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# **Is procuring qualified human capital from China a future for Sweden's wealth sustainability?**

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- Keywords:** China, Human Capital, Structure Capital, Knowledge
- Purpose:** To examine why and how to start a "bridge building enterprise" between qualified Chinese human capital and Swedish structure capital.
- Methodology:** The Methodology used to gather empirical materials for this thesis has been different type of interviews. The interviews have been mainly unstructured personal interviews directly with our respondents, due to limiting factors some of the interviews have been carried out by phone or email.
- Theoretical framework:** The theoretical framework consists of literature from well renowned authors and is divided into four different parts: Intellectual Capital, Knowledge Management, China & Intercultural understanding.
- Empirical foundation:** The empirical foundation has been gathered from a great variety of different sources in an attempt to cover the many complex angles in which this subject can be looked upon. Chinese students, managers in international companies with experience from China, Chinese employees in Swedish companies and different people with good knowledge of different areas of China are all among our respondents.
- Conclusion:** In our conclusion we have reached the three following conclusions for why one should start a "bridge building" enterprise in between qualified Chinese human capital and Swedish structure capital:
1. To fill future shortage of qualified human capital in Sweden.
  2. To improve communication between Swedish companies and the Chinese market.
  3. To develop qualified Chinese human capital with western standards.

**PREFACE**

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First of all we would like to direct a sincere Thank You to our tutor Leif Edvinsson. You have been a great source of inspiration and help through these last ten weeks. You will for sure have a place on the board in our future bridge building enterprise, NEAC. We would also like to thank all our respondents for taking the time to answer our questions.

Lund, September 2006

Roger Malmquist

Niklas Carlsson

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## **1 Introduction**

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*This introduction chapter is meant to introduce the reader to the subject examined in this thesis, the purpose of the thesis and provide the reader with the tools necessary to understand the coming chapters in an adequate way.*

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### **1.1 Background**

On Tuesday the 15<sup>th</sup> of November 2005 City Dental opened up to the public for the first time. City Dental is a unique business as it is the first dental clinic in Sweden that doesn't have any Swedish dentists and they provide exactly the same service as the national dental service at half the price (Hellblom, 2005). One of the reasons why City dental can keep low prices is that they use the possibility for human capital to move within Europe without limitations. This enables City Dental to have highly competent and flexible Polish dentists penetrating a dental care market that might not have existed before. A shortage of Swedish dentists in combination with inclining prices has locked out the low salary Swedes from dental care market because of too high prices. Because of City Dentals low pricing alternative these people can now afford to visit a dentist and a new market has been created ([www.citydental.se](http://www.citydental.se)). Both qualified and unqualified workforce can nowadays easily flow over national borders and the control that the authorities in different countries used to have is today disappearing more and more, we are looking at a global workforce that has less and less geographic limitations. This bridge building process between Sweden and Poland with focus on qualified human capital is a new perspective of transferring knowledge across national borders. Transferring qualified human capital over national borders generate not only a cheaper workforce but also an exchange of knowledge, cultural understanding, better communication and in general a closer relationship between two nations, these are a few of the factors we have chosen to describe as bridge building.

According to Evalueserve, a world leading full service business intelligence firm specialized in intellectual property services, the growth of knowledge intensive companies in the western countries has proven to outperform its own human capital pool, having a shortage of qualified human capital ([www.evalueserve.com](http://www.evalueserve.com)). Recruiting talents for the knowledge intensive sector will be one of the toughest challenges in the future. As qualified human capital is vital for the knowledge intensive firms in order to remain globally competitive and innovative a major problem is arising (interview Patel, 2005).

In March 2000 the European Council met in Lisbon addressing the agenda on how to turn Europe into the most competitive and dynamic knowledge-based society and economy in the world where one of the main topics on the agenda was “people mobility” (Edvinsson & Bonfour, 2005). One issue discussed during the meeting was how to meet the future lack of qualified human capital within the European Union. A possible solution to meet this future lack was to create “learning pools” where people with specific skills would transfer their knowledge and competence over national borders (Edvinsson & Bonfour, 2005). Transferring and exchanging knowledge is not only a matter of Europe to become more knowledge competitive but for the entire global bridge building network to develop and create future value. These pools should in a mutual, interactive way enable a bridge building learning process to further develop the qualified human capital.

Another goal was to bring R&D back to the top of the political agenda (Edvinsson & Bonfour, 2005). In Sweden though, R&D has been on the political agenda for quite some time. As a result Sweden has the highest annual R&D expenditure (as a percentage of its GDP) in the world at approximately four percent (Evalueserve, 2005) and there are no tendencies of this expenditure slowing down in the future. This further supports the future demand for qualified human capital in Sweden as the knowledge intensive firms are mostly R&D intensive. Where could this human capital be found?

Over the last 20 years China has developed into one of the major economic players in the world. For the last two decades China has experienced an average annual economic growth of ten percent (Tang & Parish, 2000). The fact that there is no sign of economic development slowing down in China is acknowledged worldwide. This brings even more focus on China and it's future growth potential and many outside actors want to enter China. One of the cornerstones to secure future development and economic growth in China is to assure the supply of highly qualified human capital from the Chinese education system. The Chinese people, as a part of the East-Asian population are according to prior worldwide IQ-surveys known to be the smartest people in the world ([www.eurekaalert.org](http://www.eurekaalert.org)). This fact together with the ongoing development in China today and that there are more students graduating with an academic degree in China than in any other country of the world, makes the Chinese human capital very interesting and attractive from a bridge building perspective. Is any bridge building relationship between Sweden and China experienced today, and if, in what extension?

Sweden is a country internationally known for being a knowledge intensive country with a lot of knowledge intensive companies (interview Axelson, 2005). The tendency in Sweden and through out the Western world is that companies in a higher extension put more focus on their core business, trying to attract the best people in their line of business. Not only attracting the best people on a national basis, but also on an international basis. The situation in this battle of attracting the most qualified human capital differs a lot between Sweden and China. Sweden has an increasing shortage when China on the other hand, at least short term, has got an increasing surplus of qualified human capital (interview Axelson, 2005). The question is if there could be a win-win situation?

Bridge building is a term that can be widely used in several different contexts, in this thesis we have decided to look upon bridge building as a business phenomena that brings two nations closer together. When transferring qualified human capital from one nation to another, as in the case of City Dental where Polish dentists work in Sweden, from a Swedish perspective we have decided to use the term bridge building.

## **1.2 Problem discussion**

In what ways can Sweden gain from China and Chinese qualified human capital and on the other hand how can China benefit from an exchange with Sweden? Why an increasing exchange/bridge building should be taking place between Sweden and China is a central question in this thesis and will be dealt with through out the thesis. Could future shortage of qualified human capital in Sweden be one of the answers to why Sweden and China should develop a further bridge building relationship in order to more easily exchange flow of knowledge and in some extend also qualified human capital. Another aspect of why this bridge building relationship might be essential for Sweden in particular is because of the economic growth China has been and definitely still is experiencing. The Chinese market is very interesting from a Swedish perspective because of its huge market potential but at the same time most Swedish firms are afraid to enter the market due to lack of experience, Chinese knowledge and cultural understanding.

In what extend could China and Chinese qualified human capital gain from developing a further bridge building relationship with Sweden. One area concerned in a Chinese perspective is the demand for western educated homecoming Chinese qualified human capital. Western education has in general



different standards and teaching methods often characterised with more critical, analytical thinking and further knowledge development.

This has created, worldwide and also in China, an increasing demand for defining, understanding and managing knowledge or intellectual capital. Knowledge intensive companies are increasing rapidly in these days and by using intellectual capital one can explain and measure the values of these firms. These intangible values consisting of the firm's capabilities, skills, ideas and talents i.e., are intellectual capital. Intellectual capital is mainly broken down into human capital and structure capital (Edvinsson & Malone, 1997). Human capital is the main resource of generating value for a company; it focuses on the company's knowledge, creativity and innovativeness (Sullivan, 1998). Because human capital is not owned by the company, meaning that it can easily be lost as well as gained, it constantly puts focus on management to keep the competence within the organisation in addition to feeding it new knowledge (Edvinsson & Malone, 1997). Structure capital on the other hand is the supportive infrastructure of human capital, including information systems, technology systems and computer software i.e.. Without these supportive resources human capital would have little effect on its business environment . Qualified human capital is accessible in a surplus in China and strong structure capital characterizes typical international Swedish enterprises (interview Axelson, 2005).

How could this bridge building relationship be created is another interesting question; on a governmental level, through a private enterprise or in another way? There could probably be several solutions, NEAC which is our potential future bridge building enterprise could maybe be the answer to the how question.

### **1.3 Purpose**

The purpose of this master thesis is to examine "why and how to start a bridge building enterprise between Chinese Human Capital and Swedish Structure Capital".

## 1.5 Mindmap

This mindmap displays the areas of main focus in this thesis and has been a guide during the last ten weeks.

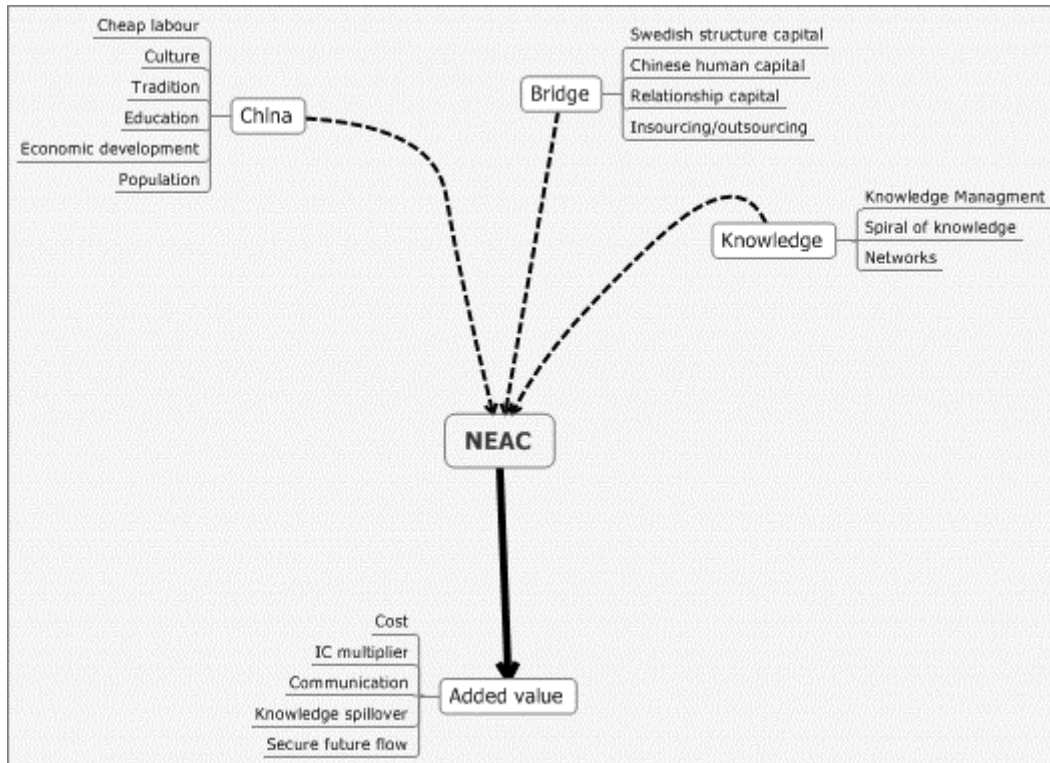


Illustration 1. Mindmap illustrating this thesis. (NEAC being the "bridge building" enterprise)

## 1.6 Key Taxonomy

To facilitate the reading and understanding of this master thesis our definitions of the following central terms are presented, these are the definitions that will be used through out the thesis:

### **Bridge building enterprise**

A bridge building enterprise is an organisation transferring and exchanging intellectual capital over national borders.

**Customer capital (relationship capital)**

All internal and external relations that a company and its employees maintain with customers, partners suppliers, competitors etc. ([www.econman.com](http://www.econman.com))

**Knowledge Flow**

Knowledge flow refers to knowledge transformation over national borders, physical as well as digital flow is included.

**Guanxi**

The direct translation of the Chinese word Guanxi is relations, though the correct translation is a lot more complex, often including relations on a political level. (Opper, 2005)

**Human capital**

People's knowledge, skills and other physical or psychological abilities supporting the productive capacity that has been acquired through education, training or similar activities. ([www.nationalencyklopedin.com](http://www.nationalencyklopedin.com))

**NEAC**

Bridge building enterprise.

**Procurement**

All the activities included when recruiting and transferring human capital from one destination to another.

**Qualified Chinese Human Capital**

Human Capital with a Chinese childhood and an academic background from China, the western countries or both. High Skilled professionals are equivalent to qualified human capital in this thesis.

**Recruiting**

The process of employing a person in to an organisation for an employment directly in the organisation with out any intermediaries.

### **Relational capital**

The interorganisational capital uniting structural, human and customer capital, containing core values and corporate culture. (Edvinsson, 2005)

### **Relationship Capital**

See customer capital.

### **Structure capital**

Structure capital is the supporting infrastructure of human capital, containing routines, processes, machinery, technological solutions, It-infrastructure, immaterial resources such as patents, brands etc, and all other documented methodology that the company is in possession off. (www.econman.com)

### **Value**

Value cannot be defined to one single definition as it has different meanings depending on the context, though in this thesis the term value is mostly associated with future revenues and monetary values.

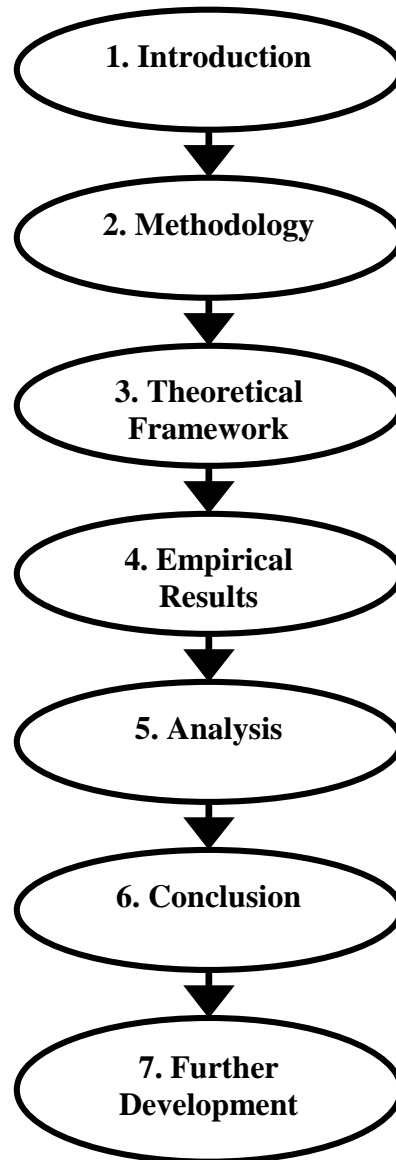
### **Wealth**

The definition in this context is on a national level, covering all the aspects of the well being of a country.

