CHINESE BUSINESS CONTEXT –
WASTED INTELLECTUAL CAPITAL?

Master Thesis
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Abstract

Title: Chinese Business Context – Wasted Intellectual Capital?

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Keywords: Intellectual Capital, Relational Capital, Flow of Knowledge, Cultural context, Emotional discrepancy

Purpose: Develop insights in how companies can optimize the Intellectual Capital in the Chinese context

Methodology: With an abductive scientific approach and an iterative process, the study has been conducted with a qualitative method. Analysis and synthesis has taken the study from theory and empirical data towards the conclusions.

Theoretical perspectives: Theories from the fields of IC, knowledge based view of the firm and models for understanding culture and values have constituted the foundation. A framework for Intellectual Capital incorporating resources, three dimensions of flow of knowledge and the context has been developed (structural, cognitive, emotional).

Empirical foundation: Interviews with respondents with practical experiences and understandings for the national culture has given a general description and five longer narratives to be analysed.

Conclusions: Through the use of the developed framework, it is identified how the three dimensions of flow of knowledge are related to each other. Issues associated to the emotional dimension seem the most tenacious, and the hardest to resolve. Solving these issues would bring emotional congruence, and it is argued that the value of the missing emotional congruence may constitute the lion's share of the wasted Intellectual Capital.

Sammanfattning

Titel: Kinesisk Affärsmiljö – Förlorat Intellektuellt Kapital?

Seminariedatum: 16 januari 2009

Kurs: Strategi, 15 poäng, Magisteruppsats

Författare: Eleonora Nordström Alvarez, Per Karlberg, Viktoria Lundström

Handledare: Adjunct Professor Leif Edvinsson

Nyckelord: Intellektuellt Kapital, Relationskapital, Kunskapsflödet, Kulturell Kontext, Emotionell diskrepans.

Syfte: Få insikt i hur företag kan optimera Intellektuellt Kapital i Kinesisk kontext.

Metod: Med en abduktiv ansats och en iterativ process, har studien genomförts med en kvalitativ metod. Analys och syntes har använts för att gå från teori och data mot slutsatserna.

Teoretiska perspektiv: Teorier inom IC, kunskapsbaserat perspektiv på företag och modeller för att förstå kultur och värderingar, har utgjort fundamentet för studien. Ett ramverk för IC innefattande tre typer av resurser, kunskapsflöde och kontexten har utvecklats.

Empiri: Intervjuer med respondenter med praktisk erfarenhet och kunskap om den nationella kulturen har givit en generell beskrivning och slutligen fem fallbeskrivningar av olika problem att analysera.

Slutsatser: Med hjälp av det framtagna teoretiska ramverket beskrivs hur de tre dimensionerna av kunskapsflöde relaterar till varandra. Problem i den emotionella dimensionen är, av det empiriska materialet att döma, vanligast förekommande och svåra att lösa. Genom att klara upp dessa problem nås emotionell kongruens, och värdet av denna saknade emotionella kongruens kan utgöra lejonparten av det förlorade Intellektuella Kapitalet

Acknowledgements

```
Subject: Meeting in China
From:   'Erik (erik@corporation-ab.se)
Sent:   den 9 november 02:15
To:     CEO (ceo@corporation-ab.se)
```

My first flight to China went well, not as cold as back home in Scandinavia. I am very confident in our offer for Fujian Tools Ltd. So hopefully the conditions for the partnership will be agreed on quickly.

Get back to you as soon as we schedule the time of the meeting!
/Erik

```
Subject: Meeting in China
From:   'Erik (erik@corporation-ab.se)
Sent:   den 10 november 08:05
To:     CEO (ceo@corporation-ab.se)
```

Good morning boss!
The negotiations will take place today at 10 am at their office. I believe the deal will be finished this afternoon, since they didn't express any objections yesterday at the welcoming dinner.

I will let you know as soon as the contract is signed,
/Erik

```
Subject: Meeting in China
From:   'Erik (erik@corporation-ab.se)
Sent:   den 10 november 19:05
To:     CEO (ceo@corporation-ab.se)
```

It's been a long day, with no progress at all. Can't believe they didn't settle with our offer but are hoping on better news after the dinner tonight with CEO Mr. Zhang and his team.

I am beginning to wonder if we will ever come to an agreement, only anticipate their participation.
/Erik

```
Subject: Meeting in China
From:   'Erik (erik@corporation-ab.se)
Sent:   den 11 november 03:33
To:     CEO (ceo@corporation-ab.se)
```

I have bad news.

Due to long discussion yesterday, and a frustrating negotiation during last night's dinner, I made a fool of myself. I became a bit too intoxicated which made me vomit in Mr. Zhang's car. I understand a formal report is necessary and I immediately resign from this mission. Only wish the Chinese will forgive me and that the relationship is not totally ruined.

Please call me the minute you read this to discuss how to begin to sort out this mess. I will be on the next flight home.
/Erik

```
Subject: Meeting in China
From:   'Erik' (erik@corporation-ab.se)
Sent:   den 11 november 05:22
To:     CEO (ceo@corporation-ab.se)
```

Very unexpected but positive news, the arrangement were accepted after all! Mr Zhang and his staff came by my hotel just after I hung up the phone with you.

He said he didn't want or need to talk anymore and instead signed the contract. Guess it all worked out for the best, somehow.
/Erik

(Story adapted from Fang, 2005)

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Photo courtesy of Wang Qingsong

1 Introduction

The Chinese people are considered by some to be the most entrepreneurial people in the world (Mazars, 2007). The economic reform and unprecedented growth since 1978 is, to some extent, the result of grass root entrepreneurship and bottom-up reform (Chen, 1998). Nevertheless, the general description of a Chinese employee tells another story. If anything, Chinese employees in the context of a large organization are described as followers who rarely questions orders or contribute with feedback. This paradox suggests that the larger corporations cannot capture the full potential of Chinese employees. The e-mail conversation on the opening page is an additional example of how the Chinese business environment can seem, from a western viewpoint, paradoxical and irrational.

Often original reasons for international corporations to establish themselves in China were either to gain access to low cost production or a large potential Chinese market (Hexter et al., 2007). Neither of these required much of local initiatives or revolutionary idea generation. However, developments towards more complex scope of operations require more local independency and advanced organisations, making it even more important to stimulate initiatives both ways.

Vasalaoppet China, a successful Swedish export to China -
Photo courtesy of NordicWays.com.cn

There are many Swedish corporations active in China, and have been so during several decades. China is the largest market for Ericsson, Electrolux's main manufacturing base and Stora Enso's largest investment destination. All mentioned companies are characterized by advanced competencies and knowledge intensive industries. (Ahlbom, 2008) Because of these reasons it is relevant to investigate business practices with the unique conditions of the Chinese market and to take advantage of the increasingly well-educated workforce existing in China.

Ethnocentrism in western nations, the belief that western culture is superior, is another relevant aspect. It could also be one of the reasons why corporations have not taken cultural differences into account when applying their management practises in China. This may be problematic since western management practices might not be suited for the Chinese people and vice versa, rendering the use of a global approach to be very difficult. This argument arises from the interaction of management and culture. In essence, the enterprises that empathize the historical and sociological factors, has tended to be more successful. (Carney, 2005)

1.1 Problem discussion

Chinese culture can be traced back to ancient times and the emperor dynasties of China started with the Xia dynasty four millennia ago (Lee, 2002). Despite China

converging with the rest of the modern world during the last decades, major differences still persist between Chinese and Western organisations in the predominance of hierarchy, the inclination towards initiatives and challenging the status quo. Moreover, the differences are not limited to simple lingual problems but rather these fundamental disparities which, to further add to the difficulty, seem more complex and contradictory when studied closely. In addition to the culture, the conditions for doing business are different. The institutional context is still under development, forcing firms to rely on their own relationships instead (Cheng et al., 2006). Western multinational corporations are exposed to the cultural clashes and some issues in understanding, thereby making co-operation seem ubiquitous. All of this set the stage with the cultural context, or rather the difference in cultural context, constituting the setting and an underlying source of problems.

There is a seemingly infinite pool of competence and sheer brainpower in China with nearly five million annual university graduates (Xinhua, 2007). This number is even more astounding when considering that all tertiary education was suspended during the Cultural Revolution and re-opened a mere 30 years ago. In addition, to often being recognised as ambitious and disciplined, the workforce has the potential for entrepreneurialism as well (as mentioned before). When adding the increasingly important role of the Chinese market, it becomes clear that the stakes are high.

With the development towards more complex sets of activities, the problems are becoming more apparent and necessary to resolve. Moreover, the tightening and increasingly knowledge intensive competition is making it vital and urgent to improve the integration and to resolve the problems. Today, firms like Ericsson, IBM, AstraZeneca and Microsoft all have research centres in China, but it does not stop at that. Domestic competitors like Huawei, Haier and Lenovo all perform advanced and increasingly competitive R&D in China. If the current pace of patenting growth persists, China will equal the world leaders Japan and USA in number of registered patents per year in the coming 12 years (Desai, 2008).

The challenges facing multinational corporations and their Chinese operations involve human communication, the ability to generate and develop ideas and the capability to adapt to the environment. All of these are covered in the body of existing strategic management literature. However, they are also the core factors generating the *Intellectual Capital[1]*, IC, of a firm. Strategic management is seldom focused on the (national) cultural context, but the orientation of IC makes it possible to incorporate surrounding culture as a key factor.

In short, the *cultural context* seems to be the origin of obstacles that are limiting and reducing the *Intellectual Capital* of Western firms in China. The broad ambition with this thesis has therefore been to analyse the connection between these two concepts.

After understanding the stage, what is at stake and the main factors, a relevant research question is within grasp. However there are multiple paths forward. Which question is the most relevant and also feasible to answer?

What is the opportunity cost of not understanding the Chinese cultural context? What is the best practice for mitigating the cultural clashes and inefficiencies?

The first two questions might seem irrelevant. Quantifying the opportunity cost, the wasted intellectual capital, could hardly aid firms in coming to terms with the difficulties, and identifying the best practice would be of little value to develop dynamic capabilities for a changing environment. However, the concept of trying to recover wasted capital is quite suitable. Furthermore, with many examples of firms who have been in China for decades, there must certainly be many lessons already learnt and, perhaps more important, many issues that are already identified today.

Strategic management theory points out the relationship between a firm's resources and capabilities (Barney, 1991). The resources are the basis of value

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[1] Intellectual Capital is "*derived insights for future earnings capabilities*", see Theory, chapter 3, for further explanation.

creation but not sufficient on its own. Organisational capabilities, or a "*firms capacity to deploy resources for a desired result*" (Helfat et al., 2002 p. 725) are needed to create value. This insight in turn leads to the distinction between *increasing* and *optimising* the value-creating capability of a company. An increase can be attained by either getting more resources or by improving the organisational capabilities, whereas optimisation only can be accomplished by developing the existing organisational capabilities. For multinational integration this would involve a deeper understanding for contextual cultural aspects, i.e. *insights*

The aim for this thesis has therefore been to combine practical management experiences with cultural understanding and to use an IC framework to analyse how they relate to each other. The overall goal has been to render observations that are relevant for practitioners.

1.2 Purpose

Develop insights in how companies can optimize the Intellectual Capital in the Chinese context.

1.3 Thesis overview
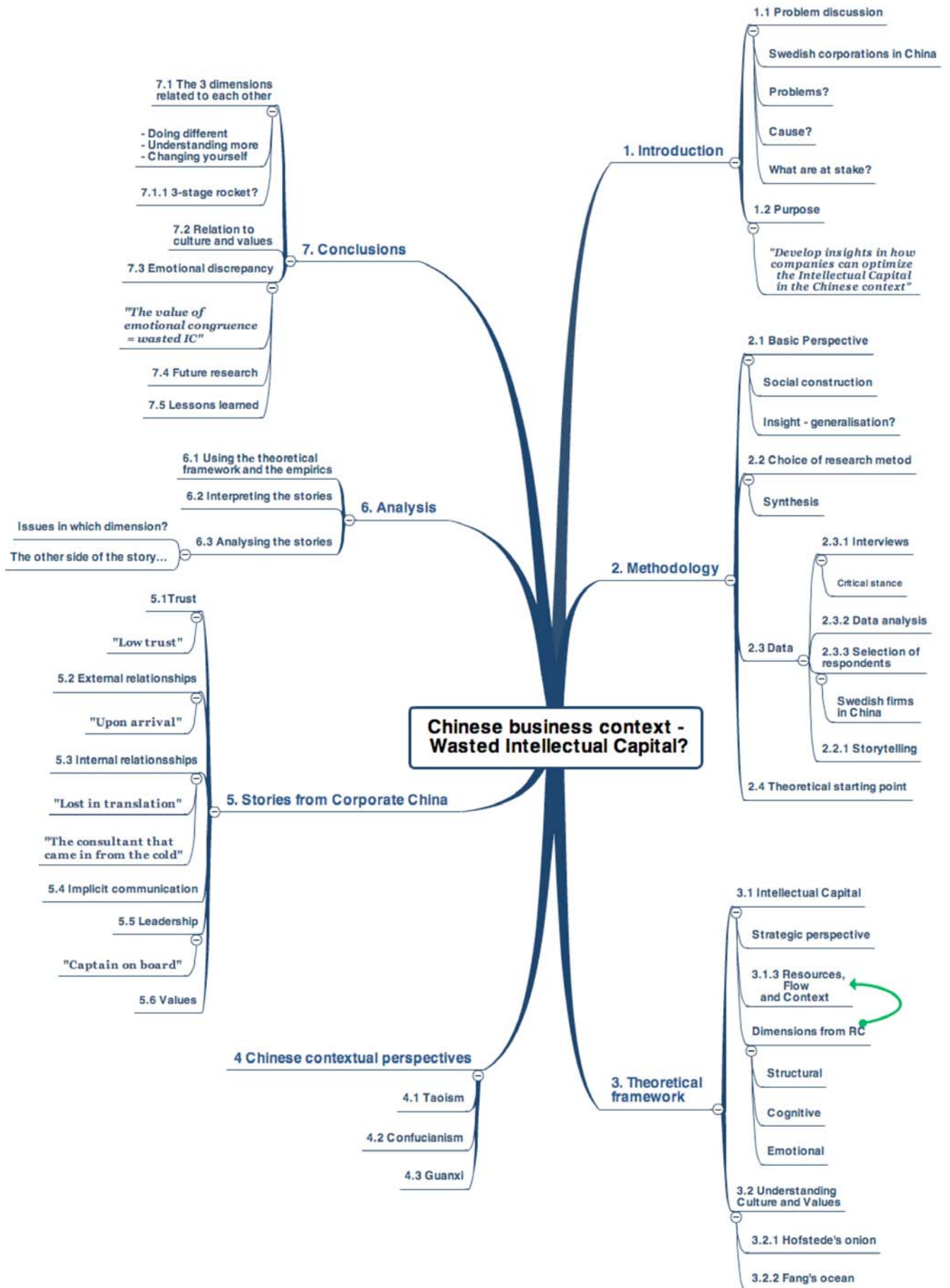
2 Methodology

The outset, to support managers in optimising the Intellectual Capital in an organisation, guides many of the methodological choices. This chapter will identify and motivate the chosen method for gathering information, the design of the study and the assumption on which this thesis is based. In general, a criticism towards this research process will be discussed.

