge sharing between the Chinese and Russian subsidiaries and Western headquarters (or other units) are not only geographical (including both distance and time difference), but also - and even more so - communicational (lack of knowledge about China in the other parts of the company and lack of adequate language skills) and cultural (fundamental differences in ways of thinking and behaving) (Fernandez and Underwood, 2006).

We identified a number of different strategies used by our case companies to overcome these challenges. In what follows, we will focus on issues related to overcoming the communicational (particularly concerning the lack of knowledge about the focal market, as language issues will be addressed in a separate section below) and cultural boundaries in knowledge sharing between the Chinese/Russian unit and the corporate headquarters. Towards the end of the chapter, we will also touch upon some more generic ways of increasing knowledge sharing laterally across the different MNC units.

### **3.3. Increasing headquarters' understanding of the market**

Starting with the lack of information about China and Russia amongst headquarter managers, a typical situation is that interest in China and Russia is high, but understanding low (see also Chapter 2). Western managers who haven't experienced these rapidly changing markets personally have typically a low level knowledge about the market conditions, economic development, business culture and socio-cultural environment faced by those subsidiaries, combined with many misconceptions (Fernandez and Underwood, 2006). This has the consequence that problems that are urgent to an international manager in China can seem unimportant to senior management at the headquarters: "The home office executives' understanding of China tends to be limited... yes, China gets a lot of attention, a lot of hype. But ask what [they] know about China, and they'll probably say there are a lot of opportunities – that's about it, in most cases." (Kenneth Yu, 3M China, in Fernandez and Underwood, 2006: 96) The following quote from one of our interviewees illustrates this lack of knowledge:

*A Chinese voice:* "It is a very common feeling amongst the people here - how do we make the business opportunities here obvious enough to the people in Europe?"

We identified a number of strategies of overcoming the lack of knowledge about the focal unit in our data. From the subsidiary's side this typically focused on creating



opportunities for face-to-face contact between the focal subsidiary managers and key headquarters decision makers, so that they could share insights and knowledge:

*A Chinese voice:* “To reach decision makers, whenever we have identified some good business ideas, we begin to list those items on the agenda of our regular meetings with the headquarters, such as the investment committee or divisional management team meetings so that they are aware something is going on. We also try to get these people to work together with us to develop the ideas... We ask them to travel down here to meet the potential business partners, to visit the sites and so on, so that they can gain a real-life understanding. Then we also have annual divisional level strategy rounds, [where we present] our own material... But before we present it, we run discussion rounds with the key people, so that they know what we are talking about and also that we [can] take their thoughts and material [into] consideration...”

One such way of disseminating country-specific knowledge is inviting headquarters managers for visits to see the realities of the emerging markets of China and Russia, as illustrated below:

*A Russian voice:* “Finns surprisingly enough don’t really know anything about Russia. I think that is a problem. And when you don’t know, you can develop whatever views... Finns create their own illusions for themselves and then they start believing in them... when they come here, they see a completely different situation.”

“People think China is interesting and they want to come and visit... while most visitors come with preconceived, incorrect images from the past, these impressions are quickly corrected upon arrival. They come here and their minds change. I encourage as many people from the head office as possible, because by doing that, they can see what’s happening; they can see the quality of the people; they can see the eagerness to grow and develop.” (Christopher Shaw, Eli Lily China, in Fernandez and Underwood, 2006: 97)

Furthermore, gaining knowledge about headquarters and the corporate way of working is also a good way to help local managers to integrate into the company. This will also allow the Chinese and Russian employees to educate people at the headquarters about their home markets, and create invaluable networks:

*A Russian voice:* “First I was about the only one person in my department who speaks English, and this, of course, led to some difficulties as everyone tries to communicate all their needs through me. It is also a limitation in terms of our people getting acquainted with people at the headquarters. Now some of my subordinates have been studying English for two years, and when I see a person is able to understand what people are talking (even if not speaking fluently), I start to take them to some meetings at the headquarters, in order to give a chance to know colleagues there.”

*A Russian voice:* “We organized a kind of cultural exchange program, in that I brought my department to the headquarters this autumn. We gave everyone a chance to visit the headquarters, to see what this place is like and what its history is, and after that we had a social program. And then some headquarters people came here and we organized a special thing for them. We showed them our factory, and everybody in my department had a chance to describe his or her work in a private talk to a colleague doing the same thing in Finland. This was very helpful, and afterwards we again had a social program that gave a chance to the people from both countries to get to know each other personally.”

### 3.4. Transferring knowledge from the headquarters to the local subsidiary

From the headquarters point of view, it is equally important to ensure that knowledge flows effectively from the headquarters to the Russian and Chinese subsidiaries. One key cultural aspect that may have a strong influence of the effectiveness of headquarter-subsidiary knowledge flows is the strong tradition of hierarchy that exists in China and Russia. Therefore it is important to invest time and effort to ensure an information flow from headquarters throughout the entire subsidiary organization. The case companies used a number of different means to disseminate information and knowledge from the headquarters to the Chinese and Russian subsidiaries. According to our interviewees, among the most successful ones were the use of long and short term personnel transfers to share experience and know-how. Although these transfers are expensive, they came out in our interviews as particularly important in transferring tacit knowledge, the transfer and integration of which is often highly important for innovation (Lam, 1997, 2000).

*An expatriate in China:* “We have advisers coming from Europe, from projects they have already executed there. They have an advisory role here... for example, we have had one engineer here from Finland, who was working in our operation for 4 months. But it’s also the other way around: we also have one guy from Germany here with the purpose of getting exposed to what we are doing here. It should be like that, people should interact!”

In addition to personal knowledge transfer, the interviewees stressed the importance of using multiple channels simultaneously to disseminate important information, as it tends to get stuck in the hierarchy (cf. Szulanski, 1996, 2000):

*A Russian voice:* “We invest in corporate journals and bulletins in order to try to disseminate information throughout the whole organization”

*A Russian voice:* “The corporate culture... has been widely communicated to the employees starting from their first day when they go through the induction. They listen to these induction programs in their discussions with HR manager and management in general... We try to do many things, advertising in our corporate newspaper, trying to describe them in very simple words... They get special leaflets with this information, what are the main cornerstones of this culture. And they hear about it every day.”

One particularly effective method for overcoming cultural distance identified in our data was the use of boundary spanners as mediators (see also Section 2.5). Boundary spanners (Kostova and Roth, 2003) are typically individuals who are members of two communities at the same time, being able to identify with both (Wenger, 1998). By being culturally fluent in both the headquarters and the focal subsidiary environments, they are able to translate the interests and understandings of one community from another community’s perspective (Brown and Duguid, 2000; Wenger, 1998). As Collinson et al. (2007: 33) note, “local personnel with a good command of English and some work experience abroad, or with other multinational firms in China, were often critical go-betweens for liaising with less-experienced personnel.” Boundary spanners are typically very helpful in not only sharing knowledge, but also in facilitating the implementation of new practices, creating trust and facilitating the overcoming of cultural and linguistic boundaries (see the respective chapters for an expanded discussion around these). The following quote from one of our interviewees illustrates the central role of boundary spanners well:

*A Finnish voice:* “We have been lucky enough to have a key person here, who has been really important. She has not only been an interpreter, but she has also helped people in [the Russian unit] in many ways. She has really been much more important than people actually realize.”

### 3.5. Inter-subsidiary knowledge sharing

In addition to headquarter – subsidiary knowledge flows, another key direction of knowledge sharing is the lateral exchange of information, experiences and know-how between managers working in the different parts of the organization, which can be a fruitful source of new ideas. The most effective means to increase lateral knowledge sharing that our interviewees highlighted included the use of training courses to build internal knowledge sharing networks, organizing cross-cultural and inter-functional informational sharing and networking meetings, and working in multi-functional and multi-cultural project teams – as illustrated by the following quotes:

*A Russian voice:* “I did this training program, and it was extremely useful in terms of networking. We did many joint projects and I met representatives of almost all business functions and many people from the various countries. As a result of it, I have established good relationships with my colleagues in the Baltic countries and in Sweden - all because we did this training.”

*A Finnish voice:* “We have these meetings in which our factory managers get together twice a year. We discuss the latest investment plans and share knowledge with each other – what has happened and what have we achieved... The benefit has been that we have really got to know each other. It makes it much easier to call [a factory manager on the other side of the world] and ask ‘how do you get this to work?’ We learn from each other... best practices, transferring personnel, human resources stuff, influencing costs. If something works in one factory, why not in the others.”

*An expatriate in China:* “If you want to share your unique knowledge and competence internally, for example, a core technology etc.... you have to organize internal training sessions by the experts from your company. It means that you have to develop an ‘internal university’, where not only the managers will participate, but also the key people from each function. We have know-how in the company, and this is the way we can share it.”

*An expatriate in China:* “You need to have diversity in teamwork. If everyone is of the same opinion every time, it does not lead to the best results – you need to have arguments, you need to exchange points of view... You need to have heterogeneous teams so that you can get diverse inputs. That is the way ideas develop and become good. If everyone is of the same opinion – that opinion may unfortunately be wrong. And then we head to a disaster!”

Furthermore, internal benchmarking was considered highly important for knowledge sharing, with a direct effect on internal efficiency and capability development:

*A Finnish voice:* “When we feel that our performance in a certain time period is not so good, we look for better examples within the company. We explore the units which have the best figures, and then we send a group to visit them to find out their secret. Our people are there studying for two weeks at the time, and by the end of the quarter, we are on their level. We are exploring - I think it is great opportunity for a global company and we will need to do that more.”

Finally, some of our interviewees felt that it is not enough to just provide opportunities for lateral interaction, but people also need to be rewarded and made accountable for collaboration and knowledge sharing:

*A Chinese voice:* “Among the things we need to implement as soon as possible is a system to improve cooperation between functions. It is probably our main task at the moment, because each function is now solely focused on itself. Signing contracts with functional heads is an interesting idea. People from different departments discuss what they do not like [in the departmental relationship], and agree to work on the issues. Then they meet again in 6 or 12 months and look what has improved and what has not. Contract implementation is used to influence annual bonuses. Any other way is difficult - we can continue to talk, but there are always these situations when everyone agrees on what needs to be done and still nothing is happening.”

### **3.6. Discussion**

This section covered topics associated with internal knowledge sharing, the exchange of information and know-how between the Chinese/Russian unit and the rest of the organization. We identified a number of successful practices to (i) increase the headquarters’ (and other units’) understanding of the important Chinese and Russian markets; (ii) to disseminate headquarters’ knowledge at the local subsidiaries, and (iii) to share knowledge between the different subsidiaries and employee groups.

Our findings suggest that subsidiaries can influence headquarters in varying ways. Even if the Chinese and Russian subsidiaries are geographically distant and thus may be disadvantaged in terms of the headquarters’ familiarity with their specific opportunities and challenges, but they are typically large and important markets and can influence decision makers by making their “voice” is heard. This finding is in line with the recent research by Bouquet & Birkinshaw (2008), who suggested that although geographical distance has a negative effect on headquarters attention, subsidiaries can influence headquarters both by their weight and voice, and that more competently managed subsidiaries get more headquarters attention.

While the practices employed by the case companies are undoubtedly useful, some important questions remain. For example, is it really enough to bring in top managers on short visits where they often get the red carpet treatment? Also, one can also ask how much some of the communication channels, such as company magazines, really contribute to knowledge transfer and sharing? What is important to remember is that, while knowledge sharing has an overall positive effect on the MNC, it is not without risks. Knowledge sharing takes time and resources, and thus carries a cost. Therefore, it should be used strategically, where it matters most.

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## 4 INTERNAL TRANSFER OF BEST PRACTICES

### 4.1. Executive summary

Applying best practices across the organization is one way through which MNCs seek to achieve internal consistency, control and coordination within the firm. Although their benefits are clear, their implementation is often far from easy. Impediments to successful transfer include ambiguity in the transfer process, resistance to change, and cultural differences. While authority-, rules- and IT-based strategies are often effective methods of implementing best practices in China and Russia, person-based strategies may be needed for getting the new practices both internalized by the local managers and integrated into the local routines. Some successful strategies used by our interviewees are outlined here:

- Investing in both face-to-face, hands-on work and on-going support is important as it overcomes many culturally-driven problems of communication.
- A perception of a fair process of introducing the new practice is crucial in influencing subsidiary management attitudes towards new practices.
- Showing respect to local people and their ideas, and utilizing boundary spanners familiar with both Western ways of working and local circumstances can facilitate the often difficult transfer processes.

### 4.2. Introduction

This chapter is dealing with a specific type of organizational knowledge transfer, namely the transfer of (best) practices from headquarters to the Chinese and Russian subsidiaries. Best practices are ways of working that are “performed in a superior way in some part of the organization” and are “deemed superior to internal alternate practices and known alternatives outside the company” (Szulanski, 1996: 28). They are frequently considered as valuable resources that firms seek to replicate and exploit across the organization for a number of purposes (Björkman and Lervik, 2007; Szulanski, 1996). First, knowledge embedded in organizational best practices is frequently seen as potential source of organizational learning and, ultimately, competitive advantage for firms (Szulanski, 2000; Jensen and Szulanski, 2004). Second, the introduction of standardized practices can be used to achieve internal consistency within the firm, increasing global integration (Björkman and Lervik, 2007). This consistency can, in turn, contribute to various objectives such as developing a common corporate culture (Lervik, 2005), enhancing equity and procedural justice within the MNC (Kim and Mauborgne, 1993), and managing the external legitimacy of the MNC as a whole (Kostova and Zaheer, 1999). Third, the process of transferring practices can lead to innovation in the sense of creating of new ‘best’ ways of operation.

However, internal transfer of practices is not easy, and a number of impediments have been identified in previous literature. According to Szulanski (1996), internal transfer is typically ‘sticky’, with the major obstacles being knowledge-related ones such as causal ambiguity in the transfer process, the recipient’s lack of absorptive capacity and an arduous relationship between the source and the recipient. Kostova (1999) adds that in addition to the characteristics of the focal practice and properties of the transfer process, there are also country-level influences, including cultural, organizational and institutional impediments to transfer. For example, subsidiaries often have significant agency in practice transfer and differ in the extent to which they adopt headquarter practices (Kostova 1999; Kostova and Roth, 2002). Furthermore, much of the current research has focused on the extent to which the practices found foreign subsidiaries resemble those of the MNC headquarters or the local market from an institutional perspective (e.g., Rosenzweig and Nohria, 1994). Finally, resistance to change is often an impediment to successful transfer of practices (Björkman et al., 2008).

With respect to China and Russia, local practices and ways of working in both countries can be very different from what people are accustomed to in Western countries, and that makes transfer processes difficult. We identified several examples of culturally and institutionally driven difficulty to transfer organizational practices in our study, as illustrated by the following empirical quotes concerning the introduction of human resource management practices in Russia and China:

*A Russian voice:* “The introduction of a performance appraisal in Russia is not easy. It is not something that has existed in Russia before. The traditional way is just what is called the ‘thirteen’s salary’, which is paid but people don’t really understand the reasons behind it.”