## ***1.7 Target group***

The target group of this study is managers in Swedish knowledge intensive companies, students and others with an interest in the areas of in bridge building and Chinese human capital.

## **1.8 Disposition**



**Illustration 2. Disposition of essay.**

The figure above shows the disposition of this master thesis:

1. The introduction chapter is meant to be a chapter introducing the reader to the subject examined in this thesis, the purpose of the thesis and providing the reader with the tools necessary to understand the coming chapters in an adequate way.

2. The methodology chapter explains what kind of methodology that has been used, why and what kind of strengths and weaknesses this methodology has got.
3. In this chapter covering the theoretical framework relevant theories will be presented to enable the reader to acquaint him/her self with some specific areas of interest in a more detailed matter.
4. In this fourth chapter a presentation of our empirical results from our different interviews and correspondence will be presented.
5. Chapter five contains the analysis of this essay where we connect the theoretical platform and our empirical results and investigate the connections observed between those two chapters.
6. In the Concluding sixth chapter the conclusions for this thesis will be presented along with the answers that have been found to the initial research questions in the first chapter.
7. This last chapter will provide a final discussion of what this thesis might lead to in the future and the different fields of further research that would be interesting to investigate further.

## **2 Methodology**

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*The methodology chapter explains what kind of methodology that has been used and why, what kind of strengths and weaknesses this methodology has got.*

---

### **2.1 Introduction to subject**

The active choice to follow the course of China's Economy within the master course package Strategic Management was the first step towards the selection of our subject. During the course we attended a seminar about China's economic development with speakers such as professors Jon Sigurdsson and Leif Edvinsson gave the audience very interesting speeches about the Intellectual capital in China and especially about the Human Capital. When we later came across Intellectual Capital and Human Capital in our course Strategic Leadership we took the decision to try to connect our interest in China and the field of Intellectual Capital into a Master Thesis. We were encouraged to get deeper into both areas and also write about something that in the future could enable us to launch our ideas in to a concrete business activity.

### **2.2 Selection of theory**

The theory chapter of this thesis will be divided into four sections. The first section will focus on the area Intellectual Capital and specially focus on human capital, structure capital. The second section will cover the literature of Knowledge Management and in the fourth and last section the theories about China and Intercultural understanding will be presented. In the search for adequate literature the different libraries in Lund have been used through the search engine LOVISA. Articles used in this thesis have been searched for on the Internet and in the digital library archive ELIN.

### **2.3 Selection of Method**

To reach a satisfactory result in writing this thesis a lot of effort was put into match the choice of method with the purpose and the problem formulation. As we were searching for a specific answer in the problem area it was more suitable to use a qualitative approach then a quantitative approach (Holme & Solvang, 2001).

As a qualitative approach was chosen it was natural that the main source of empirical information would come from interviews with respondents familiar with either bridge building or China, preferably both areas. To enable the respondents to give us as much relevant information as possible we chose to carry out unstructured interviews with predetermined questions (Ghauri & Gronhaug, 2002). To prepare the respondents and to introduce them to what we were searching for, a questionnaire (to be found in appendix) with our questions was sent to them in advance. The respondents were divided into two groups, one group with the expertise within the China area and one group within the bridge building area; in a few interviews we touched both of the subjects. To assure that all relevant information was obtained from every interview a digital dictating machine was used to record the interviews. The use of the digital dictating machine was helpful in three ways, firstly we were both able to give a lot of attention to the respondent and could ask relevant follow up questions, secondly we could sit down to listen and take notes in a quiet atmosphere after the interview and we always had the opportunity to listen to the interview over and over again if we didn't recall a specific answer. Furthermore all our respondents gave us the opportunity to come back to them via mail or phone if we had further questions, an option that was used several times.

Due to the geographical inconvenience to some of our respondents, personal interviews were not possible. Therefore we also performed email and telephone interviews. These email interviews were also of the unstructured character, using the same questions as for our personal interviews. The respondents had the opportunity to answer a few or all of the questions, depending on their specific knowledge (Ghauri & Gronhaug, 2002). The telephone interviews were of the unstructured character covering specific areas without the help of questionnaires.

## **2.4 Data collection**

### **2.4.1 Secondary Data**

Our secondary data consisted of printed journals, magazines, article compendium, books and electronic sources on the Internet. Search engines such as LOVISA, ELIN and others have been used in the search for appropriate literature. Articles from the business papers and articles from their homepages have been used, mainly for empirical material. Obviously search engines such as Google and Yahoo have been used for sporadic searches. The following words have mainly



been used when searching for printed and electronic sources: human capital, structure capital, intellectual capital, China, knowledge, added value and flow.

#### **2.4.2 Primary Data**

Our primary data comes mainly from the personal interviews we've performed but also from the emailing correspondence we've had with a few of our respondents. The duration of the personal interviews was between 30 to 60 minutes and the digital dictation machine was used during all interviews, one of us was also taking notes during the interview. After every interview we had a quick summary talk where we discussed the most interesting and useful parts of the specific interview.

#### **2.4.3 Selection of respondents**

To get good empirical material our first goal was to have 20 interviews, 10 with persons from the bridge building area and 10 about China. Before long we understood that it would be very hard to find 20 suitable persons within our short time frame. The more we called and tried the more we learned it was tough in general to get people to take an hour of work and talk to students. Therefore we started to use our connections and our advisor helped us with some of his connections. The use of our own and our advisors networks also enabled us to secure the quality of the interviews. With references we could on beforehand check that respondents actually knew the area that we were interested in. We ended up with 8 personal interviews and 4 email/phone interviews, the respondents are presented below. The reason for interviewing some of the companies below, except for the simple reason of them being available, was that these companies have long experience in the areas of interest for this thesis. Ericsson i.e., where we have selected 3 respondents from, has a long experience from bridge building and procuring qualified foreign human capital.

<b>Name</b>	<b>Title</b>	<b>Interview</b>
<b>China respondents</b>		
Sonja Opper	Gad Rausing Professor, SoE Lund University	personal
Linkai Zhang	Senior Buyer, Global Sourcing, Sony Ericsson, Lund	personal
James Shi	Partner and Manager of relationship capital, Dragongate	phone
Johan Axelson	CEO, Global Supply, Lund & Shanghai	personal
Wei Gu	Chinese Student at SoE Lund University	personal
Sou Ling	Chinese Student at SoE Lund University	personal
Jon Sigurdsson	Professor Stockholm School of Economics	email/phone
<b>Bridge building respondents</b>		
Prajeet Patel	Client Executive, Evaluserve, Stockholm	email/phone
Henric Ehrenblad	Project leader internal pricing, Ericsson, Stockholm	personal
Peter Ygberg	Chief engineer, Switchcore AB, Lund	personal
Erland Ågren	VD, Dragongate	phone
Martin Hoff	Manager, Global Sourcing, Sony Ericsson, Lund	personal

**Illustration 3. List of respondents.**

## **2.5 Criticism of Sources**

Qualitative research projects are specifically exposed to the risk of research being bias due to the personal involvement when gathering and analysing the empirical material. Persons doing research should therefore always be critical to the material and the procedure of research (Andersen, 1998). To reduce the risk of bias research and to perform, an as objective thesis as possible we have tried to question ourselves and our method of working to the highest possible degree. Though these actions we are well aware of the fact that our personal interests have influenced the perfect objectivity of this thesis. Further the subjectivity of our respondents and the limited amount respondents have also decreased the degree of objectivity.

Concerning the quality of our information gathered through the interviews it has been our responsibility to assess the accuracy and quality of our sources, no external part has been involved in the assessment of our respondents. When it comes to the quality of the written literature it is chosen from the current and earlier course material as well as other public literature dealing with the areas we're investigating in this thesis. A majority of the literature used is universally accepted, this reduces the risk for inaccuracies but is no guarantee that total accuracy is obtained on all levels.

## **2.6 Validity and Reliability**

The reliability of a thesis is assessed by the degree of measuring what we actually want to measure and to what degree the method of gathering empirical material is affected by accidental circumstances (Andersen, 1998). The term validity contains two dimensions: accordance and relevance. Where accordance observes the concordance of the theoretical and empirical terminology. Relevance is a measurement on how well the selection of terminology or variables in the empirical section is adequate with the problem formulation (Andersen, 1998).

### **2.6.1 Reliability**

The aspect of reliability concerning measuring what we really wanted to measure is believed to be attained at a sufficient level. As we in our conclusion have presented answers and explanations to our initial questions, the purpose has been attained. Further, the reliability aspect covering the aspect if our gathering of empirical material was affected by accidental circumstance or not. This aspect has not been attained to the same level, though a lot of our respondents were found thanks to accidental circumstances during the work of this thesis.

### **2.6.2 Validity**

The validity of this thesis is believed to be highly according to the definition presented above. Though one can always stress the fact that the theoretical framework could have been even broader and that the number of respondents could have been higher, but with the limiting factor of especially time one can consider that the sufficient validity has been attained.

## **2.7 Delimitation**

In this thesis we will be investigating the possibilities to procure qualified human capital from China, leaving the unqualified human capital out of the investigation. When looking at qualified Chinese human capital, it can divide into two different groups, the ones with experience from the western countries through work or education and those that have not left China.

Another delimitation is our group of respondents, due to limiting factors we have only been able to gather information from 12 respondents, as that is 0.00000092 percent of the Chinese population the subjectivity of this thesis must be taken into consideration. When referring to knowledge intensive companies we refer to cutting edge companies in the area of business such as High-tech, Biotech, communication, etc. Further, the focus of bridge building will be on Swedish companies in the knowledge intensive sector and educated young Chinese students.

### **3 Theoretical Framework**

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*In this chapter, covering the theoretical framework, relevant theories will be presented to enable the reader to get further acquainted to some specific areas of interest.*

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#### **3.1 Introduction**

The theoretical framework will be divided into following three chapters, Intellectual capital, knowledge management and China/intercultural understanding. The first chapter will be divided into human- and structure capital. Knowledge management will include how an organisation creates new knowledge and implement it into the existing organisation. In the last theory chapter focus will be on general standards in China and Chinese human capital as well as cultural difficulties that might occur in the procurement process.

#### **3.4 Intellectual Capital**

When looking at the theoretical field of Intellectual capital one can see that there is an endless amount of theories addressing the subject. In order to find some guidance through this jungle of information there will be some selections made in the process of finding the most essential information on the topic. There will be main focus on a few very well known and central researchers in the field of Intellectual capital. The history of Intellectual capital has its roots in the mid 1980's but it was not until the early 1990's that it became a major subject in the so-called new "Information Age economy", or "Knowledge economy". Stewart explains this new Information Age by focusing on the importance of knowledge and how it has become the pre-eminent economic resource, and managing intellectual capital has become the single most important task of business (Stewart, 1997). This saying that there has been an obvious shift from the old economy when people bought and sold "congealed resources", meaning a lot of material held together with a little bit of knowledge, when in the new economy people buy and sell "congealed knowledge", meaning a lot of intellectual content in a physical slipcase (Stewart, 1997).

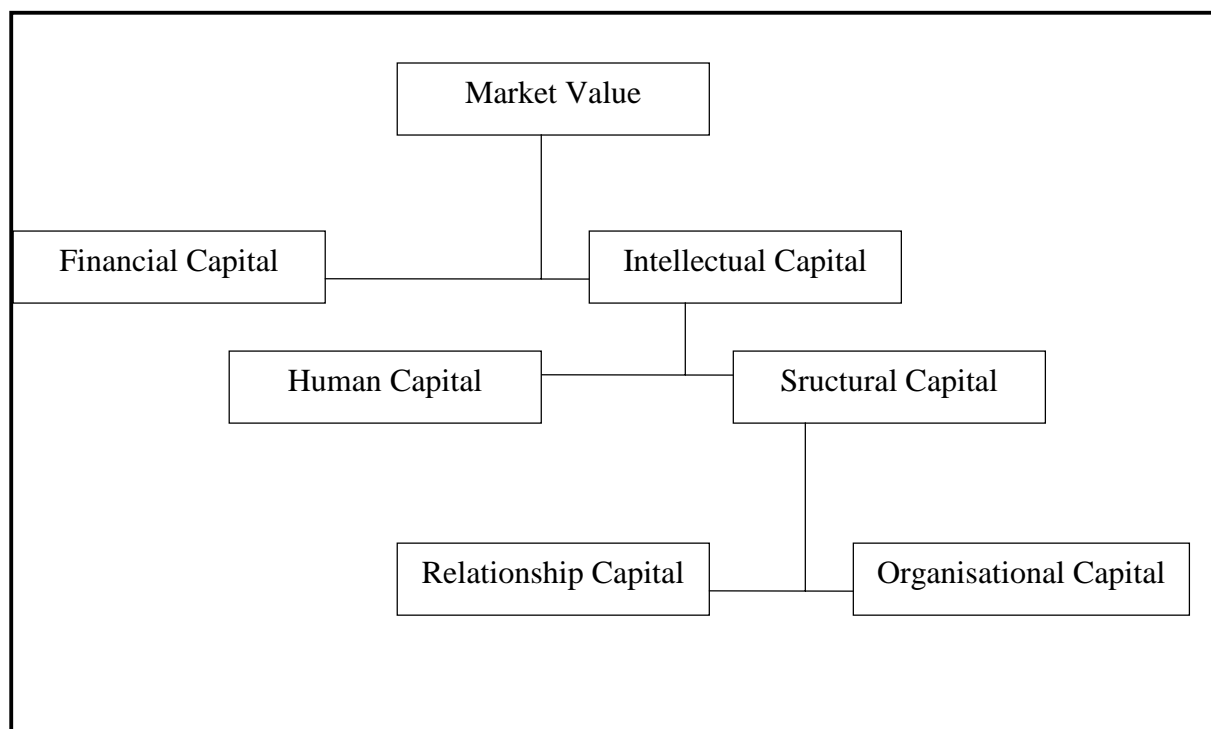
Intellectual capital is a way to explain the intangible value of a firm. The new source of wealth is not material, it is information and knowledge (Edvinsson & Malone, 1997). When someone is investing in a knowledge company, they are buying a set of talents, capabilities, skills and ideas, intellectual capital not physical capital (Stewart, 1997). The main reason of why Intellectual capital has become such a hot topic lately is because knowledge intensive companies are increasing explosively in numbers every day, taking over many old traditional resource intensive markets, creating a need for to somehow explaining the intangible values being the major resource in these firms. Stewart defines knowledge intensive firms as those that have 40 percent or more knowledge workers (Stewart, 1997). These "Knowledge firms" find marketplace valuing them at a price far higher than their balance sheets show (Sullivan, 1998). Under the last twenty years there has been a major increase of the gap between companies' market value and book value, pointing out that, traditional accounting methods tend to underestimate the value significantly. For investors, stakeholders and non the less market competitors to somehow be able to extract what this gap consist of and how to measure it is very crucial with the increasing tendency.