2.1 Basic perspective

With organisations and their character being the studied object, it is natural to accept a socially constructed reality. However, the study is focused on the implications of that social construction and hence, complicated ontological considerations are avoided. Instead of going after ultimate roots of certain behaviours and phenomena, the national culture, history and value set will suffice as a basis for answers.

In order to achieve the purpose of generating relevant insights, existing theories as well as new empirical data were used. The main opportunity to render new useful theory lies in combining an understanding of *IC* and an understanding for the *cultural context*. If the latter can be incorporated as a factor (whether it is as a driver or a limitation) in a framework for Intellectual Capital, it might be a new and useful contribution to the existing body of knowledge.
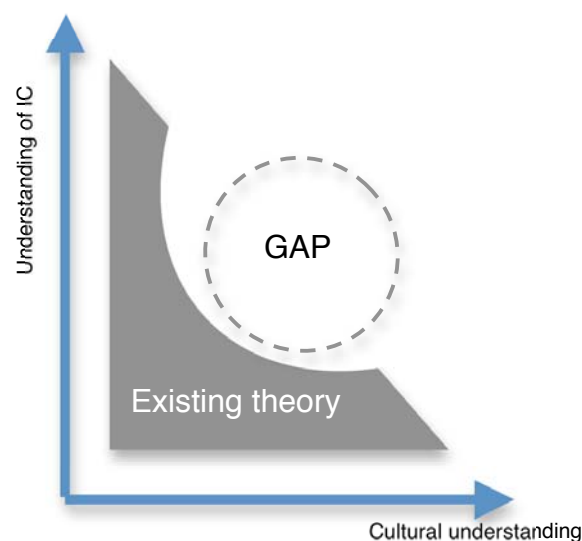
Figure 1, Present knowledge gap

In this respect, this thesis serves as the bridge between the two fields of knowledge. It should be noted that *theory* is here used in the sense of a suggestion for a model, not a proven law supported by a body of empirical testing. The cross-disciplinary study implies that the synthesis will be a step towards reaching the conclusions, and it may indeed be the prominent mean generating novel insight. However, breaking down the theoretical bodies related to operational and cultural understanding into concepts requires a great deal of complexity reduction through analysis, in order to be compared, contrasted and linked together (Ritchey, 1991). It would be too hasty to claim that this thesis is based on synthesis or analysis alone.

The linkage between practical phenomenon and an underlying culture can be hard to make, and even harder to prove. Therefore, the intention has been to primarily explain and analyse observed phenomena using the underlying culture, and not to extrapolate normative statements about practical matters of management (Hume, 1740). With an aim to develop insights instead of advice or solutions for practitioners and whether or not the findings can be generalised, this is not a major concern. Well-founded insight is relevant beyond the context it was drawn from. However, since a specific national culture is in focus, some results will not be applicable to other countries. Conversely, the theoretical framework is relevant for cultural context of IC in general. The interview format and the very fact that social phenomena are under the microscope weakened the validity, but that is unavoidable but taken into consideration none the less. (Gustavsson, 2004)

2.2 Choice of research method

Understanding the Intellectual Capital of a firm, how long-time competitiveness can be reached in China and which role national culture plays in that, require interpretation and development of new theories rather than assessing correlation or validating existing hypotheses (Bryman et al., 2003). Therefore, a qualitative approach and an inductive method were adopted. As mentioned above, the potential for novel insights lie in using existing theory and to combine diverse fields of knowledge. This, seeing "a little bit further [...] by standing on

the shoulder of Giants" (Newton, 1676), excludes a strictly inductive approach (Bryman et al., 2003). Instead theoretical study, empirical study, redefinition of the question at hand and analysis, took the authors to the final conclusions after several iterations. Although Gummeson (2000) notes that abduction is strictly speaking not a scientific method in itself, the method of this thesis have some abductive traits.

The foundation of the analysis is drawn from interviews and a study of the existing literature. In both cases, a two-pronged approach is taken (see Figure 2 below) gathering data about: *I* management theory and practical experience in a Chinese setting for operational understanding, and *II* Chinese culture and values for a base of cultural understanding,. Contrasting and combining these two sets of empirical data through the perspective of IC, is the main challenge of the synthesis or analysis.
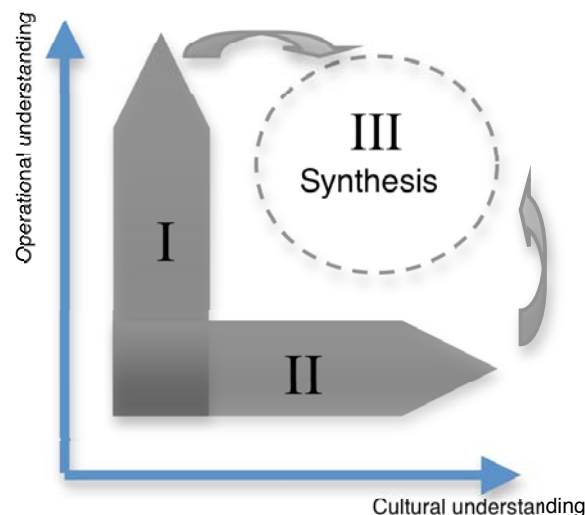
Figure 2, Research approach:
        I) Operational understanding
        II) Cultural understanding
        III) Synthesis through an Intellectual Capital perspective

2.3 Data

The primary data have been gathered through interviews (see list of respondents in appendix). The data that has been used from our respondents with practical knowledge was experienced by them, and has not been stories told

to them by others. But to not offend current or past employer or make the respondents feel limited in telling own relevant anecdotes, the stories chose to be completely anonymous. Also, due to the confidentiality surrounding the experience since very few people have been involved or informed about them. By relying on first hand experiences, the data becomes trust worthier.

2.3.1 Interviews

The respondents were first approached by mail or telephone, where an introduction of the thesis was presented to initiate an interest for the problem-area at hand. A list of possible questions and themes were sent by e-mail in advance, giving the respondent an opportunity to think about own experiences and anecdotes that could be useful. (Gustavsson, 2004; Bryman, 2002) We read about the correspondent on beforehand to start the interview with question about other issues, a way to de-dramatize the session.

The form of the interviews was semi- to non-structured, with the intention to let the knowledge and experiences of the respondents dictate the theme of the interview, as long as it was within the scope of the study. This approach has also been a way to avoid letting preconceptions of the interviewers limit. Since the thesis is somewhat interdisciplinary, the respondents have had varying backgrounds and areas of expertise. Although the diverse array of respondents makes it difficult to compare and combine statements and views derived from multiple interviews, it also mitigates the risk for a biased data set. The main challenge has been to reach a balance in the empirical data between sources contributing with cultural and operational understanding.

The interviews was, when possible, recorded and transcribed afterwards to assure that quotations could be made correctly and that failing memory or other misunderstanding was not a source of error. (Gustavsson, 2004) Taking the minutes afterwards also made it possible to apprehend body language or emotional reaction during the interviews instead of focusing on writing down every word that was spoken. As a compliment, some notes were also taken on the side as a back up to contingent failures in recording. (Merriam, 1994)

The translations made from Swedish to English have been carefully revised by the respondents themselves. This, in order to avoid any misunderstandings that could have emerged due to the fact that many of the interviews were done in Swedish or in other language than the respondent's mother tongue.

2.3.2 Data analysis

Later in the empirical study the data was sorted into categories based on the themes of stories and statements from the respondents. By doing this, the data have become easier to interpret and compare. (Gustavsson, 2004) When analysing the interviews, a critical stance has been assumed towards the possible bias of the respondents. The obvious discrepancy between statements from operationally or culturally experienced respondents has made it easy to avoid a false belief of definite truth or objectivity in the respondents' statements.

In order to better interpret and analyse the primary data, a literature review has complemented the interviews. An equally critical stance has been held towards the secondary sources, questioning their reliability, topicality and objectivity (Rienecker et al., 2002). The literature has had the main purpose of providing the means to construct a theoretical framework. Some interviews, especially with respondents with sinological competence, have contributed to the theoretical framework, making the distinction between theory and empirical data somewhat fuzzy. Although this might be regrettable in principle, it does not pose a problem in this case. The respondents have also authored some of the literature constituting the theoretical framework and the interviews served as a way to reach greater understanding and access to ideas at the very envelope of the knowledge field.

2.3.3 Selection of respondents

Larger companies are more exposed to challenges stemming from corporate culture encountering the local cultural context and have higher potential for improvement. The selection of Swedish respondents with operational experience

(for *I* in Figure 2*)*, have been from global corporations that have been present in China for a long time, being among the 25 largest employers abroad. (Nordic Netproducts AB) We also have one example of the opposite, Huawei which is a Chinese company with knowledge intensive activities in Sweden. The Chinese corporation has 80 000 employees and yearly revenues of USD 16 billion. (Huawei, 2008)

The aim for all of the respondents with practical experience (for *I* in Figure 2*)* was to be able to discuss a previous assignment or situation, which they could recount without having to avoid speaking of failures or emphasise success (bias because of political issues). For the practitioners still active in the corporation they talked about, political issue has been taken in account, and is the reason why longer narratives (that are later interpreted and analysed) are anonymous. The respondents with a theoretical knowledge might also have a bias towards their own work. This has been taken into consideration by contrasting this information. (Gustavsson, 2004)

2.3.4 Storytelling

"A story can do what facts cannot, just as knowledge can become wisdom, so do facts become a story" (Simmons, 2001)

Since our empirical data was collected in a somewhat unstructured manner, a common format was needed to create consistency. Storytelling enables abstract knowledge to be communicated (Boje, 2001), and is therefore appropriate to use for our theory of IC. The stories can hopefully reveal the "ideation patterns of that organization" (Incapedia);

"A story consists of a plot comprising causally related episodes that culminate in a solution to a problem" (Czarniawska, 1998)

Storytelling opens up for new perspectives on how our studied companies can use resources in a way that value and knowledge can be enhanced. Thereby

making the knowledge easier to communicate and transfer from one individual to another. (Mouritsen, 2004)

From the gathered data, stories will try to capture the essence from each interview and the unique perspective applicable for the study of IC and culture. The stories will be highlighted by using a different format than quotes.

> Stories will be formatted in this manner.
> *Quotations will be formatted in this manner.*

2.4 Theoretical starting point

The study required a theoretical framework that describes two matters, IC and national culture. In order to serve as a tool for analysing how the Intellectual Capital of a firm is affected by the culture surrounding it, the IC framework must incorporate the corporate culture and the surrounding national culture. Additionally, the fast paced change of China and the society surrounding the studied objects introduced another requirement. The changes over time of national culture must also be explained. Understanding change also has the benefit of *beginning* to understand how corporate culture evolve and how (and if) it can be transformed.

Throughout the entire thesis, pictures are used to create a symbolic meaning of the change in China or for the purpose of illustrating the general perceptions of the country.

Some of the pictures are directly linked to the part where they are placed, while others are chosen to stimulate a general reflection by other means than in written forms. Therefore, some pictures will have a description and the rest has been left "open" and undefined for own interpretation. The aim for these is also to show paradoxes existing in China today.

2.5 Concluding Quizzics

- Can our western linear thinking analyse a holistic area, or array of phenomena?

- What is lost in translation?

- As a consequence, which problem-dimensions are missing?

3 Theoretical framework

This chapter will describe the tools and models needed to understand the subject fields at hand; Intellectual Capital and cultural context. After a general introduction to IC, the theoretical framework used in this study will be presented. The choices leading up to it will also be explained. Conclusively, models for understanding culture and values are explained and compared.

Dealing with cross-cultural organisations and the associated issues, classical managerial frameworks seem unable to pinpoint intangible factors. The strategic management concepts, originally developed in the US during the 1950s-and 60s (Chandler, 1962), are suited for similar societies experiencing a moderate pace of change. Modern management theory includes handling a changing environment and hyper-competition (Rickard, 1994). Nevertheless, these models are ill-equipped to analyse a very different, rapidly changing, organizational context like China. Equally, by adopting the IC approach we can break down the factors that could be affected by cultural context and focus on the ability to deal with an ever-changing future.

"Ideas are capital, the rest is just money"

Advertisement for Deutsche Bank, 2002

3.1 Intellectual Capital

Intellectual Capital (IC) is a young concept and is far from having a universal definition. The subject is widely researched resulting in many interpretations, which are similar but still not the same. Edvinsson et.al. (1998 p. 25) describe IC as:

*"the sum of acquired insights which can help create future values"*

which is quite wide and in fact it includes everything contributing to the idea generating and value capturing ability of the firm. Earlier distinctions focused on the resources of IC instead of the future potential for value creation. Stewart (1991) established IC as all the knowledge-based equity in a company, the "*sum of everything everybody in your company knows that gives you a competitive edge in the market place*". Nahapiet et al. (1998 p.245) reinforces that a network of relations is essential for the development of IC and describe the concept as "*the knowledge and knowing capabilities of a social collective*", while Chang (2006 p.300) takes the another stance, emphasising the implicit and embedded nature of IC: "*knowledge-related intangible assets embedded in an organization*". Lastly, Bueno et al. takes another asset-centric perspective referring to IC as the "*intangible assets possessed by a firm*" (Wu, 2008 p.265). These descriptions by no means cover all of the definitions that have come up over the years. Nevertheless, it illustrates the variety of possible meanings of IC. For the purposes of this thesis, the first definition by Edvinsson (2008) is best suited.