*A Russian voice:* “The employee survey was prepared for such a long time, because the questions were so complicated that even now they are sometimes difficult for Russian people to understand. They are just not understandable - either because of writing style or content.”

*A Chinese voice:* “The structure has a problem... they don’t understand the Chinese market and the partner... They are not familiar with the market and people, but still design the [practice].”

*A Russian voice:* “Finns try to transfer their entire style of working to Russia, but it does not work in most of the cases.”

### 4.3. Strategies for practice transfer

Organizations typically use authority-based, rules-based, IT-based, or person-based strategies for practice transfer, often in a variety of combinations (Kim et al., 2003). These were also evident in our empirical material. Authority-based strategies refer to the use of formal decision-making authority to push the changes through, as illustrated in the following example:

*A Russian voice:* “In order to get the new system through in the organization, you simply need to have top management commitment and support.”

On the other hand, rules- and IT-based strategies rely on following agreed-upon rules for how to do things, and establishing the tools that enable standardized processes.



*A Finnish voice:* “If you want to harmonize processes, then you need to harmonize the tools... if you use the same system everywhere... then it becomes more transparent, easier to discuss, develop and share.”

Finally, a person-based strategy uses people, their skills, abilities and social capital to make change happen. This is often done through using change management champions at headquarters and subsidiaries, by constructing a persuasive discourse around why certain changes are needed, and drawing an attractive image of the future state of the organization (Martin and Beaumont, 2001), as illustrated by the following example:

*An American voice:* “It is a combination of forcing and fostering... a combination of personal influence and, when necessary, negotiating and partnering with the other key executives to say that I need your help to make this happen.”

However – and importantly - it is not only a question of a certain practice being implemented and re-produced in the overseas unit; of crucial importance for its successful implementation in Russia and China is also that users believe in, i.e., internalize, its usefulness (Kostova, 1999; Kostova and Roth, 2002). A practice is internalized when the employees of the receiving unit see the value of using it, when it is accepted and approved by them, and when it becomes a part of the employee’s organizational identity (Kostova, 1999). A lack of internalization may lead to ceremonial adoption, which refers to a formal adoption of a practice by the recipient unit for reasons of legitimacy, without them believing in its inherent value (Kostova and Roth, 2002). Also, an integration of the new practice in the existing set of practices in the local unit is a further sign of successful transfer (Lervik, 2005; Björkman and Lervik, 2007). To be further noted is that the ‘transfer’ of practices often entails at least some degree of local adaptation into how these are implemented (Jensen and Szulanski, 2004). The allowing and perhaps even encouragement of reasonable local adaptation may not only make the practices more suitable for local conditions, but can also increase the commitment of local users instead of the typically rather negative attitude towards practices imposed by headquarters. It will also lessen change resistance in the form of the not-invented-here syndrome, which is often associated with transfer processes (Gupta and Govirandajan, 1991, 2000; Szulanski, 1996).

#### **4.4. People-based practice transfer**

Although authority-, rules-, and IT-based transfer mechanisms may achieve compliance with headquarters policies and expectations, people-based strategies are often more effective in influencing attitudes towards the practices, and assist their integration into the local set of practices. A key reason for this is that practice transfers are ultimately social processes, in which participating actors manage, negotiate, resist, and interpret the practices in question (Björkman and Lervik, 2007; Martin and Beaumont, 1998, 1999):

*A European manager about China:* “It is easier to have face-to-face communication. It is always easy to check [issues and understanding], when you meet people and can discuss in person rather than by sending emails. I would like to let them feel I am supporting them rather than monitoring. E-mails do not feel so supporting.”

Below are some examples of using people-based methods for transferring best practices to China and Russia. First, face-to-face contact, combined with ongoing discussion and support, was often a particularly effective way of overcoming cultural issues and problems of understanding. This was typically done in a combination of whole group, sub-team and one-on-one meetings. This involved working together hands-on - as compared to more formal systems and processes – which is typically very important in both China and Russia, as illustrated by the following quotes from our empirical data:

*A Chinese voice:* “We have delivered the training, and we have also aligned their processes with ours. So from the process and system point-of-view, I think we have already got the training - but I am not sure whether it is enough... We need to learn it by practicing, doing it together. Then we can have a better understanding.”

*A Chinese voice:* “They gave lots of training to technical people and the local team... sometimes the training is beneficial to us. But sometimes the training is more like process procedure - without any practicality. Yes, we understand it in theory, but not in practice... This is very important.”

*A Russian voice:* “It [the introduction of a practice from headquarters] was done in a very formal way. There were some leaflets and they were distributed around here...But people on the floor would say ‘what’s my role in it, what’s in it for me?’ Nothing practical...”

Second, the process of introducing the new practice seemed to be very important, and perceptions of a fair process are likely to influence subsidiary management attitudes towards new practices. Foreign subsidiary managers are more likely to accept decisions on practice implementation, if they have been involved in the design and decision making process. Likewise, if subsidiary managers are provided an in-depth rationale for decisions, these are more likely to be implemented (Kim and Mauborgne, 1993). These challenges were particularly relevant when the headquarters were trying to introduce cultural or value initiatives:

*A Russian voice:* “It was something like a push from the headquarters in that we should provide discussions here about company values...It was too much push and that did not work here. It was very formal - not even discussion, but very formal lectures, the local people did not understand what they were talking about.”

*A Russian voice:* “There were lots of words, which people did not quite understand and it was impossible to start any discussion at all... So that initiative really failed. Now we are trying to adapt it to Russian culture, bring it alive - not so formal.”

*A Russian voice:* “There is a period when we were all sitting together, all the managers who were in the company at the time. And we agreed how each of us understands our corporate culture [which headquarters sought to transfer to Russia]. And we tried to discuss how we all understand it, because at that very moment, it was very important that everybody in our Russian management team understood it in the same way... in order to make that kind of association of people that they are working in a right direction.”

Lastly, our data indicated that showing respect to local people can make a real difference for their acceptance and internalization of the new practice. This seemed particularly true in Russia, but sensitivity is also important in China: “Leadership in China means not forcing your point of view – not saying, ‘I am the expert, I know everything. We do it this way worldwide.’” (Elmar Stachels, Bayer China, in Fernandez and Underwood, 2006: 265)

*A Russian voice:* “You cannot ever go to Russia and teach Russians. You have to give them time to learn by themselves. You can give some recommendations and show some examples, but Russian people do not like that somebody comes and says that now, stop, you have done everything wrong and start doing like this.”

*A Russian voice:* “Finns try to change us but I think if they want to work in Russia, they must change themselves. If they want to make business here they must be more flexible...”

In fact, effective ways of showing respect to local people included simple things such as assigning one specific contact person for the transfer process, and following up the implementation beyond the immediate transfer process – issues which are, however, easy to forget in the minutiae of process details and the emphasis on day-to-day operational efficiency.

*A Russian voice:* “Finns should really pay much more attention and dedicate a particular person to work [with the transfer process] on a day to day basis.”

*A Russian voice:* “When we just introduced [a human resource management practice], there was a lot of support from HR and they monitored it a lot, but now it has almost disappeared.”

Finally, using boundary spanners to facilitate a transfer process, and any associated cultural problems, came out in the data as a successful way to transfer best practices. As discussed, boundary spanners can facilitate the transfer process by being able to translate the interests of one community from another community’s perspective, build trust and facilitate the overcoming of cultural and linguistic boundaries (see the respective chapters for an expanded discussion of these).

#### **4.5. Discussion**

As discussed, applying best practices across the organization is one way through which MNCs seek to achieve internal consistency, control and coordination within the firm. While authority-, rules- and IT-based strategies are often effective methods of implementing best practices in China and Russia, person-based strategies are often crucial for getting the new practices both internalized by the local managers and integrated into the local routines. Investing in both face-to-face, hands-on work and on-going support is important as it overcomes many culturally-driven problems of communication. Furthermore, showing respect to local people and their ideas, and utilizing boundary spanners familiar with both Western ways of working and local circumstances can facilitate the often difficult transfer processes.

Corporate-level managers with global responsibility for certain practices may have much to learn from studying in depth the actual differences in which ‘globally standardized’ practices are implemented and internalized by users in different parts of the world. Furthermore, the importance of involving local managers already at the stage of development of corporate-wide practices has often been stressed (Björkman and Lervik, 2007). This is important not only for making sure that the practices are appropriate across cultural and institutional differences, but also because innovative practices are often found in subsidiary units. Also, commitment to corporate systems, procedures and tools tend to be much higher if the foreign units have been involved already in the development process (Björkman et al., 2008). Finally, while we in this

chapter have discussed the most often occurring direction of practice transfer, namely headquarters-to-subidiaries, valuable practices may also be born in the fast changing emerging markets of China and Russia. Although the dynamics are different in this case (these 'reverse' transfers are typically not forced but detected), many of the strategies discussed still apply.

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## 5 INTERCULTURAL SENSITIVITY

### 5.1. Executive summary

In an international environment intercultural sensitivity and cross-cultural competence are crucial to succeed. However, all individuals have certain pre-understandings that are deeply ingrained in their minds concerning other cultures and other people based on their personal, national, religious, etc. backgrounds and existing life experiences. These so-called stereotypes are useful to certain extents in reducing fear and uncertainty when encountering a new business operating environment, however they might prove to be a serious impediment in international business relations. They may impede trust building and lower the quality of the decision-making process. Thus, it is important to be aware of these stereotypes and engage in measures aimed at overcoming them. Below we list some of the most common stereotypes that we identified among Finns, Russians and Chinese based on our interviews. In addition, we suggest the following measures how to go beyond stereotypical thinking and judging in an organization.

- Try to be aware of the differences at interpersonal level between you and your counterparts, which may be helpful to reduce the influence of stereotypes (often unconscious) on your judgments
- Invest in cross-cultural training programs and other initiatives, e.g. seminars, exhibitions, publications, etc., aimed at explaining and clarifying the differences across cultures. Participants should learn about traditions, beliefs, history, etc. of the other culture.
- Discuss openly with your colleagues and cross-cultural trainers problems that emanate from the lack of mutual understanding
- Invest in learning languages of your partners, which would earn you more trust and make open communication more realistic.
- Travel to their country to see how things work with your own eyes rather than believing what others say
- Interact more with your counterparts by spending more informal time together to enhance your understanding of the other culture

### 5.2. Introduction

Successful interaction and collaboration across borders requires intercultural knowledge and sensitivity (Cox, 1994; Laurent, 1983; Trompenaars, 1998). A fruitful way to engage in cultural learning is to focus on the actual practices of the target organizations – rather than taking national stereotypes and myths at face value. This kind of view helps one to concentrate on what is actually done in the organizations, which is the key to understanding cultural differences across specific locations. At the same time, such focus on practices should be linked with a genuine attempt to try to understand the

historical roots and institutional reasons for specific practices. Every organization is deeply embedded in its cultural, national, and institutional contexts that exert a strong influence on the content and nature of practices in that organization (Gooderham et al., 1999). Trying to look beyond the ‘generally accepted views’ and trying to spot the underlying reasons for certain practices and why individuals behave the way they do is of utmost importance when doing business across borders. Often it also helps to understand why integration and knowledge transfer processes lead to problems and disappointments (Ferner and Quintanilla, 1998; Sharpe, 2001; Woywode, 2002; Saka, 2004). For example, many decision-making and human resource practices are linked with local traditions and routines which are difficult to change.

Another important element in developing intercultural sensitivity is acquiring a critical attitude toward national stereotypes. In this context, a stereotype can be viewed as a generalization about a person from a certain nation (Ailon-Souday and Kunda, 2003). Stereotypes often involve negative connotations, serving a purpose at the societal level of strengthening the identity and self-image of the own group vis-à-vis that of the other nations or social groups (Tajfel, 1978; Turner, 1985, 1999). One effect of stereotypes is that they tend to lead to it being more difficult to pick up clues concerning the differences that exist among persons who rather are classified as for instance a ‘Finn’ or a ‘Russian’ with certain essential characteristics. Such stereotypical generalizations about other cultures are problematic because there is a great deal of variation within cultures – sometimes more than between them, as Trompenaars (1998: 6) put it “Culture comes in layers, like an onion. To understand it, you have to unpeel it layer by layer”. It is precisely such over-reliance on generalizations about cultures that leads to unfair stereotyping (Tajfel, 1978), which can be detrimental to interpersonal relationships.

In our study we asked the interviewees to describe what characterizes people from a certain country. Most of the respondents treated our inquiries concerning stereotypes with open minds and even with humor. We hope that readers will share a similar attitude when reading this report. However, there are also important messages in the following comments which the readers are advised to pay attention to. The stories that we obtained during the interviews evidently reflect both general stereotypes and more concrete notions of practices that the Western and local interviewees had perceived in different parts of the MNC, at headquarters and in the local subsidiary organization. Hence, in what follows there is a mixture of references to general societal stereotypes and more company-specific practices. We begin by presenting a set of Russian perceptions about Finns and vice versa.

### **5.3. Russian stereotypes and perceptions about Finland and Finns**

The most common answer from our respondents when asked to list typical stereotypes in Russia about Finns and Finland was that Finns in general are slow both in everyday life and in business.

*A Russian voice:* “Maybe the average view among Russians about Finns can be formulated as follows: that Finns are a bit slow people, in business it is also visible...”

*A Russian voice:* “A Finnish guy is a slow guy. All business they do, they also make too slowly...”

*A Russian voice:* “The stereotype about Finns is that everything is done very slowly...ok, in Russia we have mostly anecdotes about Estonians, not Finns. For instance, that there is a comma after each word, that people speak slowly, they think slowly, work slowly...”

The Russian respondents also commented on how the Finns were similar to the Russians in terms of alcohol consumption, but also more negative perceptions of Finns were presented.

*A Russian voice:* “At the national level the perception is that Finns are very slow, that Finns are very dumb, that they are very envious and alcoholics.”

*A Russian voice:* “I will try to talk like an average employee. The Finns are trying to get as much as possible out of us, they try to squeeze out everything. They want us to work 24 hours a day, and for a very, very small amount of pay. That’s why we should also be careful (laughs),...not be so committed, not be so much involved, not give too many promises because there is always a conflict of interests. Finns are a bit greedy as well; they never pay good salaries and things like that. But I have to say, it is not only about Finns, what I just said. It is a common perception concerning all the foreign companies coming here.”

Some respondents also mentioned anti-Russian attitudes among Finns as well as their general ethnocentrism.

*A Russian voice:* “Finns are very Finnish and that is the problem. When they select suppliers, they try to select Finnish suppliers. Just open your eyes! There is a big world around here, there are suppliers with much better products, cheaper products. We could save a lot of money. Normally when I have jumped in and said ‘Listen, why are we buying this component from that Finnish supplier, its much more expensive...’ the reply has been ‘Well, but we shook hands with the supplier...’ This is the good thing that I absolutely respect in Finns, that they keep their word. But from my point of view, I think that this attitude leads to a lot of missed opportunities.”