The definition of the intellectual capital (IC) is rather shared different authors in between. Recently there has been some effort put in by individuals and groups in diverse disciplines to come up with a standardized definition. Stewart defines IC as "intellectual material- knowledge, information, intellectual property, experience- that can be put to use to create wealth" (Stewart, 1997). Another definition is by Sullivan; "the sum of a firm's ideas, technologies, general knowledge, computer programs, designs, data skills, creativity and publications". He translates his own statement by simplifying it as knowledge of which can be converted into profits (Sullivan, 1998). One of the first movers in the area, possess the world's first title of corporate director of Intellectual capital, is Leif Edvinsson. His work with the Swedish insurance and financial services company Skandia resulted in the world's first public Intellectual capital annual report in 1995. The ambition was to identify and measure the intangible values of the firm in relation to financial reports, to explain the gap between market and book value. IC-measurement captures soft facts (qualities), while financial accounting measures hard facts (quantities). Intellectual capital focuses on value creation and future possible earnings, while financial accounting reflects the outcome of the past transactions and realized cash flows (Chen, Zhu & Xie, 2004).

Managed by Edvinsson, the Skandia AFS team has developed one of the most widespread and recognized definitions of IC which has been adopted by the Organisation for Economic Co-operation and Development (OECD); “the possession of the knowledge, applied experience, organizational technology, costumer relations and professional skills that provide the firm with a competitive edge in the market”, which later was translated to the simplified and widely excepted definition:

**Human Capital x Structure Capital = Intellectual Capital**

The goal was in some way to visualize these hidden values within the firm, and to do so the Skandia AFS team created a Market Value Scheme entitled Visualizing Intellectual Capital. This scheme contained all the intangible assets explaining the notorious gap between market value and book value and it was used as a supplement for the annual financial report (Edvinsson & Malone, 1997).



**Illustration 4. Market value scheme**

This new value measurement system is not complete in all circumstances, but as Edvinsson states it:

“It is better to be roughly right than to be precisely wrong”. (Edvinsson & Malone, 1997)

Most executives nowadays measure what they can measure because it can be measured instead of looking at it in a bigger perspective. First of all to visualize the intangibles, then to use them as a navigation tools to produce a comprehensive and overarching meaning about sustainability and future capability. These hidden values appear in three basic forms, human capital, structure capital and costumer capital (Edvinsson & Malone, 1997). Market Value Scheme also illustrates the extended components of IC. To start with, as mentioned above, IC is divided into structure capital and human capital. Structure capital can easiest be described as “everything left at the office when the employees go home” (Edvinsson & Malone, 1997). In structure capital customer capital and organizational capital are included.

### **3.4.1 Human Capital**

The human capital is on the contrary to the structure capital the part of the company of which goes home at the end of the day (Edvinsson & Malone, 1997). This includes collective experience, skills, capabilities and general know-how of all the firm employees and company related people to solve customer related problems. Human capital is the company's wellspring of knowledge, creativity and innovation and the main resource of generating value for the company (Sullivan, 1998). The company can not own human capital, therefore the main focus for the management is to keep this competence within the firm and constantly upgrade and feed new competence to the organisation. As well as continuously converting this fleeting competence into the organisation's structure capital which is in the company's possession (Edvinsson & Malone, 1997). This process, which Sullivan defines as codifying knowledge, requires managing the company's human capital in ways to encourage the personnel and give them incentives to maintain the knowledge transforming process (Sullivan, 1998).

Ikujiro Nonaka describes this phenomenon as a “spiral of knowledge”. Tacit knowledge within the organisation, in this situation a person's individual knowledge when recruited by the firm, is not available information for anyone else inside the organisation until it is converted into explicit knowledge of which everyone within the company has got access (Nonaka, 1998). The



transforming process will be deeper explained in the next chapter of structure capital. This spiral of knowledge and competence is crucial for the future of the firm in order to capture the dynamics of an intelligent organisation in a changing competitive environment (Edvinsson & Malone, 1997). With an increasing size of an organisation and with increasing complexity it gets harder to share all the information and knowledge possessed by the large pool of human capital. Therefore it's important in a long-term perspective to motivate all counterparts connected with the company's value generating process, as well as implementing the process throughout the organisation (Sullivan, 1998). Human capital grows in two ways according to Stewart:

*“When the organisation uses more of what people know, and when more people know stuff that is useful to the organisation”.* (Stewart, 1997)

### **3.4.2 Structure Capital**

Structure capital is the supportive infrastructure of human capital. Without this embodiment human capital would have little effect on its business environment, the people in the organisation would have little ability to develop their ideas without the supportive resources. Structure capital includes factors as technology systems, company images, customer databases, organisational concepts, information systems, computer software, work procedures, corporate culture. Company trademarks, patents and copyrights are traditional structure capital which enables legal insurance and protection of the company's intellectual capital (Edvinsson & Malone, 1997). Structure capital, unlike human capital, is owned by the company and can thereby be traded (Bukh, Christensen & Mauritsen, 2005). The combination of all these elements and many more provides a supportive environment to encourage the human capital to create and leverage its knowledge. Structure and human capital has a “double arrow” relationship, Edvinsson and Malone describes it as:

*“Human capital is what builds structure capital and the better structure capital, the better the human capital is likely to be.”* (Edvinsson & Malone, 1997)

This relates a lot to what was before mentioned about the spiral of knowledge and the process when transforming human capital to structure capital to keep the knowledge within the company.(Edvinsson & Malone, 1997).

According to Amidon culture and structure capital do reinforce each other (Amidon, 2003). One of the most difficult challenges an organisation is faced with is to create a culture where knowledge is valued and shared throughout the organisation. Cultures that inspires openness, change, trust, learning and innovation are those of which are most likely to succeed in this matter. Rewarding people for their contribution often characterize these organisations. (Amidon, 2003)

One function of structure capital is as storage of the company's intellectual capital and to create a pool of accessible knowledge for all people inside the organisation. Strong Structure capital attracts good and strong human capital because they are given the opportunity to gain knowledge and develop within the firm that gives them leverage into future possibilities. This can be explained by the so called IC-multiplier which will give a "turbo effect" for the Human Capital (Edvinsson & Malone, 1997). The Relationship between structure and human capital is positively correlated (integrally connected), they assist each other to become stronger, but very weak structure capital repels strong human capital. Therefore should the relationship in between them, structure capital over human capital, be larger than one in order to generate surplus value for any of them. This relationship is called the IC- multiplier (Edvinsson & Malone, 1997).

**IC- multiplier  $\Rightarrow$                       Structure Capital/Human Capital  $> 1$**

This illustrates their insignificance in mono existence, they relate and depend on each other.

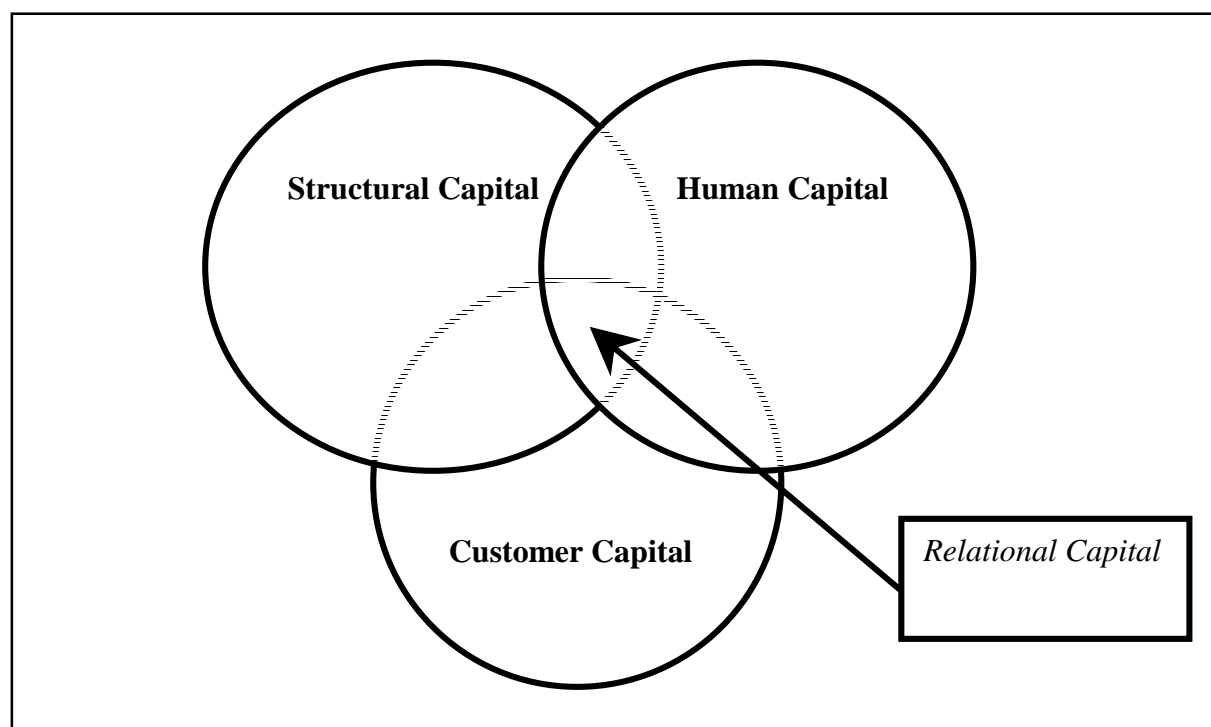
### **3.4.3 Costumer (Relationship) Capital**

Certain authors put costumer capital as a subcategory to structure capital while others extract it as a separate main category along with human and structure capital. Separating customer relations from inter-organisational relations will extract more focus on the valuable costumers, the ones who pay the bills (Stewart, 1997). Costumer loyalty has always been a known fact to success but how can it be measured? It has always been hidden within the post of "goodwill" (Edvinsson & Malone, 1997). There are relatively straightforward indicators of tracking costumer capital as well, i.e. market share, costumer retention, defection rates and per-costumer profitability (Stewart, 1997). This information and knowledge gained from costumers is very crucial for

future existence of firms, especially in today's economic environment where the bargaining power has shifted from the producer/retailer more towards the customer. The superior part of all knowledge is outside the company in the hands of customers, in customer capital. To obtain and take advantage of this huge potential of "free" knowledge is a major task in most knowledge intensive firms. Sullivan defines customer capital as:

"The lifeline to the future" (Sullivan, 1998)

Looking inside the organisation, the human relationships within the company are the very heart of the knowledge creating process. This relational capital is characterized with a strong corporate culture and is very important, it is an organisation's core values which allows the organisation to work and perform efficiently. Core values that can bring minimal congruence between human, structural and customer capitals are often an important factor for successful organisations (Sullivan, 1998). Hubert Saint-Onge has developed a relationship diagram showing the interdependency of each of these elements and how value is created when knowledge flows between them (Sullivan, 1998).



**Illustration 5. Saint-Onge's relationship diagram**

Customer capital, or relationship capital which is more suitable in this context, is in some economic societies a precondition for doing business. Different cultures can look upon business relations in a multitude of different ways. (Nee, 1998)

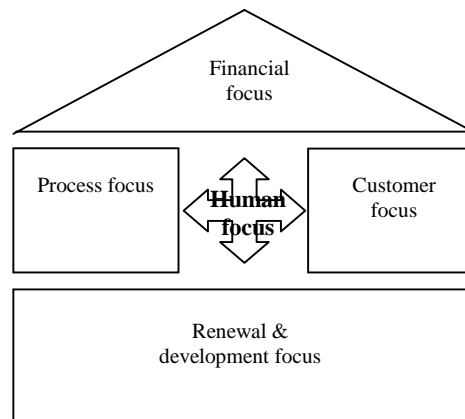
### **3.4.4 Intellectual Capital Management**

Today knowledge has become one of the most important success factors in an economic activity, organizational intelligence, creative and competent people working innovatively together towards the same goal has moved from a supporting to a leading role (Stewart, 1997). In previous chapters several factors have been mentioned of what an Intellectual Capital Management (ICM) team should consider when managing a firm. Stewart reflects in a similar way on ICM as he does on fishing, there is only one problem:

“Trying to identify and manage knowledge assets is like trying to fish barehanded. It can be done, but the object of the effort is damnably elusive”. (Stewart, 1997)

Intellectual capital management has its roots in the 1980's, two areas of main focus have been developed: value creation and value extraction (Sullivan, 1998). Value creation is about generating new knowledge and converting it into innovations with commercial value and the focus is put on human capital. Creating new knowledge includes training, education, building organizational structures, developing new customers, maintaining internal and external relationships and also managing values and culture (Sullivan, 1998).