The discrepancy is not necessarily a bad thing. Different uses of IC require different theoretical frameworks. Instead of considering the multiple distinctions of IC as a setback, the dynamic trait of IC and the flexibility of it may be a strength. However, the many possible meanings of IC demand that the chosen distinction is clearly stated and that the choice is made carefully to ensure a fit with the intended use of the concept.

IC can be interpreted in many different ways, the most commonly used are: the *Legal perspective* closely linked to property rights; the perspective of *Unrecorded intangibles* includes all "invisible" assets on the balance sheets such as goodwill or brand value; the *Accounting perspective* a narrower tool that tries to quantify and report the intellectual assets; finally, the *Strategic perspective* an approach to analyse the firms' long-term competitive ability. The latter perspective is adopted in this study. (Incapedia, 2008)

With a strategic perspective, whether or not the IC is quantifiable, legally regulated or possible to communicate in the form of a report, are all disregarded

considerations. Instead, this study is focused on growth and optimisation of a firm's IC. One strength of using IC to approach competitiveness is the long-term viewpoint and the focus on dynamic capabilities. The time perspective can be illustrated by the tree of knowledge.
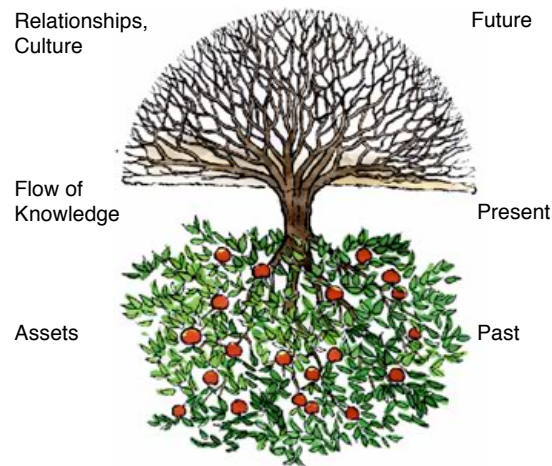
Figure 3, Tree of knowledge, Edvinsson et al. 2008

In the tree turned upside-down, the root system absorbs nutrition that will be transformed into future fruit. The interpretation into IC is; the assets being the currently existing fruit, the tree trunk being the flow of knowledge and the roots being the relationships in the cultural context of the soil surrounding it. The Chinese word for capital is *root system*, which indicates that the Chinese see capital as a more long-term concept. On the opposite, the English word *capital* is derived from the Roman word for head. This "coincidence" illustrates the central role of relationships in the eastern perspective on sustainable competitive edge. (Edvinsson et al., 2008)

In order to be able to present IC's dynamic in a cultural context; an identification of where the cultural aspects come into play is required.

3.1.1 From a framework for Intellectual Capital

When applying a complex and abstract concept like IC, a taxonomy is indeed needed. This section discusses the merits of the IC taxonomies available today and how they relate to the purpose at hand.

Edvinsson et al. (1997) originally categorized IC into human and structural capital, letting human capital be all factors concerning the essential rooted company value, and the structural capital embodying customer relationship as well as "*everything that is left in the office when the employees go home*". This categorization has been further developed into other classifications dividing IC into human, relational and organisational capital. Human capital was explained as "*brains inside a firm*", relational capital as "*brains outside a firm*" and organisational capital as the mediator between the brains (Edvinsson, 2008 p.9). There are a couple of similar deductive taxonomies (Haanes et al, 1997; Brennan et al., 2000; Danish Confederation of Trade Unions, 1999), dividing IC into subsets that, when summarized, make up the value of the IC of a firm. However, it is questionable how suitable such a framework is for the research question at hand. It seems more relevant to analyse the driving factors behind IC than the subsets.

Sveiby (2001) approaches IC from a knowledge-based perspective, with emphasis on the flow of knowledge in an organisation and how knowledge can be used when framing a strategy. He states that flow of knowledge contributes to value creation. Sveiby (2001) discuss knowledge, regarding both its definition and utilization. Many scholar share the definition of knowledge as a "*capacity to act*" (Sveiby, 2001 p.345) asserting that knowledge is individual and result in value contribution only when people interact with each other; creating a flow of knowledge. Subsequently, the discussion results in a focus of processes constantly changing by interactions, instead of an arrangement of objects. (Sveiby, 2001; Weick, 1997, 1983). He, however, identifies three families of intangible resources[2]: *Individual, Internal and External.*

Individual resources refers to the knowledge or "*capacity to act*" of the individuals inside the firm. *External resources* refers to knowledge of people or organisations outside the firm but within the firm's network; suppliers, partners

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[2] In the original article (2001), Sveiby identified families of intangible <u>assets</u> but the word resources will be used in this study to avoid confusion.

and in some instances customers as well. *Internal resources* refers to knowledge or information not held by an individual but owned or tied to the firm; databases, patents, software and more.
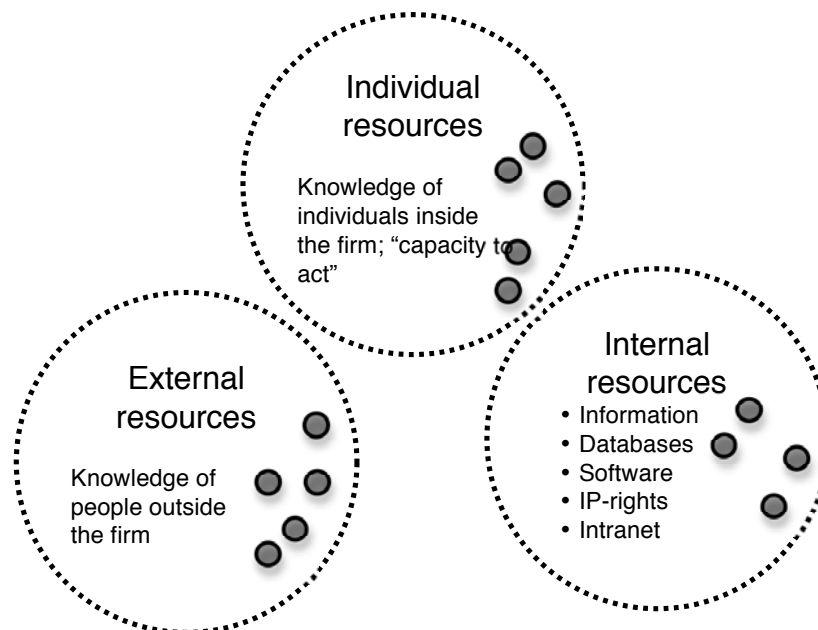
Figure 4, Three families of intangible resources, Sveiby 2001

The perception of knowledge creation consisting of resources (static), in the form of information and knowledge, and a *flow of knowledge* (dynamic) between the "agents" of the firm is similar to the ideas of Nonaka (2002). This Japanese scholar further emphasise the context of the flow and the learning process, using the Japanese word *ba. Ba* meaning time, place, connections and cultural context surrounding and facilitating the knowledge creation and sharing. To further highlight the static nature of some of the resources, it has been stated that "*information in itself has no intrinsic value*" (Hill, 1999 p. 209). This type of model clearly involves three factors: the resources – knowledge and information; the flow of knowledge – the relationships of the network; and the ba – the context of the flow. Considering this outlook, it is obvious that cultural context has no impact on the resources themselves, but rather the flow of knowledge. The cultural context can be considered an integral part of the *ba* and affects social interaction, the connections and relationships. This thesis is mainly concerned with the interaction between the flow of knowledge (relationships) and the context (especially the role of the national culture). Since the purpose is to investigate how to optimise IC, acquiring resources is not a major topic, although it is of importance for understanding the IC of a firm.
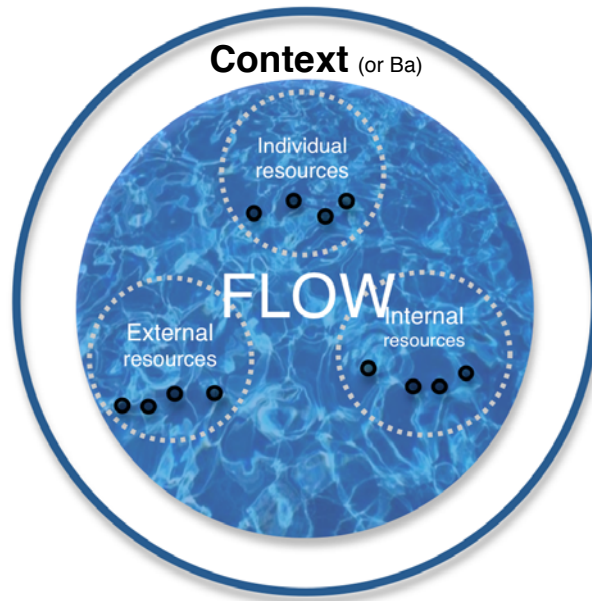
Figure 5, Resources, Flow and Context

The subset-based IC frameworks are not used in this study. However, research looking into one of the subsets, Relational Capital (RC), has lead to insights of the characteristics of relationships that seems appropriate with a focus on China. The next section will give account of the dynamics of the RC subset. Since *flow* is the sum of all relationships of an organisation, this is of relevance.

"A Chinese charm offensive" – photo courtesy www.nrk.no

3.1.2 Relational capital

Like other parts of the IC framework, there is some discrepancy about the meaning of RC. The common denominator among the alternatives is that it refers to the value derived from a firm's interface with the outside environment. It is intuitively understood that it involves one or more relationships or connections.

Some scholars have used other similar terms, such as social capital (Nahapiet et al., 1998) or customer capital (Liang et al. 2008) for this particular subset of IC. Sveiby (2001 p.346) does not use the term relational capital, but includes an equivalent concept (external structure family, constituting of) *"...relationships with customer and suppliers and the reputation (image) of the firm"* in his knowledge-based view of the firm. Edvinsson (2008 p.9) defines RC as the external counterpart of human capital, the use of *"...brains outside the enterprise"*, further inferring that the organizational capital act as the bridge on which knowledge flows. Taking another stand, Chang et al (2006 p.300) implies that "*relational capital represents the knowledge embedded in relationships with the outside environment*", in other words both the external brains and the bridge.

After understanding the scope of Relational Capital, defining and analysing the constituent components is required. In order to understand how it can be managed and enhanced. Nahapiet et al. (1998) suggest breaking down Relational Capital in three dimensions (see table 1 below). The *structural* dimension could also be understood as the pattern of the interaction or the rules surrounding the relationship. The *cognitive* dimension can be interpreted as the common understanding and ability to interpret the shared knowledge or information. Lastly, the *emotional* dimension is the commitment, quality or wish of the relationship.

Dimension	Example
Structural	EDI, telephone conference, e-mail correspondence
Cognitive	Mutual understanding, system of meaning, interpretation, language
Emotional (Relational)	Commitment, trust, reciprocity, transactional type

Table 1, Dimensions of Relational Capital, Nahapiet and Ghoshal, 1998. The authors originally used the term relational dimension, but it will here be referred to as emotional dimension to avoid confusion

With the dimensions mentioned above, effects of managerial effort to maximise RC, and implicitly also IC, can be attributed to at least one of the dimensions. For instance, the claims of Kohtamäki et al. (2004) and Zakaria et al. (2004) about the importance of interpersonal trust and mutual respect for increased RC, can easily be deduced to an improvement in the emotional level of the relationship.

3.1.3 Relationships and flow of knowledge

Apart from the scope of the relationship, another uncertainty of the term Relational Capital is whether or not it applies to a firm's internal relationships. As seen in the distinctions above, the academic meaning does not include internal relationships. However, with the emergence of network based firms (Dickens, 2003) it can be argued that the difference between a firm's internal and external relationships is fading. Furthermore, the three dimension of RC (Table 1) are relevant as an analysis tool for all types of relationships and interaction; internal and external alike.
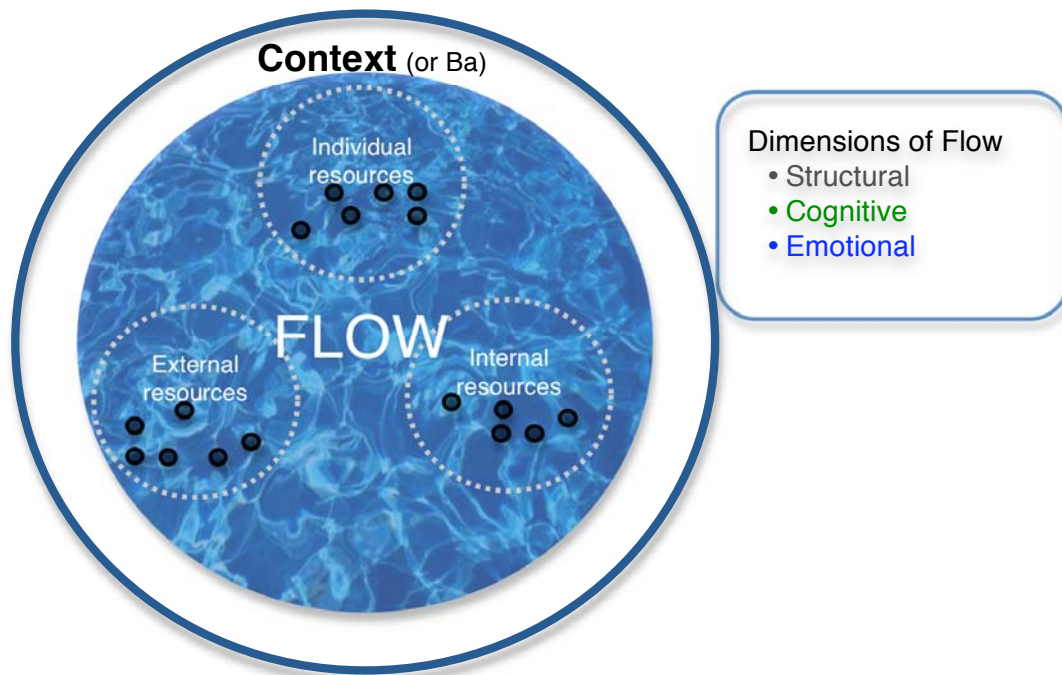
Figure 6, Framework for IC with three factors:
          - Resources (static)
          - Flow (dynamic)
          - Context

This analytical tool has obvious merits when applied on relationships between individuals or corporate entities. However, the existence of a shared corporate culture and the interplay between the culture and the employees' behaviour the dilemmas that might occur must also be taken into account. This task might seem difficult at first glance. However, the dimensions are relevant when analysing to the corporate culture per se. The corporate culture also consists of *structural* factors: meeting forms, means of communications, e-mail, face-to-face conferences; *cognitive* factors: an array of shared concepts and their meaning and lastly and maybe foremost, *emotional* factors such as the mutual values and ideas of the firm.