*A Russian voice:* “Deeply in their souls there are anti-Russian feelings...”

*A Russian voice:* “I do not think that Finns do not want to learn from Russians, but I do not see a strong desire. To say more, I see a desire to show us how they work, and have us start working the same way in Russia.”

*A Russian voice:* “Finns have a certain perception of what a Russian person is, a Russian is either belonging to the mafia or working as a prostitute maybe, or being very, very rich and arrogant. It’s not really true of course.”

Last, but not least, the stereotypes that our respondents mentioned were not only negative ones. Some respondents described Finland as a country as a comfortable place to live, which is quite distinct from Russia. Moreover, Finns were described as people who treat history and traditions with respect and who deserve appreciation for their achievements as a nation.

*A Russian voice:* “Finland is a wealthy country, in which everyone lives well, comfortably and there are good traditions that are followed... so Finland is some kind of country without problems.”

*A Russian voice:* “In Finland, if you come to the pedestrian crossing, everyone stops. After you crossed the road, everyone starts to move again. So it seems to me that everything is different. Looking at how people work, I think that it is right and we are going there also... we always discuss that people there work sharply from 8:00 till 16:00. If I go at 16:00 at Nokia [in



Finland] between the floors and I do not have a key, then I would not be able to go back, because everything is closed.”

*A Russian voice:* “[What] Russians [think] about Finnish people... from my experience, [they] actually evaluate high what Finnish people have achieved.”

*A Russian voice:* “So they [Finns] all respect cultural traditions and it is one of the things that I have noticed... also the attitude towards work... If they work, then everything has to be good and correct. If it has to be in a certain way then it will be so. I can tell you so that some of the Finnish specialists who work here know the Russian rules better than our Russian specialists, even up to the degree when they can tell certain rules point by point. Not many Russian specialists can do that.”

#### 5.4. Stereotypes and perceptions about Russia and Russians

Russians were portrayed by several respondents as emotional people who do not always think realistically and do many things based on common sense and feeling. Similar characterizations of the Russian culture and the Russian business leadership can be found in the academic literature (see, for example, Kets de Vries, 2001). The Russians were also very conscious of these attitudes among Finns, which is reflected in the Russians observations below. Some perceived that Russians try to solve problems quickly and often have unrealistic plans and ideas, while some interestingly had almost the opposite point of view.

*A Russian voice:* “I am often asked about the general difference between Russia and Finland. I even prepared a joke about it. If you take a fly and put it in a can or a bottle it will just move around randomly here and there but it will finally find the way out, so the problem is solved. This is the way Russians work. Trying lots of things, you fail but you do not care and you try something else and then, here you are. Sometimes I compare Finns with a bee. If you put a bee in the same situation, you know it is considered to be much more intelligent (laughs), it flies only in this direction and then, after dozens of attempts, it just falls down and dies. So this is the way I see that people in the West often are operating.”

*A Russian voice:* “Actually, in the beginning when people do not trust other people, sometimes there is a feeling that Finns perceive you as an idiot, some kind of a bear with a balalaika, who does not understand anything. So when you say something, people reply: ‘How can you say so, don’t you know anything?’ Later you understand that these people just did not understand the rules of the game in Russia.”

*A Russian voice:* “Russians want to solve problems very quickly first of all. And they have a lot of ideas and plans, maybe sometimes unrealistic. They are quite energetic people in general.”

*A Finnish voice:* “It could be a prejudice, but on the Russian side I think that there is a tradition or a way of doing things, such that first you build the army and then you attack. This is the Russian way. There is also the wish to show to others outside what you are doing. I call it the frog-tactics, you are shiny and everybody sees how great you are.”

A very common perception among Finns was that the Russians and Russian organizations are very hierarchical and that often nothing happens unless that hierarchy is respected. At the same time, and although cross-cultural studies indeed have found the Russian society to be considerably more hierarchical than the Finnish (Elenkov, 1997, 1998) and the GLOBE project has identified Russia among the top five countries in its sample in terms of highest power distance indices (Javidan and House, 2001), the

Russians themselves referred to the need of hierarchy as one of the stereotypes that Westerners have about Russia.

*A Russian voice:* “The Finnish stereotype is that here in Russia the structure is highly hierarchical, and that everything is done only when the boss says okay, do it. This is not really true.”

*A Russian voice:* “I don’t know why, but Finns consider our structures more hierarchical but I wouldn’t say they are. It is more a case of clear division of responsibilities. In decision making usually many people have a say but the boss finally makes the decision. This is not hierarchy, I would say, it is just a more clear structure.”

*A Finnish voice:* “Russians are very hierarchical, they want somebody to decide. You cannot put Russians into a committee and say that here is an issue, sort it out. They cannot sort it out, they can come with ideas and proposals but will want somebody to decide.”

The most common stereotype concerning Russians among Finns and Russians themselves was related to Russia being a criminal state and all Russians being lazy and untrustworthy people.

*A Finnish voice:* “The general stereotype may be that you must be very careful doing business with Russians because they always try to get something extra, they always try to deceive you or do something that they are not supposed to do and you do not expect from them. And this is very, very deeply embedded...not psychology, not philosophy, something that is very difficult to overcome. You always keep in mind that ‘Be careful’. You have to go very, very carefully through figures and facts to be sure to get the full understanding. Otherwise you will just be cheated. I think that this is the first and the biggest of the stereotypes about Russians.”

*A Russian voice:* “As I see it, the main stereotype is that all Russians are very criminal and after arriving in Finland and seeing the news provided here about Russia, I understand the Finns. What is shown are criminals, Chechnya..., nothing positive only negative. Of course we have some problems with criminals, and also some other problems, but we live here and we are not afraid each minute that someone will kill us or rob us, or something else.”

*A Finnish voice:* “I think that the most important problem is that Finns think that Russians are not reliable, that they are dishonest, that you can’t really trust them. And with this kind of perception at the general level, it’s very difficult for a person not to use it in his relationship with his Russian colleague.”

*A Finnish voice:* “Russians are lazy, you can’t trust them. Actually it is quite funny, because when you go to Russia and watch the production in the factory for example, it’s nothing like lazy. And in our cooperation with the Russians in general, we can totally trust our partner. They are not so ‘big and dangerous’, they are actually really good fun, and quite easy to cope with. But yeah, that’s a strong stereotype I suppose, never trust a Russian. Might come from the history, have something to do with.”

*A Russian voice:* “I know that in Finland the working hours are quite limited, so then normally people work say till four o’clock and then they leave. But here persons do their work until they’re done. So they can sit here until nine o’clock or ten o’clock in the evening if they have a lot of tasks to be completed. And I think this is part of the expression of their loyalty to the company. This is the case in many foreign companies.”

Our interviewees generally voiced less strong stereotypes and more neutral perceptions in the Chinese/Finnish case. This is to be expected, as the lack of a common border and few historical links make it less likely for societal stereotypes to develop. Therefore, the

descriptions of ‘the other’ seemed to a larger extent to be based on having worked in an MNC with people from the other country.

## 5.5. Stereotypes and perceptions about China and Chinese

Finns generally perceived the Chinese as being hierarchical. The first quote is in line with cross-cultural research that has shown the Chinese to exhibit a high power distance; that is, power in society is distributed in society in a less equal way than in for instance Finland.

*A Finnish voice:* “In China, it’s important to follow the hierarchy, so that you don’t step over someone. So if you want to have an issue raised, you have to do it step by step, you can’t side-step a middle manager who is above you in the hierarchy and go directly to the top with your question or concern even if you know that would be the most efficient way in your home country. This applies in particular in local Chinese operations and may seriously complicate partner collaborations”

The Chinese society is commonly described as functioning based on relationship (‘*guanxi*’) (Chen, 2001). Personal relationships are used to get access to reliable information within and outside the own organization, to get necessary permits, and to create strong business relationships.

*A Finnish voice:* “The Chinese culture is quite difficult. You have these kinds of networks of people. You have to find those who are really the decision makers. It is sometimes quite difficult to find these people, for example in partner collaborations. Then you have to build trust. When they start to trust you, things start to work very well.”

*A Finnish voice:* “China is full of statistics, but they are not very reliable. People are using those for political reasons and Chinese management is pretty much based on networks (providing information). Decisions are made mainly based on your own feeling.”

The importance of ‘face’ is often stressed in analyses of Chinese culture (Chen, 2001; Faure and Fang, 2008). Face is not only an individual’s private affair, but more importantly it concerns the individual’s whole family, social networks and community at large. Protecting one’s face can even be the motivation for Chinese employees to work hard and have a good career (Fang, 2003). Some Chinese are even willing to ignore cost considerations in restoring an affronted ‘face’ (Leung, 2008).

*A Finnish voice:* “It’s very important. People really want themselves to look good in the eyes of each other. They are concerned about “face”. They also expect the boss to “look good”. In my home country I don’t tend to care whether I “look” good or bad, but here it is different.”

Traditionally, the Chinese have been much concerned with the past, often looking for lessons from their history that can be applied to get guidance how to act in the present (Spence, 1990). This concern with the past is also known as “long-term orientation” in Hofstede’s (1991, 2001) fifth cultural dimension. Recent developments in China may have changed this. And Chinese scholars also started to question it (e.g. Fang, 2003).

*A Finnish voice:* “The Chinese are really concerned with what is happening right now, that is the most important thing. It does not matter what has happened in the past, nor what is going to

happen in the future. People from the west, on the other hand, tend to have a little bit more holistic time horizon; they worry more about what has been said yesterday, and what is going to happen tomorrow. Here in China, it is the present which matters.”

Other stereotypes concerning Chinese that were mentioned during the interviews conducted for this study touched upon nationalism, flexibility, opportunism, and diligence.

*A Finnish voice:* “China has been a much closed country and the Chinese are very nationalistic. And you can see it. Foreigners are really foreigners.”

*A Finnish voice:* “People here are quite flexible. They expect that rules are imposed by those who are above in the hierarchy and they are not questioning things like we do in the west. But they may find ways to go around the rules...The whole society is based on this.”

*A Finnish voice:* “It’s quite typical in China that they easily lose a systematic approach if they encounter some problem. The first reaction may be that people start to scream and run. Then you really have to calm people down and say ‘This doesn’t really help, let’s think what to do’. This I would say is a typical Chinese habit still today but I also think the western management style has helped. One of the related challenges, which we still have, is that local people are afraid of making independent decisions.”

*A Finnish voice:* “The attitude has always been very good in China, people are trying hard and they are very active and have a positive attitude towards developing things and developing themselves.”

*A Finnish voice:* “The Chinese are very hard working. This may be related to the perception I have, that the local management culture to some extent is quite rude. I think that in typical Asian companies, bosses are ‘big bosses’ and it has the effect that people are not feeling very comfortable and maybe also feel hard-pressed to work a lot.”

As evidenced below in 5.6, we did not find as strong perceptions and stereotypes about Finns among the Chinese interviewees, as among the Russian interviewees. It is conceivable that this in part may be related to reluctance on the part of many Chinese to avoid presenting negative issues when being interviewed by persons whom they did not know beforehand. It also reflects the conflict avoiding and harmony seeking tendency of the Chinese (Fang, 2003). They may thus be more careful about what they say about other people than their Russian, and indeed their Finnish, colleagues.

## **5.6. Chinese stereotypes and perceptions about Finns**

Finns in our Chinese interviewees’ eyes are equality and privacy lovers. While these two characters are positive in general, they do not necessarily have good connotations for the Chinese, as illustrated below:

*A Chinese voice:* “In Europe, people think selfishly. If people go on holiday, they turn off their work phones, they enjoy their holiday. Also, the fact that local employees have shorter holidays for example than their European colleagues; this was something new for our employees who were in Finland on exchange. I think the key person should always be available over the phone at least if there is something urgent happening on the factory floor. In Europe they say, ‘Why should we care about that, you know, when we have holidays, long holidays, we should enjoy our privacy’”.

*A Chinese voice:* “For example, if an employee is sick or has a concern, you should know, even make a phone call or send some small gift sometime. You try to support him, take care of him. You should know what people want. This is then a little bit of a challenge for the foreigner. It is difficult for the foreigners to do.”

Finns are also perceived to be too stiff and stodgy. Once they have decided the meeting contents, they do not allow the Chinese to be flexible according to situations and local environment.

*A Chinese voice:* “If we talk about something like salary related issues, this may be more sensitive in Europe. In China people may, even in normal meetings, say that ‘we are not happy because of the salary’. A Chinese boss might not react immediately, but he would consider what should be the way then. Maybe Europeans don’t think about that. European managers are thinking that the employees are mixing different issues, we (the management) are talking about low efficiency, now you (the employees) are saying that you don’t get enough bonuses”.

Last and on the positive side, Chinese appreciate Finns’ perseverance, honesty, modesty, result-pursuing and directness.

*A Chinese voice:* “The good parts of the Finnish management style are definitely persistence, honesty, and an easy-going attitude, a sort of humbleness. These are the very good parts, and especially the easy-going attitude, which fits the Chinese society pretty well.”

*A Chinese voice:* “Nordic people as a whole, we feel, are result oriented and direct. We sometimes feel an over-respect for the foreigners and now I am trying to change my way of communication. For example, I told my boss: ‘Sorry, I have to start asking why we are doing this and that, what is the background. Let me understand, and then I can do what is required’”. Because in my previous experience, sometimes the boss said please do this...and I did not dare to ask what or why or how. Then I usually tried to guess what might be the thing he wants. Now I am trying to change. I participated in this Nordic culture workshop, it helped”.

## **5.7. Managing cultural diversity and intercultural sensitivity**

Our interviews showed that there was a general awareness of the need for intercultural awareness among the people interviewed for this study, and also a conviction that cultural diversity is needed. Several means to increase intercultural sensitivity in an organization were also proposed.

Being conscious about one’s own stereotypes is a first step towards reducing their influence on our own perceptions and behaviour. Spending sufficient time interacting with people from the other culture is another crucial way to be truly aware of the differences between cultures, and therefore enhance intercultural sensitivity.

*A Finnish voice:* “You have to really understand what the differences are, and then you have to be able to separate the cultural differences from just people being individuals, thinking and acting differently. Then you have to understand that nobody is trying to be mean or do things just to make your life more complicated. Everything has a reason behind it.”

*A Russian voice:* “Maybe Finns need to be here more often so they would not only hear about certain things over here but could also see these things, e.g. experience the fact that the working

conditions here are different from those in Finland. Then they would not just create a certain image for themselves, an image they first create and then believe. I do not always understand based on what this image is created.”

Another way to increase intercultural awareness lies in trying to ‘take on’ the management board people of various nationalities, especially of nationalities which represent the major countries where the MNC is operating. The lack of such representation might result in a situation when good ideas are neglected or important issues are not taken into account.

*A Finnish voice:* “In the management group it is important, and it is a principle, that we have representation across all the major countries, or at least regions, in which we do business.”