Value extraction is the other side of managing IC, the focus is put on codifying knowledge created by human capital and implementing this knowledge into the organisational processes, databases, systems and routines. Edvinsson has together with Skandia AFS team developed a navigation tool for ICM, called the Navigator. It focuses on five specific areas, financial, customer, process, renewal & development and human focus. Financial focus illustrates the past, which is represented by the old friend, the balance sheet. The Customer and Process focus represents the present of company activities. Renewal & development focus is the company's eye into the future; it is an important focus being the guide to future wealth. The fifth focus, human capital, is the heart and soul of the organisation and the only focus of which affects all the other IC areas (Edvinsson & Malone, 1997).



**Illustration 6, the IC-navigator (Edvinsson & Malone, 1997)**

How these focus areas are related to each other and function together towards a common goal is crucial for a knowledge intensive company's long-term existence in a complex environment as of today. In being able to gain from applying Intellectual Capital Management the different focus areas need to support each other. Companies with a well balanced and functional navigation tool can identify future potential driving forces and divert them to create new business opportunities, which according to Edvinsson & Malone:

“These companies will be tomorrow's winners.” (Edvinsson & Malone, 1997)

### **3.5 Knowledge Management**

The majority of theories written about knowledge management have some kind of association to “Dr Knowledge Management” Worldwide, Carl Erik Sveiby. Sveiby established the term “knowledge company” in 1986, which was just the beginning of what was later to concur an entire civilisation, the new era called the “knowledge era”. ([www.computersweden.com](http://www.computersweden.com))

Knowledge management is a way for a company to generate, communicate and leverage their intellectual assets. In today's information-intensive economy, where uncertainty is the only certainty, the most crucial source of competitive advantage is knowledge (Nonaka, 1998). Main focus is to provide tools and indicators to encourage creativity and innovation, to capture this knowledge developed within the company and use it effectively in business activities (Sullivan,

1998). Companies of long lasting success are those of which continually create new knowledge and effectively share it throughout the organisation. Being able to respond on a fast changing market requires a creative and productive organisation, which consistently demands new roles, new ideas, new skills, and new ways of developing organizational capabilities (Amidon, 2003). Organizational learning is a very important variable in this ongoing process. Nonaka calls this process “the spiral of knowledge” and explains his model in four steps: socialization, articulation, combination and internationalization (Nonaka, 1998).

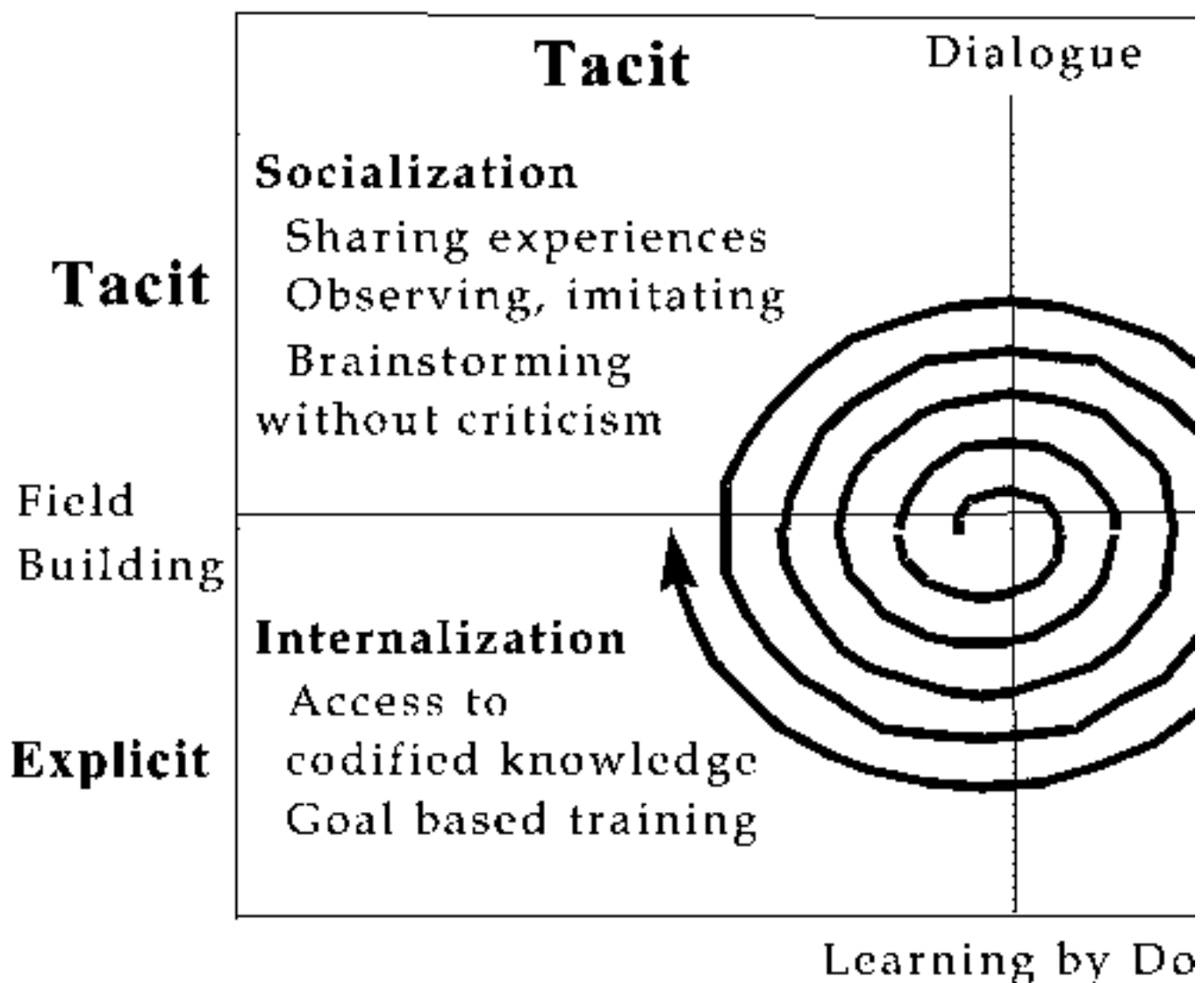


Illustration 7. Spiral of knowledge by Nonaka (<http://informationr.net/ir/8-1/paper142.html>)

The model has focus on transforming an individual's personal knowledge, tacit knowledge, into organizational knowledge available for the overall organisation, explicit knowledge. This is a

very central activity of a knowledge-creating company. The first step, socialization, is about learning a tacit skill by observing and imitating someone with this highly personal and informal knowledge. Second step, articulation, is about translating this tacit knowledge into explicit knowledge, formal and systematic information, which can be communicated to the rest of the team whom will standardize this knowledge into a manual or workbook and embodies it to a product (combination). Last step is when this new knowledge is explicitly spread throughout an organisation and members of the organisation internalize it by broadening and extending it, reframing their own tacit knowledge (Harvard business review on knowledge management, 1998).

Christensen and Bukh separate Knowledge Management into two different perspectives, “artefact oriented “ and “process oriented”. Artefact oriented perspective focus on information technology, by collecting and codifying data the more knowledge the company possesses. This process is called the “people-to-document” method. Implementation of systems to improve and support the distribution of knowledge is the main activity, knowledge is created by collecting and manipulating information. A big task for management is to establish a culture of which support and stimulate employees to make their knowledge available to others inside their organisation. Different to process- is artefact oriented mostly top-down coordinated. Process oriented perspective is illustrated by Nonaka’s model described earlier and in context with artefact oriented perspective will focus on the actual process of which knowledge is created and not on the documentation upon it, the so-called “people-to-people” method. It is a continuous and gradual process where relationships and interaction are important.

Creating an interaction between tacit and implicit knowledge will increase both quantity and quality of the organisation’s collective knowledge portfolio, this should be the main management activity (Bukh, Christensen & Mauritsen, 2005). Hansen defines this approach as the “personalization strategy” compared to the “codification strategy” (Hansen at al, 1999). Socialization by creating networks and space for dialogue in open-plan offices are important for the knowledge sharing and creating. Middle managers have a central role in this strategy when being the cross-field coordinator of the knowledge flow in a “middle-up-down” management structure (Bukh, Christensen & Mauritsen, 2005). The two perspectives are rather to be supplements to each other than alternatives.

## **3.6 China & Intercultural understanding**

### **3.6.1 Intercultural understanding**

The world is full of confrontations between people, groups and nations that feel, act and think differently. On the same time these people are put in positions where they have to reach solutions that are accepted over the national borders. Areas such as ecological, economical, military, sanitary or metrological problems don't stay within the domestic borders and cooperation from leaders in different countries is necessary to solve these problems. A lot of these problems or issues are solved on short time basis or not at all sometimes, often because the different leaders don't understand the intercultural differences that exist between the parts involved. Hofstede stresses that having a great intercultural understanding when co-operating or negotiating over national borders is sometime as important or even more important as having the technological or economical knowledge in the area of discussion (Hofstede, 2000).

The fact that people from different parts of the world are different and have different values, culture, tradition etc is obvious to most people in the world but how to handle these differences are not at all clear to many people. In some multinational companies the employees are given special courses about the new countries and the people they are going to meet and negotiate with. Other organizations pay little or no attention to this phenomenon and according to Hofstede this can be devastating for a company when moving people over national borders or employing people from foreign countries (Hofstede, 2000). Instead of performing the specific tasks, time and energy are spent on solving the problems and frictions that occur between the different nationalities as no one prepared them on how to work together. On the other hand when the intercultural understanding is great the added value of such co-operations can reach values beyond economical values. The language is a natural part of this problem, one example is the word "personality" that we are using in the western world to describe the characters of a person. No such word as personality exists in the Chinese language; the closest one can get is the word "jen" which is translated as a "person" such as a "human constant". But the word jen does not only include the individual it also includes his or her close social and culture environment (Hofstede, 2000). Further examples are words such as structure capital and human capital that do exist in the Chinese language ([www.bablefish.altavista.com](http://www.bablefish.altavista.com)).



### **3.6.2 The Chinese dimension**

Differences in between Sweden and China can be weaknesses or strengths in a company depending on the manner these differences are addressed. This following part of this essay will present some specific characteristics for Chinese people in general and the once with higher academic education in particular. Also of particular interest are the areas where Chinese people differ the most from Swedes where competitive advantages of Chinese favour might be found.

#### **Social context**

The family and strong family connections are extremely important to the majority of Chinese people, also social connections around the family and relatives are important. In the Chinese society families are regarded as a great source of motivation and performance for life in general and working life in particular (Whyte, 1995). For the sake of their families, young Chinese study hard, pursue advanced education and training to maximize their qualifications. When they get a job, they work extremely hard, put in very long hours, more for the sake of the family than for personal gain. These motivations are important in family and non family business. Many Chinese who work in large, non familiar companies far away from their parental home remain motivated to live a frugal life so they can send money back to their family and help other family members to find similar employment. It's also often found that Chinese who have been employed in larger corporations, quit after a few years when they have learned enough about the business, they start their own family run firms to enable family members to work in their newly started business (Whyte, 1995). In Chinese firms in general and family run firms in particular decision-making power tends to be diversified and it's sometimes hard to get a good understanding of who's in charge (Whyte, 1995).

#### **Commercialisation**

Consumption and media patterns are changing rapidly in China. Urban China is turning into a consumer society, with the ordinary citizen having different goals in life then a few years ago. Given the rapid increase in TV programming (including satellite broadcasts from Hong Kong and elsewhere), books, newspapers, magazines, internet sites and the possibilities, for the Chinese population to form a critical stance on major issues of the day is much greater than ever before (Tang & Parish, 2000).

## **Guanxi**

A Chinese student with good education and good grades who doesn't make a carrier most likely lacks the right social connections. People that are promoted in China are often suspected to have special connections and non-party intellectuals in particular claim that party members have privileges and special access. Which is true in a lot of cases, if one have the right connections in China a great competitive advantage can be obtained. A system based not on universalistic rules but rather on specific social ties has emerged in China during history and today Guanxi is probably the most important factor to reach success in China (Tang & Parish, 2000). There is a strong preference among most Chinese people to do business through people where personal relations have been established at an earlier stage (Whyte, 1995). Reliance on personal connection networks is definitely more advantageous then problematic, though some writers stresses that the personal relations can limit business instead of enabling further growth. Such networks help people, family firms and companies to overcome the limited size of personal information and instead enables them to gain access all information available in the network. Guanxi networks provide access to trustworthy opportunities and resources in unstable political and economic environments where bank loans are not available. Reliance on personal connections also lowers the likelihood of commercial and legal disputes (Whyte, 1995).

Another important aspects included in the Guanxi context is when foreign enterprises want to establish a factory or subsidiary in China, there is a need for a Chinese Management. According to Falk & Hagman it's vital to have at least a few Chinese members in the Management team when starting up a new factory in China (Falk & Hagman, 2002). It's impossible for westerns with no prior China experience to start up as they don't have the right connections. Provided that the Chinese managers have the right connections they can arrange all the complicated bureaucracy for the western firm within a month or two, a work that would take years for an all-western management team to reach the same result. (Falk & Hagman, 2002)

Though Guanxi is specific for China, similar official networks and norms can be found in different nations around the world. The Italian Mafia is probably the best known; though the Mafia is much more of an organization then the Guanxi term and the Mafia is more connected to violence there are similarities in-between the Mafia and Guanxi. For example both Guanxi and the Mafia are highly connected to the political world and a weak rule of law.

### **Chinese development**

The Peoples Republic of China has had the most rapidly growing economy in the world in the last few years, despite significant restrictions on the ability of families to make their economic decisions, plan mobility strategies and the lack of full property rights (Whyte, 1995). This fact is further supported Xin and Pearce who stresses that a weak rule of law is problematic for everybody who is doing business in China (Xin & Pearce, 1996).

Though China has had a tremendous development the last two decades there are now signals that the development is slowing down, on the other hand it is continuously catching up even greater speed. China is nowadays not only copying but also developing and innovating, there seem to be a trend in the last couple of years that China is now starting to develop their own innovation system. A large-scale competitive innovation centre is emerging in the Zhongguanchun area in Beijing. This area already has a concentration of software and R&D firms linked with the capital's high calibre universities and research institutions (Edvinsson & Bonfour, 2005). Though this development China is still at a much lower level of general industrial development than for example Japan. For future development, several conditions in China are much more favourable to future development than in Japan. One factor is the potential of China's huge, dynamic market, which attracts domestic and foreign investment. FDI is likely to bring in modern technology because of intensive competition among domestic and foreign firms.