Relationships make up the flow of knowledge where people communicate and interact with each other. The flow is a dynamic factor of IC affected by the *ba*. Hence, the influence of the cultural context will be similar on all classes of relationships.

3.2 Understanding Values and Culture

11th Juror (rising): "I beg pardon, in discussing…"

11th Juror (interrupting and mimicking):"I beg pardon. What are you so goddam polite about?"

11th Juror: (looking straight at the 10th juror):"For the same reason you're not. It is the way I was brought up."[3]

Reginal Rose, Twelve men, 1955

Geert Hoftstede (1991) uses the excerpt from Rose's play above to illustrate the role and implication of values and culture. Hofstede is considered instrumental in the study and understanding of values and behaviour. This section will explain the basics of his models and then, for a complete picture, give accounts of the criticism that have been raised towards his theories. The criticism does not necessarily mean that the models are faulty or irrelevant. Instead it points to aspects not covered by the model and suggests alternatives for a more comprehensive understanding. Hofstede approaches culture as "*a pattern of thinking, feeling and potentially acting*" (Hofstede, 2005 p. 2). The word has several meanings and can be derived from the Latin word for tilling the soil when growing crops or other plants. Once again, the metaphor of IC as a tree turned upside-down proves to be joining the themes of this study together: Intellectual Capital, China and culture. Swindler (1986) points out that different cultures' influence on behaviour are not only by providing values but rather providing a "tool-kit of habits" (Fang 1999, p. 24). An important aspect of culture is that it is something people have in common.

> "Culture is the collective programming of the mind that distinguishes the members of one group or category of people from others"

> Hofstede, 2005 p. 4

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[3] The excerpt from Rose's play *Twelve men* is from a scene where a jury must agree on the guilt or innocence of a boy accused of murder.

3.2.1 Hofstede's perspective

Hofstede (2005) holds that culture is learnt, not genetically determined, but that it must be unlearnt before it can be changed. The early formative years of a person's life is when the cultural values are set, and they are generally fixed after that. Culture is layered according to Hofstede (2005). Similar to the peels of an onion, superficial layers can be unwrapped to reveal the core (see figure below). *Symbols* are the most superficial layer and *values* constitute the core.
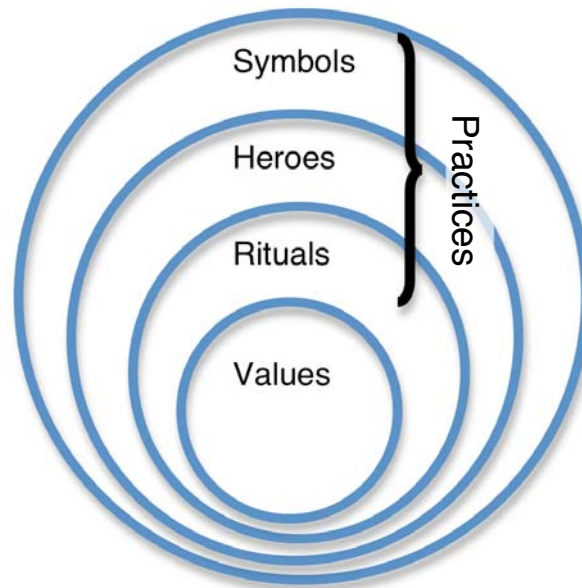
Figure 7, Hofstede's onion (2005)

As seen in the figure above, the four most superficial layers are called *practices* and this subset of layers is visible to an outside observer. Practices, in contrast to culture per se, is often changed over time; "*changing practices, stable values*" (Hofstede, 2005 p.11).

Hofstede's view of culture and how it should be understood also incorporate five "cultural dimensions". These dimensions are dichotomous scales, used to characterise and analyse culture, for instance on the level of nation states, the national culture. Hofstede's model treats variations of values within a group as sub-cultures, as opposed to the main stream. The famous IBM studies (Hofstede, 1980) measured the characteristics and subsequent differences of 64 national cultures.

Low power distance	vs.	High Power distance
Individualism	vs.	Collectivism
Masculinity	vs.	Femininity
High uncertainty avoidance	vs.	Low uncertainty avoidance
Long term orientation	vs.	Short term orientation

Table 2, Dichotomies of Hofstede's five cultural dimensions (2005)

3.2.2 Fang's perspective

Tony Fang (2006) criticise the onion model with three major concerns: value variation (paradoxes), context and time ("*the moment of culture*"), and globalisation requiring further understanding of national culture. Instead of Hofstede's cultural dimensions that Fang considers bi-polar and "either or", Fang (ibid) calls for a dialectical approach embracing intra-group value variation without forming sub-groups. The coexistence of contradictory statements or phenomena, a paradox, is central to the philosophy surrounding Yin Yang[4]. Paradoxical values are not only evident in Asian cultures. The coexistence of the Swedish ideals surrounding *Stugor* (a lonesome cottage at a remote location), and *Folkhemmet* (literally "the home of the people" meaning the collective and welfare state of Sweden), is an example of contradictions that the cultural dimensions cannot explain (Fang, 2006). Furthermore, Fang argues that culture and values are context dependant and changing over time. Seemingly contradictory values or behaviour can appear natural given its context. As opposed to Hofstede's (2005) view that values are stable and national culture is stationary over time, Fang emphasise that culture is learnt, not inherited, and that there is a more dynamic interplay between values and behaviour. Other scholars agree to this view, as seen below.

> "One of the most effective ways to change the hearts and minds of men is to change their behaviour"

<div align="right">

Bem, 1970

</div>

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[4] See section 4.1.1 *Taoism*

An example of how national culture can change is the difference between the national spirit surrounding the Chinese Mao-era and the capitalist-oriented and individualistic values ushered in by Deng Xiaoping. (Fang, 2006)

The contrasts of contemporary China
Photo courtesy of Graeme Nicol, 2007

"Prefer poor socialism, not rich capitalism!

Motto during the Cultural Revolution, 1966- 1976

"To get rich is glorious"

Motto introduced by Deng Xiaoping with the Open door policy, 1978 to present

Fang (2006) suggests an alternative model for culture and values, incorporating paradoxes and "the moment of culture", is the metaphor of an ocean:

"Culture can be compared to an ocean. In a given context at a time, we identify visible wave patterns on the surface of the ocean. Nevertheless, the culture we see at this moment does not represent the totality and the entire life process of that culture. The ocean embraces not just visible wave patterns on its surface (compared to visible cultural values and behaviours) but also numerous ebbs and flows underneath of amazing depth (comparable to 'hibernating', unseen and unknown cultural values and behaviours). Given internal mechanisms (yin-yang) and external forces (e.g. globalization [...] and situation factors), invisible and "unconscious" values and behaviours (ebbs and flows) beneath the water surface can be [...] promoted and legitimized to come up to the ocean's surface to become the visible and guiding value pattern at the next historical moment."

Although, the ocean has been created as a critique of the onion, the two are not mutually exclusive. Like always when using allegories, it important to understand what the point of the allegory is. The onion is useful to simplify and characterize a national culture. However, it must be remembered that simplification in this case means that some aspects are not covered. That is where the ocean comes in. While not as straight forward, this metaphor is more dynamic and accounts for paradoxes within national cultures. When the aim is to simplify and to deductively analyse culture, Hofstede's onion is well suited, whilst Fang's ocean can illustrate a changing culture or explain the existence of paradoxical values.

3.3 Concluding Quizzics:

- Is it relevant to combine IC-theory and tentative understanding of culture and philosophy?

- What details are lost by consequently choosing broad distinctions of IC factors?

- How can a higher understanding of the cultural context optimise the IC of a company?

4 Chinese contextual perspective

This chapter will first of all, give a brief introduction of Chinese culture, religion and philosophies. Additionally, the concept of Guanxi is explained, which creates a natural lead in to the next chapter where these perspectives will be exemplified. (See 9.1 List of respondents in Appendix.)

A company was about to build a factory in Asia. Everything was set and the construction was about to begin. In the middle of the grounds there was a hill with a tree on it. When the construction workers arrived to the hill they refused to continue with their work. The European manager arrived to the site and asked one of the local workers why they wouldn't continue with the levelling of the land. The worker answered that a spirit lived in the tree and that it could thus not be removed. The manager was then left with two alternatives; either to fire the local workers and hire western ones who wouldn't bother removing the tree, or to proceed, like this manager did, by asking; "Is there someone who can take the tree-spirit away?" whereby the local worker then answered; "Well yes. The priest can".

The priest arrived and the company began to build a small brick temple for the spirit to move into. When the temple was finished, the priest and his escort climbed the hill and led the spirit from the tree into its new temple. Everything was well and the tree and the hill were removed without further delay and without fear of the wrath of the spirit world. Through this simple deed, the company achieved a better and stronger relationship with the local community and business partners.

The story illustrates the importance of acknowledging cultural differences for enterprises acting in the international arena.

IKEA advertisement around Chinese new year coming into the year of the rat, January 2008

Chinese are very proud of their culture. They have always regarded themselves as being situated in the "*centre of human civilization*" (Fang, 1999 p. 26). The characters for writing "China" literally means; "*the middle kingdom*". (Fang, 1999) The Chinese belief-system is based on three major philosophies, Confucianism, Taoism and Buddhism. This study focuses on the philosophies of Confucianism and Taoism since they have stronger influence on people's way of life. Confucianism involves everything related to human relationship and Taoism everything regarding the relationship between human and nature[5]. (ibid)

Another important aspect, which influences the Chinese way of life, is the art of symbolism. If there is a contravention of the Chinese symbolism a negative effect can occur on the "*harmony of interpersonal relationships*" (Fang, 1999 p. 124). Over the last years scholars have therefore noticed an increasing interest among international firms for understanding Chinese symbolism. The importance and power of the *colour Red* and the significance of *the number eight* are examples of Chinese symbolism. The colour represents the summer and stands for "*good fortune and joy*" (Nilsson, 1998) and the character for the number eight resemblance the character meaning "*achieving richness*". (Fang, 1999) It was no coincidence that the opening ceremony of the Beijing Olympics started at eight

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[5] "Buddism has provided the Chinese with a kind of 'immortal food'" Making it less relevant since its concerns life after death. (Fang, 1999 p. 28)

minutes past eight on the eighth day of the eighth month of year 2008. The implications can vary. Just imagine the Chinese confusion when looking at the stock market's red arrows pointing down.

Photo courtesy of Geckoandfly.com

4.1 Taoism

Laozi, who lived some time in the middle of the first millennium BC., founded the guidelines of Taoism (Demerath, 2003; Robinet, 1997). The belief system is seen as a guiding light in life, where Tao (or Dao) translates to "the way"(Fang, 1999 p.29), and has influenced a number of Asian cultures. (Robinet, 1995)

Fang (1999) argues that, in order to understand Taoism it is important to gain an understanding about three concepts; Tao, Yin Yang and Wu Wei. Tao represents a way of living and Yin Yang stands for the principle of dualism. According to Taoism, virtues of dualism are inherent in all things in the universe, and the maintenance of harmony and the power of weakness is ever-present, the latter leading to the concept of Wu Wei. (ibid) Wu Wei argues for a non-action approach or an action-less activity, everything taking its own natural course without interference. (Kirkland, 2004) According to Taoist beliefs, it is only through the practice of Wu Wei, that freedom can be attained;

"Wu Wei nurtures a calmness of mind that empowers one to swallow all the confronting forces and then become their masters in the end/.../ Wu Wei and Yin Yang principles form the philosophical platform on which the concept of 'Chinese Stratagems' is based"

Fang, 1999 p. 33

31
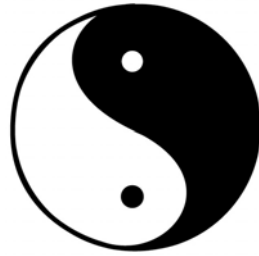
Yin Yang

Taoism teaches the harmony of the opposites; *"no love without hate, no dark without light and no male without female"* (Fang, 2008 p. 195). The symbol can be interpreted as the balance between chaos and harmony (Cooper, 1997). It is not a static figure, the flowing curve that unites the both halves represents the forces interacting, searching for a balance, constantly flowing between Yin and Yang. (Kohn, 1993) It is the focus on paradoxes in the Chinese society that contributes to an interesting aspect to this thesis purpose. Fang (2008) argues that even if the Chinese culture-society today is changed and becoming more "open", the Chinese thinking and behaviour are still very much based on the classical Yin Yang philosophy.

The importance of Yin Yang is the biggest obstacle western countries meet in order to understand Chinese society.

"In contrast to the black or white view of western societies, there is a constant battle between Confucianism and Taoism. Confucianism standing for 'do it' while Taoism encourages 'do nothing', or 'let it go naturally'."

Tony Fang

4.2 Confucianism

While not exactly being a religion in the classical sense, Confucianism and its system of ideas, values and philosophy is an important part of Chinese history and contemporary culture. The founding father Confucius who lived between 551 and 479 BC., has given name to the philosophy, although he would rather refer to himself as a transmitter than as a creator (Lodén, 2006). He believed that a perfect society had prevailed under the rule of the sage kings Yao, Shun and Yu. The philosopher aimed to restore the harmony of the world by studying old rites

and emulate the sages. The praise for them was central to him and the virtues held by them were the ideal to strive for. According to Confucius, the sages ruled not by force or reward, but by honourable example. Furthermore, Yao and Shun abdicated their throne to the person they saw as best suited to rule rather than to their own sons. This *meritocratic* element is fundamental, not only in the sense that leaders should be chosen because of merit but also in the way people should strive for and associate themselves with success;

> *"When the Way prevails under Heaven, then show yourself; when it does not prevail, then hide. When the Way prevails in your own land, count it as a disgrace to be needy and obscure; when the Way does not prevail in your land, then count it as a disgrace to be rich and honoured." (Analects 8:13)*

Confucius – Photo courtesy of Suffield Academy

The most important value for Confucius was *ren*, which is impossible to translate to English. But it essentially means *goodness to other people* and he held reciprocity very high, much like the golden rule of the Bible.

