

Stockholm  
School of Economics  
The Institute of International Business  
Master's Thesis

# The Four Factors of Chinese State Owned Enterprise Turnaround

## Abstract

This thesis has assessed turnaround processes in joint ventures (JVs) between Swedish-based enterprises and Chinese State Owned Enterprises (CSOEs). Based on 39 in depth interviews with Swedish corporate representatives in China, a case study of five Swedish firms operating JVs with CSOEs is provided. The analysis takes its standpoint from the existing literature on Organizational Change, Corporate Post Merger Integration and National Culture. Analyzing the turnaround process from an organizational perspective, the authors use the “7S Framework” (Waterman et al. 1980) to test the previous literature’s relevance to the empirical findings. The authors bring forward a new theoretical model, designed to fit the special context of a JV turnaround with a CSOE: The Four Factors of Chinese SOE Turnaround. First, the turnaround of **Systems** implies that implicit systems are replaced by explicit systems. Second, in the absence of explicit systems, the CSOE is dependent on the skills and mindset of the **Human Resources** employed. Third, **Control** over the organization is needed in terms of the JV partner as well as the employees. Finally, maintaining well developed **Governmental Relations** is an important element of all business activity in China.

**Keywords:** China, Turnaround, Organizational Change, Corporate Integration, Culture, Cross-Cultural Management, State Owned Enterprise.

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Presented:	June 05, 2006, 13.00-15.00, room C606 at the Stockholm School of Economics

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We are most grateful to Elektro AB who has given us the financial support to conduct the empirical study on site in Shanghai, Beijing and Shenyang.

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*“We asked for a presentation of the logistics system, but were taken to a loading dock. This organization is very far from Western standards.”*  
*- Jonas Serlachius, Elekta AB*

## 1. Introduction

*This first section introduces the subject, purpose and research question of this thesis.*

In 2004, China contributed to one-third of the global economic growth,<sup>1</sup> the world's corporations are eager to grasp a share. A Master's Thesis alone cannot assess all of the strategic alternatives, the opportunities and the potential threats that a company entering China will face. But a Master's Thesis is an excellent forum for discussing details. In this thesis, that detail is the organization of turnaround in Joint Ventures (JVs) between Swedish firms and Chinese State Owned Enterprises, (CSOEs).<sup>2</sup>

Any organization is designed to fit the business context that it operates. A CSOE is most likely designed to fit the planned economy of the China Communist Party (CCP) state. Needless to say, that business context is quite different from the global, capitalistic economy that has evolved in the Western world. As China has gradually opened its door to foreign investors, forming a JV with a CSOE was (and still is in some markets) the only approved entry strategy for foreign enterprises. However, although there are exceptions, these CSOEs are often developed to fit an outmoded institutional climate, and therefore in need of substantial restoration. A primary task for the Swedish organization is thus to conduct a turnaround of the CSOE.

This thesis gives direction in a situation that initially can appear difficult to survey. Based on the existing literature on Organizational Change, Corporate Integration<sup>3</sup> and Culture<sup>4</sup>, as well as on in-depth interviews with managers with experience of turnaround processes in JVs with CSOEs, we point to the common pitfalls as well as give recommendations on tacit issues of the turnaround process. We have developed a new framework for how turnaround processes in JVs with CSOEs can be assessed. Our hope is that this framework can provide guidance to Swedish as well as international enterprises that face the challenging task of conducting such a turnaround.

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<sup>1</sup> World Bank Data.

<sup>2</sup> We will assess the concept of JV as a new third entity between the Swedish organization and the CSOE. We have studied cases where the JV is a former part of the CSOE, and where the Swedish organization has held majority ownership and controlled the turnaround process.

<sup>3</sup> In essence, we allude to Corporate Post Merger Integration.

<sup>4</sup> In essence, we allude to National Culture.

## 1.1 Problem

Given the economic history of China,<sup>5</sup> forming a JV with a local company will most likely imply dealing with a CSOE. As argued under the previous headline, a CSOE is often very far from what a Western firm would call a best practise company according to capitalistic standards. Not all, but many Western firms forming a JV, merging with or acquiring a CSOE face the difficult task of transforming an out-of-date organization into a modern business unit.

Managers of today have access to an abundance of literature on turnarounds. But this literature is almost exclusively written from a Western perspective. It deals with turnaround processes as a consequence of partnerships, low profitability or changing market conditions. As this thesis specifically addresses the conditions facing the turnaround of a JV with a CSOE, it explores an area that is still not throughout studied. The study concentrates on global organizations of Swedish origin that hold or plan to hold majority ownership of the JV. The analysis is comparatively applicable for global companies originating from other European countries or North America, which either forms a JV or acquires a CSOE.

## 1.2 Purpose and Research Question

This thesis serves three purposes. The first is to test the relevance of previous literature on Organizational Change and Corporate Integration to turnaround of JVs with CSOEs. The second is to provide practical recommendations for a Western firm that is to implement commercial success in a CSOE. The third is to develop a theoretical framework that can be used as a tool for analyzing the turnaround of JVs with CSOEs. The research question is therefore formulated as:

*How should a Swedish enterprise conduct Joint Venture turnaround of a Chinese State Owned Enterprise?*

## 1.3 Limitations

As described by the research question, we are assessing how a Swedish enterprise should conduct a turnaround of a JV with a CSOE. We would therefore like to clarify the following:

- We have chosen to study CSOEs in need of restructuring. There are most certainly CSOEs that are in good shape, but such enterprises lies outside the scope of this thesis.

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<sup>5</sup> Please see section 1.4 Background - Towards a capitalistic economy

- We are studying turnarounds of the CSOE part rather than the Swedish part of the JV.
- We are studying turnaround processes that are controlled by a Swedish organization, although we believe the analysis to be applicable also for other European or American organizations.
- We are not giving recommendations on appropriate entry strategies or choice of JV partner. Instead, we are providing recommendations on the issues that arise after the JV is established.
- We have our focus on the turnaround project as such, not the pre- or post-turnaround phases.
- We are writing for a Western audience and have therefore prioritized analysis on Chinese conditions rather than the Western equivalence.

## **1.4 Background- Towards a capitalistic economy**

### **Planned economy**

China turned to state socialism after the Communistic Party seized power in 1949. Up until 1978 when the economy slowly began opening up to capitalistic influences, the economy was characterised by state planning (Lu 1996). Privately owned enterprises were turned into state owned entities. After a policy decision in 1953, decisions of purchasing and sales were taken by the central government (Garnaut et. al. 2001).

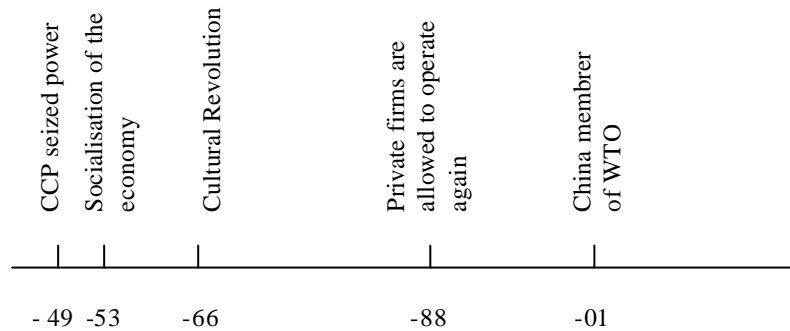
The idea behind the economic reform of the early 1950 was to construct a socialistic state where people were motivated by moral and political rewards instead of profits (Lu 1996). The Communistic Party set out to turn China into a heavy-oriented industrialised nation and believed that a centrally planned economy would hold supply and prices of commodities constant (Garnaut et. al. 2001). In the early phase of the socialistic economy, state owned firms coexisted with local cooperatives consisting of individual craftsmen, but the share of cooperatives in the economy declined as the socialization of the economy proceeded (Garnaut et. al. 2001). After the Cultural Revolution of 1966, the cooperatives were completely shut down and it was not until 1988 that private firms were again allowed to operate beyond the industrial entities (Garnaut et. al. 2001).