Other factors are the regional diversity and the great competition between the different Chinese regions, this creates more liberal, efficient investment conditions and greater innovation efficiency than the centralized innovation and production system in Japan (Edvinsson & Bonfour, 2005). A supporting factor to China's future potential is by looking at the situation in one of the world leading clusters of IT and new technologies in the world, Silicon Valley, where about 30 percent of the start ups in year 2000 were from China, being noticed for both engineering and entrepreneurial talents ([www.sipa.org](http://www.sipa.org)).

### **Chinese education**

The ratio of Chinese youngsters that go to university is still low, but if one look at absolute numbers, the number of university graduates is large because of the size of the population. The number of students is growing rapidly because of the quick rise in enrolment ratio. In 1990 the enrolment number for new students going to higher education (University and College) was

around 600 000, in 2003 the number was up to 3,8 million new students every year! Further support for the rapid development in the education system can be observed when looking at the number of graduates from higher education (China statistical yearbook, 2004). In 1990 the number of graduates from the higher education was 600 000 (around 400 000 from University), in 2003 1,8 million students graduated from the higher education system (1 million from University) (China statistical yearbook, 2004). Since the pool of highly educated workers is consistently growing in China and this number is not yet being matched with the economic development, there is a great scope for a lot of capacity for further economic expansion. However, because these education systems still emphasize rote memorization they have not yet encouraged creativity (Edvinsson & Bonfour, 2005).

The level of English has long been regarded as a general disadvantage for China's workforce in an international context, though lately, reports Edvinsson & Bonfour, the demand to learn English has increased tremendously and people in general have understood that there is a need to have a good level of English to stay competitive at the global market (Edvinsson & Bonfour, 2005). Further the state has realised the traditional weakness of encouraging creativity and innovation in the Chinese education system. To change this tradition the state is for example supporting the University of Fudan, enabling them to start a research institute giving innovative and creative Chinese students the opportunity to develop their own ideas and encourage further innovation and creativity (Sigurdsson, 2005). Further interesting fact are that East Asians average higher on IQ tests than Whites, Blacks and sub-Saharan Africans even though the IQ tests were developed for use in the Euro-American culture ([www.eurekaalert.org](http://www.eurekaalert.org)).

## **4 Empirical findings**

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*In this fourth chapter a presentation of the empirical results from our different interviews and correspondence will be presented in such a complete way as possible.*

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This chapter will consist of empirical findings from different interviews and correspondence from our ten weeks of research. By breaking down this chapter into two subchapters, one can see the different perspectives on how our respondents and correspondence are differently connected to our topic of research. The first subchapter, China's potential, focus on the potential of qualified Chinese human capital, China's background and culture along with Chinese people's experiences of Sweden. The other subchapter will focus on procuring qualified Chinese human capital to Sweden. The Reason for doing this is to make it easier for the reader to understand the connection between the two areas of focus. The China perspective is the result of interviewing Chinese people or people with vast experience from living or doing business with China. The bridge building perspective is the result of interviewing Swedish organisations and their experience from procuring qualified human capital from mainly China but also other countries. The respondents are introduced in the methodology together with a further presentation in appendix 9.3.

### **4.1 China's potential**

The following part will raise our "China" respondent's perspectives on interesting areas in order to explain and understand the situation taking place in China today and the future potential of which qualified Chinese human capital possesses.

#### **4.1.1 Chinese education system**

*"1 million University students graduating every year in China"* (Interview Opper, 2005)

The world's largest education system is obviously to find in the greatest population of the world, with more than 1.3 billion people living in China their education system is enormous, more than 1 million university students graduate every year (interview Opper, 2005). One major difference to the Swedish education system is that in China you have to pay a tuition fee all the way from

first class to graduation at University (interview Ling, 2005). Where as in Sweden there are only a few schools and no Universities that charge a tuition fee. Naturally there are different levels of tuition fees in China and the best Universities have as high tuition fees as the best American universities (interview Opper, 2005). This Chinese system creates an increasing cleavage in-between rich and poor, where far from all families have the possibility to send their children to university (interview Zhang, 2005). Further there is a huge discussion on how to increase the education quality in China today; the state wants to increase the tuition fees even more for all schools to enable higher quality (interview Gu, 2005). This situation can be seen as a little bit strange in a socialistic country with communist roots where everybody should have the same ground possibilities (interview Opper, 2005).

A closer look at the Chinese education system tells us that the way of teaching is another great difference in-between Swedish and Chinese education system. Where the Chinese system is very theoretical and almost exclusively about learning by heart and then recopying the books at the exams, according to Ling the Chinese system demands very little own thinking by the students (interview Ling, 2005). The Swedish system is regarded as much more problem solving and encouraging the students to think and develop their own ideas. Gu has the same thoughts as Ling about the Chinese system though according to him the system are starting to change a little bit lately and some case studies and problem-solving assignments have been introduced in the education (interview Gu, 2005). Furthermore Opper states that Chinese students are more dedicated to their schoolwork and work harder and more efficient than Swedish students, though the ability to think critical and question the theory is very rare in China (interview Opper, 2005). The Chinese state and the education system are aware of the fact that the Chinese system needs modernisation and changes to reach a higher standard with more innovation and problem solving in the future. One thing that the state tries to do is to hire high-class professors from the US and Europe to work and teach the Chinese students at the top universities. The problem is though to get the western professors to stay more then a year or two in China (interview Opper, 2005).

Another interesting area for this thesis is the level of English among the Chinese students, according to Zhang the level is in general poor when it comes to talking English but capability of reading and understanding English is better (interview Zhang, 2005). Opper stresses the same fact as Zhang but goes one step further and says that the English is overall poor when it comes to speaking, reading and understanding (interview Opper, 2005). Though for the students going to

the so-called “elite” universities the situation is very different. The “elite” universities represent some 5 percent of all university students in China and their English skills are in general very good on all aspects (interview Opper, 2005). A lot of the Chinese students going abroad are from those 5 percent of “elite” students and their level of English is often very good also compared to students from the rest of the world, this has shown in test like the Toefel and similar international exams (interview Opper, 2005). The state is however becoming aware of the general low level of English and has therefore started to stress the schools to start teaching English at an earlier stage. Right now most Chinese schools start teaching English in 6<sup>th</sup> year of primary school, though some start already in 5<sup>th</sup> or 4<sup>th</sup> (interview Gu, 2005).

If one compares the Chinese universities in an international context all our respondents agree that China is still far behind the western world when it comes to education standard. There are a few “elite” universities and even these universities that receive enormous support from the government have problems keeping a high level. Another aspect that contributes to the problems of China trying to keep a high education standard is that a lot of professors from the different universities in China are much more interested in joining the board in different public enterprises and acting as a consultant than conducting own research and fieldwork. Quite some professors receive the majority of their income from their “board membership” which is their “side track” instead of from their university duties (interview Opper, 2005).

#### **4.1.2 Chinese attitude to western countries**

*“All Chinese students would love to go abroad”* (Interview Ling, 2005)

During the last 25 years China has developed from an underdeveloped communist economy to approach some kind of a market economy and an economic development comparable and sometimes superior to the western countries. Though the great development there are still a lot of communist trace and other limiting factors that makes the difference of living conditions very different in-between China and Sweden for example. These differences and the overall opinion of a “better” life in the west make a lot of Chinese people and especially the young generation

very interested in moving to the western world. There are a multitude of differences why the Chinese people are so eager to move abroad; one issue that Opper stresses is the environmental climate, in the major cities in China there are so much pollution and smog problems that it is hard to breath most time of the year (interview Opper, 2005). There are also so much people everywhere that it's hardly possible to relax outside of your apartment or to have a nice and quite walk in the forest, if there is a forest at all in your surroundings. Further reasons why Chinese students in particular and all Chinese in general are so eager to leave China is their great interest in the rest of the world, they used to have heavy travel restrictions just 15 years ago (interview Zhang, 2005). Another reason is also that it is considered to be a great competitive advantage when searching for a job in China to have studied abroad (interview Zhang, 2005).

Another aspect that has been mentioned by several of our respondents is the extremely stressful life that people live in China, work takes up so much of the general Chinese waken time that most people hardly have any time to relax. These factors together with many more adds up to the fact that a lot of parents in China wants to send their children abroad to study and they are happy if they decide to stay abroad as they know that the quality of life is a lot better abroad (interview Opper, 2005). Not all families have the economic possibilities to send their children abroad, but almost all of them would do it if they had the possibility. The countries that are most popular to go to are Australia, Canada, USA, UK and New Zeeland. The English language and a good educational level are the most influencing factors. France and Germany are on an up going trend in China and are getting more and more popular as exchange countries for students, though the limiting factor of learning another foreign language still remains in these two countries. A third factor is obviously the economic aspect, countries like Sweden has become popular to some Chinese people as the education system is for free (interview Gu, 2005).

Opper further stresses that Chinese people are extremely positive in their attitude to the west and they are more then happy if they manage to send their children of to study abroad (interview Opper, 2005). Though the family connections in general are very strong in China most parents also prefer their children to stay abroad and work if the can manage to get a job, because the living conditions in the western world are simply so much greater then the living conditions in China. The tendency among those that that go abroad is also that they rather stay abroad and only 10 percent of the people that leave China to live abroad feel that they want to give something back to their mother country in terms of moving back and working for the government or



Chinese enterprises (interview Opper, 2005). Though, according to Zhang, the tendency of not returning to China is changing since the last couple of years (interview Zhang, 2005). During the 80's and beginning of 90's most Chinese people that went abroad went to the US and most of them got a job so they could stay. In the late 90's and beginning of the 21<sup>st</sup> century more people started to come to Europe where they first also got jobs after education but the last couple of years it has been tougher as the job market in Europe has been tougher. So the tendency nowadays is that more people then before come back to China after their studies, not necessarily because they want to but more often because they don't get a job at once (interview Zhang, 2005). Traditionally a lot of the Chinese people working abroad send money back to their families to support them and also go back to visit their families over holidays and vacation (interview Opper, 2005).

#### **4.1.3 Chinese knowledge about Sweden**

Though some very basic knowledge about Sweden in China most people have very little idea what to expect when moving to Sweden to live. There are quite some cultural differences but the greatest difference is probably the language, though most people speak English, Swedish must be learned to have a possibility to really integrate in the Swedish society (interview Zhang, 2005). One thing that a lot of Chinese people find strange when moving to Sweden is the fact that there are so very few people out on the street. From being used to walk more or less shoulder-to-shoulder with people every time moving outside, in Sweden they sometimes find themselves all alone on the street. This gives the Chinese people a feeling of being lonely (interview Ling, 2005). Another factor that Chinese people react upon in Sweden is the darkness and "depressing" weather Sweden presents during the autumn and winter months, this can create some depressing feelings (interview Gu, 2005).

Travelling to Sweden from China to study or visit used to be very complicated earlier in the Chinese history, with a lot of bureaucratic procedures and political involvement. Nowadays it's as simple for Chinese to travel here as it is for Swedes to travel to China, you must show proof of financial stability and apply for a Visa (interview Gu, 2005).

#### **4.1.4 China Town and Chinese outside of China**

Everybody that has been out travelling has probably visited one of the numerous China Towns that are situated within several major cities all over the world. Most people think that these China Towns are created to attract tourists that can go there and buy cheap made in China products. This is of course not the case, China Towns are firstly a social institution for Chinese people abroad, where the Chinese can socialise, live and help each other with different aspects of the new culture and challenges they are facing. Furthermore the China Towns creates a possibility for Chinese people abroad to start up their business and to get the right connections. As relations are extremely important for Chinese business people they are more likely to start up a business in China town among countrymen then in a village without a China Town. Sometimes a China town even contains Chinese Banks that only give loans to Chinese people, to further facilitate the start of new business (interview Opper, 2005).

In Sweden there are no China Towns but there is Dragon Gate, which is a tourist attraction and Chinese culture centre as well as a centre for Chinese business delegations when they come to Europe. Dragon Gate helps Swedish businessmen understand the Chinese business culture as well as explaining Swedish business culture, infrastructure and interesting Swedish investments for Chinese investors and visitors (interview Shi 2005). In cooperation with Sweden China Development Group does Dragon Gate arrange forums between Swedish companies and Chinese investors, so-called "Match-Making", to discuss interesting potential investment- and cooperation projects. The purpose is to tie new relations between Swedish companies and Chinese investors and also to increase cultural and industrial exchange between the two countries. As for China being very exotic and interesting for Swedish people, Sweden is very exotic and interesting for many Chinese people (interview Ågren, 2005).

#### **4.1.5 Chinese Human Capital, relations and Guanxi**

One of the questions we used in our search for empirical results was, "are Chinese people the smartest people in the world?" This was one of the questions where the answers differed depending on who we asked. Opper is determined that Chinese people are among the smartest in the world and that they have an IQ rating above the average of the world (interview Opper, 2005). Opper also suggest that the Chinese have a greater possibility to develop analytical skills thanks to their alphabet and the picture like letters that gives them a better visual comprehension

of tasks and problems (interview Opper, 2005). Further the Chinese youngsters also have to learn their complicated language at an early stage, which gives them a larger brain capacity all ready from early years. This complex learning from early years also develops their organisation capacity and their discipline (interview Opper, 2005).

On the other hand Ling, Gu, Zhang and Axelson are not convinced that Chinese people are smarter than other people but they are all convinced that people from China work harder, longer and are more devoted to their work than most westerners. Chinese employees have different attitude towards work, Shi explains it with work as being their "second home and a big part of a person's life" (interview Shi, 2005). Axelson further questions the Chinese capability to innovate, they are very good at copying a lot of things but how creative and innovative are they really (interview Axelson, 2005). Opper on the other hand stresses that China is still in a catching up phase and there is no possibility that they could be innovation leaders already. Though they have the possibility to innovate and create, example of Silicon Valley where 30 percent of R&D employees are Chinese. (Interview Opper, 2005)

***"One can do nothing in Chinese business without relationship capital"*** (Interview Axelson, 2005)

Ehrenblad stresses the fact that business relations are hard to build in China and takes a lot of time and energy, but once the relation is stable it is there to stay (interview Ehrenblad, 2005). Guanxi is probably the most important word when doing business in China, directly translated it means relations, in reality the translation is a lot more complex than just one word. Guanxi is often connected with relations in the political world, one can negotiate for days about some deals in China but never reach a final decision (interview Axelson, 2005). Then all of a sudden after a quick phone call from the "right" person the deal can be closed and the contract signed (interview Axelson, 2005). To make business in China and to get somewhere it's crucial to have the right connections. Also Shi stresses how important relations are when doing business in China, his own business idea is to match rich businessmen from China with potential Swedish projects (interview Shi, 2005). Chinese people put great value in some prior relation in order to do business, to trust the other person or company they are doing business with. An alternative for gaining trust in order to do business is to use an intermediary who have been recommended by someone close, preferably a Chinese person (interview Shi, 2005). He also stresses China's rapid

development into not just being a producing country but also their increasing interest in innovation and in going global.