> *"Zigong asked saying, Is there any single saying that one can act upon all day and every day? The Master said, Perhaps the saying about consideration: "Never do to others what you would not like them to do to you"(Analects 15:23)*

Moreover, much emphasis is on the family, both being something held very dearly and as a microcosm of society and the way society works.

Mentions of "superior men" and "common men" made the teachings easy to adapt as political guidelines in China and much focus is on the importance for a man to fulfil the role he is given. The way people relate to each other in different settings has great importance; both in the scriptures and the way Confucianism has taken its form. Confucius identified five types of relationships that make up society: *ruler - subject, father - son, husband - wife, older brother - younger brother* and finally *friend – friend*. A common mistake is to interpret the assuming of a role and the generic relationships as static rules that reduce a man to a role in a relationship. Conversely, Confucius was "*very much aware that in the course of somebody's life a person will perform different roles: a man will begin as a son, become a subject but also a father and maybe even a ruler. Still, one cannot get away from the fact that Confucius's conception of the ideal social order is fundamentally hierarchical.*" (Lodén, 2006 p. 43)

Confucianism have developed from the thoughts of Confucius, who "*was primarily preoccupied with human problems: What does it mean to be a human? How should we behave? According to what principles should we act? How should society be organized? In modern terms we would say that he was a psychologist, a moral philosopher, a social philosopher and critic. […] He was not especially interested in […] metaphysics, ontology, epistemology and logic.*"(Lodén, 2006 p.36)

In the early Han dynasty (220 BC -206 AD), Confucianism became state philosophy and the guiding norm for education of statesmen, much concentrated on replicating the classic scriptures and rites. In this era, the social and political traits of Confucianism were emphasised. Later on in the Song dynasty (960-1279 AD) the intellectual envelope of Confucianism were pushed forward as Neo-Confucian scholars began to include and focus on metaphysical themes, rather than rites and ethics.

Upon the creation of the Peoples Republic, 1949, and until the end of the Cultural Revolution, 1976, Confucianism was seen as an *"obstacle to modernization"* (Fan,

2007) and was under attack from the regime. The teachings were then more prominent outside of Mainland China (Japan and the Tiger economies) where Confucianism plays an important part of the national culture. The economic success of the latter proved that there was no contradiction between Confucianism and modernisation. Recently, China has experienced a revival of Confucianism and many elementary and secondary schools include Confucians principles in the curriculum. Furthermore, Confucian scholars and university courses have multiplied and enjoyed an improved reputation (Fan, 2007). Some argue that the reason for the re-emergence of Confucianism is the lack of spirituality in China after the Cultural Revolution. (ibid) Others argue "*the most important factor that attracts people to Confucianism in China (today) is [...] the quest for a non-Western national identity.*" (Lodén, 2006)

> "*Chinese feel, to some extent, humiliated by west, and therefore have an urge to regain respect. This is an important thing to remember.*"
>
> Fredrik Hähnel

4.3　Guanxi

A Swedish businessman was eager to establish business relationships in China. Well at home, he was pleased about the stack of business cards he had gathered during his travels in China, mistakenly believing that many connections were created and that he was well equipped to start his venture. After calling them all, he realized that none of his new Chinese acquaintances seemed impressed with his intentions and they did not share his understanding concerning the level of their relationship. Since he couldn't mention someone else in their common network or could refer to a third familiar party, all the relationships went cold.

Tony Fang , 2007b

This typical story illustrates how hard the Guanxi-concept can be to navigate. Rather than building relationships upon professional interaction, the Chinese

culture tends to rely more on trading favours based on personal connections. (Fang, 2008) By giving reciprocal exchange of these favours (Mattias Bergman).

"interpersonal linkages with the implication of continued exchange of favours".

(Luo, 2000, p. 2)

Zhu et al. (2007). claims that Guanxi can be created in three ways, first by "making friends", then "developing emotional connections with people" and finally "investing continually into the relationship".

"Swedes have a stronger emphasis on the process, wanting to have a clear process. We in China think that relationships will be better - more important. Relationships help us open up a lot of opportunities and even solve a lot of problems. Personal relationships are much more important when it comes to business and the way of working."

"When we meet our customers, western people want a very clear time schedule. What to discuss and have a clear time slot. Maybe Chinese people are not so used to that, but we are starting to train people to be more organised now. But still, when we meet with customers, we have some mission to achieve, but we are not so strict on timetable and we play by ear. So now when we set up meetings with customers, especially if it involves some sort of overseas colleague visits, we have to make sure it is really organised because we don't want to waste time. This is something we need to pay more effort to, to make change."

Connie Cheng

There are many meanings behind the word Guanxi, support, maintain, favour are some of them. (Luo, 2000). During the last decades, the west has defined the phenomenon in various ways, but failed to highlight the concept in a practical manner. Resultantly, western firms have misunderstood (Dunning et al., 2007) and underestimated Guanxi.

"I haven't thought about Guanxi at all to be honest, I don't know if I would have needed it either, since we had a strong corporate culture. I know too little about it, but it doesn't feel we missed out of something major."

<div align="right">Lars G Malmer</div>

Even if organisational bonds, e.g. being co-workers, are one way to establish Guanxi, it does not equal a relationship by default. Nevertheless, it is much harder without a first common base, especially in a business context. Because of the inherent understanding for Guanxi, Chinese are better with external communication and establishing relationships overall (Mattias Bergman). Some implications of Guanxi are indisputably negative. There are some similarity to corruption and bribery, which makes important to set own values and follow own ethics, when accepting favours. The reciprocity means that it is hard to oppose returning the favour if a similar one was accepted by you in the first place. (Mattias Bergman)

"For instance, if a Chinese friend or co-worker wants me to interview a relative for a job I can agree to that but clearly state that they won't be hired if they lack the right skills. This is one example of when you can't give in to your own principles or values. I have built my own Chinese network by using Guanxi-philosophy for 20 years, without bending my own ethical limits."

<div align="right">Mattias Bergman</div>

Obviously negotiations between Hu Jintao and Luiz Ignacio Lula da Silva have been successful, but practices differ; handshake or hug? - Photo curtousy of nrk.no

Swedish companies are aware of Guanxi and understand its importance when building relationships and using them effectively. But they disregard the negative effects that might occur when a Chinese worker use it for their own agenda. (Mattias Bergman)

"If a Chinese is given the responsibility, or empowerment, to do business on their own and choose to re-pay a favour at that time, it might result in poor contracts or risks for the company. Especially if the deal is not in accord with the company's policy. But then again, if you become involved once in these kinds of relationships, you will have to suit yourself for getting the same treatment."

<div align="right">Mattias Bergman</div>

There could also be negative implications on how internal relationships are handled:

"The problem, as within all other industries in China, is the internal corruption. There is a "bribe the boss"-system that guarantees status or position if it is handled right. Something that makes you irritated in this particular organisation is the constant rotation of executives each year, which is the only way to avoid the corruption."

<div align="right">Urban Fagerstedt</div>

With policies like in the example above, seniors have no time to achieve anything much before they get replaced. The executives are believed to be highly competent, but because of the rotation-system they tend to focus only on the short-term. The long-term perspective can therefore only be handled by the highest general, leaving the rest of the organisation with insufficient information-flow. (Urban Fagerstedt)

The focus and reliance on the personal relationship have implications for employee loyalty and talent recruitment.

"You easily find your self in situations where a employee is more loyal to a person rather than to the company. This is connected to the "job-hoping" problem, there is still a "the grass is always greener on the other side" – mentality rather than loyalty to the firm in China."

Bo Landin

Job-hopping is a big concern among firms in China. Since this thesis focuses on the flow of knowledge, the issue will, however, not be investigated further.

5 Stories from corporate China

The implications of the surrounding culture for corporations in China will be given in this chapter. The stories presented are gathered from interviews and from our respondents own experience. They are authentic and up to date but changed into a storytelling format, as well as anonymous. The chapter will end with a brief summary of the key narratives presented.
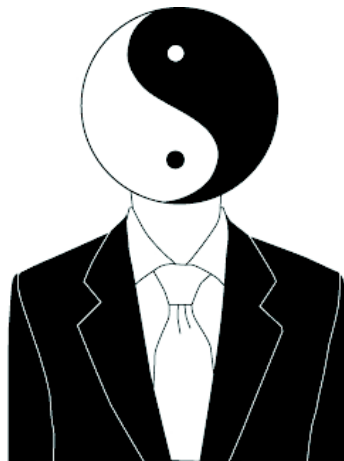
Illustration courtesy of Anna Seling, adapted from tonyfang.com

"We always say that each country has their national culture, so it's very important to have the corporate culture to really foster the people together in the corporate. So when we try to implement the corporate culture into different countries, we need to have some sort of integration with the national culture. For example, in China when we talk about empowerment, of course traditionally Chinese people tend to be more obedient and compliant and maybe it takes some time for people to get used to empowerment."

Connie Cheng

The basic knowledge about the Chinese culture, provided by the previous section, is necessary in order to understand the culture of firms in China. As the national culture meets the culture of modern multinational corporations, they clash, converge and coexist. This section will present narratives and statements from the respondents, describing the flow of knowledge, the relationships and

the context of firms in China. The stories and descriptions have been organised into themes, starting with the basic factors for relationships such as trust, where guanxi is a starting point, continuing with external relationships, internal relationships and leadership. Lastly, the values prevalent will be described.

5.1 Trust

The foundation necessary for every relationship is built upon trust. The effects of having had less adequate institutional systems are the Chinese peoples' tendency to rely on other rules in business, i.e. the need and strength of informal contracts. The Chinese sense of trust has another meaning and is still highly present in Chinese business. This is also an expression due to the cultural phenomenon of Guanxi. (Fang, 2008). For instance, Fukuyama (1995) views China as a low-trust society, where the consequence is not to trust anyone outside of your own network. Trust in the relationship sets the premises of negotiations and further business conditions. The trust in ones Guanxi therefore creates either competition or cooperation, which all depends upon if you are willing to be reciprocal (share and assist the relationship) with the counterpart. (Fang, 2000) Because of the general distrust in the Chinese culture, it consequently gives effects in behaviour such as the way they share, or do not share information as well.

Details are kept secret in order to avoid e.g. IP-rights issues. Even in partnerships, there is an reluctance towards sharing information as a result of being a low-trust society. This is inevitably hindering for complex products or platform development.

Low trust

For a particular Chinese company; trust, the lack thereof and general secrecy were main issues. For instance, it disapproved of showing drawings or other important papers or files between colleagues. A normal R&D-workstation at this company had only a computer screen; no disc drive, no USB port and the office did not have a printer. It shouldn't be possible to steal ideas, something the Chinese were terrified of. The few Swedes at the company were not used to this attitude. They were used to free flow of information within the company being dearly promoted. The suspicions of the company were even graver towards external parties. The Swedes were used to welcoming advice from external parties when creating something beyond their own expertise. If they needed die-casting expertise for a new design, they normally brought in external competence during the discussion. Such a thing was out of the question at this firm. As a result, the company didn't get the best recommendations. This was one thing a Swedish local executive immediately reacted to - the "security- and secrecy paranoia" which was much more present here than in western companies. On top of all, it became very hindering.

However, there had been occasions at the Chinese branches where employees had quit their job, taken drawings in the back pocket and

started working at a competing company or opened an own firm the very next day.

Price specifications were something the Chinese construction staff knew nothing about, not even what the chips they used costs. It was highly inefficient, from the Swedish executives' point of view. Considering the company's strict cost-focus, this wasteful way of working was something they strived to change.

The absent flow of ideas and information was not only caused by restrictive policies on the account of the management. One Swedish manager noted that: "During practical work-tasks there is basically no need for control of back-feed, according to the Chinese worker. They neither know nor seem to be interested in understanding what is happening longer down the product-line. This is nothing you discuss with another department; instead they keep focus entirely on their own task and the current process. Unfortunately, the different components of the product, don't match when it's later put together due to this. It is extremely obvious to Europeans that something is missing and perceived as a very inefficient process due to the redundant work and lack of knowledge it creates."

5.2 External relationships

Upon arrival

The discussion was finished and all the agreements had been settled, everything was decided and done. My college and I were just supposed to fly over to China to represent the company and to sign the papers. The signing was only supposed to be symbolic and was going to be celebrated with a big reception and dinner. We arrived a Sunday and were picked up at the airport. We were looking forward to rest and freshen up after the long flight and thanked for the ride. We informed them the whereabouts of our hotel but they answered, to our

big surprise, that we were first going to the office to revise the agreement one more time.

When arriving at the office we were shown to a room with a long table where 10 Chinese representatives sat and waited for us with the papers. They informed us that they had some amendments for the agreement. We answered that it was just the two of us representing the company and that as far as we understood; the agreement had been settled and cleared by our lawyers, as well as already signed. They just wanted to adjust a percentage here and there, all to their favour of course. We asked for the phone in order to call our company lawyers to see whether the deal still was under discussion or not – the answer was a clear NO. The Chinese continued negotiating, insinuating that the adjustment hade to be done instantly and quickly, blaming on the big fancy arranged press conference, with many important guests, that could not be postponed, "No, in that case we are returning back to Sweden" was our answer "No, that is not possible, the conference…" "Either we sign what was agreed or the deal is off". The Chinese took their loss, no change was done and the evening continued as planned.

As illustrated above, an implication of the Stratagems is that Chinese can grab every opportunity to out-manoeuvre the opponent in a negotiation setting. Too even be able to enter a discussion-process the establishment of a social contact is needed. A relationship is required because an agreement is never 100% certain. It is wrong to assume that the process will be handled smoothly and problem free. A relationship helps companies to diminish the cost of those uncertainties (Lars G. Malmer).

"It is not only about signing a paper and shaking hands. For instance, a conversation is required; building a relation, leading to a development. This is very important, maybe even the most essential part of a business negotiation."

<div align="right">Lars G. Malmer</div>

The lack of trust and the history of state owned enterprises and industry organisations have resulted in a different corporate environment. Assistance from industry organisation and collaborating with competitors is generally not very common (Bo Landin,).