### **Economic reforms open the door to FDI**

In late 1978, the CCP officially launched its plan for economic reform (Lu 1996). Since then, market reforms have been extensive among other things resulting in China gaining membership in the WTO in December 2001. A company entering China can set up a representative office, a Wholly Foreign Owned Enterprise (WFOE) or form a JV with a local company. We will address the last one of these three alternatives.



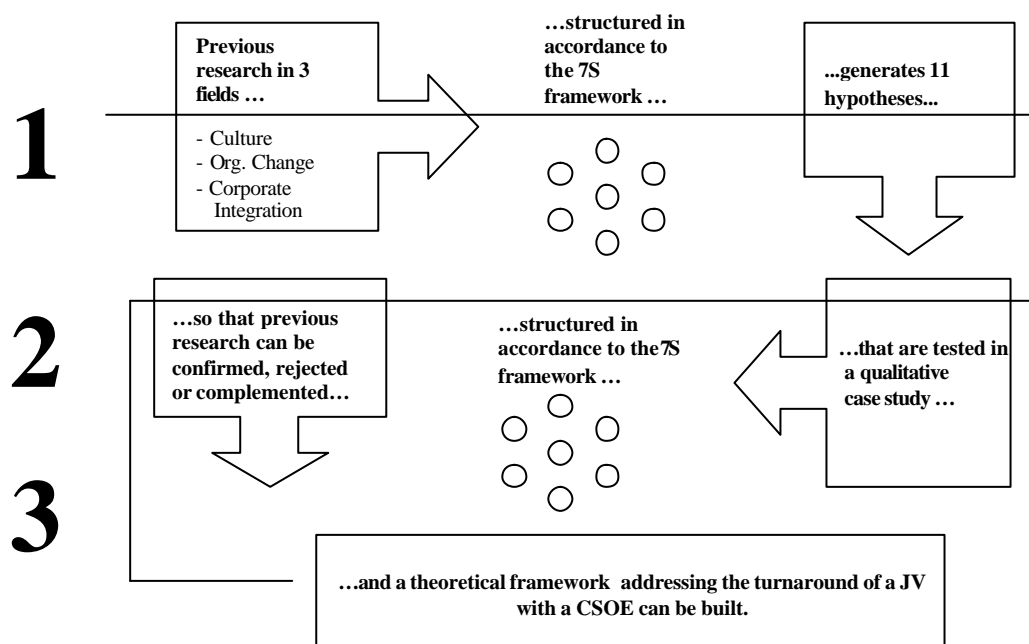
Figure 1 - Timeline



## 1.5 Thesis roadmap

We are aware that not every person with access to this work will have the time or motivation to read it from cover to cover. Let us therefore provide some general advice on how to do the fifteen-minute scan. The thesis is structured in accordance to the figure below.

Figure 2 - Thesis Structure



This implies that the first part of the thesis is an overview of previous academic research. The second part is an extensive and practically-oriented analysis of the empirical study. The third part provides a new theoretical framework that serves as a tool to analyse a turnaround project in a JV with a CSOE.

*Section 7. Conclusions*, summarize the main findings of the thesis. We strongly urge that this section, combined with the appendix of tables, is consulted for a quick overview of our contribution.

## 2. Theoretical approach

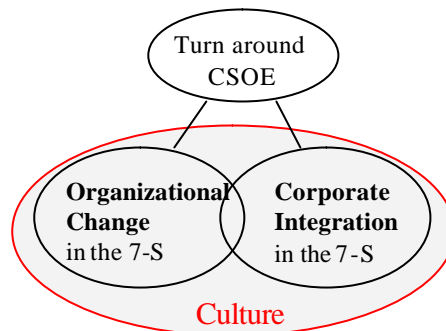
*This section explains and motivates the choice of theoretical approach.*

### 2.1 Linking three theoretical fields and relating them to the turnaround of CSOEs

This thesis has been conducted using a mix between inductive and deductive methods in order to contribute to previous research regarding the turnaround process in JVs with CSOEs. We have found three theoretical fields of particular relevance, the fields of National Culture (Culture), Corporate Post Merger Integration (Corporate Integration) and Organizational Change. Theories on *Culture* cover the cross-cultural issues that arise due to the large geographical and institutional differences between Sweden and China. In most of the studied cases, the Swedish organization has held majority ownership in the JV. In all of the studied cases, full ownership has been a long-term strategic objective for the Swedish firm. The literature on *Corporate Integration* has been consulted to cover this issue. Literature on *Organizational Change* is relevant because a turnaround project is a type of organizational change.

Previous literature is developed in a Western context. By combining the theories on Organizational Change and Corporate Integration, we hope to contribute to the understanding of how organizational change is implemented when the change is controlled by one of the firm but implemented in the other. By applying a Sweden/China perspective, we hope to isolate key elements in previous literature that is relevant for a Swedish firm that is to form a JV with a CSOE.

**Figure 3 - Theoretical Approach**



### 2.1.1 Culture from an anthropologist perspective

There have been many attempts to define culture; this thesis will follow an anthropologist perspective. We define culture as *the shared believes of how problems are to be solved and the common perception of what makes actions meaningful*. We base our work on two models for measuring cultural traits; the one by Geert Hofstede and the one by Fons Trompenaars and Charles Hampden-Turner. We believe that these two models are complementary rather than contradictory.

The choice of cultural perspective is not obvious. The anthropological approach to culture has received accurate critique from a social-construction perspective. (Soderberg and Vaara 2003). In the social construction perspective, culture is perceived as contextual: Social practises come into existence in relation to contact with other cultures, and as such the culture of an individual is dependent on the context of in which she is working (Soderberg and Vaara 2003). Soderberg and Vaara (2003) argue that any attempt to study cross-cultural management is influenced by the researcher's cultural perspective, and can therefore not result in any guidelines for managers. Robertson (2000) argues that all evaluation of personal traits should take their standpoint in the individual rather than in general assumptions of a cultural cluster.

### 2.1.2 Organizational Change and Corporate Integration viewed through the lens of organization

#### **The 7S framework**

Early on in the process of writing this thesis, we found that we had access to a large amount of unsorted, qualitative data. We wanted to combine two different fields of research, the fields of Organizational Change and Corporate Integration, and test the relevance of this literature to the turnaround of JVs with CSOEs. In order to do this in a clear and controlled way, we needed a

framework to filter and structure the theoretical and empirical information. As a turnaround is an organizational task, we have chosen the concept of organization as such a filter.

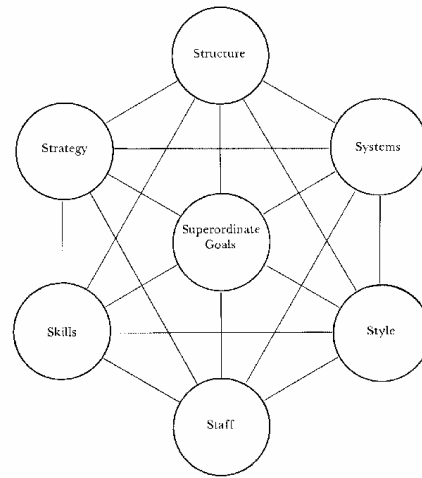
There are numerous definitions of organization; we have applied the 7S framework. The framework was presented in *Business Horizons*, June, 1980 by Waterman, Peters and Philips. Working for the management consultancy firm McKinsey & Company in the late 1970s, the three authors were concerned with the problems of organizational effectiveness they experienced among their clients. The authors found that organization was defined through structure, but that restructurings seldom lead to organizational improvements. Based on the interactions with clients and colleagues, the authors formulated a new theoretical framework to define the concept of organization, the 7S framework.