The “upper class” in China is growing and are getting richer by the day at the same time as they are getting more aware of non-material values like for instance Structure Capital (interview Shi, 2005). Though they claim to have a market economy very much of the final decision are still taken on a political level (interview Axelson, 2005). One should also remember that negotiations and business can shift very quickly in China, signing a contract in China does not have the same weight as signing a contract in the western world. They are more western in their business manner in the major cities then out on the country side in China but one can never be sure until the deal is closed and the goods has been delivered (interview Axelson, 2005). Another fact that supports this theory of Chinese way of doing business is their ignorance of copyright and copying of products. This fact is not something that they try to hide away from, in their culture and tradition it is perfectly all right to copy whatever product they find and sell it to lowest price. An illustration of the Chinese way of thinking in this matter is their neglect to sign the latest global patent agreement (information from Edvinsson, 2005).

#### **4.1.6 Added Value for Wealth**

A major part of this essay consists of presenting how Chinese human capital can create added value for Swedish enterprises and their structure capital. All our respondents were convinced that Chinese people could have a competitive advantage in the area where Swedish enterprises were doing business with the Chinese market. As language, connections and an understanding for the business culture are important aspects on the Chinese market (interview Zhang, 2005). Though this aspects is not a unique Chinese factor as all human capital would have a competitive advantage on their own domestic market (interview Zhang, 2005). Opper is convinced that the Chinese human capital could create added value for the Swedish structure capital within all fields of engineering, such as software development, physics, mathematical skills, analytical skills etc (interview Opper, 2005). Sigurdsson underlines the fact that Chinese engineers are extremely talented but to be able to create added value for Swedish enterprises they must have lived and studied or worked abroad, preferably in the US (interview Sigurdsson, 2005).

The ones that have followed their education at American Universities have greater analytical skills and also the western ability to question and critically value information, the latter abilities are often lacked by Chinese students that haven't left China (Interview Sigurdsson, 2005). Gu also stresses the fact that Chinese engineers are thought on a very high level at University and therefore they could have a competitive advantage over the Swedish engineers (interview Gu, 2005). Further the fact that Chinese human capital tend to work harder, longer and more efficient than Swedish human capital and without complaining about it is definitely a competitive advantage for the Chinese human capital (interview Ling and Axelson, 2005). At last the pricing fact must be mentioned in this context, qualified human capital performing the same services can be procured at a much lower cost in China than in Sweden (Interview Opper, 2005).

#### **4.1.7 Pricing and Salaries**

Pricing in general is very low in China, pricing is the competitive advantage number one in the country of cheap copies. It's not only cheap brand copies that are cheap in China, food, clothes, leisure etc, almost everything except real estate is really cheap in China compared to Sweden (interview Opper, 2005) When it comes to salaries, the difference in-between China and the western countries is significant, this is linked to the low pricing in China. Opper claims that a good professor at Beijing University has got a monthly salary of 20 000 SEK (Swedish crowns) and the same position at a University in the US would be paid 3 times more (interview Opper, 2005). When asking the respondents about starting salary for newly graduated university students the answer differs to some extent. Ling hopes to get a starting salary in China around 10 000 SEK/month, though Zhang and Gu are more modest when talking about salaries for graduates, 2000 – 3000 SEK/month is what Chinese students can expect as a starting salary. The competition is very hard and only 60 percent of graduated students have a job within six months after graduation (interview Zhang, 2005). One of the reasons why the competition is so great is of course due to the high supply of graduated students, which enables the companies to keep the salaries down. Though the general low salary levels in China there are exceptions and not surprisingly the exceptions can be connected to politics. According to Opper a manager for a private enterprise in Hangzhou earned 100 000 SEK/year and a manager in a privatised state firm having similar job but performing a lot less earned 1 million SEK/year (interview Opper, 2005).

This fact is a perfect illustration that Guanxi is important on all different levels in Chinese business life (interview Opper, 2005).

## **4.2 Perspectives from procuring qualified foreign Human Capital**

The following part will raise our “bridge building” respondent’s perspectives and experiences from procuring qualified Chinese human capital to Sweden.

### **4.2.1 Reasons for procuring qualified foreign Human Capital**

As mentioned earlier and presented in a research by Evalueserve the growth of knowledge intensive companies in the developed nations of Europe have a tendency to outperform its own pool of high-skilled professional workers (Evalueserve, 2005). City Dental is taking an advantage of the situation when procuring Polish dentists to penetrate the Swedish market at a much lower price. Dentists from Poland are as qualified as Swedish dentists, and the liberalisation of people’s mobility in Lisbon 2000 enables Swedish companies to procure foreign human capital from Poland with no difficulties. This has created an opportunity for City Dental to start a profitable business with Polish dentists in Sweden, which is an example of the type of bridge building that will occur more frequently in the future.

Recruiting talents for higher-end knowledge intensive sectors is becoming more and more difficult. In order to remain globally competitive, enterprises need to reduce their time-to-market and still be innovative and ensure qualitative services and products (Prajeet Patel, Evalueserve, interview, 2005). Sweden is lacking qualified human capital in developing software in order to keep the productivity on an increasing level. Many ideas get discovered in Sweden but there is not enough qualified human capital to consistently develop and put products and ideas in play on the market (interview Ehrenblad, 2005). Today’s business environment is characterized by short lifecycles where products needs to be rapidly put in play which creates a need for development teams to work faster and more effectively.

This shortage of qualified human capital is not a problem in China where one million students graduate from university every year (interview Ehrenblad, 2005). This gives Sweden an opportunity to insource qualified human capital from China where there is an overflow (interview Ehrenblad, 2005). This overflow also increases the speed of the Chinese innovation development and as Ehrenblad states, Ericsson will move more and more of its R&D to China in the following years as there are for sure no lack of competent people and they will be closer to a lot of the suppliers (interview Ehrenblad, 2005). The main interest in procuring Chinese Human Capital lies in qualified services, mostly high-skilled services within R&D. All respondents have agreed on that the most interesting field of procuring Chinese Human Capital is within highly technological services, like for example software development.

#### **4.2.2 Possible complications when procuring Chinese Human capital.**

Ygberg has experienced Chinese engineers working in his development team at Switchcore and in previous enterprises. The culture differences are far too great to neglect when having Chinese engineers working in a Swedish company, Ygberg lists three dimensions where he has experienced complications when working with Chinese engineers (interview Ygberg, 2005):

- Chinese people have a general view of looking at human capital as something almost free. When a Chinese is put in the situation whether to solve the problem himself or procure knowledge to solve the problem the reaction is in 99 percent of all cases to solve the problem him self, none regarding of the time frame as this is seen to be a “cheaper” solution. The only Chinese engineers that might have a different view on this matter is the “western Chinese” that have studied or worked abroad for some time and adapted the western norms.
- Chinese people are extremely hierarchical, if the supervisor demands a specific task, whatever type of task, the Chinese employee would perform the task exactly as the supervisor wishes without questioning anything. This is extremely frustrated to westerners sometimes though we are used to get either positive or negative feedback before the final solution is presented. Chinese people have a deeply rooted tradition of not questioning superiors.
- Language complications. Chinese people that learn English or Swedish tend to stay with the complex Chinese sentence structure. This sometimes makes it very hard for western people to understand the English spoken and especially written by Chinese people. This

issue is not present at all to the same extent if the Chinese person has been in a western university or been working for in a western company a couple of years. (Interview Ygberg, 2005).

Further complication which might have some association with the language problems but more related to the cultural differences is how Chinese people communicate, how they tend not to be very specific in their communication. Swedish people are in general very direct in their way of communicating, when Chinese people tend to talk around the subject and give hints (interview Ygberg, 2005).

#### **4.2.3 Knowledge transfer**

According to Ygberg the Chinese human capital he has encountered has not presented much specific added value to the Swedish structural capital on the engineering level. They might have worked longer hours and harder but these facts have been compensated in a negative way by the complications and practical problems Ygberg has experienced when working with qualified Chinese human capital (interview Ygberg, 2005). A positive aspect that both Ygberg and Ehrenblad underlines is the fact that there is a great value for companies to have a Chinese person governing the contact with Chinese retailers, partners and everything that concerns the Chinese market (interview Ygberg, Ehrenblad, 2005). The possibility to have a person with a network and the right connections that also can handle the Chinese language is definitely an added value for Swedish enterprises (interview Ehrenblad, 2005). When building close relations one can create extra value in working together, learning from each other different backgrounds and in particular when taking advantage of one and others networks (interview Ygberg, 2005). To have a Chinese person with a western education or experience from a Western country governing the contact with the Chinese market helps a lot to reduce communication problems as well as cultural misunderstandings.

What Swedish firms experience rather sudden when recruiting a Chinese co-worker is how much faster business flows on the Chinese market (interview Hoff, 2005). Hoff explains his experience when recruiting a Chinese person with dual background to manage the contact with the Chinese market:



“If we had a good relation with our Chinese partners before, we have an at least twice as good relation with them now.” (Interview Hoff, 2005)

The entire division has become better at communicating with our Chinese partners. The entire process of doing business runs much more smoothly and problems with communication and cultural differences are diminished or at least much fewer (interview Hoff, 2005).

In general all our respondents find Chinese people to be productive and to work hard. They are very devoted to work and it is part of their culture to spend most of the waken hours of the day working. Ehrenblad's experience from having a larger group of Chinese engineers working for him with software development is that they are very productive and creative (interview Ehrenblad, 2005). This is also in line with Hoff's experience from his procuring of qualified Chinese human capital (interview Hoff, 2005).

They are often also very interested in their work even after working hours, undertaking extra projects concerning their field of development just for fun (interview Ehrenblad, 2005).

At Ericsson Hoff experienced extra value in having a Chinese in his staff when setting up strategies for the Chinese market but also globally. With China being such a huge market and with big future potential in all industries there is a great value in having someone with good knowledge about China when trying to create global efficiency (interview Hoff, 2005).

In general to have different backgrounds and values when setting global goals and strategies are a big advantage though different cultures and different business thinking in different regions of the world are to be faced (interview Hoff, 2005). Ehrenblad's overall experience of recruiting qualified Chinese human capital with Swedish education background was ten times more satisfying than what he had expected in all ways (interview Ehrenblad, 2005).

Ericsson has something called rotation-programs where employees with special competence are transferred to different divisions around the world within the global organisation. The reason for these projects is to create spill over effects in an educational purpose for the domestic divisions and also to learn from the division where they are stationed. For the transferred qualified human capital to share and discuss problems from a perspective based on their background and culture do create value for the domestic division. On the other hand the program is a great experience for

the transferred qualified human capital and their absorption of a different culture and traditions is very valuable for the entire organisation (interview Hoff, 2005).

Ygberg also stresses the fact that being physically close to your co-workers generate spill over effects. According to Ygberg:

*“ In the best of worlds the entire organisation would be stationed under one roof on a surface of 25 m<sup>2</sup>. ”* (Interview Ygberg, 2005)

A major problem in many of today's globally operating organisations is that many “small” questions along the way are not being asked because of complications with distant communication. 25 meters in an office environment is about how far a person walks to get an answer to a so-called “small” question according to previous research conducted by Ericsson. A staircase represents around 75 m (interview Ygberg, 2005).

## **5 Analysis**

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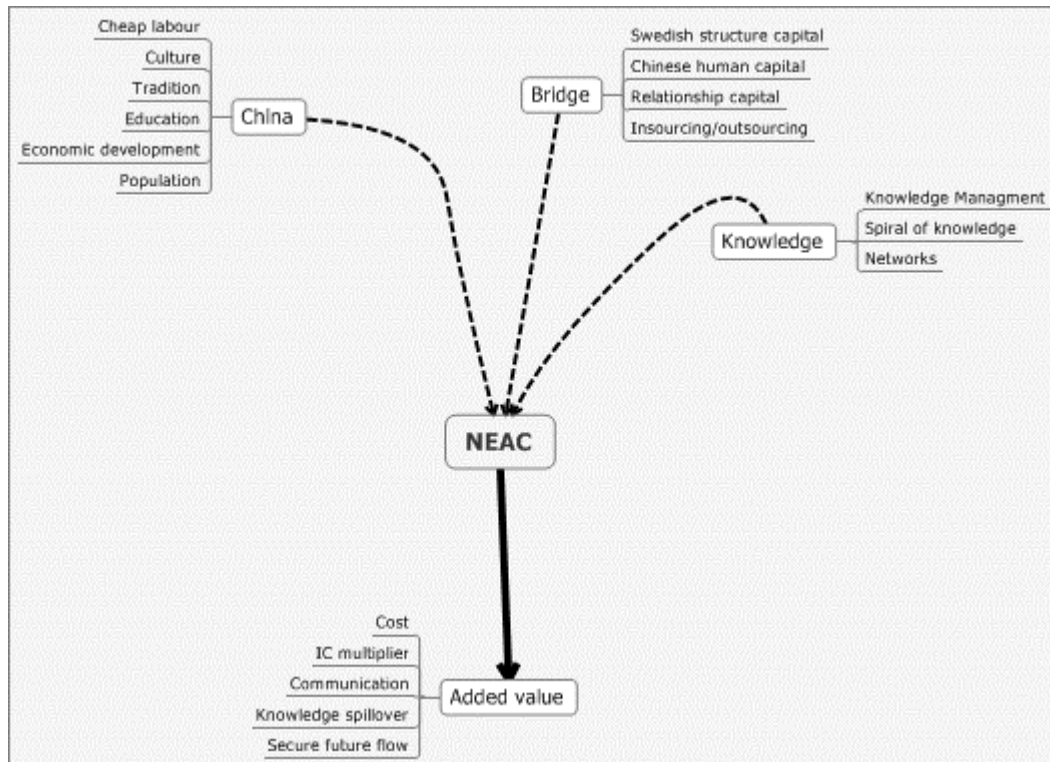
*Chapter five contains the analysis of this essay where we connect the theoretical platform and our empirical results and investigate the connections observed between those two chapters.*

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### **5.1 Initial analytical approach**

The structure of the analysis will be divided into three different areas all together leading up to a fourth area consisting of what possible corporate value and domestic wealth sustainability of which could be extracted in the bridge building between qualified Chinese human capital and Swedish structure capital. At the Eastern end of the bridge there is an enormous amount of strong human capital, while in the Western end of the bridge there is a solid and advanced structure capital. In this bridge building process there will be a need for a great deal of relationship capital in order to tie the two intellectual capitals together and thereby generate more value. These areas include all the surrounding theoretical and empirical findings used and brought up in the thesis. The analysis will be a guide towards our conclusion and discussion.