The language-barrier had previously been a problem when doing business in China, but this issue is today weakened, no longer requiring translators to the same extent. Without the lingual barriers, companies have been able to establish better relationship with customers (Bo Landin, Mattias Bergman). Still, Swedish firms tend to do the same mistakes of not using enough local connections before taking the business relationship for granted. If not taken into consideration, it indicates a lack of understanding of the Chinese business culture. (Kjell Anneling)

At the same time, there also exist Chinese firms that have strictly professional relations with all business partners; relationships without the characteristics of, for instance, Guanxi. (Fredrik Hähnel, Tony Fang)

5.3 Internal relationships

Internal relationships' implications have been described in a similar manner by the respondents. The characteristics of the Chinese organizations, where the major challenges and differences were found, can therefore be divided into following themes; *Hierarchy, Initiatives* and *Meritocracy*. These also reflect why, and how Chinese communicate in general and is shown in the tendency towards implicit communication, which is hard to come to terms with.

First of all, our definition of internal relationships, which is especially relevant for our purpose, is the ones between the co-workers within an organization. It should still be noticed that the way of socializing and building private networks in a business environment affects how this is managed, which is in many respects differs from what Swedes are used to.

"We arrange an apartment in Sweden, which is often shared by three Chinese at the time. But they don't seem to socialise, they just sit in their own room after the workday is over. But they due play ping-pong at work just for fun...but still, its only job-related interactions. I believe they live a quit meagre life, they even work o Saturdays."

<div align="right">Urban Fagerstedt</div>

The quote above supports the understanding that Chinese make a distinction between professional relationships and their private ones. Drawing the line between all connections directly tied to the firm and the network circulating around the family. (Bo Landin)

However, there are also signs pointing in the opposite direction. Daniel Bell suggests that Chinese co-workers make an even stronger effort today with the intention of achieving stronger emotional bonds. This becomes clear through activities such as common non-corporate activities after work hours.

5.3.1 Hierarchy, Initiatives and Meritocracy

"There is no choice. Very little say on the part of the employee, if you are given an assignment you do it. [...] Some of the people here came (from China) with less than a week's notice. The supervisor just popped into the office and said 'time to go to Sweden for three months'"

"Chinese management is not aimed at communicating strategy but communicating what is important at the moment, even to the degree where people are referring to the Art of War as a management bible. Hence

the prevailing theory is that strategy is for the top brass only and that the others should know what to do for the moment, not more."

<div align="right">Urban Fagerstedt</div>

Chinese firms and organisations are often described as *hierarchical* first and foremost. This trait manifests itself in several different ways and can partly be traced back to Confucian values and ideals. In a stereotype of a Chinese organisation, the individual relates to the organisation with little involvement. Tasks and positions are typically allotted without much say on the part of the employee and, in accordance with Sun Tzu, the strategy is privileged to the top management only with some exceptions on a need-to-know basis.

The need-to-know focus is in strong contrast to Swedish organisations striving to be cross-functional and to let employees understand the big picture. In general, Swedish firms "force" their employees to understand the product and the process around it. They are encouraged to interact with other technologies to promote a broader understanding. Chinese corporations have been showing an increasing interest why and how such a small country as Sweden can have so many great inventions and success business stories. (Connie Cheng, Urban Fagerstedt, Fredrik Hähnel)

With the hierarchical norm in mind, it is not surprising that Chinese employees are less inclined to take *initiatives* or even to voice their opinion. The respect for superiors can become an inability to question the status quo and a fear of making mistakes.

"Normally in a meeting people tend to listen to the senior people instead. Even though they may have very good points, they may not take an initiative to express it or even to argue. I think the argue part is really lacking. Because then maybe another person will say that this is not a very good idea [...]. So this thing I think is a big difference when we compare with the western culture. In western culture at least there will be several rounds of discussion before, of course, at the end of the day people will still listen to their manager's final decision. I think traditionally, we respect

senior people, we respect our parents and we listen to our teachers. That is some sort of Chinese culture that has been embedded in our heart for a long time."

"I think we still have a fear of making mistakes, we want to keep face, so we will be less active in trying, in taking the autonomy. And sometimes we care too much about the hierarchy, so we sometimes don't know where the line is. This will also affect the empowerment. When we are talking about empowerment, this is not a single task kind of delegation, but a kind of atmosphere where you feel comfortable to exercise your initiative where you see the need to do something, or when you see a need to really create something new. That is probably the biggest challenge."

<div align="right">Connie Cheng</div>

Another aspect of this is the *meritocratic* feature of Chinese organisations, and maybe also a characteristic of how Chinese co-workers regard their relationship to the organisation. The meritocracy does not only manifest itself through employees wanting to succeed but also in avoiding possible problem areas or difficult projects.

"One of our assignments was to help department X at the parent company getting more efficient. We had one Chinese co-worker to act as a bridge between us and the organisation in China. One day we heard that the local supervisor in China had said that the project was a bit tiresome, and all of a sudden the Chinese counterpart wanted nothing to do with the project. [...] People say that careers are based on succeeding with your projects. The ones who accomplish their projects are promoted and others are not. That is why it is important not to be associated with troublesome projects. The downside, however, is that problems are not viewed as challenges."

<div align="right">Urban Fagerstedt</div>

The fear of failure and to be associated with step-backs implies problems for Chinese to handle failure or unmet expectations. It is important to not lose "face", meaning image or credibility of a person.

5.4 Implicit communication

Indirect communication or implicit information most certainly exists more between Chinese co-workers, a fact that also is confirmed by Urban Fagerstedt for instance. Most of the companies, or associations, this thesis involved used English as a corporate language to stimulate effective data flows. But still, there is much information that gets lost because of differences in approaching each other when sharing information. (Kjell Anneling)

Fredrik Hähnel indicates that some of the problems of can be avoided by using individual meetings, where the pressure of keeping "face" in front a group is not an issue. And to conclude the importance of adjusted communication and thereby also leadership in a Chinese context, the symbolism can be a helping tool for highlighting the messages the company wants to stand for.

The Consultant that came in from the cold

> After working with a Swedish external consultant for some time with a track record of nothing but satisfactory performances, discussions of hiring the consultant to the company went effortless. Both parties agreed on terms and an approximate compensation level without much problem. When it was time to finalise the employment, the consultant met with a Chinese supervisor and asked for a slight raise in pay. The supervisor reluctantly agreed and the negotiations were done. After some time, no further action had been taken to commence the employment. Weeks became months without any word from the Chinese supervisor. When a Swedish peer to the supervisor asked about the issue, the response was that the matter would be looked into. After another month, the Swedish supervisor brought the matter to the attention of his Chinese equal yet again and added that it might

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be time to let the consultant know the final decision. Later still, the Chinese supervisor had to leave for an assignment and his Swedish peer pressured him once again. "Maybe you could take care of the issue instead?" the Chinese supervisor asked in response. "But why, what is the problem?" asked the Swede. Finally he understood that the small pay raise would make it hard to present the employment to their superiors and that was why the issue had been stalled. Upon hearing this, the Swedish supervisor explained the situation to the consultant and the employment was settled in five minutes.

"Ignoring the pressure is a bliss" - Photo courtesy of Wang Qingsong

Lost in translation

The Chinese executive tried to explain to the burned-out Swedish site-manager; "Normally for Chinese people, we are less outgoing and less social when it comes to mingling with new colleagues. […] Socially we are less active, than the European colleagues. But it doesn't mean that we are less active within the Chinese community. Due to this, the Europeans perceive the Chinese way of communicating in another way; believing the Chinese have problems approaching the rest and therefore don't get the opportunity to share what they feel or know.

The stressed out manager burst out; "Too often you sense that the Chinese don't tell you everything connected to the decision. It is the same thing as with their problem of saying "No"; which is not normally directly outspoken by a Chinese. Only if you put them in a corner you realise they act this way due to the negative or uncomfortable issues related to the information. They don't want to become associated with it. If they start wandering away, you know they are actually saying 'it wasn't my call or the decision wasn't mine'."

The top-down norm, implicit communication and the practise of Guanxi are all very important features of Chinese organisation. The next section will explain the implications of these traits to the management of a Chinese organisation.

5.5 Leadership

Captain on Board

In the middle of the 80s an executive, from a large Swedish high-tech company, got assigned a position in China. He was not a pioneer but was placed there in an early development phase.

He soon realised that the Chinese had a completely different way of building teams and project groups than back in Sweden. He was used to forming groups that would then self govern and choose the way forward. Instead, in China there were hierarchical organisations where the boss controlled everything, with daily reports and follow up. A clear difference – more hands on. […] There was a dependence on authority, rather than running the risk of taking an incorrect decision, the Chinese preferred to not take a decision at all. […] He noticed that many of the western firms that tried to force the western management style upon the Chinese organisation too abruptly failed."

His last assignment was in Hong Kong during four years, with a responsibility over Asia and Oceania. But when he arrived he had the

post of being the chairman of the board in China. The out-dated leadership view which existed in China during this time eventually forced him to resign from the post as chairman. He couldn't still be involved in the territory with that kind of position, because in China a chairman role meant an operative responsibility. This made the Chinese workers turn to him with issues, instead of the appointed local operative supervisor. Even more troublesome, external actors such as government or customers perceived him as operationally responsible. He therefore resigned from the role but stayed on as a board member until 2000.

A strong leader carrying the group forward - Photo courtesy of Li Wei

The hierarchical composition of the Chinese firms demands a different type of leadership, exemplified in the story above, where symbolism plays an important part in how to exert leadership, and is possible to apply in order to achieve a change in leadership.

A leader working in China has to recognize that instead of admitting ignorance or asking for help, the Chinese will try to avoid the issue or the decision and, in the case of a mistake, try to cover it up. The aversion of disgrace or embarrassment is associated with groups or organisations. And when faced with a problem or dilemma, a co-worker might choose to not do or say anything at all.

"We as leaders have the obligation to really drive for this to happen. Most important of all, of course, is that we have to "walk the talk", from the top, down to the bottom. [...] That cannot come from one single activity; it has to be done through a climate or atmosphere."

<div align="right">Connie Cheng</div>

Symbols represent an essential way of communication with Chinese employees and are more efficient rather than informing in written forms or having group discussions. *Lead by example* is a simple way of communicating that makes an important difference when managing a business. (Fredrik Hähnel, Connie Cheng) By stating such examples business managers assert the ethical rules and norms that the firm chooses to recognize as their own as well as establishing a good internal relation between the board of executives and the employees. (Fredrik Hähnel)

"Symbolism and parables are a good way to communicate, but only if you understand the Chinese references. The danger is, as always, the misunderstanding it can lead to. When having different framework of references or values you should be over-explicit and use all the support, pictures, diagrams, written messages, repetitions, synonyms etc. as possible to avoid misunderstandings."

<div align="right">Mattias Bergman</div>

Not without my earplugs

A group of Swedish executives, including the corporate CEO, were visiting a plant. A tour of the facilities was arranged for the visitors. At one point there was a red sign stating the requirement of wearing earplugs and safety shoes in order to enter the factory. The visiting executives received a pair of shoes but no earplugs and were then encouraged to continue into the factory, even though they hadn't received the complete security outfit. The CEO answered instead; "But we have no earplugs. We can't continue".

The responsible manager of the factory received a reprimand and was told to get someone who could arrange some earplugs to everybody. That symbolic signal was clear as water. The executives had "walked the talk" and reinforced the company's safety policy beyond doubt. Everybody could here forth see that working without earplugs were not acceptable as part of the corporate principle or culture.

5.6 Values

The Western traditional view of Chinese value on an individual level, in a company or related to work is very extrinsically focused. For instance, the frequently mentioned drivers a Chinese is suppose to strive for are, among others, salary, carrier opportunities, title etc. (Fredrik Hähnel)

"The Chinese are pragmatic in their values but you should be aware of them being very capitalistic and has been during the last 20 years, even if the country is a communistic state. The solidarity-thoughts are less visible both between individuals in the companies as well as in private. If you can find gains for the family, it will definitely come first. Sure, the companies pay their taxes but the social responsibility doesn't show at all, at least not in the extension you might think. They rather seem to live in a communistic suit."

Mattias Bergman

By playing these incentives right managers can achieve better results, according to some respondents. But today, the Chinese seem to be facing a crossroad where other factors, than the ones above, are related to success. Where the Swedish firms have several features that can act as effective incitements for the Chinese;

"And I understand that one of the attractive points that we have is the SKF culture. The culture attracts a lot. Today young people would like to join a company who respect people, and they don't like the culture of top-down, autocratic or bureaucratic - kind of culture. But we are a Swedish company, so we have the Swedish culture. We respect people, we treat

people more equally and we also care about people's well-being. I think this is a very attractive point for young people. They need room to exercise their potential. One of our values is empowerment, where we encourage our managers to really empower people."

<div align="right">Connie Cheng</div>

Bell also presents the same paradoxical idea. By defining a firm's motivation as not to be controlled by the traditional incitements but rather expressed;

"In the west, if you ask "what does it mean to be a good employer?" people tend to say "well, we should give them more privacy, we should give them more salary" and of course those are important but if you ask a manager in China he will say "we should treat them as family members". This is a Confucian idea, that we learn morality in the family and then extend it to non-family members. Bosses and workers".

This might actually imply that the corporate culture can fill some kind of void, changing the values and questioning the old incentives, to meet the Chinese "new" goals. These rather contradictory value-stands might be worth thinking about.

5.7 Summary

This chapter has given a general description of corporate China and has presented some interesting problems or issues in several stories. Five of them will be further analyzed in the next chapter and are summarised below.

Story title	Section
Low trust	5.1 Trust
Upon arrival	5.2 External relationships
The consultant that came in from the cold	5.3 Internal relationships
Lost in translation	
Captain on board	5.5 Leadership

**Table 3, Stories to be interpreted and analysed**

6 Analysis

In this chapter the analytical tool derived from the theories will be applied to our empirical data (chapter 4 and 5). The section will begin with a short recap of IC, viewed from a flow-centric perspective, and its three relational dimensions in combination with the cultural phenomenon. Lastly, other explanations or reasonable solutions for some of the findings will be presented.