The 7S model assesses organization from a holistic perspective; an organization is not only described by its structure but rather through the integration of Structure, Strategy, Systems, Staff, Skills, Style, and Super ordinate goals. This thesis is not purposed to verify the accuracy of the 7S framework. A contrary; we simply assume that the 7S framework is one valid way of defining the concept of organization. It serves our purpose in several aspects. First, it allows us to sort data into different categories, the 7 S's. Second, a large and scattered amount of data is given a clear structure. This structure in turn facilitates the comparison between previous theory and empirical data.

**Please see the Appendix of tables for *Table 1– Overview of the 7S*.**

A successful change process requires full understanding of all 7 S's. Focusing on one or two dimensions or neglecting the interrelation between the dimensions, will therefore not give organizational insights. Using the seven dimensions of organization as a tool implies that we will structure the assessment of previous literature, the empirical study as well as the empirical analysis according to these dimensions.

**Figure 4 - The 7S framework as modeled by Waterman et al.**



### 3. Theoretical analysis

*This section is an assessment of previous literature in accordance to the research model presented in the previous section.*

#### 3.1 Culture

##### 3.1.1 Following Hofstede's approach

The anthropologist perspective regards culture as the shared patterns of meaning and interpretation (Soderberg and Vaara 2003). One of the main spokesperson of this approach to culture is Geert Hofstede. Hofstede (1991) argues that children acquire a certain pattern of thinking that is harder to unlearn than to learn. Hofstede's definition of culture then follows as "the collective programming of the mind which distinguishes the members of one group or category of people from another" (Hofstede 1991, p. 5). Hofstede measures this collective programming or culture according to four dimensions:

- *Power distance*, individuals' relation to social inequality.
- *Individualism versus Collectivism*, the relationship between the individual and the group.
- *Masculinity and Femininity*: the social implications of having been born as a boy or a girl.
- *Uncertainty avoidance*, relating to the degree to which individuals feel at unease in unknown situations.

In 1988, Hofstede and Bond initiated a second cross-cultural study purposed to counteract the first study's bias towards a Western perspective. In the second study, Hofstede and Bond isolated a new, fifth, dimension of culture, *Confucian Dynamism*.

It should be noted that Hofstede has not conducted a specific study on China. When we refer to index numbers, we use Hong Kong as a proxy of the Chinese scores. In more general terms, we will refer to cultural clusters, focusing on the *Germanic* (countries where a Germanic language is spoken, e.g. Germany, England, the Netherlands, Sweden) and the *Chinese* (Countries with a Confucian inheritance, e.g. China, Hong Kong) clusters.

Please note that by "Hofstede", we relate to the references on Hofstede that are noted in the reference list, e.g. Hofstede (2001), Hofstede (1991), Hofstede and Bond (1988), Franke et al. (1991).

### **Power Distance**

The Power Distance dimension measures the acceptance of unequal distribution of wealth, power and status among individuals in a society. Persons that show a large score on the power distance index are more likely to perceive social inequalities as legitimate. On the power distance index, China score high and the Germanic cluster scores fairly low.

### **Individualism vs. collectivism**

In collectivistic societies, identity is defined through the social networks that an individual belong to. In more individualistic societies, the identity is shaped by the individual, children learn at an early stage to speak in terms of "I" rather than "we". Collectivistic countries are characterized by high-context communication, failures are followed by shame and loss of face rather than guilt. Education is purposed to explain how to do, not how to learn. In Hofstede's studies, countries with Chinese influence score high on the collectivistic index, Western countries are perceived as more individualistic.

### **Masculinity vs. femininity**

Masculine cultures are regarded to be competitive and result oriented whereas feminine cultures are more concerned with quality of life and building relationships. When assessing the masculinity/femininity of a country, Hofstede defines countries where gender roles are distinct as masculine and countries where gender roles are more equal as feminine. Hofstede perceives the Nordic countries as very feminine while Japan and Germany are perceived as masculine. Countries with Chinese influence are typically found in between these two pools.

### **The way of dealing with uncertainty**

This cultural dimension relates to what extent members of a culture feel at unease in unknown or uncertain situations. Hofstede's analysis is that individuals that express anxiety when faced with uncertainty has a higher need for regulations. High uncertainty avoidance yields hierarchal organizations where management's instructions are very explicit, conflicts are eliminated and employees work under one boss rather than two. In Hofstede's study, countries with Chinese influence as well as Sweden score fairly low on the uncertainty avoidance index.

### **Confucian Dynamism**

This fifth cultural dimension is specially developed to fit the Chinese context (for references on Confucian Dynamism, see Hofstede and Bond (1988) and Franke et al. 1991, if other references are not specified). Countries that score *high* on the Confucian Dynamism scale value thrift, persistence and are ordering relationships by status and sense of shame. Countries scoring *low* value personal steadiness, respect for face, protection of tradition and reciprocation of greetings and gifts. Countries scoring *high* on Confucian Dynamism share a time perspective towards the future, *low* scores on Confucian Dynamism implies time-orientation towards the present and the past. It is argued that China scores high on the Confucian Dynamism dimension whereas Sweden score medium. Hofstede et al. proved the Confucian Dynamism element of culture to be uncorrelated with other cultural dimensions, although other researchers have questioned this finding (Robertson 2000).

Fang (2003) as well as Yea & Lawrence (1995) has criticized the concept of Confucian Dynamism. Fang (2003) argues that the Chinese culture embrace paradox. Measuring Confucian Dynamism in terms of an index is therefore not consistent with Chinese philosophy. Instead of measuring Confucian Dynamism on an objective basis, Fang allege that the concept of Confucian Dynamism should be put into context.

**Please see the Appendix of tables for *Table 2 - Scores on Hofstede's five dimensions*.**

### **3.1.2 Following Hampden-Turner and Trompenaars' approach**

By analyzing classic Chinese literature, Rosalie Tung (1996) has identified principles that she claim guide the business practise in today's China. We will let Tung's analysis provide illustration and support to the framework developed by Hampden-Turner and Trompenaars (H-T and T). If nothing further is specified, this section refers to (in descending order) H-T and T 1996, Trompenaars and Hampden-Turner 2000 and Hampden-Turner 1994.

Like Hofstede et al., H-T and T rank cultures according to certain dimensions. The authors state that "while virtually all members of the human race engaged

in enterprise face the same problems or dilemmas, their response to these vary widely” (H-T and T, 1996, p. 275). A “culture” provides a direction towards a solution of these dilemmas. Unfortunately for the purpose of this thesis, H-T and T has not done any specific research on Sweden, like that to be found in Hofstede’s work. On the other hand, H-T and T have quite an extensive analysis of China, which we will describe below.

### **Universalism vs. Particularism**

In cultures that score high on universalism (e.g. the USA, Canada and Germany), people are more guided by a set on “universal” rules that apply for all situations. In more particular cultures (e.g. China), what is considered right or wrong is more dependent on the context of the situation.

### **Analysed specifics vs. integrated wholes**

This dimension describes cultures’ attitude towards problem solving. A specific approach (e.g. Canada, France, Germany) break down the problem to specific points, whereas a more holistic approach (e.g. China) is more likely to search for a pattern when assessing problems.

According to Tung (1996), Chinese philosophy highlights the interdependent relationship between situations. The duality of yin and yang implies that Asian logic does not always follow the linear pattern that is used in the West. All matters are assumed to have good and bad elements; thus a full understanding of the nature of matters requires a holistic analysis.

### **Individualism vs. communitarianism**

Individual cultures tend to focus on the development of the individual. Communitarian cultures emphasise the enhancement of the group. This dimension resembles Hofstede’s definition of individualism vs. collectivism, and just like Hofstede, H-T and T found China to be a communitarian culture.

Tung (1996) concludes that whereas deception is considered highly immoral in the West, in China deception is neutral. If deception serves a greater good, such as benefits for the family, it is considered a valid strategy. The collective benefit is thus superior to the individual benefit.