*A Finnish voice:* “We don't have (enough) people who are from other nationalities and other cultures in the board of directors in our executive management team. I see that our problem is therefore this kind of very narrow approach because everybody sees things in the same way. It would be the Nordic way or Finnish way of seeing things...If top management has this kind of approach; I see tremendous difficulties in expanding outside this Nordic culture. For example, in the emerging markets of China/Russia or other places, you would have different perspectives of time and other issues and if there is nobody even to explain or understand that, so it will be very difficult to implement good ideas to expand there.”

The role of foreign languages is crucial if one wants to truly understand foreign cultures. Hence, it is important to put some effort to learn at least the basics of the foreign language. It helps to understand the other culture and makes it possible to develop intercultural sensitivity. The organization needs to provide opportunities for its employees to learn foreign languages and receive cross-cultural trainings.

*A Finnish voice:* “So I think what is important really is that we go about this [the role of language] seriously... if we want to work together, we have to learn the culture and understand how things are working in Russia, I think that's number one.”

*A Russian voice:* “The second problem is the level of language knowledge. Somebody understands at the basic level, then some important details are lost... therefore, I think that even among managers who are considered the most fluent, still some kind of special program is needed to improve the grammar. Cos there were situations when with several translators from both sides after a month we were realizing that we understood each other incorrectly and all this time we talked about something different and when time has come to be concrete, it was like Ah, that's what you mean! You see...”

Finally, intercultural sensitivity in an international environment can be seen as closely linked to the trust-building processes that are discussed in Chapter 7 of this document, which is entitled “Trust Building”. Please refer to that section for more details.

## 5.8. Discussion

Above we have presented a set of perceptions and stereotypes shared among the interviewees in Russia, China and Finland. Although stereotypes may be a useful form of background information that can guide the individual behavior, one should be careful not to fall into the trap of stereotypical thinking. It is important to increase mutual understanding, mutual cultural sensitivity. Both parties in inter-cultural relationships

continuously shape and reshape their self-understandings and their understandings of each other.

Providing cross-cultural trainings is one immediate and effective way to raise the awareness of intercultural issues among employees. These trainings are recommended to include the following parts about the other culture: major ideologies of the society; business operating environment and practices by the locals; intercultural interaction advises with the local people; language trainings on the local language including both linguistic training and explanations on the linkage between features of the local language and their way of thinking and behaving.

However, it is important to understand that cross-cultural training and language courses are not likely to have much effect unless they are supplemented with intercultural interactions. It would allow employees digesting what has been taught to them through the personal experience with the foreign culture in the foreign country. Intercultural interactions can take place via email, phone or face-to-face. Only when employees are able to reflect upon their learning through real life encounters could the trainings have actual effect on improving intercultural sensitivity. Ways to achieve such interaction have already been suggested earlier in this document and will be dealt with in the sections that follow.

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## 6 LANGUAGE AND COMMUNICATION

### 6.1. Executive summary

In this section, we discuss challenges of language and communication. These are standard fare in cross-border contexts, and particularly salient when cultural and linguistic distance is great. Still, their full impact and the many different facets of the problems they cause are not always acknowledged. If knowledge sharing between units is considered desirable, it must be acknowledged that it will be slowed down considerably by employees' weak understanding of culturally conditioned communication habits and lack of language skills, with a direct and concrete negative impact on at least trust, control and integration efforts, and careers of individual employees. Useful practices that alleviate language and communication problems include:

- More active listening than Westerners are typically accustomed to.
- An explicit policy of placing people with multicultural experience in key positions.
- Systematically trying to ascertain that the other person really understood one's message and then use frequent and systematic follow-up to control the accomplishment of tasks.
- Avoiding exposing subordinates' limited nonnative language skills in public, as this causes them to lose 'face'.
- Complementing formal meetings with informal interaction outside of work contexts – 'going out in the evening with the locals' – so as to improve communication effectiveness and strengthen personal relationships.
- Providing language training to employees (although this is a long-term project rather than a quick solution).
- Recruiting for language skills in the home country 'in advance', before they actually are needed abroad.
- Looking at the language and communication aspects of training and recruitment not only as a subsidiary issue, but also as a challenge for the parent company; language etiquette and empathy for individuals' challenges in relation to language use becomes imperative.

### 6.2. Introduction

Language and communication issues naturally influence cross-border competence management in many different ways, so we touch upon them in several places in this book. However, we think that these issues are important enough to deserve a section

exclusively devoted to exploring them. This section therefore focuses specifically on the language and communication aspects of cross-border competence transfer and management.

The issue of language in multinationals received almost no research interest before the mid-1990s (Marschan, Welch and Welch, 1997). Since then the situation has improved somewhat, and findings now include a number of observations on the different ways in which language and communication skills impact relationships between units and individuals in the multilingual contexts that nearly all MNCs are.

Briefly reviewing these observations, we know that a lack of language skills can form an important barrier to integration and knowledge sharing inside the multinational, even to the point that some units are excluded almost completely from interaction with their corporate networks (Marschan-Piekkari, Welch and Welch, 1999a, 1999b). Inversely, quantitative evidence suggests that language skills are positively related to levels of communication (Barner-Rasmussen and Björkman, 2005) and social capital (Barner-Rasmussen and Björkman, 2007) between MNC units. We also know that corporate language choices can significantly influence the balance of power in the MNC: certain advantages tend to accrue to persons and groups that are fluent in the language used by top management (Marschan-Piekkari, Welch and Welch 1999a; Barner-Rasmussen 2003). The same is true for persons and groups that are fluent in the official corporate language (Björkman, Tienari and Vaara, 2003; Mäkelä, Kalla and Piekkari, 2004). Language has further been argued to influence teamwork between locals and foreign employees in MNCs (Goodall and Roberts, 2003).

Individuals whose language competences enable them to act as intermediaries between language groups tend to accrue knowledge, responsibility, and power beyond what could be expected based on their formal position. This finding has been expressed in terms of individuals acting as ‘language nodes’ (Marschan-Piekkari, Welch and Welch, 1999a; Barner-Rasmussen, 2003). In this book we use the concept of ‘linguistic boundary spanners’ to refer to the same phenomenon. Boundary spanners have been argued to play a potentially central role for interunit communication in MNCs (Kostova and Roth, 2003), and we believe the linguistic and cultural aspects of their capabilities increase in importance according to a supply-demand principle of sorts. The interaction between Finnish firms on one hand, and Russian and Chinese firms on the other, is characterized by a severe lack of personnel who are familiar both with the business, the host country culture and language, and the home country culture and language. Despite the geographic proximity, few Finns are deeply familiar with Russia, and this is all the more true for China. Thus, individuals who could bridge these divides would be rare and in very high demand. This is also the case in practice.

While boundary spanners can potentially accumulate considerable power due to their key role in internal relationships in a multinational, it has also been found that individuals with valuable language skills can be burdened with heavier workloads as a result of their competence (Piekkari, Vaara, Tienari and Säntti, 2005), something which they are not always compensated for. This hints at the many human resource management problems which may emerge related to individual boundary spanners who take on key positions in a firm. These people are not always highly paid managers; they can also be secretaries, executive assistants or line staff whose importance as translators,

conflict mediators and liaison officers is informal and therefore neither recognized nor materially rewarded.

Providing a general overview of Russian and Chinese culture or the field of cross-cultural communication is beyond the scope of our study, and several such guides are available (see e.g. Billington, 1966; Hall and Hall, 1990; Frederick, 1993; Gao and Ting-Toomey, 1998; Chen and Ma, 2001). Anyway we assume that most of our readers will be familiar with the basics of these issues. We therefore start off from the well known fact that communication behavior is conditioned by the communicator's 'home' culture and thus influences her behavior independently of the language being used in any particular communication situation. First we provide some practical illustrations of what this may entail in the context of communication between Finns and Chinese or Finns and Russians. We then shift our focus to the issue of language in multinationals and look at how deficient language skills may influence for example communication, trust, control and integration, and individual careers. We also report on some best practices of the studied firms. We close the section by discussing the findings and how MNC managers might best handle the language-related issues uncovered by our study.

In our data, issues related to language and communication are overall more prevalent in Finnish-Chinese relationships than in Finnish-Russian ones. Consequently, the emphasis in this section is on the former. However, the section also includes much material from the Russian interviews.

### **6.3. The need to learn to ask and to listen properly: differences in communication behavior**

As perceived by many Western respondents, a recurring issue in the communication behavior between Chinese and Finnish employees is a tendency of the Chinese not to share information – especially of a negative kind – with collaborators or hierarchical superiors. This emphasizes the need for more active listening than Westerners are typically accustomed to.

*A Finnish voice:* “Maybe we are not so good at asking. Because it seems the other party does not volunteer to provide information to us, we have to be able to ask and try to listen to the little things. Or maybe we should be more patient, and use every opportunity to get information. We should try to be in the places where information is exchanged. Being more there where we can listen and not just being there where we talk.”

Another common problem, particularly in China, is that simply communicating whatever needs to be done may not be enough. In other words, initial agreement may not result in action in the same way as would be expected in the West. Further, there may be no real agreement although the situation may be interpreted as such by, for instance, a Finn. Rather, the two parties have different conceptions of appropriate ways to communicate. For a Finn, a lack of explicit disagreement may be interpreted as agreement. The Chinese view it very differently. Rather than a statement of agreement, a weak 'yes' may be a way to simply show that they pay attention to what is being said to them, to save face as they themselves may not be able to do what has been stated or strongly feel that the proposed action is inappropriate or stupid, or feel that it is

impossible for them to convince their Finnish colleagues because they believe that “foreigners” would never understand the Chinese mentality.

*A Finnish voice:* “It is a challenge for European people to understand that communication of issues is not enough. We can’t expect things to be implemented if we just list things to do, and then expect that to be it. It does not work that way, one needs to develop a better understanding of the other culture’s ways of doing.”

This issue is particularly likely to generate frustration among Finns with limited international experience, who are used to the notion – very deeply rooted in their home country – that ‘a promise is a promise’. They may not be aware that what they have interpreted as a promise has not been intended as such by their interaction partner. The end result is often a perception of Chinese colleagues as unreliable:

*A Finnish voice:* “Sometimes when we work with them, we get a handshake and heads nodding saying that yes, we will do. But no-one follows up.”

*A Finnish voice:* “You can have a meeting, and explain simple things that you want to be done for the next morning, and everyone says ‘yes, yes’. Still, nothing happens. That’s really the worst part of the language barrier. When you tell people what you wish them to do, they don’t understand.”

Learning to handle this type of communication dynamics had been a big hurdle for many of our Finnish respondents. Persons who had been in China for a while or had prolonged experience of dealing with Chinese partners offered the following type of advice:

*A Finnish voice:* “The Chinese are, simply said, very polite, not good in English. They do not say ‘stop’ and they do not say ‘I don’t understand’. This has consequences. For example in Finland, as a Finn, you may be very successful with your presentations, you are professional and you are doing a good job. If you present something for a group of Chinese people, what probably will happen in most cases is that the Chinese don’t understand what you are saying and you don’t understand that they don’t understand.”

*A Chinese voice:* “Sometimes if you try to ask people for some very sensitive information, Chinese people may answer – they don’t want to lose their face – they just say yes. But in the heart, they say no. Finnish people don’t understand this kind of culture.”

A related issue is that Chinese employees have a tendency of not admitting that they don’t understand, as this can be seen as losing one’s face. This leads to similar problems of inaction as discussed above.

*A Finnish voice:* “If there is a foreigner in the meeting, then the Chinese don’t always understand what these foreigners are saying...they just pretend that they understand. This is because they don’t want to give the impression their English is bad. Their answer is ‘yes yes’, but they don’t really understand. Our foreigners here then think that their message worked clearly, and people understood what they should do. But when the Chinese go back, they cannot deliver a clear message...”

#### 6.4. Slowing down communication, trust, control and integration, and individual careers: The consequences of limited language skills

We now shift our focus from cultural influences on communication to the specific issue of language skills. In line with previous research, our findings from the case firms yielded many examples of deficient language skills having direct and concrete negative impact on communication, trust, control and integration efforts, and also on the careers of individual employees. We shall now discuss each of these points in turn.

At the basic and most concrete level, poor or lacking language skills result in slower and more cumbersome communication. This impedes efficiency and has a negative impact on the sharing of relevant knowledge. This was an issue in both Finnish-Chinese and Finnish-Russian relationships.

*A Finnish voice:* “The [Chinese] engineers don't speak English, not at all. They basically don't understand. Every time when there is just one English-speaking person in the meeting, the meeting slows down really very much.”

The issue related not only to weak skills in English, but also to misunderstandings stemming from slow or faulty translations:

*A Russian voice:* “[Language problems result in] slower communication... and sometimes problems of the type that I need to have some report, and then must wait for the person to complete the report and give it to someone to translate.”

*A Russian voice:* “Sometimes if someone did not hear something correctly, you need to translate the question, and then the answer is translated back, and it's not nearly talking about the same thing. And this goes back and forth. Sometimes it can be solved in a minute, but sometimes it takes, you know, a couple of days.”

Limited language skills may also hamper the ability to express opinions and emotions in an effective way, which may influence trust among other things.

*A Chinese voice:* “Language problems definitely have an influence, especially if you can't express your meaning very accurately. When I studied [in an English-speaking country], I felt the most difficult thing for me was to write management papers. I wrote till 3 or 4 am, but I could not work it out...too difficult. I want to express myself properly, but cannot...so difficult. Compared to the other students' work, mine was just not as good as theirs. Many things in management are dependent on expression. In fact, I sometimes wonder...if the reason that these Finnish people are not always doing that well is for the same reason, a lack of ability to express themselves.”

*A Finnish voice:* “The English we speak doesn't have a lot of sparkle or nuance. Chinese, on the other hand, is a very colorful and multifaceted language. One needs to ask how big is the risk, in fact, that things get misunderstood in the interface between those two? I sometimes suspect that the risk may be quite big... some 30-40 percent may go down the drain simply because of lack of nuances.”

Several respondents pointed out that while English was not the first language of the Russians or the Chinese, it was not the first language of the Finns either, introducing yet another layer of uncertainty in the communications:

*A Chinese voice:* “It is a reality here that English is not our mother tongue, and this is true for both the Finnish and the Chinese. So, especially when you want to express your feelings,

problems arise. Pure technical things are OK, people can communicate well about them But those that need emotional expression...will sometimes cause misunderstanding.”

*A Russian voice:* “I have learnt that the same word even in English has two different meanings for us and for Finns. For example, ‘How are you?’; ‘Good, but there is one problem’; so this word ‘problem’ for Finns is a complete collapse, something completely amazing. But for Russians, a ‘problem’ is just a question that needs to be solved.”

The linkage between language skills and trust was discussed both implicitly and explicitly by several respondents, as the quotes below indicate:

*A Finnish voice on business in China:* “We are not able to talk directly the teams. We can’t communicate with the teams, only with the managers, so we need to trust the management.”