6.1 Using the theoretical framework and the empirics

The flow-centric understanding of IC, developed in chapter 3 is summarized in Figure 6.
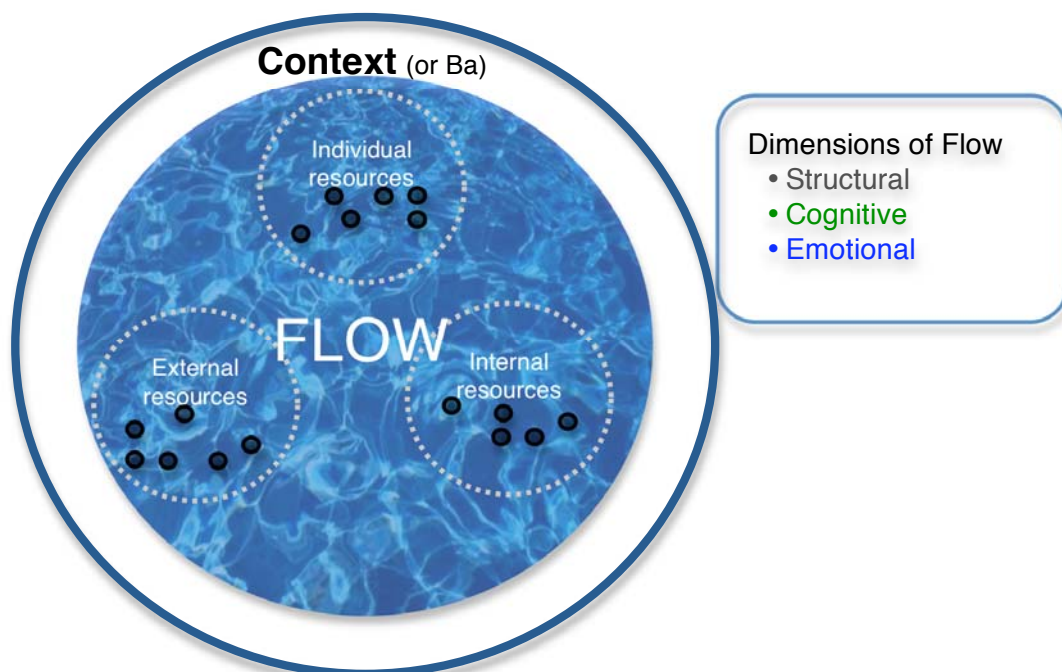
Figure 8, Framework for IC with three factors
        - Resources (static)
        - Flow (dynamic)
        - Context

The model consists of three factors: *resources*, *flow* and the *context*. Knowledge is interpreted as a "capacity to act" but viewed as a static resource. The value of knowledge is developed through people's interaction with each other, i.e. by their relationships. If the relationships in the network of the firm (individual, internal, external) are enhanced, it will in turn lead to an optimisation of a firm's IC. Flow is a driver of IC as described below.

$$\Delta \text{ Relationships} \Leftrightarrow \Delta \text{ Flow}$$
$$\Delta \text{ Flow} \Rightarrow \Delta \text{ IC}$$

As an additional analytical tool, flow can be broken down into three dimensions: the *structural* dimension, the *cognitive* dimension and the *emotional* dimension. In this manner the strengths, or weaknesses, of flow or a specific relationship can be pinpointed and linked to one (or more) of these dimensions.

The empirical data describes the national culture surrounding firms in China and the business culture evident inside firms in China. Accounts of the business culture come both in the form of descriptive statements by our respondents and in the form of stories, illustrating different issues from cross-cultural interaction or characteristic phenomena in Chinese corporate culture. The stories are analysed further by application of our analytical tools. Depending on the story, issues will be described in terms of what happened, how it was perceived, what seemed to be the problem and also how it was handled.

The outset of this study is to investigate how the (Chinese) cultural context could affect IC. By understanding the nature of the problems and how they relate to the flow of knowledge within a firm's network, the first steps towards optimising the IC of a firm can be taken.

6.2 Interpreting the stories

We have chosen to present and analyse the stories with interesting and reappearing characteristics that could lead to relevant insights. By also questioning this result, a further development of the paradoxes in the analysis can highlighted, and will also be stated in the end of this section.

6.2.1 Upon arrival

In the case of negotiations and building relationships we must first identify how the different dimensions of the relationship manifested themselves. Particularly

interesting is the story about newly arrived executives, who found themselves thrown into a final round of negotiations.

Structural

The structure of the relationship is in this case not so much any technical or physical links between the two participating parties. Instead, it is the structure and procedure that surrounds their interaction. There was clearly some discrepancy in the understanding of how a relationship is built, between the Swedes and the Chinese. In the mind of the Swedes, the legal departments of the two firms had reached an agreement and thus the frame for the partnership was finalised. The Chinese, on the other hand, obviously had the intention of grabbing every opportunity to change the rules in their favour. This could also be linked to the emotional dimension (see below) but obviously there is some interdependence among the dimensions of a relationship.

Cognitive

The cognitive dimension of the Sino-Swedish partnership does not seem to have posed a problem in this case. Although the language barrier was present, interpreters had resolved the issue to such an extent that the lawyers of the firms had been able to draft a document.

Emotional

Even if the story does not mention the commitment or trust specifically, one could argue that this was the area where the relationship was lacking the most. The Swedish firm was focusing on the fact that an agreement appeared to have been reached, while for the Chinese the emotional bond was not yet established well enough. Maybe more importantly, the emotional part of a relationship will be developed over time whilst the structure in the form of an agreement is set up to be static.

The case seems to be an example of the typical collision of different ways of handling an inter-firm relationship where one part is "focusing on the process"; or the structure, and the other on softer side of a relationship; building trust and commitment.

6.2.2 The Consultant that came in from the cold

Even if the contract was considered settled verbally, a minor discussion concerning salary is still part of the process, viewing this from a Swedish perspective. It does not normally prolong nor break the contract, so there are therefore various sides to this story. Direct implications in the structural dimension could not be identified.

Cognitive

One is, the Chinese supervisor implicitly made it clear that the company did not accept the suggested raise in compensation. It was rather another way of saying NO, by avoiding the issue completely and not delegating it further.

Emotional

On the other hand, it could be part of the Chinese culture of not wanting to make a decision that later might create a discussion further up in the hierarchy. Causing "trouble" or inconvenience for his superior, and risking becoming associated to unsuccessful recruitments. Meritocracy is somewhat connected to the issue.

The contract issue could be another part of the story, reflecting how a Chinese use tiring tactics to pro-long the process, making the counterpart almost give in. This is a stratagem rooted from Taoism traditions, giving a very unpredictable negotiation process. This might be hard to grip, for a more straightforward Swede. The type of prolonging will inevitably be perceived as very negative by the Swede and lead to distrust towards the Chinese supervisor in an early stage. The well-functioning relationship itself could be harder to achieve when the differences in valuing a co-workers time and worth is at stake. The Chinese supervisor's signals were interpreted in this way due to the discrepancy in the emotional dimension between the two parties.

6.2.3 Low-trust

The story about the Chinese company that lacked trust, and its Swedish office, illustrates issues related to all three relational dimensions.

This is described, most obvious, in the structural dimension. Aware of breaking the ways of sharing ideas in an open manner, by not letting the employees work over department boundaries, the Chinese company wished to avoid basic relationships to be created. Resulting in an almost impossible feedback of how the employees support each other's work. These sacrifices were to some extent due to the risk of losing competitive knowledge. The parallel could be drawn from Chinese cultural principle which states that; everyone should be given the information needed only for their own task, along with keeping strict lines between distinctive roles and authority. This latter argument is in accordance with the Confucian ideas such as those of hierarchy and *ruler-subject* relation.

Cognitive

Frustration was built up at the Swedish office, as they felt limited when contributing to improvements or giving advice to other offices. Since structural factors hindered communication horizontally and vertically in the network of the firm, it also obstructed the organisation in developing a common language and terminology. An expression of the cognitive inadequacies is that components and subsystems in some cases did not fit together.

Emotional

The company has made this voluntary choice of sacrificing structural and cognitive aspects of the flow because of an intrinsic (and sometimes evidently justified) lack of trust in their employees. In other words, an issue related to the emotional dimension resulted in inadequacies in the other two dimensions. This proves that there is a rather complex relation between the three. Furthermore, the lack of feedback, and subsequent incapability for evading sometimes-trivial problems, could in fact result in a vicious spiral. The lack evolves to; deteriorated internal trust and commitment, which rather adds to the insufficiency. The problem becomes more or less inevitable, as the way of sharing information in a Swedish enterprise is far from similar to the way the information flows in a Chinese company. This gap, due to the different values, is rooted in the emotional dimension.

6.2.4 Captain On Board

In this story there were explicit leadership differences between the Swedish and the Chinese. It could be distinguished clearly through the Chinese way of reporting, which followed another authoritarian or hierarchical order. The roles of responsibility were based on something else, consequently changing the decision-making process and doing it more complex.

<u>Structural</u>

The structural dimension is the most obvious source of cultural clashes in this particular case. By being the chairman it implied certain obligations that were unknown to the Swedish firm. The firm, indirectly, risked a loss in respect if the chairman would have continued without fulfilling these expected obligations. The chairman is highest in the Chinese hierarchy, and was by that supposed to be the one making the plans, coordinating and being the final decision-maker. By working at the Chinese site, this clearly symbolised the highest leadership role, based on the Confucianism philosophy. Thereby, making it impossible continuing as the chairman.

The structure was rather convenient to change, and a first step to break the symbolic chains of responsibility.

<u>Cognitive</u>

The cognitive dimension was not the affected part, even if the definition of a chairman might mean something else in Chinese.

<u>Emotional</u>

The emotional dimension is the key and was also more or less at stake. If the chairman would have kept the position, the Chinese would had been uncomfortable with taking the issues to another person how did not possess the symbolism of a top-leader. It did create problem for the Swede as well, for being forced to hold informal set responsibilities. This can be described as differences in the value-system. The story also mentions those organisations forcing own western changes, conflicting with the Chinese view of authority, failed. Probably due to the possible standstill of feedback, without knowing whom to turn to, stimulating a Chinese reaction recognized as; "not taking a decision at all".

6.2.5 Lost in translation

The conversation between the Chinese executive and the European manager reflects how unfamiliarity raises barriers. The story therefore reveals the difficulties with straightforwardness and giving both positive and negative feedback. At least two contributing factors for this problem can be identified; implicit communication and reluctance to associate oneself with negative news or events.

<u>Structural</u>

There is no problem in the structural dimension evident in this narrative.

<u>Cognitive</u>

Rather, the difficulty of picking up and understanding implicit communication can be related to the cognitive dimension and the parties simply not understanding each other. Similarly, language problems could further add to the problem. Transforming thoughts, ideas and complex concepts into word sometimes require more than a basic proficiency.

The implicitness results from the perceived importance of being linked to something successful or positive. These aspects are most likely rooted from the Chinese culture and then its meritocratic values to be specific. The reluctance takes shape in the use of implicit ways of hinting at the problems or by not mentioning them at all.

<u>Emotional</u>

The lack of trust and the inability to see the need to build trust emanates from the dissimilar underlying values and the emotional dimension of the relationship. Moreover, the reluctance to be transparent concerning bad news from the Chinese point of view, and the Swedish inability to understand this unwillingness are also a possible explanation.

6.3 Analysing the stories

As seen above, the stories contain various issues that are linked to the different dimension of flow. However, all of them bare witness of issues in the emotional

dimension foremost, see summary in table below. But will the problems remain if from *the other side of the story* is examined?

	Structural	Cognitive	Emotional
Upon arrival	S		E
The Consultant that…		C	E
Low-Trust	S	C	E
Captain on Board	S		E
Lost in Translation		C	E

Table 4 Summary of issues from stories

It is important to keep in mind that the issues of the stories are highly dependent on the specific context. Other respondents gave account of similar situations where there was no problem or a problem of a different kind. Does this diminish the relevance of analyse the stories? Understanding the cause of the problem in a specific context or in a specific situation, still adds understanding of the role of cultural context. Comparing the specific story to alternative accounts gives an insight on what is contextual and what is not. Hence, the conflicting alternative stories only add to the understanding. We thereby need to present the contradictive perspectives, thereby identify which one of the dimensions that will remain.

6.3.1 The other side of the story…

"Upon arrival"

Contradictory perspectives do exist. Some respondents mean that the issues in *"Upon arrival"* are rather moderate if you only apply a simple mind-set in a similar situation. By just being informed on beforehand, and thereby agreeing that Chinese business relationships can never be taken for granted, the uncomfortable "surprise" can be overcome. At least, the problems related to the structural dimension. But also, the companies in general have adapted their structure dimension to some extent in a rather uncomplicated way. The Chinese have been open to the direct way of communicating applied by Swedish companies. For instance, they now accept discussions more openly in groups and follow less strict instructions by acting more independently and so forth.

On the other hand, regarding the same story, the issues connected to the emotional dimension might be understood but not avoided. Though, it is important to realise that a relationship is established neither on a distance nor over night. The difficulty of the emotional dimension therefore remains.

"The consultant that came in from the cold" and "Lost in translation"

The contradictory evidence in *the Consultant*-story indicates that the cognitive issues could be overcome if other discussion forms are implemented. For example trying to communicate differently, thereby adjusting to the Chinese context. This is also an applicable solution to the cognitive dimension of the *"Lost in translation"*-story.

 The emotional dimension, in *the Consultant* story, might in time also be resolved as the younger Chinese generation is appreciating the value of less hierarchy and empowerment even more. The paradox becomes apparent when it comes to; the emerging professionalism in China versus the need for a deeper relationship with the consultant. We do not know how close the two (The Chinese supervisor and the Consultant) had been working together but it might be an issue not to have had a more thorough procedure before hiring her. The Chinese supervisor might actually not have intended to go along with hiring the consultant at all.

"Low trust"

Regarding the *"Trust"*-story, Daniel Bell and others state that with more intrinsic incentives the emotional dimension could be handled better even if the dimension's aspects would still affect the way one commits to the company. The value of separating work from family relationships strongly exists in China but this might be improved by creating a strong corporate culture, emphasising employees as part of the corporate "family", even if it won't assure loyalty. Since the reasons for the structural implications are hindered by choice, they can obviously be changed as easily. The cognitive problems could also be minor, since a functional terminology often appears within an industry or company.