### **Inner-directed vs. outer-directed**

Inner-directed cultures (e.g. Germany, Canada, and the USA) believe in the individual’s responsibility of shaping his or her own destiny. More outer-directed cultures (where China score medium) show a larger tendency to believe in fate and luck.

### **Time as sequential vs. time as synchronous**

H-T and T found that Western cultures define time as a sequence, stretching from the past to the future. The opposite approach to time, to some extent applied in China; define the past, the future and the present as integrated. The



perception of time has implications for management practise in different cultures. American managers are more likely to do one thing at the time and exploiting forecasts and trends. Chinese managers, on the other hand, are more likely to work at many projects simultaneously and plan according to alternative scenarios.

Tung (1996) highlights the cyclical cause of matters in Chinese philosophy. As a consequence, every action has long-term implications which make Chinese business practice occur in a much slower pace than in the West.

#### **Achievement vs. ascription of status**

Cultures that value status that has been obtained through achievements (e.g. USA, Canada, Germany) tend to focus organizational resources to the high achievers of an organization. Other cultures, e.g. China, value factors such as age as a basis for status.

#### **Equality vs. hierarchy**

The seventh dimension in H-T and T's work is typically shown in the formal structure of a firm. A flat pyramid resembles an egalitarian country (e.g. Sweden) whereas a steeper pyramid is typically to be found in China. H-T and T further differentiate between cultures that give specific orders and those that give general guidelines. In H-T and T's analysis, combining specific orders with a hierarchical structure cripples information and lead to inefficiencies. But if the hierarchical organization exists not as a consequence of the need for control, but as a consequence of the holistic approach to information, then the hierarchical structure can be most efficient. H-T and T highlight the hierarchical nature of the Japanese organization as an example: "The Japanese hierarchy mimics the hierarchical ordering of information itself, with theories and laws at the top, general propositions in the middle and data at the bottom" (H-T and T, 1996, p. 303). By structuring the organization in accordance to the order of information, the company holds a good position in a knowledge intensive business.

#### **3.1.3 Guanxi**

In China, business is conducted through a dynamic network of personal relationships (Wright et al., 2002). This network, or *guanxi*, integrates governmental authorities with corporate management (Lu, 1996) and it integrates management of one firm with that of another (Leung & Wong 2001). *Guanxi* is established through the exchange of gifts and wine-and-dine (Leung & Wong 2001); two persons who have established *guanxi* can make demands on one another (Tung & Worm, 2001). While *guanxi* is certainly a consequence of the cultural traits described above, we feel that the practice of *guanxi* is important enough to require an own section.

In relation to Western management practice, *guanxi* brings up ethical issues. Whereas nepotism and corruption is widely regarded as unethical in the West,

the line between proper *guanxi* and nepotism and corruption is much thinner in China (Wright et. al. 2002). Tung & Worm (2001) states that when a gift is exchanged to establishing a long term relationship, the gift can be regarded as *guanxi*, and is therefore legal in a Chinese business context. But when the gift is exchanged to gain an immediate benefit, then it is a matter of corruption which is illegal.

Tung & Worm (2001) performed a survey on 50 European companies present in China to evaluate European business manager's perspective on *guanxi*. They found a wide perception among Western managers that *guanxi* was important both for entry and long term success in China.

### 3.2 Relating previous research on Culture, Organizational Change and Corporate Integration to the 7S framework

As discussed previously, we use the 7S framework, developed by Waterman et al. in 1980 to structure information. In this section, we will therefore analyze what previous researchers have stated in relation to the 7 dimensions of the framework. Before doing so, we wish to bring forward two critical issues in relation to the theoretical analysis.

- Previous research is not developed to fit the 7S framework. The allocation of previous literature to each dimension is our work.
- Section 3.2 is an integration of two theoretical fields that are not intended to be integrated. **For an overview of theoretical findings in each field separately, please see the Appendix of tables for Table 3- Summary of relevant previous research on organizational change and corporate integration.**

#### 3.2.1 Structure

In the early 1980s, Waterman et al. noted how the business context was becoming more complex and how the need for flexible organizational structures increased with such complexity. Their key argument in relation to structure is therefore that “the organization of the future” is an organization described as “temporary” and “flexible”. We believe that their argument is very valid for the specific types of organization that we focus on. The business context of China is changing at a rapid pace and the global nature of today's business is indeed complex. In section 3.2.1, we therefore avoid giving recommendations on the ideal “organization of the future” in JVs with CSOEs. Instead, we focus on two issues: The first one is how the organizational structure can influence change in other dimensions of organization. The second issue is leadership. Our argument is that the importance of a good leadership structure increases if “flexibility” and “temporary” are key structural characteristics.

## **Post-turnaround structure**

### *Height of the pyramid*

What should the organizational structure look like, once the turnaround project is over? Following Hoag's (2002) analysis, hierarchical organizations are constructed to monitor the organization rather than encourage change, whereas a less power-distant structure promotes organizations capacity to adapt. In regard to H-T and Ts' (1996) thesis that hierarchical structures in China is a consequence of a holistic approach to information rather than a need for control,<sup>6</sup> Hoag's analysis might not be valid for the turnaround process of CSOEs.

### *Structural stability in the turnaround process*

Hofstede and Bond (1988) suggest that large power distance (China scores high on power distance) is associated with greater centralization while high uncertainty avoidance (China as well as Sweden score medium) is associated with formalization of the organization. Based on previous literature, we would urge managers of turnaround processes to focus on maintaining a sense of security in the turn-around process (Moran and Brightman 2001, Bower 2001, Killing 2003). The formal structure may be the most explicit of all seven dimensions of organization. As such, it might serve as an anchor in times of change. By adopting the post turn-around structure to the cultural traits of China, the changing organization is provided with a fixed point when other elements of the organization are transformed. For example: Keeping a hierarchical structure in a power-distant culture could provide the sense of security that is needed for employees to dare pose the critical questions that are needed to change other elements of the organization.

*H1: The post-turnaround structure should be kept relatively stable to facilitate change in other dimensions of organization.*

## **Leadership**

### *Turnaround management team*

Just like any organization needs structure, so does the organization of change. By assigning a coalition of people in the organization that are made responsible of the change project, the project is given integrity (Kotter 1995, Sirkin et al. 2000). This coalition should consist of top executives but could also have other members such as union leaders or even representatives from a key customer (Kotter 1995). Sirkin et al. (2000) argue for continuous evaluation of the team's work. The need for clear leadership is found also in the literature on corporate integration. Low efficiency in the integration process is often attributed to lack of leadership (Ashkenas and Francis 2000, Bower 2001, Bannert and Tschirky 2004). Trompenaars and Wooliams (2003) on the other hand, state that leadership is not a prerequisite for effective change, but that implementing change without leadership is much more difficult.

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<sup>6</sup> Please see section 3.1.2 *Following Hampden-Turner and Trompenaars' approach.*

*Vertical representation in management team*

Whereas most authors identify the need for clear leadership of turnaround processes, the opinions of where to position that leadership differ. Killing (2003), Smith (2003) and Moran and Brightman (2001) emphasize the importance of employee commitment and support to middle management when implementing organization change. On the other hand, Kotter and Schlesinger (1979) argue for a careful ex-ante analysis of who should participate in implementing change programs. According to the authors, “when the change must be implemented immediately, it can take simply too long to involve others.” In relation to corporate integration, Ashkenas and Francis (2000) advocate that the head responsible for the integration process gets the vertical and horizontal maneuver space in the organization that a regular manager lacks. This enables the integration manager to serve as a communicative link between the alliance parts and thus handle the integration process more effectively. However, the authors point out, this makes the manager operate without formal authority. Instead of working through traditional power structures, the integration manager must be able to motivate and inspire the staff to perform (Ashkenas and Francis 2000).