This illustration shows how the different aspects will be used to reach our conclusions.



**Illustration 8. Mindmap illustrating the framework of this thesis. (NEAC being the “bridge building” enterprise)**

## **5.2 China's potential**

China has for the last two decades experienced an enormous economic growth and increasing development within most industries. This trend is just the beginning according to what many people believe of China in the future. As the economy and industry of the country will develop and grow stronger the education level will increase and millions of well educated young Chinese qualified workers will graduate.

As Edvinsson and Bonfour states China is also moving from being a simple mass producing and copying economy to become a future developing and creating economy (Edvinsson & Bonfour, 2005), this is also in line with what Ehrenblad says in his interview where he stresses the fact that it's of great importance that Ericsson locates their R&D centres in China. Mainly for two reasons, in China Ericsson will be sure to have a steady supply of competent and experienced qualified workers and as many of Ericsson's suppliers are situated in the China the development processes can be more efficient.

Another aspect that supports the fact that China will be the future R&D development zone is that there is already a great competition in-between the different regions in China. The Chinese qualified workers are according to Ehrenblad already used to be very competitive and cost efficient, i.e. the time to market cycles are a lot shorter in China than in Sweden according to research presented by Evalueserve (Evalueserve, 2005). This is also confirmed in our theoretical chapter by Edvinsson and Bonfour whom raise the efficient investment conditions and the great innovation efficiency in China (Edvinsson & Bonfour, 2005). An ever present reason why foreign companies want to be in China and close to the Chinese customers is the great market opportunity that China offers, a market with 1,3 billion people is gigantic.

One of the great potentials in using qualified Chinese human capital is that the employer will be sure to get very devoted hard working employees. The Chinese people are known to be and have a tradition of being hard working, efficient, productive and used to work long hours. They also look upon their work as much more important in life compared to the western view. All our respondents have presented thoughts like this in one way or the other and the arguments are well supported by numerous theories, i.e. Whyte presenting supporting evidence (Whyte, 1995). Further aspects, that are in favour of qualified Chinese human capital, are the empirically shown high IQ of Eastern-Asians and specifically Chinese people compared to the rest of the world. The development of young Chinese brains as they have to learn the complex Chinese language at an early stage further supports this aspect. The fact that the Chinese use signs instead of letters is also said to increase their analytical abilities as they have a better visual comprehensions of complex matters. This fact was stressed by Opper and is confirmed by the IQ rating presented by professor Rushton ([www.eurekalert.org](http://www.eurekalert.org)).

According to Ehrenblad and Opper the education system develops into more western in its standards and starts to encourage more creative thinking and problem solving. Top universities supported by the Government have, according to Sigurdsson, their own research centres performing highly advanced research that encourages creativity and innovation. The general attitude among the young generation and students are that they all want to go to school and they all want to learn good English enabling them to work and live in a western country in the future.

A last potential factor on why to chose qualified human capital from China is the cost, a newly graduated student from a University in China would settle with around 1/5 or less of the salary of a newly graduated student in Sweden, according to Zhang. This comparison is compared if the

Chinese student stays in China. Once you bring the Chinese qualified human capital to Sweden it's no longer possible to keep the cost at a low level.

### **5.3 Possible complications**

One major downside of Chinese qualified human capital is the language problem as Chinese people in general have poor English according to Ygberg, which is in accordance with Hofstede (Hofstede, 2000). Not only is the language a problem but sometimes also the way of communicating. Chinese have traditionally a way of communicating in non-specific and non-direct ways, talking around the actual subject. Hofstede stresses the complication when two persons from different cultural backgrounds communicate, misunderstandings are very common and multiple rechecking that the two parts understands each other is always a necessity (Hofstede, 2000). Several of our respondents have experienced these misunderstandings and stress the importance of understanding and being aware of cultural differences. Though in this context it should also be mentioned that, this problem is less frequent when working with Chinese people that have a "western" background, from work or education experience.

China's economic development has outperformed the development of their system of laws, which has resulted in weak rule of law (Xin & Pearce, 1996). This is a problem in particular for all foreign actors entering the Chinese market though they lack full property rights according to Whyte which in line with Patel and Ygberg is the reason for why many multinational companies do not enter the otherwise so potential Chinese market (Whyte, 1995). This problem is being addressed by the World Trade Organisation (WTO), which is working for global agreements on foreign property rights.

### **5.4 Knowledge exchange and transfer**

According to most of our respondents, Sweden is facing a shortage of qualified human capital in specific areas, together with many other western countries. The globalisation in combination with the technological development forces many knowledge intensive companies to face shorter time-to-market cycles along with greater competition. On the other hand eastern countries like China and India are faced with an increasing economic development and further growth potential in the

future. There is no doubt that there has been an enormous knowledge boost in China in nearly all industries for the last two decades and it is an increasing trend (interview Opper, Axelson, 2005). The question is how Sweden and other western countries can take advantage of this great knowledge pool?

In today's knowledge intensive environment knowledge is a very crucial source of competitive advantage. In order to continuously develop new knowledge it is very important to encourage creativity and innovation and consistently codify old knowledge and share it throughout the organisation (Nonaka, 1998). This is in line with what Ericsson is trying to accomplish with their rotation programs. By rotating people with special competencies within the organisation tacit knowledge gets transferred into explicit knowledge and thereby shared within the organisation. Ericsson has accomplished to create a learning organisation, which Nonaka stresses, as very important to survive today's rapidly changing environment (Nonaka, 1998). Ericsson's rotation programs are what Bukh would define as a process orientated perspective, "people-to-people" method, where relationships and interaction between people are important (Christensen & Bukh, 2005). Main focus is to continuously encourage an increase in the organisation's collective knowledge portfolio. Hoff finds these spill-over effects, as an important part of Ericsson's overall knowledge generating process.

Hoff has experienced further spill over effects when procuring qualified Chinese human capital, the entire division's cultural understanding has improved significantly and procured implicit knowledge has been transformed into tacit knowledge and shared throughout the division, to state Hoff:

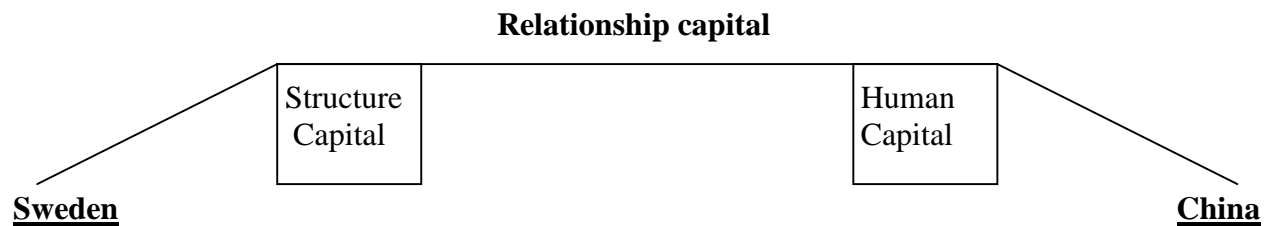
"The entire division has become better at communicating with our Chinese partners."

Nonaka describes this process of transferring personal tacit knowledge into organisational explicit knowledge as "the spiral of knowledge", when one person's earlier experiences and cultural background together with his prior knowledge is shared and absorbed by his co-workers (Nonaka, 1998).

Ygberg stresses the importance of having the entire organisation, if physically achievable, under the same roof and as close to each other as possible. The more frequently questions will be asked the more knowledge will be generated within the organisation. What Christensen and Bukh calls

the “people-to-people” method obviously encourage close communication and interaction between people in order to generate as much knowledge as possible (Christensen & Bukh, 2005).

## **5.5 Bridge building**



When building a bridge that consist of Chinese qualified human capital on one side and Swedish structure capital one the other side, one will need relationship capital in order to connect these two. To understand the different components in this bridge and why it's built between these two specific geographical areas will be analyzed in the following chapter.

### **5.5.1 Chinese Human Capital**

Human Capital is stressed by several authors to be the general key to future value not only for knowledge intensive firms, but for more or less all firms. There is a need for a certain level of quality for this human capital to be able to create future value ([www.eurekalert.org](http://www.eurekalert.org)) Chinese human capital attain a very high level of excellence on their qualified human capital. Human capital is in accordance with Sullivan the company's wellspring of creativity and innovation (Sullivan, 1998), both Opper and Ehrenblad stresses that Chinese qualified human capital is very creative and hard working. What's supporting this statement is the fact that Silicon Valley, one of the world's leading clusters of IT and new technologies in the world, has a considerable high amount of Chinese qualified human capital within its high-tech firms.

An obvious fact mentioned earlier in the thesis but a so very dominant advantage in many circumstances is the fact that one million Chinese students graduate from university every year. This does create a surplus of qualified human capital according to Zhang, offering an opportunity for foreign companies to take advantage of this overflow. While human capital cannot be owned by the company as structure capital can, human capital has the possibility to constantly renew



and convert knowledge into structure capital (Edvinsson & Malone, 1997). The Chinese human capital with specific great analytical and engineering skills according to Gu and Opper can definitely transform a lot of human capital knowledge to structure capital and create future value for Chinese or Western firms. Recruiting Chinese qualified human capital can also bring new competence and perspectives to western companies, something Edvinsson and Malone emphasises important for future value creation (Edvinsson & Malone, 1997).

### **5.5.2 Western Knowledge Standards and Structure Capital**

*“The better your structure capital, the better your human capital is likely to be.”* (Edvinsson & Malone, 1997)

Strong structure capital attracts good and strong human capital in the way of people wanting to develop their own personal knowledge and gain as much as possible from a knowledge intensive and learning environment (Edvinsson & Malone, 1997). To state an example of typical strong Swedish structure capital can one mention the Swedish telecom company Ericsson along with Edvinsson and Malone's theory about strong structure capital attracting strong human capital. Ericsson are indeed realizing this with their rotation programs where the best performing sites within Ericsson attracts the most competent human capital to assure continuation of future value creation (Edvinsson & Malone, 1997). To provide a supportive environment and to have a strong corporate culture, encouraging human capital to share their knowledge within the organisation is a main focus for management teams to maintain their companies attractiveness (Edvinsson & Malone, 1997). This knowledge obtained by the organisation will become available throughout the organisation when being codified or explicitly transformed (Christensen & Bukh, 2005).

Swedish structure capital includes not just strong structure capital within companies but also education, welfare, clean environment, social capital etc. These are all supporting factors of why Chinese human capital would like to go abroad. Gu, Ling, Zhang and Opper all stresses that Chinese people in general have a great interest of moving abroad to get a “better life” and a better supportive structure capital around them, the structure capital which the Chinese firms and society often lacks. Another factor that according to Åhgren attracts Chinese people to Sweden is

the “exotic” feeling that Sweden gives Chinese people. A fact that also should be considered in this context is that Sweden is a rule of law State where one can trust the legal system and feel secure in another way then possible for a lot of people in China, this fact should not be neglected according to Opper.

### **5.5.3 Relationship Capital**

When building a bridge between Chinese human capital and Swedish structure capital, relationship capital is needed to establish some kind of value in between the two Intellectual Capitals (Sullivan, 1998). Both Axelson and Shi stresses the importance of relationship capital when dealing with Chinese people in general. According to Shi there is a need for some degree of trust when doing business in China. This is in line with what Tang and Parish comment about business relations in different cultures, relationship capital being a precondition for doing business in China (Tang & Parish, 2000). Axelson claims that one cannot do anything in Chinese business without relationship capital. Shi supports Axelsson in how important relations are in the overall Chinese culture, *guanxi* being the definition and expression for stating its importance. In China it is very crucial to have the right connections in order to succeed in business, political contacts do help a lot. Just by involving a political person with some significance can be the key factor to close a deal according to Axelson. Loyalty within a relation has always been a known fact to a successful relation (Edvinsson & Malone, 1997). This supports what Shi says about building trust within a relation in order to retain future value

### **5.6 Added value**

Added value is an essential part in this thesis and specifically to analyse if any added value will be generated when procuring Chinese qualified human capital to Swedish companies. This part summarizes the previous parts in the analysis focusing on what kind of added value procuring Chinese qualified human capital actually creates.

All respondents have experienced an added value when having a Chinese co-worker handling respectively respondent's company's contacts with their Chinese partners, suppliers and costumers. Hofstede stresses the value of having a great intercultural understanding when co-operating or negotiating over national borders, he even strengthens his statement with reinforcing how this intercultural understanding sometime is even more important then having

the technological or economical knowledge in the area of discussion (Hofstede, 2000). According to Hoff all relations with Ericsson's Chinese suppliers have at least become twice as good when recruiting a Chinese person handling all communication. There is a great value in knowing the language as well as cultural differences especially when communicating with Chinese people (Hofstede, 2000). They communicate in very different way then western people, not just the language.

Another added value experienced by Sony Ericsson that relates to the intercultural understanding is that Hoff and his division within Sony Ericsson did not just create value in having a Chinese co-worker handling most contacts with their Chinese suppliers. This also generated much value in absorbing intercultural understanding themselves and knowledge about doing business in China resulting in overall better relations and global understanding.

The table on the next page presents an over looking summary of the analysis chapter.