*A Chinese voice explaining why Finnish expatriates are not trusted in China:* “The communication here, several simple sentences [in Chinese] between the Chinese can clarify everything. But for them [Finnish expatriates], they need to call secretary to make an appointment.”

*A Chinese voice:* “And I think you know, also the national virtues of Finns, that they don’t trust you easily, so then of course speaking their languages always build up the trust.”

*A Russian voice:* “Finns find it easier to trust Finns or employees who speak Finnish.”

Furthermore, it became evident that limited language skills might damage the ability of an MNC headquarters to effectively control and coordinate its network of subsidiaries. Issues included the problems of indirect communication, limited ability to provide support and share knowledge.

*A Finnish voice:* “There’s also the language problem, we are not able to speak to the Russian managing director one to one, just via somebody translating. That makes the situation challenging.”

*A Finnish voice:* “The business in general is very local, the markets are local and we don’t even speak the language. So how could we actually integrate and help each other? It’s mostly just us watching over what they are doing.”

*A Finnish voice:* “It’s really a waste of time for me and [others] from Group HR to go over and try to find out something or try to gather information as we can never understand - if we are not Russian and we don’t live there, we don’t understand the culture, we don’t even speak the language. There are some issues where we can help the local organizations, but then there are a lot of issues where we can’t. All we can do is maybe provide the resources to recruit a new HR person or something like that, and then have somebody to do it there locally.”

Finally, it emerged that language skills might have a significant influence on individual careers, as local employees with good language skills were coveted but rare assets both in China and Russia.

*A Russian voice:* “I think in Russia if you know English, it upgrades your value quite a bit. You get more information and you are at a different level from your colleagues. Because you can understand things by yourself, while the others have to wait for things to be translated. And some people, while not being the most competent in that area, have had the opportunity to get certain attractive positions because of their language skills.”

*A Chinese voice:* “One’s position in the company is shown by his communications. For example, words, sentences, how to express your ideas. If his language has problems, especially if he cannot express himself very accurately, it will definitely have influence.”

Inversely, a lack of language skills could have a negative impact on the career prospects of otherwise successful employees, who would be cut off from communication with the parent company:

*A Chinese voice:* “I think if you want to be a big boss within this company, maybe you have to learn Finnish. It is also difficult to promote a Chinese to an important position in China, if he can’t speak good English. At least it seems that it will be difficult for his personal career, if he cannot [speak good English]. That’s the fact.”

*A Russian voice:* “Even if you do a fantastic job, if you cannot convey this to management, it means certain limitations.”

## **6.5. What to do? Some best practices of the studied firms**

Our interviews generated a number of suggestions for how to overcome the challenges of language and communication more generally. For example, our interviewees had had very positive experiences of placing people with multicultural experience into key positions. These solutions could be characterized in terms of conscious deployment of boundary spanners with linguistic and cultural competence.

The case firms’ experiences of linguistic boundary spanners are positive throughout, but it seems that systematic and conscious deployment of boundary spanners so far remains rare.

*A Finnish voice:* “If you come from Finland and have never worked in another culture, in Finland you are very successful with your presentation, you have very professional skills and everything and you think you are doing good work; then, if you present something for a group of Chinese people, what probably will happen is that these Chinese people don’t understand what you say and the Finnish guys don’t understand that they don’t understand. And that will happen many times. If you have guys who have worked in China, they learn this. So that’s why it’s so important for people to have multicultural experience in organizations... I want locals, all locals with multicultural experience.

*A Finnish voice:* “There are not enough English speaking people there... so we have some Chinese speaking people from our side.”

*A Russian voice:* “We hired a translator into our organization. He spent a lot of time at the headquarters, helping in training sessions for the operators who were coming from Russia. Now he spends most of his time in production, here in Russia, helping in communication with the Finnish specialists that come. Because he has spent so much time in Finland, he already knows about the processes and the production technology a lot. He knows the terminology, it has been very helpful. Because externally you cannot get a translator who would come and be knowledgeable of a certain company specific production terminology. It’s very specific, but we have built it in-house, this capability.”

Another key learning is that it is important to try to ascertain that the other person understood the message and then to use frequent and systematic follow-up to control the



accomplishment of tasks, in a very different manner than one is used to. This is particularly crucial in China.

*A Finnish voice:* “Even with my direct reports who speak English, I find that I probably need to take three conversations for them to really really understand what I am looking for. It’s just not one. So I have to have a conversation, then think about it, observe it. And ask a few more questions, and then I find out what they are saying. So it’s three conversations before. I am finding follow-up emails to conversations are effective.”

*A Finnish voice:* “After I have said something, I ask that could they repeat what I have been telling them, so they would explain what should be done.”

*A Finnish voice:* “My way to achieve a working relationship is to have very frequent reviews with the other party, sometimes twice a week maybe or maybe once per day. Then we can know what are the most update things. Even if we cannot control them, we must follow them: what is the real status. I follow up very closely.”

However, our interviewees warned against exposing subordinates’ limited language skills in public, as ‘face’ is important particularly in China but also in Russia.

*A Finnish manager in China:* “If there is a bigger meeting, and something goes wrong, you would wait until after the meeting and talk personally to this person and say that, you know, how about doing it like this next time, so not to raise these issues in the meeting, as he or she would be losing his or her face.”

Finally, several interviewees mentioned that complementing formal meetings with informal interaction outside of work contexts – ‘going out in the evening with the locals’ – is an effective way to improve communication effectiveness and to strengthen personal relationships. Finns may be culturally conditioned to interpret this type of advice as one’s job duties encroaching in an inappropriate way on one’s private time. However, close relationships with colleagues can over time lead to expatriates obtaining more non-solicited information and help enhance their understanding of their work environment. This is particularly true in China, but also relevant for Russia.

*A Finnish voice:* “It is very important, this evening culture, in China. You have to have those dinners and discussions. If you skip that, then you will skip almost everything. You have dinners and discussions, little bit, also, checking what has been understood and learnt on both sides. Because in the meetings you are usually quiet, you disagree without commenting much.”

## 6.6. Discussion

If knowledge sharing is desirable from the MNC’s viewpoint, it must be acknowledged that it can be slowed down considerably by employees’ weak understanding of culturally bound communication habits and their lack of language skills. Managers often approach language and communication issues in a ‘rationalistic’ manner (Janssens, Lambert and Steyaert, 2004), and do not acknowledge their cultural and political aspects. This may however be a severe mistake in cross-border competence transfer.

In this context, a few issues are worth highlighting. A good first step is perhaps to acknowledge the importance of knowing others’ norms in order to understand what they want to say, as opposed to what one hears them say. The insight that for most people, patterns of language use are determined by their “first” language, no matter their skills

in others, has been helpful to many people trying to make sense of a cross-cultural communication situation. Worth noting is also the difference between speaking the local language and understanding the local culture; our Chinese interviewees quite commonly assumed that foreigners who do not know their language do not understand Chinese culture.

A second important issue is the implications of language skills for staffing decisions. Here, it may be helpful to differentiate between language skills as a minimum requirement and as a resource. The former refers to the minimum level of language skills that should be demanded of all new employees above a certain hierarchical level, the second is intimately linked to the firm's current or future strategic needs. Both can – and perhaps should – be defined based on the firm's strategy, and appropriately tested in recruitment situations. Many employers are not aware of how to properly assess language skills in recruitment situations (Koho, 2007), or how to plan and evaluate language training investments (Örså, 2008). One risk is mixing up facility with English and professional competence. This point has also been raised elsewhere – for example in the following quote by former chief executive officer of ABB, Percy Barnevik:

“There is a great potential for misunderstandings, for misjudging people, for mistaking facility with English for intelligence or knowledge.” (Taylor, 1991)

In situations where recruitment of employees with appropriate language skills is difficult due to competitive job markets, or employees with important professional competence lack the language skills they need in their jobs, firms may consider providing their employees with language training. However, it must be recognized that this is a long-term project rather than a quick solution. Learning a language ‘on the job’ places very high demands on employees’ time and motivation. There is also some evidence from the Finnish context that language training which is planned according to employees’ wishes may not be optimal from the employer’s viewpoint (Örså, 2008). Specifically, employees often prefer language training to take place according to the ‘once-a-week’ principle because this is easier to fit into one’s schedule, however pedagogical experience suggests that intensive courses over a limited period of time are more effective. While e-learning solutions may come some way toward solving these problems, we warn against an approach where ‘the most competent person’ is chosen for a cross-border job and linguistic and communicative competence is not taken into account because it is assumed that the person ‘will quickly pick up the language’.

To the extent that a firm is able to forecast its strategic needs, it may make sense to recruit for language skills in its home country ‘in advance’, before they actually are needed abroad. Thus a Finnish firm might do well to assemble a pool of people with skills in a particular language – Russian, for example – already before entering the Russian market or expanding operations there. The prospect of participating in the expansion into a new market might also promote employees’ retention and engagement.

Finally, it is important to look at the language and communication aspects of training and recruitment not only as a subsidiary issue, but also as a challenge for the parent company. In our study, the language competence and the approach to language both at the parent company and among subsidiary representatives emerged as highly relevant. Most Western MNCs use English as their corporate language, be it formal or informal.

However, research shows that during daily interaction a lot of switching into other languages takes place, which may be perceived as very exclusionary and negative by those who cannot speak that language. For most MNCs with their roots in Finland, the case will be that most top managers speak Finnish and almost no subsidiary employees do. Language etiquette and empathy for individuals' challenges in relation to language use becomes imperative.

Language policies, language training and the fine-tuning of recruitment practices to take language into account are, however, long-term solutions which do little to help a manager grappling with an acute communication problem. In such situations, it may make sense to look for single individuals with the necessary linguistic and cultural competence to act as boundary spanners. In many Chinese and Russian subsidiaries of Western firms, all communication from the parent company to the shop floor employees and clerical staff is relayed through local managers. It of course makes sense to stay very aware of the power that boundary spanners can potentially accumulate in their role as conduits. In one of our case companies, the managing director of the Russian subsidiary was a Russian who was fluent in Finnish. This was indicated to have contributed very importantly to the quality of that interunit relationship and the level of contact between subsidiary and parent. On the other hand, this accentuated the power of the subsidiary managing director, because his language skills increased his visibility to his Finnish colleagues and their perception of his importance for the interunit relationship, and lowered their threshold to communicate with him – perhaps also in matters where they would otherwise have turned to one of his colleagues.

Finally, there are situations where language barriers can also be used tactically. One of our respondents noted that occasionally, it may even be beneficial for a foreigner in China not to know Chinese. That would enable them to more bluntly insist on certain things and values from their European perspective. On a similar note, our own previous research has yielded the example of a Western managing director of a Chinese subsidiary who used his lack of skills in the local language strategically to avoid direct negotiations with local officials, instead delegating the matter to his Chinese deputy. The executive was thus able to avoid involving himself directly in a situation which was known to involve the giving of bribes. However, on the whole the advantages of language fluency clearly outweigh the positive effects of a lack of language skills.

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## 7 TRUST BUILDING

### 7.1. Executive summary

Trust is essential in international business environment. Building trust between individuals in various parts of an MNC is one of the primary objectives and success factors of management. Based on our study we suggest some means to promote trust building in an MNC.

- Pay attention to trust issues and recognize trust as one of the main tasks to focus on
- Do not stress national cultures and related national differences, but rather focus on building a shared corporate culture that would eventually provide all organizational members with a strong sense of organizational belonging instead of a national one
- Establish practices and programs promoting international rotation of people between different parts of an organization at all organizational levels and incentivize employees' networking
- Organize joint events that would bring people together in more informal situations thus allowing them spending time together getting to know each other better
- Show commitment to the process of trust building and stress its importance by means of various communication media within an organization
- Start to build trust between different organizational units from facilitating trust building between individuals first

### 7.2. Introduction

Trust has been described as an essential element of social and economic life that facilitates cooperation, lowers agency and transaction costs, and acts as a basis for interaction between people (Mayer et al., 1995; Smith et al., 1995; Jones, 1995). Therefore, the creation of trust within and between firms is often seen as an important success factor for companies (Glover, 1994; Dirks and Ferrin, 2001). Trust can be defined as a willingness to be vulnerable to the actions of the other party, including aspects such as trustworthiness (e.g. the other party will not take advantage of you even if an opportunity arises) and reliability (e.g., the other party will deliver what has been promised) (Mayer et al., 1995).

Despite the fact that there is a large body of research on trust, our knowledge of its nature is still limited and contradictory (Vuorenmaa, 2006). For example, the question

how trust develops has been debated in the literature. While some researchers have argued that trust develops gradually over time (Blau, 1964; Rempel et al., 1985), others have argued that there may be very high initial trust without any interpersonal contacts (McKnight et al., 1998). Also, it was suggested that the process of building trust may be shortened if so-called boundary-spanning individuals, who participate actively in exchange relationships, have regular personal contacts (Bradach and Eccles, 1989), or unilateral investments (Barney and Hansen, 1994) or pre-commitments are made (Sako, 1998) are made.

Gradual and initial perspectives on trust development can be seen as complementing each other. Irrespective whether there is initial high trust between the partners, trust needs to be continuously nurtured and developed further. The development can be achieved through increasing familiarity, face-to-face contacts, shared experiences, fulfilled promises and demonstrations of non-exploitation on behalf of both parties. All of these require time and investment. The benefits of trust are, however, significant: it is essential for the development of enduring partnerships and collaborations as it facilitates cooperative problem solving, task coordination and knowledge sharing (Das and Teng, 1998, 2001). Building trust is particularly challenging in cross-border situations, as both geographical distance and cultural differences influence it. Cultural norms and expectations are often very different in different countries, and geographical distance does not allow for frequent face-to-face contact between the parties.

The facts that trust is an important issue and that there is a delicate balance between trust and control in relationships between headquarters and the Chinese/Russian units, are well illustrated in the following quotes:

*A Russian voice:* "Sometimes you feel that Finns are so suspicious about us. Why do they try to help us behind our back, why do they not say things to us directly, why do we so often get the information indirectly from other people. Do they trust us or not? If not then why are we sitting here, then we should not work here. We are top managers and they should trust us, if not what the hell are we doing here?"

*A Chinese voice:* "I think people enjoy the freedom to make decisions themselves and of course there are situations where mistakes are done or happen, but we just need to try to solve these together with them.... So I am a believer of delegation and empowerment to have things done better. Nobody is a superman, you know, and nobody can do everything in a right way and particularly in expertise areas you just have to trust people; they are the best persons to make right choices and decisions."

In all our case companies trust was recognized as an important element at both interpersonal and group levels. At the same time, it was acknowledged that building trust is not an easy task requiring a lot of commitment and patience. Trust building is a long and complicated process that needs to be planned in advance with full attention of top management in both units/firms. Below we listed organizational activities that in our case companies were seen as helpful in establishing more trustful relationships between partners, although these obviously cannot be seen as recipes that guarantee trust. We have differentiated between activities (a) which can be used to foster a stronger identification with or a stronger sense of belonging to an organization, and (b) which might help to increase mutual understanding between people in different organizational units. We suggest that both types of these activities will facilitate the trust building in an organization.