Drawing from previous literature, we suggest that a coalition of people is assigned to the turnaround task. Such a coalition should consist of representatives from the top management of both the Swedish and the Chinese part, by representatives from middle management, and of one or more external consultants. The representatives from top management ensure that the turnaround process gets sufficient attention from the head quarter. In a power-distant culture such as China, the top management is an effective signal to the organization that the turnaround process is important. Middle management ensures that the organization is on board with the change project. The outside consultants serve as communicative links that can over-bridge cross-cultural problems or negotiate in case of political conflicts among the two parts. They can also provide expertise knowledge about working in China for a Swedish management team that lacks this specific experience.

*H2: The turnaround process should be managed by a team of individuals that represents different vertical and horizontal segments of the JV.*

### 3.2.2 Strategy

The 7S framework defines strategy as “the actions that a company plan in anticipation of change in its external environment” (Waterman et al. p. 20). Unfortunately, this definition is not very suitable for turnaround projects; the project in itself is the strategy that is pursued in anticipation of change in the external environment. Our assessment of strategy therefore focuses on the turnaround project as a strategic action. That implies that we will neither discuss the adequacy of pursuing a turnaround, the basic assumption in this thesis is that

a turnaround is a valid strategic action. Nor will we give recommendations on how to pursue a turnaround; this is what the entire thesis is aiming at. Instead, we will devote section 3.2.2 to discussing one detail of turnaround as a strategy that is not covered by the other six dimension in the 7S framework; i.e. the time aspect of turnaround.

### **Time perspective**

#### *Change at a slow pace*

Some have argued that change is an ever going project (Trompenaars and Woolliams, 2003), others regard it a minor disrupt in a process that is relatively stable over the long term (Hoag et. al. 2002, Moran & Brightman 2001). Whatever the case, changing an organization is an evolutionary rather than revolutionary process, and as such it is inclined to take time (Kotter 1995, Smith 2003, Reisner 2002). Ashkenas and Francis (2000), on the other hand, urge alliances to get through the integration process as fast as possible in order to get the alliance productive as soon as possible. As of our analysis, “as fast as possible” might take longer in a cross cultural setting than was the case in Ashkenas and Francis study, and we would therefore argue in favor of allowing for the turnaround process to be evolutionary but progressive. Combining the different argumentations previously made, one method of combining progression and evolution could be to alternate between periods of radical change and relative stability.

#### *Integrated versus sequential perception of time*

Drawing from the literature on culture, we would advocate that Western managers operating in China keep in mind differences the perceptions of time (H-T and Ts 1996), and the importance of patience in Chinese business climate (Tung, 1996).<sup>7</sup> We expect that a Western manager with a sequential perception of time feel frustrated if the turnaround process does not follow a chronological timeline.

*H3: Turnaround strategy must have a long-run focus and allow for differences in time perception.*

### **3.2.3 Systems**

Systems is defined as the every day procedures that makes the organization function (Waterman et al. 1980). The turnaround process is just one of many projects that the JV carries out simultaneously. We have therefore excluded systems that applies for the entire organization, e.g. accounting systems or budgeting systems, and concentrated on those systems that are of particular relevance for the turnaround project.

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<sup>7</sup> Please see section 3.1.2 for Hampden-Turner and Trompenaars' and Tung's theories on time perception.

After conducting the empirical study, we conclude that CSOEs often lack formalized systems. One key objective for the turnaround management team has therefore been to replace malfunctioning informal systems with formal. The existing literature on Organizational Change and Corporate Integration, however, is developed in a western context and therefore fails to address this very specific issue in relation to JVs with CSOEs. The empirical analysis will thus be more extensive than the theoretical analysis in describing systems in the turnaround process as well as systems that apply for the entire organization. Please see section 5.2.3 *Systems*.

### **Systems in the turnaround process**

#### *Short term milestones, evaluation and control*

Some researchers within the change literature (Kotter 1995, Sirkin et al. 2005) as well as within the field of corporate integration (Ashkenas and Francis, 2002) advise leaders of transformation/integration projects to break down the project to milestones that should be continuously reviewed and rewarded.

The need for continuous evaluation and control of the turnaround process is evident in previous work (Kotter 1995, Sirkin et al. 2005, Ashkenas and Francis 2002, Ernst and Bamford 2005, Smith 2003, Bannert and Tschirky 2004). Ernst and Bamford (2005) observed that strategic alliances too often lack a system for management to continuously evaluate performance, risk and future prospects.

*H4: Turnaround managers should design a system for creating short term milestones that are constantly evaluated, revaluated and controlled.*

#### *Quantitative measures are easier to interpret than qualitative measures*

Smith (2003) concludes that successful organizational change is often explained by quantitative factors whereas unsuccessful change projects are more often blamed on factors of higher context such as personal opinions. According to Smith, the change project is more likely to be perceived as successful if it is evaluated in quantitative terms, e.g. increase in produced units, decrease in delivery times or reduction of staff. Soderberg and Vaara (2003) argue in line with Smith as they state that the cultural integration process is made understandable for those involved if it is related to practical tasks. As of our conclusion, the bottom line in Smith's as well as Soderberg and Vaara's analysis is that quantitative, hands on, change is easier to interpret and should therefore be used as a tool for implementing more qualitative and high-context change.

#### *Communication*

The common denominator for previous authors' reflections on systems for change is communication (e.g. Kotter 1995, Sirkin et al. 2005, Hoag et al. 2002, Moran and Brightman 2001, Ernst and Bamford 2005). Kotter and Schlesinger (1979) as well as Moran and Brightman (2001) advocate that the leaders of change projects implement a communication program to counteract resistant

personnel. The authors claim that a communication program is most effective if the “resistance” is built on inadequate analysis. As of our analysis, this ties into Smith’s (2003) conclusion that quantitative success is easier to understand than qualitative success. One dimension of the communication program would thus be to confront inadequate analysis by referring to quantitative meaning. Kotter and Schlesinger (1979) add an important insight to communication in noting that effective communication can only be achieved if the senders are trusted by the receivers.

*H5: A system for communication is vital for turn-around success.*

### 3.2.4 Staff

The 7S framework assesses “staff” as HR management of top-performing employees. In relation to turnaround projects, we focus on how to deal with management resources through the turnaround phase.

We assume that a turnaround project implies change in the other six dimensions of organization. Based on this assumption, we suppose that the turnaround process is a time of high uncertainty for the management. Some managers may be replaced, other may be promoted and all of those who remain in the organization will have to acquire new skills and get used to new customs. In times of high uncertainty, we believe two aspects to be of particular relevance in relation to HR management: The first is to motivate the management to pursue the turnaround project, despite the temporary inconvenience. The second is to make sure that the organizational turmoil as such does not serve as a trigger for top performing employees to leave.

#### **Motivating Change**

Authors in the change literature highlight the necessity of creating a sense of urgency for change in the organization. (Hoag et al. 2002, Kotter 1995, Sirkin et al. 2005, Bower 2001). There are a few general advices on how to motivate change: Ashkenas and Francis (2000) emphasize the importance of reaching tangible results at an early stage in the integration process in order to build confidence in the minds of the managers that the acquisition makes sense. Bower (2001) and Killing (2003) argues that carrots, rather than sticks, should be used by those seeking to transform values.

Taken together, it seems to us as if the necessary motivation is created by assuring that the objectives behind the change projects are understood and shared by the organization. Management, bearing the responsibility for defining a strategy should also be the first ones to identify the need for change and shape the turnaround process. But if individuals in the management team find their position threatened by the project, they might be reluctant to implement the change. If the turnaround is to be implemented successfully, transformation

must be perceived as more important than the personal agenda for those who will actually make the turnaround happen.