*Is insourcing qualified human capital from China a future for Sweden's wealth sustainability?*

	<b>In what way are qualified Chinese human capital (HC) different to Swedish?</b>	<b>What incentives does the qualified Chinese HC have to come work in Sweden?</b>	<b>Which is the strongest value creating reason to insource qualified Chinese human capital to Sweden?</b>	<b>What areas might cause problems when procuring qualified Chinese HC to Swe?</b>
<b>Dragongate</b>	Chinese qualified HC are more devoted to their work, they work harder and have greater analytical skills than Swedish qualified HC	The possibility to develop without restrictions and to work in a "strong" and developed structure capital.	Strengthen Swedish enterprises position on the Chinese market.	The language and the cultural adaptation.
<b>Evalueserve</b>	The major difference is that the supply of qualified HC is much greater in China than in Sweden	The job situation for the qualified Chinese HC is in some sectors tougher in China than in Sweden.	To secure the future supply of qualified human capital in Swedish high technological enterprises.	The different working climate with less hierarchy and more "open doors".
<b>Ericsson</b>	When employing Chinese qualified HC in China the cost advantages are enormous and the productivity is higher.	Possibilities to develop and strengthen their position a lot when returning to the Chinese job market	Strengthen Swedish enterprises position on the Chinese market.	Communication in between Chinese and Swedish HC and the understanding of the companies goal.
<b>Global Supply</b>	The Qualified HC in China have a great cost advantage but the quality should always be checked through references.	Better living conditions, on work and in the private life.	Cost advantage (short term)	The language and the different way of questioning people and their work in Sweden
<b>Lund University</b> Sonja Opper & students	Chinese Students take their studies more serious but think less themselves. Chinese don't question the books/teacher.	All Chinese students would love to live abroad to experience the opportunities in the western countries and the clean environment	Higher efficiency	The language can be a major problem, the Chinese might also feel "lonely" in a sparse populated Sweden.
<b>Sony Ericsson</b> h	"To have qualified Chinese HC, instead of Swedish, to govern our contacts with the Chinese market have created enormous value for us"	To gather great experience and competence work in a country where the high technological sector is at the front line.	Strengthen Swedish enterprises position on the Chinese market.	The problem that Chinese people in general can't say no, even though they know can't perform the task
<b>Switchcore</b>	Qualified Chinese HC have advantages in cost, efficiency and cultural understanding. But these advantages should always be weighted against the cultural and language problems that might occur	Better living conditions and a greater freedom and flexibility concerning job opportunities and in private life.	Cultural understanding for Chinese partners and market.	Problems with communication the poor level of English experienced by Switchcore.

## **6 Conclusion**

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*In the Concluding sixth chapter the conclusion for this thesis will be presented along with the answers that have been found to the initial research questions in the first chapter of this thesis.*

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Why to start a bridge building enterprise between Chinese human capital and Swedish structure capital being our purpose of writing this thesis. The bridge that we have visualized in front of ourselves is a bridge consistent of qualified Chinese human capital at one end, Swedish structure capital at the other end with relationship capital connecting these two intellectual capitals.

Our focus has been on looking at the phenomenon of using the bridge as an intermediary, to insource qualified Chinese human capital to Swedish companies in order to create value for Swedish structure capital and future wealth for Sweden. We have reached three main conclusions answering our initial question of why and how to start a bridge building enterprise in between qualified Chinese human capital and Swedish structure capital.

Our first conclusion for why to start a bridge building enterprise is the lack of qualified human capital within certain areas of knowledge intensive sectors all over Europe, not the least Sweden (Evaluesserve, 2005). In order to remain competitive globally, organisations need to cut their costs and reduce their time-to-market cycles at the same time as being forced to frequently develop new products in order to survive today's fast changing environment. This shortage of qualified human capital together with the fact that Sweden within some areas of expertise does not possess qualified human capital with the precise knowledge or competence in order to satisfy the demand of expertise. A solution for both these problems is to procure this knowledge or competence from outside of Sweden using qualified Chinese human capital.

Our second reason for why to start this bridge building enterprise is to increase the amount of qualified Chinese human capital within Swedish companies in order to strengthen the position for

Swedish companies on the potential Chinese market. Almost preconditionally for being able to do business on the Chinese market a foreign actor needs to communicate through a Chinese person, this because of the intercultural differences along with the language complications. When using a Chinese co-worker to handle the company's Chinese relations many or all of these complications will be erased. A reason for this is the networks that the Chinese co-worker has got and the greater possibility to understand and react in the Guanxi environment. This is of enormous value for a multinational organisation wanting to enter the world's most rapidly growing market.

Our conclusion for how to start a bridge building enterprise between qualified Chinese human capital and Swedish structure capital, is a two-step process. The qualified human capital is being transferred first to Sweden and then back to China again. First recruiting Chinese students to Swedish universities adopting them to western critical thinking and to western business culture. This either by a single-semester exchange programs, master programs or full education programs. Second step in this process is for Swedish multinational companies to procure these homecoming graduates to their China-based organisations attaining the cost advantage as well as the communication advantage. This qualified Chinese human capital compared to regular qualified Chinese human capital has the advantage of the western critical thinking and understanding of western business culture as well as the Chinese business culture. By doing this two-step process compared to procuring qualified Chinese human capital to Sweden the cost advantage is included which can't be obtained in Sweden in the longer perspective. This alternative will create much value for the Swedish organisations being active and penetrating the Chinese market.

Summarising this concluding chapter the IC-multiplier is present in all value creating conclusions in why to start a bridge building enterprise in between qualified Chinese human capital and Swedish structure capital. The main purpose for building this bridge in between China and Sweden is supporting the fact that two strong intellectual capitals, in this scenario human and structure capital, will create a turbo-effect assisting each other to grow stronger and gain from each other. The ambition is to create a "good circle" or a "spiral", where strong Swedish structure capital attracts strong and qualified Chinese human capital. Knowledge Management will in return transform this transferred implicit knowledge into explicit knowledge

and implement it throughout the organisation. This in response will strengthen the Swedish structure capital attracting new strong qualified human capital to gain from.

An aspect not to forget is the fact that Chinese people do want to move abroad to acquire what they define as a “better life”. Sweden does indeed fulfil most of these demands for this “better life” which further supports the relevance of our research’s future potential and reliability.

## **7 Further research**

We have also found several interesting areas where further research can be conducted. One interesting case study could be to investigate the human capital enterprise Novare, they have recently acquired a Chinese human resource company in Hong Kong, this to enable human resource services on the growing Chinese market. Another angle that would be highly interesting to investigate further is a case study of the Swedish table tennis player Jan-Ove Waldner and his business projects; an attempt to calculate Waldner's market value in China could be one approach. A third aspect that would be interesting to look into could be the jurisdictional perspective to actually procure human capital to Sweden, including all the permits and forms of employment.



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- [www.alleetoolkit.com](http://www.alleetoolkit.com)
- [www.computersweden.se](http://www.computersweden.se)

## **8.3 Interviewed persons**

- **Axelsson Johan**, Chairman of Global Supply a Chinese/Swedish trading company. 2005-11-29

- **Ehrenblad Henric**, Project manager for pricing project on group level, Ericsson Stockholm, 2005-12-13
- **Gu Wei**, Chinese student at Lund School of Economics and Management, 2005-12-02
- **Hoff Martin**, Manager Global Sourcing, Sony Ericsson Lund, 2005-12-21
- **Ling Zou**, Chinese exchange student at Lund School of Economics and Management, 2005-12-05
- **Opper Sonja**, Gad Rausing Professor, research in China, Lund School of Economics and Management, Department of Economics. 2005-11-25
- **Patel Parjett**, Client Executive, Evalueserve, Stockholm, 2005-12-12
- **Shi James**, Partner and Manager of relation capital, Dragongate, 2005-12-09
- **Sigurdsson Jon**, Professor Stockholm School of Economics, 2005-12-09
- **Ygberg Peter**, Chief engineer, Switchore AB Lund, 2005-11-29
- **Zhang Linkai**, Senior Buyer, Marketing Global Sourcing, Sony Ericsson Lund, 2005-12-05
- **Ågren Erland**, VD Dragongate, 2005-12-09

#### **8.4 Other sources**

- **Miss Yung**, Chinese Embassy in Stockholm, 2005-12-02
- **Leif Edvinsson**, Lund University, 2005-12-12.

## **9 Appendix**

### **9.1 Questionnaire China**

#### **Questionnaire focus on China, what kind of value added can Chinese create in Sweden?**

Organisation:.....

Contact person:.....

Phone:.....

Email:.....

Address:.....

**1. What type of activities are you/your organisation performing?**

**2. What can you tell us about the Chinese education system, focus, general standard, availability, language difficulties, Party involvement, equality between men and women etc?**

**3. If you compare the Swedish and the Chinese Education system what are the major differences?**

**4. Chinese education in an international context, where does it stand, standard, exchange programs availability, connections with industry etc?**

**5. Is there a demand to work abroad in China, is there a special category of people that are "mobile", how is the availability of qualified work opportunities in China today etc?**

**6. Comment on the price situation of Chinese qualified manpower compared to Sweden and other Western countries.**

**7. How does Chinese people know that Sweden exist, are they interested in moving here, complications for a Chinese to move to Sweden?**

**8. What culture implications might occur if Chinese people want to move and work in Sweden?**

**9. Are Chinese people the smartest people in the world?**

**10. China is the leading producer of IT and communication products but why are there so few support and service organisations in China?**

**11. In what specific areas can Chinese qualified manpower create added value for western/Swedish companies?**

## **9.2 Questionnaire Bridge building**

**Questionnaire focus on procuring/Importation of Human Capital and how bridge building can create value added.**

Organisation:.....  
Contact person:.....  
Phone:.....  
Email:.....  
Address:.....

**1. What kind of business activities are you/your organisation performing?**

**2. What is your definition of procuring?**

*Our definition of procuring  $\equiv$  To procure qualified human capital or knowledge into an existing organisation, performing specific services, supporting core business in a long term perspective. In all future questions the term procuring will be used according to our definition.*

**3. Have you or your organisation procured foreign human capital. Any experiences from Chinese Human Capital?**

**4. Why did you use procuring of foreign human capital and what kind of services did you insource, what were the alternatives?**

**5. What was the course of events, source of first information, use of intermediaries, practical problems, selection process, type of contract, time of contract etc?**

**6. Did you insource one single employee or a group of employees, from which countries?**

**7. What kind of value added did the procured human capital create, why?**

**8. How successful was the procuring, achievement of goals, type of report system, "non economic" value added etc?**

**9. What was your outcome of the procuring, problems, unexpected experiences, culture differences, continuation of procuring?**

**10. Did any transformation of knowledge (from human capital to structure capital) that created added value take place or did you experience an increase of creativity or/and innovation capability during or after procuring period?**



### **9.3 Respondents**

#### **Johan Axelson**

Johan Axelson is the CEO of Global Supply, a Swedish/Chinese trading company. Johan has got several business projects running in China but he has asked us to not comment his projects any further.

#### **Henric Ehrenblad**

Henric Ehrenblad is presently employed as project leader at Ericsson Stockholm, where he is leading a project covering the internal pricing strategies in the Ericsson group. Henric has earlier been based at Ericsson in China and worked with an R&D team consisting of qualified Chinese human capital.

#### **Wei Gu**

Wei Gu is a Chinese citizen who moved from China to Sweden to start his university education some 4 years ago. Today Wei is a student at the School of Economics at Lund University following the master year of international marketing.

#### **Martin Hoff**

Martin Hoff is the manager of the Global Sourcing department at Sony Ericsson in Lund. Martin has got a lot of experience doing business with China as a majority of Sony Ericsson's suppliers are found in China. Martin has also the experience to have a Chinese person in his team governing a lot of the contacts with China.

#### **Sou Ling**

Sou Ling is a Chinese exchange student from the Fudan University in Shanghai, she spent the fall semester of 2005 at the School of Economics at Lund University. Sou followed different courses at the master level and acquainted herself to Sweden through a lot of travelling and being a very social person.

**Sonja Opper**

Sonja Opper is employed as Gad Rausing Professor at the School of Economics at Lund University since the fall 2005. One of her long time perspectives is to establish a Chinese program with the possibility to get a degree in Chinese economy. Along with her teaching Sonja is conducting research projects in different areas of the Chinese economy, presently investigating the role of the entrepreneurs in China.

**Parjett Patel**

Prajett Patel is the Nordic Sales manager for Evalueserve. Evalueserve is a full-service Business Intelligence, Market Research and Intellectual Property Services firm, supporting clients in North America, Europe and Asia. Evalueserve has the major part of their consulting team based in India conducting most of their knowledge intensive services over digital communication.

**James Shi**

James Shi is a partner of Dragongate and also manager of relationship capital. Dragongate a Chinese centre situated in the small Swedish town Älvkaleby, just north of Gävle. The centre is a meeting point between Sweden and China, where Chinese businessmen interested in investing in Sweden meet with potential partners. It's also possible for Swedish people to get a taste of China and what Chinese culture has to offer. Dragongate is also an attraction for a lot of Chinese people travelling in Europe.

**Jon Sigurdsson**

Jon Sigurdsson is professor in Research Policy and Director of the East Asian Science & Technology and Culture Program, at the European Institute of Japanese Studies at the Stockholm School of Economics. Jon is also a famous writer; the latest addition to his collection is the book China Technological Superpower.

**Peter Ygberg**

Peter Ygberg is chief engineer at Switchcore, he is also a member of the management team. Peter has a vast experience from consultants from all over the world. During his time at Switchcore Peter has experienced two Chinese employees working in his R&D team. From earlier employments Peter has an experience working with qualified Chinese human capital in China and in Sweden.

**Linkai Zhang**

Linkai Zhang is a Chinese citizen who has been living in Sweden since the second half of the 1990's. Linkai moved from China to study at the School of Economics in Linköping, during his first year he only studied Swedish. After graduating Linkai has occupied several different positions within Ericsson and Sony Ericsson. Today Linkai is a senior buyer at the Global Sourcing department based in Lund, where he is working exclusively towards the Chinese market.

**Erland Ågren**

Erland Ågren is the CEO of Dragongate. Dragongate a Chinese centre situated in the small Swedish town Älvkaleby, just north of Gävle. The centre is a meeting point between Sweden and China, where Chinese businessmen interested in investing in Sweden meet with potential partners. It's also possible for Swedish people to get a taste of China and what Chinese culture has to offer. Dragongate is also an attraction for a lot of Chinese people travelling in Europe.