### **7.3. Facilitating trust building through a stronger identification with an organization**

#### ***7.3.1. Stressing the importance of shared corporate culture over national cultures***

An emphasis on a shared corporate culture instead of national cultures, together with programs aimed at bringing people from different nationalities together might be useful means for trust building at the group level.

*A Russian voice:* “The most important thing, both in management and in communication in general, is not to stress the Russian culture or the Finnish culture too much but to stress the company culture. That allows us to smooth [cultural] differences and it facilitates trust building.”

#### ***7.3.2. Employee networking and exchange initiatives***

Trust between different units of an organization can be fostered through the various employee exchange activities. Being exposed for a while to the entirely different environment and due to the increased interaction with their colleagues, the employee might better understand the culture and the social norms of their foreign counterparts (Mayer et al., 1995).

*A Russian voice:* “Trust building requires not only skills but also specific actions, for example, mutual participation in different corporate events.”

*A Finnish voice:* “One thing that has been very successful and that people have been very happy with is that on a yearly basis we have 10-20 people from the factory floor coming over to Finland, and some Finns going over to Russia, to really work side by side and see what their colleagues are doing. That’s a very good way [of building trust]”

#### ***7.3.3. Spending informal time together***

Trust in the working environment can be facilitated through joint activities outside of the working setting. By spending time together people learn to know each other and acquire shared experiences, “breaking the ice” between people helps to establish mutual respect and understanding (Mayer et al., 1995). Various joint corporate events and simply going out together are good opportunities for spending informal time together. According to the literature, face-to-face encounters are irreplaceable for both building trust and repairing it (Nohria and Eccles, 1992).

*A Chinese voice:* “To spend time together is very important! I think people in Unit X have done their best every time we have been there for dinner. It’s about spending time together, outside the office. It takes time. It’s not something you can buy. You need to earn it.”

*A Finnish voice:* “This idea to spend time together was pretty much an idea that came from somewhere in the Baltic states or Russia, Finns are not into these kinds of things, doing things together on your own time.”



*A Russian voice:* “The company has a resort in Lapland, which is used quite a lot. It’s a place where also employees from the Russian unit spend time with their Finnish colleagues. And what is really very important is that it is not only the top management that goes there, but also middle management. I think that this is not something which is done just for fun. It is about getting to know each other better, to be able to talk with each other directly, to understand what our ways of thinking are. It is important that our Russian middle management is able to hear and understand what Finnish culture is like and why they sometimes spend more time on some issues than we do. And vice versa. This is something that is really appreciated by us here in Russia. A very warm approach from our Finnish colleagues.”

## **7.4. Facilitating trust building through a deeper understanding of the other culture**

### ***7.4.1. Co-location and working side-by-side to build trust***

Co-location and working together side-by-side promotes trust between different parts of the organization, as it brings the daily challenges of the other party into life in a very real way, and thus increases understanding. Co-location reinforces social similarity, shared values, and expectations (Latane et al., 1995; Jarvenpaa and Leidner, 1999).

*A Chinese voice:* “Close cooperation, coexistence is very important. We have to have the people working side by side...We are having meetings but we do not have anybody who is daily in close contact with the other organization.”

*A Finnish voice:* “We had a couple of workshops and a brainstorming meeting, and we want to have one now again in a couple of days where everyone in the Finnish management goes to Russia to get to know Russians and their culture better. We work in teams, and try to learn together. We also had a seminar in which we openly discussed inter-cultural problems. Furthermore, we decided that all Russian managers have to visit Finland and join the Finnish management meetings, department meetings and so on... so that there is an exchange of information and understanding on both sides.”

### ***7.4.2. Committing yourself***

Interpersonal level trust building requires long-term commitment, and this is especially so when people come from different cultural backgrounds. Yet, it is worth the time and investment, as a lack of trust creates uncertainties and promotes conflict. These often take much more time to resolve than what an initial investment in trust building would have taken, and can be irreparable.

*A Russian voice:* “Of course Finns must make some choices. If you trust us then let us make some business as we see it. If you do not trust us - in that case create some additional control. But I think in that case it would be better to change our management team.”

*A Finnish voice:* “In Russia they appreciate continuity, that you have the same people working so they learn to trust you. They know how you react, and that is an advantage. If you change people all the time, it doesn’t really work. If you look at the very long career that Widomski had at Nokia, I think Nokia was very wise there. They utilized him as a face of Nokia in Russia. He was there for years. If you just rotate people all the time, they don’t know who you are really.”

*A Finnish voice:* “I feel within our company that one of the positive topics is that we have people here who have been working for the company many, many years. So it’s not job hopping

every one or two years. So that's building the trust, both within that particular organization, or towards the product division or staff functions in Europe."

#### ***7.4.3. Starting at the interpersonal level***

Building trust on the interpersonal level may be a particularly effective method of building unit-level trust.

*A Finnish voice:* "I think the biggest challenge, particularly with Russia is that there is quite a lot of mistrust between Finns and Russians - well not Finns and Russians, but rather Finns towards Russians.... There are a lot of prejudices. I think the biggest challenge is to break down that mistrust. What we are trying to do is to spend more time together as individuals. Breaking down the mistrust towards the nation Russia or to Putin's regime is difficult. But breaking it down at the individual level is easier: 'Yes, we trust her or we trust them even if we do not trust the big picture.' That is the route we are trying to take now in order to get people to work together, to build up the foundation at the interpersonal level, and then I think that will gradually break down the prejudices."

*A Chinese voice:* "The visits of the decision-makers to China are very important, not only important for those decision-makers [from Europe], but also giving an example to sales office and other personnel in China that yes, these are the guys who are making decisions, they are interested about our markets. Then of course exchange of people within the organization from Europe to China and China to Europe and other places. That's kind of bridging the cultural differences and making it much easier."

#### ***7.4.4. Willingness to understand and show empathy***

Importantly, trust building requires not only the commitment from both partners but in particular a degree of open mindedness and willingness to understand.

*A Finnish voice:* "What is important are patience and a kind of tolerance, which would help people to take these things easier. We need to teach people to treat these situations in a calmer and more tolerant way. Trust can only be developed through specific actions and participation."

*A Russian voice:* "It is very important that we trust each other, that we know that we can rely on each other, work closely together and have very open relationships. This is also what keeps the motivation going."

#### ***7.4.5. Setting up confidentiality rules***

Finally, in any attempt to build trust, it may be helpful to define "the rules of the game" from the beginning. It provides both parties with the ability to adjust their expectations and decrease the level of uncertainty always inherent in cross-border and cross-cultural interactions. Hence, setting up clear confidentiality rules from the very beginning can be a good initial base on which to start building trust.

*A Finnish voice:* "In the beginning, we had a lot of problems with the team. The way I dealt with them was to sit down and discuss basic rules: The Chinese are not quite used to working in a confidential way. They tell suppliers everything. So we have to set up some rules for them: 'This is something you can not talk about with suppliers, this is something you first have to discuss with us, this is something you can tell suppliers and work on with them'. We had a one day workshop and put together basic guidelines how to deal with suppliers."

## 7.5. Discussion

Managing trust and overcoming distrust is often not easy. This process is influenced by various cognitive, linguistic and social complexities as well as by path dependent thinking in organizations. The international environment in which MNCs operate is inherently very complex and ambiguous crossing different national, cultural and social borders. In fact, these structural and cognitive 'weak points' along which conflicts usually emerge in international environments of MNCs might be denoted as 'faultlines'. Along this line, some scholars have conceptualized an MNC as a 'contested transnational social space', within which interests and rationalities of various nationally, culturally, and cognitively divergent organizational actors come into play (Morgan and Kristensen, 2006). In such circumstances, trust building is indeed a very difficult process.

Despite the differences existing between employee groups as well as various cultural stereotypes that can impede the process of trust building; still trust is a crucial success factor in an international business environment as it facilitates the knowledge accumulation and knowledge sharing (Dirks and Ferrin, 2001). Indeed, commitment to a relationship and to the building of trust is important if these barriers to be overcome. In this section we discussed different ways of building interpersonal and inter-unit trust in the organization. Such activities include working side by side for some period of time, participating in joined corporate events, and meeting outside of the working setting. Indeed, communication between people at various meetings and seminars might be used as an opportunity to articulate diverse beliefs and opinions across the organization (see Zollo and Winter, 2002). Such initiatives might result in tendencies towards developing a mutual understanding and subsequently trust. However, equally – if not more – important is a genuine willingness to see things from the perspective of others.

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## 8 TALENT MANAGEMENT

### 8.1. Executive summary

Talent management refers to how companies attract and select, develop, manage the performance of, compensate, and retain core employees in a strategic and integrated manner. Foreign firms face significant talent management challenges in China and Russia where they not have to deal with scarcity of local middle managers with relevant experience and capabilities but also with fierce competition from foreign and domestic firms. Ways to successfully meet these challenges include:

- Build on international ‘best’ practices but also adapt them to fit with local conditions, meaning that practices often are hybrids of local and global practices
- Engage subsidiary managers in the development of the talent management practices, thereby achieving a higher degree of user internalization
- Small, locally unknown Finnish firms need to overcome the difficulties of attracting competent local talent by using personal networks, selectively recruiting from foreign firms, and developing relationships with local universities and vocational schools
- Two-way communication and open discussions within performance management systems may be difficult to achieve in Russia and China, but the rewards can be significant
- The provision of management development opportunities is important in order to shatter glass ceiling and enhance retention of talent

### 8.2. Introduction

The consulting firm McKinsey & Company published their famous ‘War for Talent’ study in the late 1990s (Chambers et al., 1998). The study argued that the demand for top performing personnel will continue to increase in the future as a result of changing demographics and because top performing individuals are likely to be even more important for company competitiveness. Now, ten years later, talent management is a key issue for MNCs worldwide. The term ‘talent’ refers to a select group of core employees rather than the entire workforce, persons with valuable and rare capabilities that are vital for the company in question (Lepak and Snell, 1999; Kang, Morris and Snell, 2007). Talent ‘management’ in turn refers to how companies attract and select, develop, manage the performance of, compensate and reward, and retain core employees in a strategic and integrated manner (Stahl et al., 2007; Evans, Pucik, and Björkman, 2009).

MNCs have become increasingly aware that talent management is not only a concern in Western countries and a pastime of the corporation headquarters. In a ‘flat’ world

(Friedman, 2005), talent can be located in different locations and contribute to MNC operations even without these persons necessarily relocating to the center of the firm's international activities. Talent scarcity and talent mobility are key challenges not only for Human Resources (HR) managers but also for line and top management, and this is particularly true concerning China and Russia. In China, a survey of Chief Executive Officers (CEOs) from foreign companies revealed that three of their five biggest concerns were related to talent management: shortage of qualified staff, staff turnover, and wage inflation (the Economist, 2007). The background for the current focus on talent management is fierce competition from both MNCs and domestic firms and a lack of local middle managers with relevant experience and capabilities. All this increasingly also applies to Russia. Although the focus in most MNCs still is on management of talent for their local operations in Russia and China, these countries should also be viewed as potential talent pools for the global operations of these corporations.

A recurring question for MNCs is the extent to which they should attempt to introduce their home country or global human resource management practices in their Russian and Chinese units. There are good arguments for both introducing international practices and adapting them to fit with local institutional and cultural conditions, often inducing companies to develop hybrid practices.

We will begin this chapter by discussing recruitment, followed by performance management and compensation, employee development, and retention.

### **8.3. Acquiring talent**

Companies can use a variety of channels to acquire talent, including referrals by existing employees, head-hunting from other foreign corporations, and on-campus recruitment fairs and summer internships for university students.

#### ***8.3.1. Using networks for recruitment***

The use of referrals is common in all countries and research conducted in Western countries has shown that, on average, referrals tend to lead to superior employee performance (Lengnick-Hall and Lengnick-Hall, 2003). The person suggesting a relative, friend, or acquaintance is likely to already have done an analysis of whether or not this person has the necessary competencies and whether not the individual will fit it socially. The newcomer typically will also receive more help when joining the firm.

There are some indications that referrals may be even more important in Russia and China than in most Western countries. In China, where people tend to be status oriented when deciding on which company to approach with a job application, personal contacts have been found to help overcome the hesitance associated with working for a small, unknown Finnish company. Although employees sometimes may propose family members, friends and associates that do not have the sufficient skills and competencies, such cases seemed rare.

*A Chinese voice:* “We are very much using contacts, personal network. So we got many people from my networking, my employee’s networking, other people in the company, foreigners’ networking”

### ***8.3.2. Recruiting local top management with work experience from MNCs***

Although our interviewees mostly saw the high turnover rates in the labor markets in Russia and China as a problem (more about this later), the existence of a pool of managers who already had experience from other MNCs may also be seen as an opportunity for Finnish firms. Persons recruited from other foreign firms bring with them experiences, knowledge, and social networks that may be exploited by the new employer.

*A Russian voice:* “The main criterion for recruiting the management team was your background, for example what kind of company you worked for before. I mean in our management team, all of them were selected from companies operating globally which use very progressive management technologies. When you attract people from large western multinationals, which already have several years of experience in the country, are market leaders in their field and thus also tend to have very good processes, practices and organizational structures, it means that the managers who grew up in those companies, they also have a systematic approach in their work. They know how to organize the business processes, and implement them.”

### ***8.3.3. Cooperation with local universities***

A common strategy in many parts of the world is to develop close ties with leading universities. Some companies develop long-term partnerships with universities to try to get an edge over other potential employers. For instance, at GE (China) each member of the top management group was responsible for developing close contacts with target universities (Fernandez and Underwood, 2006)

Several references were made during our interviews to how the companies used internships as a recruitment and selection tool. Programs targeted to students majoring in a relevant subject made the company known among potential job applicants and provided a way to assess the capabilities of the students when they worked for the company. In China there is a clear hierarchy among the country’s vast number of universities, and students at the leading universities have often secured jobs well ahead of the time that they graduate; therefore, internships are viewed as a good way to build early relationships with promising students. To offer scholarships to students who work on thesis projects related to the company’s operations was another strategy to tie students to the company.

*A Chinese voice:* “We try in a way to copy the Finnish system. In Finland, we take a student to work for us during summers, doing summer jobs and when they have worked with us two or three summers, we get to know them. Then we can perhaps offer jobs for the best of those. It’s much easier than to hire from the open market. And we are trying to implement the same type of setup in this emerging market. We started to build, two years ago, a similar kind of cooperation with local universities which are the most interesting for our industry. And we have already started to extend the engagement of a few of the individuals engaged in this way. We are sending the best of those, that we first have learnt to know in our local operation, to our European units for additional summer jobs and then maybe the best of those we can hire. So we are having this multi-layer filter system.”



*A Chinese voice:* “Besides the internships we provide scholarships for the forest university students. In 2005, we also provided thesis work assignments in our production unit for two months.”