*H6: Motivating the management to change is vital for turnaround success.*

### **Loss of personnel**

That change project can result in loss of key personnel is evident in the change literature (Morrell et al. 2004, Bower 2001) as well as in the research on integration (Howarth 2002, Bannert and Tschirky 2004). In Morrell et al.'s analysis, voluntary employee turnover is often initiated by a single event that triggers individuals' decision to quit. To avoid such triggers to emerge in change projects, the authors advocate that employee turnover is carefully measured (e.g. intra and extra firm career guidance, exit interviews) and managed in key operational areas.

*H7: Change lead to loss of key personnel. By identifying the triggers behind individuals' decision to quit, employee turnover rates can be reduced.*

### **3.2.5 Skills**

Waterman et al. argue that "possibly the most difficult problem in trying to organize effectively is that of weeding out old skills [...] so that new skills can take root and grow" (Waterman et al. 1980, p. 24). One part of turnaround is thus to find a way of replacing old skills with new. We bring forward two aspects of this replacement: The first is the degree of transportation of management practice from the Swedish organization to the JV. The second is to identify the management skills that are required to replace old organizational skills with new. As previously argued, we believe turnaround to be a complex task of high uncertainty, and as such in need of competent leadership.

### **Management practice**

Soderberg and Vaara (2003) as well as Liu and Mackinnon (2001) are highly critical to knowledge transfer according to "best practice". To simply transfer management practice from the more successful part of an alliance to the other part is not possible. Soderberg and Vaara refer to the embedded nature of knowledge and to resistance to knowledge transfer among the "receiving" staff. Liu and Mackinnon (2001) argue that education, family, culture and religion affect managerial behavior, and that differences in these elements hamper international convergence of management practice. Instead of transporting management technique, Soderberg and Vaara (2003) highlight the importance of building the organizational structure and post-merger corporate culture as to encourage knowledge transfer. The gains from learning from the integrated organization are evident in Soderberg and Vaara's analysis, but the authors emphasize that this process is often longer and more complex than most realize.

*H8: Management practice cannot only be transported but must also be transformed to fit the local business.*



## **Leadership**

### *Leadership skills*

Many authors have stressed the importance of a competent management team when leading change and integration projects (e.g. Kotter 1995, Sirkin et al. 2005, Hoag et al. 2002, Bower 2001). Among the personal traits that are listed are problem solving skills, ability to cope with uncertainty and willingness to accept responsibility (Killing 2003, Sirkin et al. 2005, Hoag et al. 2002, Ashkenas and Francis 2002, Liu and Mackinnon 2001).

### *Professional skills*

But a functioning management team does not only require certain leadership skills, but also certain professional skills. Bannert and Tschirky (2004) relate failure in integration of R&D intensive firms to lack of technological competences with those responsible for the integration process. Too often, the authors argue, the integration process is managed by financial, legal and strategy experts. Bannert and Tschirky (2004) argue that by involving technology experts in managing the integration process, adequate long term priorities and achievements are sustained. Bannert and Tschirky (2004) also advocate that a HR team should manage the cultural integration process, or the important “people dimension” will be lost.

### *Power*

Bower (2001) argues that powerful executives are put in charge of the integration process, a conclusion that might be very valid in a power-distant culture such as China (Hofstede 1991, H-T and Ts 1996).

*H9: Turnaround management should be socially intelligent and technically competent.*

## **3.2.6 Style**

In the 7S framework, style is interpreted as a reflection of an organizations culture (Waterman et al. 1980). Since most researchers use the “culture” instead of “style”, we will refer to style as culture in this section. The key argument in relation to style in the 7S framework is that an organization’s performance is closely related to its culture. As previously discussed, we make the assumption that the 7S framework, is one valid description of organization. In consequence, we also assume that organizational culture is vital for commercial success and that turnaround should address the concept of culture. Based on the proposition that a turnaround of culture is necessary and possible, section 3.2.6 focuses on the cultural dynamics that arise when two organizational cultures are to merge.

## **The road is the purpose of the journey**

Trompenaars and Woolliams (2003) suggest a strategy where both the current state and the ideal state of organizational culture are defined. Changing an organizational culture is not about replacing one culture with another but to

work with the tension between the current and the ideal state (Trompenaars and Woolliams, 2003). Soderberg and Vaara (2003), argue that cross-cultural problems can never be predicted on before hand. Instead, the cultural issues shall be addressed after the official alliance has been established. It only when two cultures have come in contact that the full spectra of cultural issues emerge (Soderberg and Vaara 2003). It might be that these two analysis are not as contradictory as might seem. Both regard culture as a dynamic process, and Soderberg and Vaara's conclusion is merely applying Trompenaars and Woolliams' analysis to a cross-cultural setting.

Other authors share a more static approach to cultural change where the current, dysfunctional, culture is seen as an obstacle to the ideal cultural state rather than as one of two poles in a dynamic process (Smith 2003, Hoag et al. 2002, Kotter and Schlesinger 1979, Moran and Brightman 2001). Belcher and Nail (2000) draw this argument even further when claiming that cross-cultural integration results in cultural clashes that must be solved at an early state. In the integration literature, authors have highlighted the need for mutual adaptation to the partner's culture (Bannert and Tschirky 2004, Dolbeck 2004, Bower 2001, Vaara 1999). Soderberg and Vaara (2003), argue that an integrated company must build a new cultural platform rather than just merge two existing cultures.

We have defined "culture" as the shared believes of how problems are solved and the common perception of what makes actions meaningful. As such, culture becomes an evolutionary component of organization that is defined and redefined every day. We expect to find that the current state of corporate culture in a CSOE is more easily defined when put into contrast with the Swedish firm (Soderberg and Vaara, 2003). In regard to cultural change, the turnaround process will thus be a tension between three poles, the Swedish culture, the Chinese and the ideal cultural state. We believe that this tension can allow the organization to find solutions to problems that would otherwise have been hampered by a narrow outlook. As such, the road to cultural change is more valid than the ultimate state of culture. Once reaching the ultimate state, the organization has again narrowed down to a common believe of how problems are solved.

*H10: The tension between two cultures is very valuable.*

### 3.2.7 Super ordinate goal s

Waterman et al. propose that "[super ordinate goals] provide stability in what would otherwise be a shifting set of organization dynamics" (Waterman et al. 1980, p. 25). Since the turnaround process as such is a time of change and turmoil, we believe that the importance of using super ordinate goals as an organizational stabilizer is even more pronounced.

### **Super ordinate goals and turnaround**

Moran and Brightman (2001) as well as Soderberg and Vaara (2003) allege that the purpose of change must be aligned with the staff's goals and sense of purpose. Our analysis is that the sense of purpose is relatively stable for most individuals. If the sense of purpose is aligned to the super ordinate goals of the turnaround, it can serve well as an organizational stabilizer.

One task for the turnaround management team would thus be to identify the staff's as well as the turnaround project's sense of purpose. On how to align the two, Moran and Brightman (2001) suggest that the super ordinate goal of change managers is continuously communicated to the staff. Soderberg and Vaara (2003) suggest that the mission, vision and values of an organization are linked to the daily practice. Ashkenas and Francis (2000) follow the same argumentation when highlight the importance of reaching short-term tangible goals as means of shifting the mindset of an organization.

*H11: The staff's and the turnaround projects sense of purpose should be aligned in order to implement turnaround success.*

### **3.2.8 Integrating the 7S**

As previously mentioned, the 7S framework is a holistic approach to. **Please see the Appendix of tables for Table 4 – Integration of the 7S, theoretical findings for an overview of the interrelation between the 7 S:es.**

## **4. Methodology**

*This section outlines the methodology that has been used to find and interpret the empirical material. We argue in favor of conducting a qualitative multiple-case study and describe the methodology, collection and interpretation of data that lies behind such a study.*

### **4.1 The method - qualitative multiple case study**

We have chosen to conduct a multiple case study, focused on qualitative rather than quantitative data. This type of study has several advantages: First, it enables us to study something that cannot be done in an experimentally setting (Andersen 1998). Second, it is a flexible and opportunistic method of collecting data that enables us to take advantage of the special issues of every unique case (Eisenhardt 1989). Third, it allows us to study a situation where the link between the cause and the effect are not clearly evident (Yin 2003). Fourth, it enables us to identify general patterns rather than focusing on the specific issues of one organization (Eisenhardt 1991).