"Captain on board"

The story illustrates the lack of contradictory perspectives when it comes to the importance of symbolic leadership in China. Because the symbolism is deeply rooted, it affects the view upon leaders and can only be controlled to some extent, and the emotional dimension's implications will still exist. It is worth noticing that all respondents from SKF used the exact same frasing, "walk-the-talk", when expressing the importance of leading by example and the symbolism attached to that. It could be an expression of a deliberately communicated corporate value. By spreading and "cultivating" a corporate culture a common base in the emotional dimension can be reached throughout the multinational corporation.

It seems like the emotional issues are a common problem among the different stories and their issues. This presents a key question: Which dimension is the most important? Furthermore, understanding how the dimensions relate to each other is fundamental before any conclusions can be drawn.

7 Conclusions

In this final chapter the insights revealed in the analysis will be presented, which consequently will lead to suggestions for future research, ending up in the authors own lessons learnt.

7.1 How the 3 dimension of flow relate to each other

From the analysis it is clear that the dimension are related, that the relation is complex and that problems tied to some dimensions are more persistent than others. For understanding of their dependency, a further discussion of how the different dimension of flow can be changed is helpful. The *structural dimension* is a pattern of interaction, how one (or more parties) of a relationship acts changes this dimension. The *cognitive dimension* is the ability to understand each other, new insights changes the cognitive dimension of a relationship. Finally, the *emotional dimension* is the commitment to trust or share values in a relationships, if any participants changes their attitude the emotional dimension is changed. (See Table 5 below)

Dimension	
Structural	Doing something different
Cognitive	Understanding more
Emotional	Changing yourself

Table 5 Changing dimensions of flow

7.1.1 3-stage rocket?

The table above gives the impression of a straightforward relationship between the three dimensions. Naturally, changing yourself and your values must be harder to change than just simply changing a way of carrying out a situation. This suggests a clear hierarchy where structural changes are the first to be taken care of. After achieving a relationship with small problem in the structural dimension the seemingly more complex cognitive issues can be addressed and so forth.

Launch of LongMarch-rocket

However, the relations among the dimension are not this simple. The *low-trust* story, above, illustrates why the three-stage rocket theory is a fallacy. In this specific case there is a trade-off between the structural and cognitive dimension on one side, and emotional dimension on the other. The hierarchy is not ubiquitous and instead, interdependence is better to describe the relation.

7.2 Relation to models for culture and value

There are direct similarities between how the three dimensions of flow of knowledge relate to each other and how values and practices are related. A hierarchical relation seems misleadingly probable. However, as with the more dynamic and complex ocean of culture and values, the dimensions of knowledge flow have a more intricate way of affecting each other. This interdependent and two-way nature also proves promising for practitioners. Values are changing and can, as indicated by Bem (1970) and Fang (2006), be "promoted and legitimized".

7.3 Emotional discrepancy - Δ IC

The questions remain. Where is the wasted IC? Which is the main problem to be resolved? As established above, the flow of knowledge of firms in China is limited

by insufficiencies in all three dimensions. The empirical data in our study suggest that the emotional dimension of relationships is an area of ubiquitous organizational shortcoming. It must be some truth to the line of argument that falsely implied the three-stage theory. Changes in the emotional dimension are more complex in character and harder to influence. The line of reasoning is valid but not solely decisive. Furthermore, structural and cognitive issues can come up due to other causes than the cultural differences, whereas there is a clearer connection between issues in the emotional dimension and the cultural context. It could therefore be argued that the emotional dimension of flow is the main source of problems, the problem of *"emotional discrepancy"*

Resolving the emotional discrepancy would be valuable, <u>perhaps</u> even the main value to be recovered. The recovered value would be the value of *"emotional congruence"* - the wasted capital.

To further develop the conclusions, Table 5 can be reinterpreted as a list of how to reach stronger relationships in the Chinese business context. The venture of improving cross-cultural relationships broken down into the three dimensions of IC is illustrated in the table below.

Dimension	
Structural	Doing something mutual
Cognitive	Deeper understanding
Emotional	Sharing values

Table 6, Improving dimensions of flow

It shows certain similarities to the concept of Guanxi, which indicates how this analysis of both culture and IC only emphasize how the concept plays a central role connecting the two. By exploring and adjusting the dimensions, a relationship can be built. Hopefully through an understanding of the surrounding culture, and how to practically take advantage of the differences, a common base or shared values can be crafted. An optimization of IC can be reached by awareness of the concept of Guanxi, which was the main issue this thesis began to study.

7.4 Concluding Quizzics:

- How valuable are our conclusions for practitioners?
- Is it possible to reach emotional congruence in practice?
- What main incentives need to be communicated for companies to actually develop it?

7.5 Future research

The ambition of the study has been to derive insight to the problem of IC management in a cultural context. No solution has been reached nor has any normative statements been made. Instead, the background of the problem area has been emphasized and the main problem has been recognized as not having emotional congruence. The stage is set for future research to seek and provide advice on how to resolve or prevent the problem. The role of our study has been to bring light to the issue and to take it from being an unknown unknown to a known unknown.
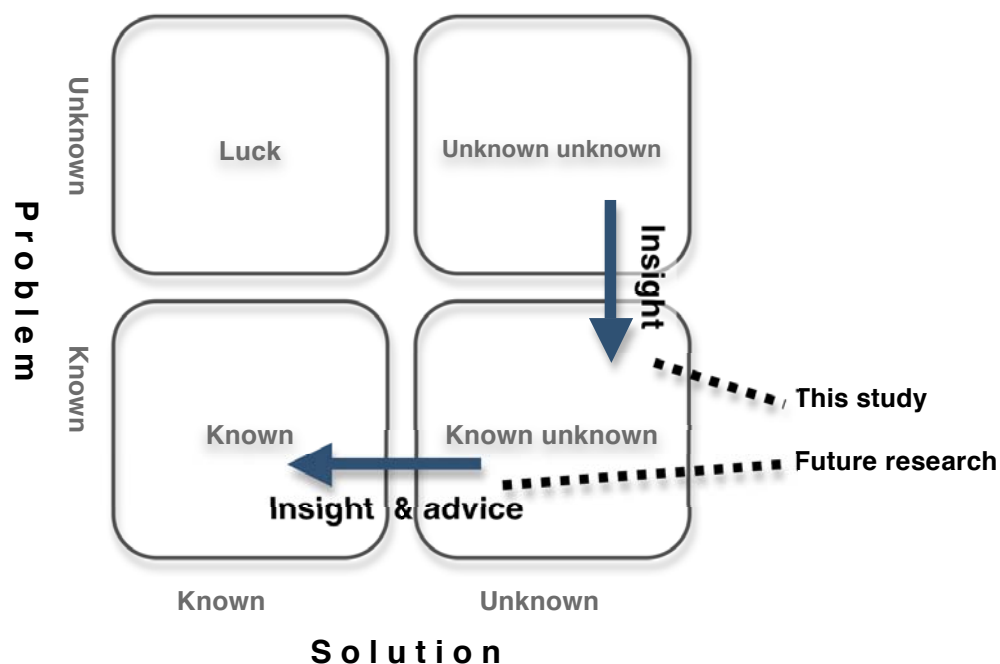
Figure 9, Rumsfeld matrix illustrating the role of this study and future research 6

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6 After repeatedly referring to issues as unknown unknown or known unknown (and a failed attempt to clarify the terms) at a Defense Department briefing in Febuary 2002, former Secretary of Defense Donald Rumsfeld is closely associated with these self-explanatory terms.

This raises the questions: Does this study and insight alone have any practical value? Is it only relevant for practitioners once the issue has become a *known*? To illustrate how this non-normative thesis can give practical value, the opening email conversation will be revisited, below.

When initially read, some readers might have found it exhibiting irrational and inexplicable behaviour on the part of the Chinese, and little possibility for the Swede to evade the problem. After reading and interpreting the examples, after getting an initial description of Chinese culture and a framework for the roles culture and Intellectual Capital, the experiences of the Swede in the example does not seem so mysterious anymore. Hence, by merely acknowledging the differences, by beginning to understand the causes and by having a framework to understand the interplay of the factors, handling and avoiding future difficulty is possible.

7.6 Lessons learned

The lessons learned can be divided into a personal as well as a theoretical level.

The deeper our knowledge and interest became the more we thought we learned. But realizing instead we only started to scratch the surface. The knowledge-journey as a group has been possible due to our personalities, being curious and deeply engaged in the subject, which has stimulated to a creative as well as constructed discussion, pushing the thesis forward. We started out adopting a sub-set based view of IC, since it is easier to grasp, and then began to ,step by step, drift towards a factor based view of IC.
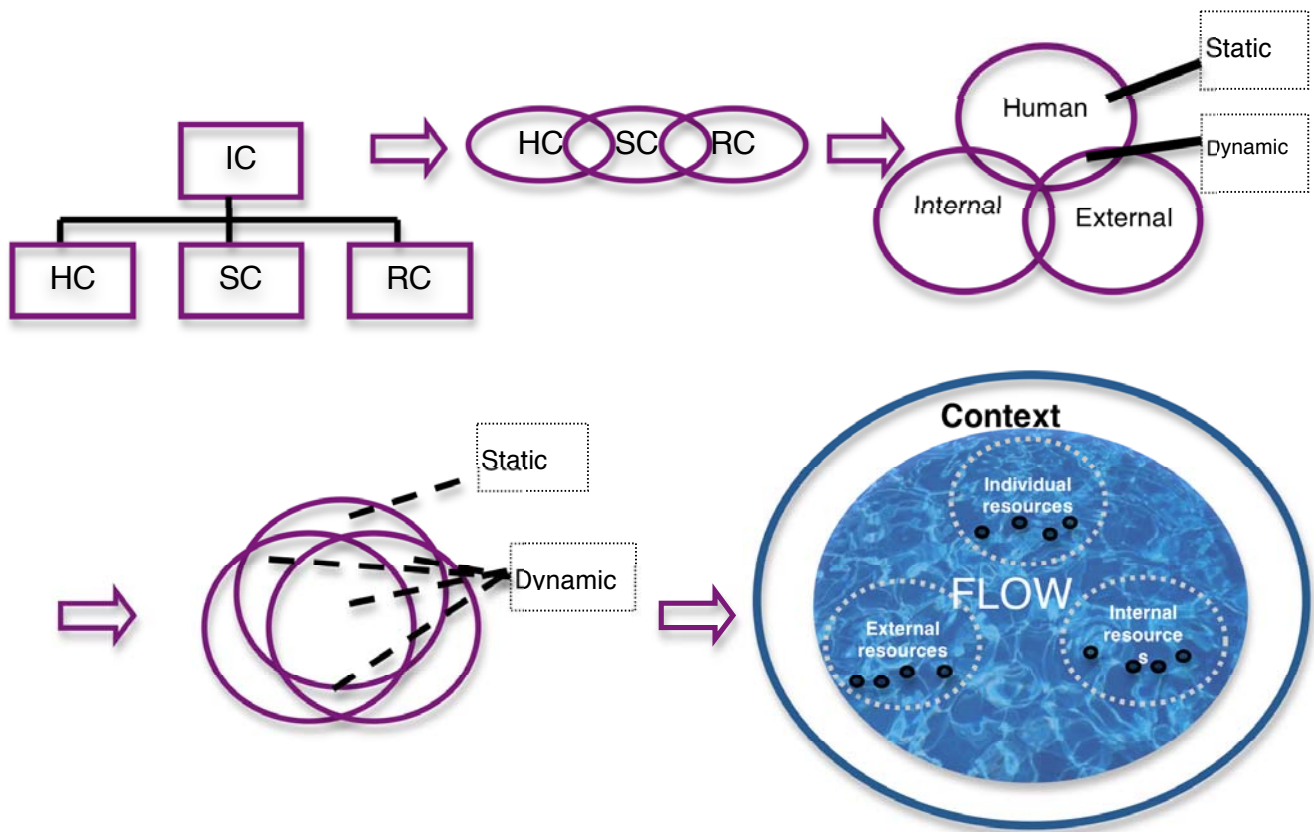
Figure 10, Evolution of the IC framework

The conclusions of the study have been made by only beginning to "peel" the Chinese cultural sphere, or the onion. Still, some valuable insights have been attained. The authors realise own limitation in understanding the concepts; Intellectual Capital as well as the vast and complex culture. But throughout this study our unknown is now known to be a little less unknown.

The very fact that this study strives to *analyse* paradoxes is in itself a contradiction or even pure naivety. How has this constrained the study and what has been lost in the simplicity-reduction?

A more dialectical approach could have been embraced towards the contradictions. The authors can only wonder what insights such a study could have generated. The alternative methodology would then include Confucian and Taoist metaphysics and epistemology.

Finally, this subject has given us the opportunity to be unconventional and not limited to the perceived norm of a traditional master thesis, something we are grateful for.

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9 Exhibits

9.1 List of respondents

Name	Company and Position
Fredrik Hähnel	SEB Client Relationship Management – China
Lars G Malmer	SKF Former Director of Communication, Retired
Henrik Sunnefeldt	SKF Marketing & Business Development
Connie Cheng	SKF Director, Sustainability & HR Development Programs
Mattias Bergman	Swedish Trade Council Vice President Asia
Bo Landin	Sweden China Trade Council Chairman
Urban Fagerstedt	Huawei R&D Manager
Birgitta Ed	Springtime PR consultant, China
Kjell Anneling	Swedish Foreign Department Consul-general
Tony Fang	SU/SSE Author, Professor - Cross-cultural management
Jon Sigurdsson	SSE Professor - Asia pacific studies
Daniel Bell	Tsinghua University of Beijing Professor - Philosophy and Political theory
Gordon Grant	Svenska filmbolaget Producer, Mandarin Portal

9.2 China Fact Sheet

Population	1,3 billion
GDP	3.3 trillion USD
GDP growth	10 % per year
(Average 1978-2007)	
Religion	No official religion
Privately owned firms	5.45 million
FDI inflow	75 billion USD 2007
University graduates	4.95 million per year
Engineering graduates	600 000 per year
Chinese students abroad	1 million during 1977-2006
Internet users	253 million
	(Largest netizen population in the world)
Mobile phones users	616 million
	(57 billion SMS/month)
Landline phone users	354 million
CO_2 emissions	6 billion metric tonnes
	(largest emitter in the world)

Data from: World Bank, 2006, 2008; Ljunggren ,2008; Forbes, 2008; Xinhua, 2007; Xinhuanet 2008a, 2008b; Oliver, 2008