### **8.3.4. Overstaffing as investment**

Many firms are still expanding their operations in Russia and China. Rather than recruiting the number of new employees that currently are needed, some MNCs have decided to hire ‘ahead of the curve.’ Some of these MNCs use overstaffing of their current units as a conscious strategy to develop competencies needed when subsequently expanding further in the country. Overstaffing also serves as a buffer against attrition.

Although generally viewed as a sound investment, there have been instances where local employees have been reluctant to relocate to new corporate units situated somewhere else within the country. Therefore, corporate resourcing plans to, for instance, move individuals from Shanghai to another part of the country may not be possible to implement. Further, the internal rivalry and differences that exist within huge countries like China and Russia may lead to managers from another part of the country to be less efficient than those who are locally recruited. In China, the adjustment and performance problems of managers from Hong Kong and Taiwan have been documented in academic studies (Selmer, 2001).

*A Chinese voice:* “We try to use our existing operation as a root to multiply the competence and hire new people. The existing people will train further the next ones, and this hopefully we can use in the next projects going further. So this is one way. I have called our existing operation our “University in China”. So train good engineers, good accountants, people with good project management skills, whatever needed.”

“Charles Browne explains a parallel strategy that has been used at Du Pont in China when the company has faced severe workforce shortage that has impacted on their growth plans in China. ‘For skilled positions, new hires need six months of training before becoming truly productive – a time lag that “restricts growth”’. His solution, initiated in 2000, is to hire and train more people that are immediately needed, as a reserve. ‘We go out and select people, and put them into jobs a little bit before we run into a crisis and *have* to have them”’ (Fernandez and Underwood, 2006: 47 ).

*A Chinese voice:* “It is a general understanding at the moment in the company management that there is a lack of competent people, a problem which has to be solved but we do not know exactly how to do it. There are some thoughts about it, for example to employ some extra people here that definitely are not needed at the moment, to get them on board. They would work with us for let’s say one year and after that they would be prepared to go somewhere where they are needed. This is at least the idea at the moment.”

## **8.4. Performance management and compensation**

Performance management is defined as a process that links the business objectives and strategies of the firm to individual goals and actions through periodic evaluation and rewards. It includes three successive phases: setting objectives, evaluating and reviewing performance, and linking rewards and development outcomes to the results of the evaluation. An integrative element in performance management is also the feedback

and discussions that superiors and their subordinates engage in during the process of setting goals and following up how well the goals have been achieved.

Many large western MNCs have or are in the process of developing global performance systems that also are introduced in emergent markets. These systems typically contain a process of, among others, systematically and regularly establishing the employee's performance goals in line with those of the organisation, following up individual, team, unit and corporate competencies and performance, giving feedback on behaviour and results, providing rewards based on performance, agreeing on and facilitating development, and offering promotion and career development advice and opportunities. Previous research carried out in China already in the late 1990s suggested that among all human resource management practices, performance management is the most globally standardized (Björkman and Lu, 1999).

In smaller MNCs, performance management systems are often less standardized and more dependent on the interests and experience of the managers in charge of local operations. Local managers with experience from other MNCs can be in a good position to develop performance management systems that fit their own cultural and institutional context. On the other hand, if local managers do not have earlier experience of performance management in western firms, programs for increasing their understanding and ability to manage the performance of their subordinates may be particularly important for running of a successful system.

#### ***8.4.1. Setting objectives***

The interviews that we conducted for this study indicate that there both in Russia and in China is a tendency for the objective setting process to be dominated by the superior. Superiors often suggest appropriate objectives for the next period, and subordinates are then charged with achieving these. Similar findings have been reported previously in China (Björkman and Lu, 1999) and in Russia (May, Puffer and MCarthy, 2005; Björkman and Lu, 1999). This reflects common organizational practices in these countries and the hierarchical cultural values that permeate the Russian (see e.g. Elenkov, 1997) and Chinese societies (House et al., 2004).

#### ***8.4.2. Appraising performance and providing feedback***

The introduction of systems where superiors and subordinates have to discuss issues related to individual performance but also more general work-related issues is often associated with challenges in hierarchical societies like Russia and China, as indicated in some of the comments made by our interviewees. However, several managers also told stories about successful implementation when initial challenges had been overcome. Further, a study of 101 foreign owned companies in Russia concluded that feedback was indeed positively associated with firm performance (Fey and Björkman, 2001).

*A Russian voice:* "This is (probably) one of the first Russian companies where the manager is asking feedback from his subordinates. Normally people are afraid of this, and they do not want even to ask for it. But here it's obligatory, so you have to ask your employee at the end of the

discussion, how can you describe our relationship with you, what are the things I have to pay attention to, maybe some things I have to change, also. I should say that it's a tricky thing because in Russia people are not open at this very moment. It's a cultural thing. It's cultural because everybody thinks that if I say something negative, so after that... yes. But we are, all of us, we are insisting that people be sincere, and we are trying to create that kind of atmosphere during our discussion that people would like to be sincere. You know, actually most of us used to work in a multinational company, so we all know this system and actually support this system a lot.

*A Russian voice:* (Another company): Personally, I didn't find it difficult, that people talk to me openly, and I tried to squeeze from them all their critical comments towards me. And gradually, they started to say something very, very politely. And you can really feel that, yes, this is something that I am not doing nicely. Of course, I need that kind of feedback. This process was something we tried to introduce ourselves. I was the one to try it. Our local general director approved it and said that, 'OK, I am not going to participate in it, but you can do it. Let's see how it will work. It does not matter what will be the end result but it will be a good experience. At least we will know that we have tried'. I think they were a little bit surprised on the Finnish side.

#### **8.4.3. Frequent performance reviews and feedback discussions**

The importance of frequent performance reviews is particularly salient in the fast moving Russian and Chinese business environments characterized by unpredictable changes in government policies and shifts in the competitive landscape. In particular if bonuses are linked with goal achievement, it is highly pertinent to have fairly short (no more than 6 month) periods for which goals are established and followed up.

*A Russian voice:* "We not only have that kind of performance and development discussion once a year, but also in July, normally, we have this intermediate discussion, when we try to have a look at all the objectives that were set six months ago. And we check together, maybe some things have already been done, some have been cancelled for example. And some of them may no longer be so important, so we may have to change the weight of the objectives."

The practice of organizing several performance evaluation and feedback sessions per year is also consistent with the literature on performance management where the importance of continuous feedback is stressed.

*A Russian voice:* "And this is a very good chance to give feedback and a preliminary evaluation of the performance of a person for the first six months. In my department people really appreciated it, because when you are in a hurry all the time, so there is not much time for that kind of [informal] discussions and talks. So people needed another discussion to think about their performance, try to see what the results are for the first six months, and it's also very good for them to think if there are some weak points in my performance, and what I should do if I would like to get a good mark for example, good feedback at the end of year. And it was also very good when we discussed not only the objectives and the results, but we also touched upon their development plans. What has been done, what not, can it still be made?"

*A Russian voice:* "Officially I must have a performance dialogue once a year, but we have it once a quarter with my subordinates due to the fact that we have this bonus based on quarterly results. And I said, if we have this discussion anyway, let's evaluate your development at the same time. So quarterly, in principle, we have a really short discussion, maybe 30 minutes, maybe 40 minutes where we discuss the best cases and the worst cases of the period. And it helps a lot."

#### ***8.4.4. Communicating company performance and feedback from employees***

While communication to employees traditionally has been limited and restricted to a flow from the top of the organization to the bottom in both China (Child, 1994) and Russia (May, Puffer, and McCarthy, 2005), our interviewees agreed that extensive communication and possibilities for two-way communication was conducive for company operations. These communication practices may further be used as a way for the companies to differentiate themselves in a positive way from their competitors.

*A Russian voice:* “Very important, we try to summarize the results on the company level, and we have general meetings for the employees after each quarter, there is information from general manager saying that, for example, the results of the first quarter are these. Each function manager also informs the people about the results of the company and what the impact of this is, or that function’s role in this common result.

*A Russian voice:* “We established periodical meetings with all the employees. Top managers and line managers are participating in these meetings. The top managers report to the employees what was done well, what was done not so good and what our plans are. People may say that it is useless and just a waste of time because people are much more interested in things like football and so on. “Why do you keep them there in the meeting after their working shift?” they may ask. But really, I don’t share this opinion at all. For sure, in the beginning it was a surprise that top management came in front of them and reported to them. The employees can even raise their own questions at any time and whatever they want, actually without any consequences for them. So this is two way communication and evaluation - from top to down, but also from down to the top. They can also evaluate how top management presents the results and the plans for the future. This is very important and you can actually feel what they like and what they don’t like. This is also a kind of performance management, I think. And after these meetings, after they see that you are open with them, and you are actually asking them whether there are any questions, you are trying to involve them as much as possible, after those meetings, the individual performance management process also works much better. It’s something that then comes more naturally.”

#### ***8.4.5. Pay for performance***

Some Finnish firms have introduced pay for performance systems in their Russian operations that are both more explicit and more aggressive than in their domestic operations. The importance of transparency in performance criteria and measurement was stressed in both Russia and China. Only by linking incentives to transparent and well defined measures of performance that employees understand and feel that they can achieve through their own actions can Finnish companies ascertain that the system will have the intended impact on employee behavior and results. These principles also help ascertain that employees feel that they are treated fairly.

*A Russian voice:* “I think that the key difference to the system in our Finnish parent organization is that there is a clear evaluation of performance. What we added to the Finnish system, is this system of measurement, not only to give to the subordinate a feedback in words, but to have the chance to get his or her job evaluated by getting some kind of explicit marks. For example, we have graded A, B, C, and D. In order to increase the fairness of the ratings every mark must have a description of the required performance. For example, you meet the requirement to this position, so it means that you have the mark C, for example. But if you not only meet but exceed, so it means that your work is rated a little more highly. So you see that we have that kind of things, and they are connected to the salary increase after the period.”

*A Russian voice:* “There is a so called general bonus for factory level employees. It is 40% on top of the base pay. If the production works well without any general breakdowns, then it means that this 40% is available for distribution. The individual general bonus then depends on a few factors. Basically you should not have any administrative comments, e.g. you are not reported late to work and your discipline is very good. If I was late to work, then my bonus is not 40% but 20% or 10% or zero and my colleagues are still paid 40%. On top of this bonus we introduced last year a team bonus which is 15%. This is based on very specific production indicators, key performance indicators, for example level of waste, productivity, number of reclamations from our customers. Everything is very transparent and clear. It is graded from 0 to 15%.”

## 8.5. Talent development

Although it in principle is possible to have a strategy of (only) acquiring talent from the labor market, in reality this is an untenable alternative. Even if the firm would overcome the shortage of experienced and well trained managers and professionals, there is always a need to acquire industry- and firm-specific knowledge and skills (Lepak and Snell, 1999). Therefore, virtually all MNCs have to make significant investments in formal and on-the-job training programs to try to make sure that their employees have the competences required to successfully implement their strategy.

### 8.5.1. Competence maps

The development of competence maps are used by some MNCs as a way to develop a common language and tool set to guide competence development planning. The competence maps tend to be standardized across MNC units, and can be used as a tool to analyze the competence needs at the local as well as the global level of operations. Thereby, when announcing open positions within the company, employees know the competencies required for the job in question – regardless of whether this is in the Russian, Chinese, or Finnish part of the corporation.

*A Chinese voice:* “We are in the process of producing position competence cards. We don’t first look at the person, we look at the position because whoever takes it shall have this kind of competence. Then we look at a person’s individual competence analysis, which is relevant for developing his training plan and performance and also then the compensation. So we have the position’s competence rating and the person’s competence rating and gaps. This will be done annually together with the individual performance interview.”

*A Russian voice:* “We sat together with the management team and decided that these are the general skills that we want to focus on. Of course it can be like 100 of them, but we just said 15, and that’s all. And then there are of course technical/functional skills which differ across functions, so these are different for different persons.”

*A Russian voice:* “So we also integrated skill assessment with this performance management process. In the review we discuss what your performance for the last period was, we discuss what targets you will have next year, and what you would like to develop during the next year. But before doing this development plan, we decided that we will make some kind of inventory of the skills that the person will need in order to meet those objectives. In order to see what is the level of the skills and the development needed at this very moment. To what level should the skills be developed if you are to be effective next year, and what are the things that are crucial for this? And based on this you prepare an individual development plan with your subordinate.”

*A Russian voice:* “And then based on these evaluations, when we have established that these are the results, these are the skills which have been demonstrated and these were the targets, certain development needs are identified. Then the next and the last phase is the individual development plan. And this is again something which is documented once a year during the same session. We identify specific development training needs with a plan when they should be fulfilled. And then based on these individual development plans our HR builds a company-wide development plan, a training schedule, for the whole year.”

### ***8.5.2. Developing training and development programs***

The following quote below describes the experience of building a training and development program for the start-up phase of the company’s operations in Russia while the subsequent quote stresses the importance of viewing training as a process rather than as a one-time project. It should be noted that other managers were rather skeptical towards the idea of ‘exporting’ whole sale western training programs to Russia and China, pointing among others to the importance of adapting the way in which teaching sessions are conducted in societies with different cultural norms concerning communication and interpersonal relations (see also the sections on transfer of best practices and intercultural sensitivity).

*A Russian voice:* “There are quite many interesting things that we managed to organize in close cooperation with headquarters. For example, before working here nobody had any experience in our industry. Of course it was big challenge for everyone, especially for people in production. There was new technology, new equipment etc. So we began a great induction program where many workers and supervisors visited our factory in Finland, worked side by side with workers there according to a carefully planned program. In addition, we implemented a great educational program here in Russia in collaboration with a Finnish school for adult education which the company has been collaborating with in Finland. They designed the program which was called the basics of [our product] manufacturing which consisted of nine modules, each dedicated to a specific subject. For example, the first one was about the company itself, its history, strategic thinking in order for everybody to understand the company, the production process, the raw materials and things like customers and products. So this is the basic knowledge that everyone should have here. During two years all our employees had the possibility to participate in this training. After that all of them should pass a theoretical and practical exam and after that they could get a certificate which gave them the possibility to continue their education within EU. I should say that it was a rather unique opportunity for everyone here and it was very important.”

*A Russian voice:* “From time to time the company organizes a course called ‘The [company] way’. There are three modules and they cover different subjects such as strategy and human resource management. It is very important definitely. But then the company seems to think that that’s it, and now we should be prepared. I passed this course during my first year with the company. In terms of education it was a very good course with very good trainers who came from different institutions in different countries, but education is something that has to be an ongoing process.”

### ***8.5.3. Training programs and employee retention***

Working to prevent the loss of well-performing staff is a significant part of a manager’s job in both China and Russia where employee turnover rates for hot talent groups can be 20-30 percent. In addition to creating a positive working atmosphere characterized by interpersonal trust, an important element of such efforts is the provision of training,

development and career opportunities. For instance Microsoft China places considerable emphasis on training as a means to hire and keep personnel (Fernandez and Underwood, 2006). The hunger for learning, development and advancement is strong in both Russia and China. Providing opportunities to participate in training programs is however not without risks as there are numerous examples of employees who realize that their market value has increased as a result of the training programs that they have completed.