In other words: We regard a qualitative case study to be an appropriate method of explaining the “why” and “how” of a turnaround of a JV with a CSOE as opposed to the “what” that a quantitative study would address. We believe that a multiple case study yields results that can be generalized as opposed to an in-depth single case study that addresses more specific issues.

#### 4.1.1 Comments on reliability and validity

An important aspect of every study is reliability and validity. High reliability implies that the operations of the same study can be repeated, yielding the same result (Yin 2003). Our intention is to support reliability by applying a well known structure to the interviews, i.e. the 7S model, as well as by providing detailed tables of key findings and an exhaustive reference list on the interviewees.<sup>8</sup> We are aware of that the language barrier as well as our cultural background can have affected the reliability. Two aspects of validity are particularly relevant to our study: *Construct validity* and *external validity*. The former addresses whether the correct operational measures have been used in the study, the latter refer to the extent to which the results can be generalized (Yin 2003). Our intention is to support *construct validity* by using a multiple, qualitative case study in accordance to the argument made under the previous headline. The *external validity* is mainly secured through two methods. The first is by conducting the supporting interviews, in particular the three consultancy firms which we interviewed in the final stage of the interview process.<sup>9</sup> The second is by introducing previous empirical findings in the later interviews in accordance to the replication logic argued by Yin 2003.

#### 4.1.2 Case Selection

Our study has been supported by the Swedish medical industrial company Elekta AB (Elekta). Elekta is on the doorstep to conducting a turnaround project in a CSOE, their request for a study of the kind that we have conducted lies behind the purpose and the case selection in the theses.

We have focused on industrial companies that have formed JVs with CSOEs; does not act on consumer markets; and have as “complete” organizational structure as possible present in China, i.e. functions in production, sales and R&D. By limiting the study to this type of organizations, extraneous variation is limited (Eisenhardt, 1989). To minimize the influence of national cultural characteristics to the turnaround process, we have limited the study to companies with Swedish origin.

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<sup>8</sup> Please see Table 7 – Data coding, Table 8 – Case description in the 7S framework and Table 11 – Case by case accounts for hypothesis., footnotes in section 5 Empirical analysis and the Specification of sources and references.

<sup>9</sup> Please see the Appendix of tables for Table 6 – Supporting interviews.

We contacted 55 industrial companies in China, five of them were found to fit the criteria described above and were able to receive us for interviews. The selected cases all had experience from turnaround processes in JVs with CSOEs. The ownership proportion between the Swedish and the Chinese part differs among the studied cases, ITT Flygt as well as Alfa Laval currently possess full ownership over the previous JV.

**Please see the Appendix of tables for *Table 5 – Case overview*.**

We also conducted some supporting interviews, i.e. with the Swedish Trade Council in Shanghai, two consultancy firms, the former GM of a now bankrupt American JV, the GM of Sunwin Volvo Bus and the GM of Atlas Copco China Investment.

**Please see the Appendix of tables for *Table 6 – Supporting interviews*.**

#### 4.1.3 Data Collection

The majority of the data underlying the analysis and conclusions was conducted through in-depth interviews on site in Shanghai, Beijing, Shenyang, Gothenburg and Stockholm. Three interviews were conducted over telephone. Quantitative sources like financial statements have not been used. First and foremost, reports on turnaround processes are internal documents and were therefore not publicly available. Secondly, reliable financial reports are difficult to find due to different reporting practices and transfer pricing between China and Sweden.

To be able to get a generalized view of the whole organization and its turnaround processes our interviewees were selected based on position and experience, striving after a constructing a sample with a mixture of levels of position, expertise and national origin from the organizations we studied. The GM, or equivalent, at each company was interviewed together with Western and Chinese managers and Chinese local staff, both with and without experience from CSOE, with a predominance of the former. Many of our informants had strategic or practical experience of the actual turnaround process.

Each interview lasted on average for one hour and was conducted in the period between February and April 2006. Mr. Lee, Mr. Lingel, Mr. Rosén and Mr. De Pretre were interviewed by telephone. Apart from the telephone interviews and the interviews with Mr. Rimaz, Mr. Fang, Mr. Yu and Mr. Hong, all interviews were conducted by two interviewers simultaneously to be able to verify and discuss taken notes. Translators were used during the interview with Mr. Chenhui, Deputy GM at PMO and at Mr. Wang, Assembly Manager at ITT Flygt. In order to encourage a relaxed and confidence-inspiring conversation, the interviews were not recorded. Interview transcripts were conducted by one of the two interviewers and compared, discussed and complemented within 48 hours after the interview. Interviews all followed the same open-ended, semi-

structured design. A multi-factorial design was used through an open-ended questionnaire covering the 7S framework. The 7S framework was used as a tool to structure both the questioning and the later production of transcripts; all to facilitate the processing of the empirical data. The discussion was limited to the 7 S:s, questions were used to direct the informant to elaborate on his or her view on turnaround issues.

#### 4.1.4 Data Coding

**Please see the Appendix of tables for Table 7 – Data coding** for examples of the data coding used in interview transcript (the structure of the table is derived from Yan and Grey 1994). As previously mentioned, the 7S framework has guided the structure of previous literature, interviews, interview transcript and empirical analysis. The structure secures that the same areas are covered in all case studies and that similar questions were asked to all companies. We also used similar questions to employees at different positions in the company, to try to capture how well strategies, corporate culture etc was communicated down the organization chart. When presenting the empirical data, a variety of devices have been used, such as quotes and tabular displays. This avoids destroying the meaning of the data through intensive coding (Miles and Huberman 1984 quoted in Eisenhardt 1989).

We are aware of the risk of that a bias toward the cases that find themselves most successful have been the ones that were willing to share their experiences in this study. It might also be the case that we to some extent have been given the polished and most flattering stories, due to the reluctance of sharing experiences of failure. Further some information can have been hidden as a consequence of that we are conducting this report on request of Elektro.

## 5. Empirical analysis

*This section presents the empirical findings. The empirical material is put in contrast with the theoretical findings so that previous research can be confirmed, rejected or complemented.*

### 5.1 Reassessment of Culture

We have previously defined culture as *the shared beliefs of how problems are to be solved and the common perception of what makes actions meaningful*. After conducting the empirical study, we conclude that the difference between the *common perception of what makes actions meaningful* did not differ widely among the Chinese and the Western employees. Even though not observed in a strict scientific setting, we also conclude that the common perception of what makes actions meaningful does not vary between employees in the studied JVs

and what we ourselves have experienced talking to Swedish colleagues and friends working in Sweden. In relation to organizational practise, this implies that Chinese as well as Swedish employees appreciate being seen, being heard and being trusted. An organization that can satisfy these needs will have employees that make themselves heard, take responsibility and strive to do a good job, independent on whether the office lies in Beijing or in Stockholm.

The *shared believes of how problems are to be solved* on the other hand varies between the two cultural clusters. Differing institutional climates has resulted in different working practises. In order to understand how to implement change in a JV with a CSOE, the Western management team must strive to understand the reason behind existing practises. It may be easy for a turnaround manager to blame turnaround failure on the cultural characteristics of the Chinese employees. But if the turnaround manager instead of generalizing on cultural traits strive to understand the institutional climate that has shaped the current belief of how problems are to be solved, the manager is more likely to succeed in changing those beliefs.