*A Chinese voice:* “Besides an emphasis on internal recruitment in our local operation, to provide career opportunities, we also have a multi skill training program. We started in one department. In the production line we have many different operation jobs. The head of the department arranges the multi skill training for individuals so they learn to operate different elements of the production process. All the lower level operators can learn higher level, more demanding machine operations. That’s also a way to motivate employees to improve their performance because in order to qualify for such a program the individuals have to show the potential and they also have to have the interest to take on the different jobs. Then if there are opportunities, they are ready to move up.”

Thus, investments in formal training programs are important in order to enhance employees’ beliefs in what they may gain from remaining in the organization. However, people do not always feel obliged to reciprocate the investments that have been made in them. Siemens China president and chief executive officer, Dr Ernst Behrens comments: “One of the biggest challenges in personnel education in China is to make employees understand and accept that Siemens expects to receive something in return for the often very expensive training that is provided. Many Chinese employees believe that a company such as Siemens is obligated to offer training opportunities for the personal benefit of the employee. ...Staff members sometimes return from a training course and immediately ask when they can expect to attend the next, more advanced training.” (Fernandez and Underwood, 2006: 50). The trick may be to convey a message of a particular being an integrated part of a more long-term development trajectory.

#### ***8.5.4. Development through job-related challenges***

Professional skills training in seminars and courses are good but definitely not enough. They have little meaning without challenging job opportunities where theory is put to practice. A comment often heard today is that formal training constitutes only 10 percent, personal feedback & coaching 20 percent, and on-the-job experience 70 percent of the learning taking place in corporations. Conversely, employees engaged in challenging jobs can greatly benefit from training programs and coaching that help them make sense of and deal with the work-related issues that they are facing. This requires both continuous development of operations and trust in the ability of local employees. Localization of the local management team needs to be an important part of talent management in Finnish MNCs. Trust, which was dealt with above, can thus be seen as an integral element, both a constitutive part and a goal of talent management.

*A Chinese voice:* “During a certain period we were not able to provide real jobs in new projects or promotions for people. Our efforts were put on training, job rotation. So, training means not only local training, people going to MBA, but also sending people to work in Europe to work half a year and so on, let people learn how our businesses are operated there, what are the best practices. So those activities not only focus on technicians, engineers but also on people in our

financial and HR department...so that was pretty welcomed by the people. But of course you cannot run it endlessly. After seeing the European operations, learning new things, people also want to do something. You cannot just keep on training people – you have to combine it with a focus on providing real responsibilities, (challenging) tasks to people who we identify to be well experienced, well trained, and mature enough to take such real responsibilities.”

To offer challenging jobs and career possibilities is particularly important in the major cities in Russia and China, where well performing employees have ample job opportunities and head hunters are increasingly active.

*A Russian voice:* “People have their own goals, maybe they cannot earn here the same that they could earn somewhere else, but they work here because they feel secure and they are treated well. If we hire someone we hire him for a long time and we show him the perspective of development. I think we still need more structure in this so that people could foresee what would happen to them in a year or two. So we need some career planning system, which is missing at the moment. It is important that people can feel that they can participate in some interesting and ambitious project. We have to have constant development of our personnel in terms of language studies, trainings, participation in various interesting projects.”

#### **8.5.5. International career opportunities**

Offering career opportunities also involve sending local people on learning assignments to western countries both in terms of shadowing and with real work roles. For example, BP has sent 25 Chinese management and technical specialists to positions outside of China, mainly in the United States and the United Kingdom (Fernandez and Underwood, 2006). However, the competence development objectives of the assignments need to be clear and the programs well planned with the group of participants in mind. For instance, Chinese employees may expect a more structured program during overseas visits than anticipated by their western hosts. Successful learning assignments also demand that the receiving trainers and co-workers have the understanding, the time and the motivation required to engage in coaching type behaviour. Cultural differences and differences in knowledge levels may aggravate such efforts. There are also many examples of MNCs experiencing that Chinese employees leave subsequent to overseas training and learning assignments unless these are built into well communicated and internalized career possibilities.

The challenge is to create both a local and an international management cadre which is capable of taking on challenging international (project work) assignments which, among other things, demand multicultural teamwork competencies.

*An international voice at headquarters:* “No matter who I talk to, from college recruits to early career talents and middle managers, they all want their career to play out. That is often the most attractive thing for talented people in these emerging markets. To deal with this we already have fairly strong in-house management training programs. However, being able to offer interesting career development opportunities is something where we will also have to show some results. Someone from China should be able to end up having an experience in London, or Stockholm or Helsinki, or the US, as part of their development.



### ***8.5.6. Talent reviews and pools***

Many large western MNCs have formalized a system of talent (or ‘management’) reviews where they assess the future development potential of their staff and continuously follow up their performance and progress. Efforts are also made by the corporation to try to ascertain that persons labeled as ‘high potentials’ get the kind of work-related experience that they need to develop. In the following we present examples of this type of talent management.

*An international voice at headquarters:* “We have a main list of the top 100 potentials, people who are able to take top 100 positions. Those people have been working for three to five years and have a very good track record. Then of course we have the female top 25 list. Also, this year we have produced a project management specialist list which means people who have project management abilities or special professional competencies and who are thus suitable for special assignments in China or Russia for example. Then we have a top 15 list with people mostly from senior level positions and some from the middle of the organization. These are people who have a really strong track record. With them we get much more aggressive in terms of working with them around development programs. Sending these persons to a seminar doesn’t really build their skills. What is important is to provide them with experience by rotating them to new assignments that may further their development, given of course that they can handle their other interests and family situation. We also have a program called GO, an international rotation program for talents who have a lot of potential and who need to see new environments to learn new things.”

*A Finnish voice:* “When you look at a spectrum of top talent, we expect them to first learn how to manage themselves, and then learn how to manage others and how to manage a small organization and then finally, assuming that they have the talent, to manage a business. But we still need a lot more structured approach to job rotation and international mobility as a means of developing individuals in terms of their total competence.”

*An international voice at headquarters:* “I am also involved in something called top potential interviews. That is another thing going on within the management audit process. Every year we select around 20-25 very talented people that we feel needs to be more visible outside their own division. So we invite them to interviews together with executive management board members. One executive meets 4 or 5 people that she or he has not been working with so much. I am also present in the interviews. That is a way to both make people more visible and network, and also for the member of the executive management board to be able to ask a lot of questions about the strategy, how these top people value and perceive the company.”

Obviously, appointing individuals as ‘talent’ may also back-fire. People who are told that they are among the ‘high potentials’ may develop inflated expectations that the company cannot meet, and solid performers who notice that they are not included on the lists of insiders may decide to leave the firm.

### ***8.5.7. Retention: the role of the superior***

As already mentioned, retention of existing employees is a significant challenge in labor markets characterized by high turnover rates. Employee development and retention are strongly interrelated as MNCs struggle to meet the increasing demands for development opportunities among both Chinese and Russian employees. Further, unless the firm offers a competitive compensation package, employees are likely to leave. However, especially in China there is a conviction that the personal relationship between the employee and his/her superior is crucial for whether or not the person leaves the

company. An employee who is dissatisfied with the superior is much more likely to accept job offers from other firms, and the departure of a manager may well lead to others subsequently leaving the firm. Although there are no simple solutions to this problem, an awareness of this pattern and proactive efforts at finding new opportunities for top performers known to enter into these kinds of situations might help alleviate these problems.

## 8.6. Discussion

Above we described a set of attempts to meet the challenges of recruiting, developing and retaining talent in the emerging markets of Russia and China. These different talent management practices need to be aligned with each other, with the intended organizational culture as well as with strategy. MNCs definitely need to extend best practices to China and Russia, and do this in combination with sensible adaptations with the help of persons with in depth local knowledge.

One central question facing MNCs today is to what extent talent management should be decentralized through the creation of “internal talent markets” as opposed to more centrally controlled and managed talent management activities focusing on specific pools of talent. This debate concerns the extent to which talent management should predominately be structured as a top-down, corporate system or rather be based mostly on initiatives made by individuals themselves carrying the responsibility for their own competence development, given an infrastructure in terms of an “internal talent market”. So far, only a relatively small number of western MNCs have systems that facilitate and encourage their Chinese and Russian employees to pursue truly global careers. Further, few western managers seem to think of their local employees as candidates for international jobs in their corporations. In the emerging markets there is probably a clear need for a structured hands-on approach to talent management since otherwise the ‘internal job market’ may too easily merge with the “external job market” with the loss of key talent as a consequence. While both of these approaches may be compatible and mutually re-enforcing, organizations still need to make important decisions concerning how they go about human resource management in emerging markets and integrate that with global talent management.

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## 9 CONCLUSION

Cross-border competence management involves problems and challenges that are not easy to manage or solve. Whether the focus is on knowledge sharing, best practices, intercultural sensitivity, language and communication, trust, or talent management, there are few 'success recipes' that would fit every situation. It is rather a question of dealing with dilemmas and paradoxes that come from simultaneous demands for global integration and local adaptation (Bartlett and Ghoshal, 1989; Evans et al., 2002). In increasing global competition, global integration is clearly needed to reap synergistic benefits and to develop competitive advantages. A laissez-faire approach is no longer a viable option anywhere, not either in emerging markets such as Russia and China. At the same time, companies still may make a mistake in over-emphasizing control and standardization at the expense of local entrepreneurship and creativity. Unfortunately, this is easily the case precisely in markets such as Russia and China that may in some ways still appear less developed from a Western perspective. This is the reason for us underscoring the local voices and the knowledge and capabilities that reside in the local units in this report. MNCs thrive on knowledge sharing and utilization of best practices (Kogut and Zander, 1993), but the challenge is to be able to lead these processes in ways that combine a sensible adaptation of practices and the development and involvement of local expertise.

In this context, it is important to emphasize that cross-border competence management is more than a new label for dealing with HR problems that arise in MNC contexts. Cross-border competence management should be seen as a real source of competitive advantage in MNCs facing increasing competition at global and local levels. The point is that it is precisely the ability to harness specific knowledge, skills, and capabilities residing in different locations and embodied in specific people that MNCs can develop their competitive advantage. The trick is to understand that this is a continuous process that should involve all units, encourage interaction and collaboration across borders, and inspire rather than burden people.

So what is the solution? Rather than looking for simple and universal ways of doing things, cross-border competence management often requires special solutions that fit with the particular circumstances and point in time. These organizational and managerial solutions are often complex due to the contradictory pressures facing these organizations. Thus, they often involve 'hybrid' practices, 'agile' management, 'dual' processes, and 'ambidextrous' organizations. The point is not to create special 'cross-border competence management practices' to complicate things, but to distinguish, highlight and work on the very real, complex problems and challenges that MNCs face in emerging markets. So one must learn to live with 'dualities and tensions' (Evans et al., 2002; forthcoming). And one must understand that cross-border competence management is usually not about either/or choices but both/and solutions.

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## APPENDIX: METHODOLOGY

This report is based on an in-depth analysis of four cases where Finland-based corporations have expanded and developed their operations in emerging markets in Russia and China: Fazer's expansion by acquisitions in Russia, Nokian Tyres's greenfield operation in Russia, Elcoteq's new operations in China, and StoraEnso's investments and development projects in China. These cases involve different industries and companies at different stages of engagement in the emerging markets. They thus provide rich material on the problems and challenges encountered and serve as a fruitful basis for cross-case analysis (Yin, 2005). The purpose of this report is not to describe these companies' unique experiences, but to use the cases for analytical generalizations (Tsoukas, 1989) regarding typical problems and challenges that Finland-based corporations face in and around competence management in these rapidly developing markets.

We gathered extensive material around these cases in 2006-2007. We collected a great deal of documentary data around the cases, conducted 145 interviews, and discussed research ideas and findings with company representatives in numerous formal and informal encounters. We gathered extensive documentary on these companies and their specific projects. This information includes all kinds of publicly available data, reports and plans, as well as more personal documents and notes provided our informants. This documentary material was important to be able to map out the timelines and details of actual projects and to understand their broader implications.

The core of the empirical material consists of the 145 interviews that we have carried out in four case companies. These interviews were crucial in terms of being able to follow up the actual projects that the companies were pursuing during this two-year period. In brief, we interviewed 33 people in the case of Fazer (12 at the Finnish headquarters and 21 in Russia), 31 persons in Nokian Tyres (15 in Finland and 16 in Russia), 37 people in Elcoteq (10 in Finland and 27 in China), and 44 in StoraEnso (10 representing the headquarters and 34 Chinese operations). Altogether, 73 of the interviewees held top managerial positions, and 72 had local managerial responsibilities. Most of the interviews were conducted in three rounds of interviews including specific questions. A key idea of these semi-structured interviews was to let the interviewees express their own experiences in their own words. We actually aimed at following a story-telling approach (Czarniawska, 2004) in most of the interviews. That is, to the extent it was possible, we were interested in the interviewees' own narratives of the key events and their interpretations of the key issues and questions. This allowed us to analyze not only the actual problems and challenges encountered, but to also compare the interpretations of the people representing different parts of the organizations. We conducted the interviews in Finnish, Swedish, Russian, Chinese, and English, depending on the mother tongue and language skills of the interviewer and interviewee. The quotes in this report are most often translations, and have been partly revised for the clarity of presentation. In the analysis and reporting of the interviews, we have emphasized the confidentiality of the interviews and protected the identity of the informants. For example, all the quotes in this report are anonymous.

We also had numerous opportunities to meet with company representatives in various locations in Finland, Russia, and China. This provided us with possibilities to observe



their actual operations in Russia and China, and to discuss various issues on one-to-one basis or in groups. In this research project, we also organized formal and informal workshops that provided opportunities to discuss research ideas and findings in more detail. These encounters proved to be particularly in terms of the validation of our results and conclusions.

For this report, we have focused on themes that have particular practical relevance for companies planning for or developing their operations in Russian or Chinese markets. In our analysis, we focused special attention on the people's genuine experiences. This is also shown in this report in the extensive use of quotes to describe problems and challenges in and around competence management. In particular, we have tried to 'give voice' to people working in the subsidiaries so that their experiences and views can be contrasted with the 'official stories' and HQs' views. This is crucial to be able to learn more about the complex social dynamics and actual problems and challenges in these emerging markets.

This analysis has also limitations that should be taken seriously. First, we are dealing with complex social, organizational, and managerial issues that can be looked at from multiple perspectives. Even though we have made efforts to interview most key decision-makers and gather extensive material in each case, our interpretations do not obviously tell the 'whole story'. Second, our analysis is certainly 'biased' by our own national and cultural backgrounds. However, the fact that our research team comprises people of Russian and Chinese origin should alleviate at least the most obvious 'Finnish' bias. Third, while our four cases provide a basis for analytical generalizations, it is not self-evident that the problems and challenges of other multinationals would be similar. In particular, corporations based in other countries or operating in different industries will certainly have to deal with specific issues that may not have come up with our cases.

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