We do not imply that culture is irrelevant. But we strongly urge that understanding *why* a certain cultural characteristic is evident is very important. In consequence, a turnaround manager cannot settle down by reading the works of Hofstede and Hampden-Turner and Trompenaars that we have previously referred to. A turnaround manager must also develop his or her personal understanding of why some cultural characteristics evolve. Such an understanding originates from the personal capabilities and experiences of each manager. We can therefore not provide a general explanation in this thesis, only encourage each individual manager to make sure that he or she understands the logic behind the behaviour of his or her Chinese colleagues.

## **5.2 Empirical analysis in relation to existing literature on Organizational Change, Corporate Integration and Culture**

As previously discussed, we have structured the theoretical and empirical material in accordance to the 7S framework. In the empirical analysis, references to the empirical material as well as references to other sections of this thesis are provided in the footnotes. Section 8. *Specification of sources and references*, lists name and date of each interview.

### 5.2.1 Structure

*“The flatter structure is more efficient since there is less room for politics and hidden agendas.”<sup>10</sup>*

#### **Post-turnaround structure**

*Previous research: Previous literature argued that tearing down a hierarchical structure is not necessary for implementing change in a CSOE. A contrary, it was implied that the other dimensions of change are easier to implement if the formal structure of the CSOE is kept relatively stable. Further more, previous literature suggested that the Chinese organization should be integrated in the global organization.*

#### *Height of the pyramid*

A flat organizational structure was often held as the ideal among Chinese managers.<sup>11</sup> Drawing from previous research, we had anticipated that a flat structure would result in less clear decision making processes, and that this would create confusion for those used to work under a clear authority. Instead, we found that the Chinese managers often welcomed the greater responsibility that follows a flat structure.<sup>12</sup> Quoting the Financial Controller at Alfa Laval: “At Alfa Laval the workload is greater than at a CSOE, but the high degree of individual responsibility makes it easier and more motivating to handle it. I like being able to manage my own time.”<sup>13</sup>

The pyramid structure of a traditional CSOE was often said to create incentives for unsound political behaviour among middle management.<sup>14</sup> For example, Mr. Sun, Quality Manager at Ericsson Simtec, explained how individuals in a pyramid structure become more concerned with climbing the pyramid than improving the overall performance of the firm.

The Western management were on the other hand more positive to running a hierarchical structure in China. Citing Mr. Johansson, president of SKF China: “A hierarchical structure does not necessarily hamper communication.” Or as Mr. Wedel, GM of ITT Flygt stated: “I quite appreciate being able to use my authority here”.

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<sup>10</sup> Production Manager, Ericsson Simtec.

<sup>11</sup> Shipping Manager, ITT Flygt; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt.

<sup>12</sup> Shipping Manager, ITT Flygt; Financial Controller, Alfa Laval; DGM, Alfa Laval; Project Co-coordinator, Consilium Shanghai; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt.

<sup>13</sup> Financial Controller, Alfa Laval.

<sup>14</sup> Financial Controller, Alfa Laval; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB; Principal Consultant, The Saltzer Group; Quality Manager, Ericsson Simtec.



### *Gradual change in the organizational structure*

The common perception of both Western and Chinese employees was that changing the structure should be an evolutionary, not a revolutionary project.<sup>15</sup> Mr. Dai, Shipping Unit Manager at ITT Flygt, stated that Chinese employees need training<sup>16</sup> in how to work in a flat structure and that such training takes time.

Following the argument above, the empirical study supports previous research in that the turnaround project does not imply an immediate redesign of the organization chart. However, the study shows that the traditional structure of a CSOE gives incentives for unproductive political behaviour. As of our conclusion, the correlation with a hierarchical structure and political manoeuvrings is especially relevant in Chinese enterprises, taking into account the bureaucratic governance of ancient as well as modern China. Previous literature suggested that a flattening a hierarchical structure is not necessary to implement change. The empirical study does not support this conclusion. Even though the ideal structure of a JV with a CSOE might be more hierarchical than that of a typical Swedish enterprise, flatten the hierarchical structure can be an efficient tool in changing undesired political manoeuvring.

*H1: The post-turnaround structure should be kept relatively stable to facilitate change in other dimensions of organization. Neither supported nor rejected.*

### **Leadership**

*Previous research: The responsibility of the turnaround process should be assigned to a coalition of individuals. It has been argued that this coalition should host top- and middle management from both of the JV partners, as well as one or more outside consultants.*

### *Top management controls the turnaround*

One of the most common issues that the Western managers in the study bring forward is the need for control over the JV in order to implement change.<sup>17</sup> In relation to “structure”, such control can be to assign the GM and the FM over the JV.<sup>18</sup> In all cases, the responsibility of the turnaround project has been assigned to the top management of the JV, sometimes with support from the HQ in Sweden, sometimes with support from the main office in China. Many of the interviewees have highlighted the importance of formal authority to implement

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<sup>15</sup> DGM, PMO; GM, Automotive Division, SKF; DGM, Alfa Laval; Assembly Manager, ITT Flygt

<sup>16</sup> Please see sections 5.2.3. *Systems* and 5.2.5. *Skills* for further discussions on the concept of training.

<sup>17</sup> GM, Automotive Division, SKF; Financial Controller, Alfa Laval; Marketing Manager, Consilium; Project Co-ordinator, Consilium Shanghai; President, SKF; Market and Sales Manager, Consilium; GM, ITT Flygt; GM, American JV; Design Manager, Ericsson Simtec; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Area Sales Manager, Consilium; President, Ericsson Simtec.

<sup>18</sup> GM, Automotive Division, SKF; Principal Consultant, The Saltzer Group; Quality Manager, Ericsson Simtec.

decisions.<sup>19</sup> But relying only on formal authority and top driven change management also has its drawbacks:

ITT Flygt has struggled to stimulate the staff to take more initiatives; to dare bring forward ideas to top management. It was not until representatives from ITT Flygt spent working hours in the production process that the company realised that it was the middle management that composed the main obstacle to such initiatives. Mr. Jonsson, Project Manager at ITT Flygt AB, shared his experience of this: "In the CSOE organization, a middle manager regarded a creative subordinate to be a potential threat to his own position. This did not exactly encourage new initiatives!" This type of institutional hindrance to the flow of ideas in the organization remained even after ITT Flygt took over the company and would have been hard to discover if not ITT Flygt had let its change managers take part in the daily practises of the firm.<sup>20</sup>

#### *Vertical and horizontal anchoring of the turnaround project*

The need for control is somewhat higher than we predicted. With the exception of Volvo Sunwin, the JV we have studied was never perceived as a partnership among two equals, but rather as a turnaround task for the Western management. As such, the Western management have been keen to exclude the partner from all operational decisions, e.g. the turnaround process.<sup>21</sup> Excluding the partner from operating activities reduce the horizontal anchoring of the turnaround project. In relation to vertical anchoring, the experience from ITT Flygt calls for a throughout support for the change process in the internal organization.

To sum up: we find that the empirical study supports the adequacy of previous literature in that a group of people with horizontal as well as vertical manoeuvre space should be assigned responsible of the turnaround process. However, the empirical study predicts that this group is controlled by the partner that initiates change (in our study this has been the Swedish part) rather than consisting of representatives from both parts.

#### *Key individuals in the turnaround management team*

As we have now proposed that the turnaround process is managed by a group of people, assigned by the dominating partner and with horizontal and vertical manoeuvre space, one question remains; whom to assign. The empirical study brings forward three structural concerns in relation to the assignment of turnaround managers:

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<sup>19</sup> Director Production and Logistics, Consilium Navigation; GM, Automotive Division, SKF; GM, Volvo Sunwin; Marketing Manager, Consilium; Project Manager, ITT Flygt AB; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; President, Ericsson Simtec.

<sup>20</sup> Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB.

<sup>21</sup> Atlas Copco, SKF, Alfa Laval, ITT Flygt and Ericsson Simtec.

- The importance of close connection with, and support from, the home country.<sup>22</sup>
- The importance of local, i.e. Chinese, ownership of the change process.<sup>23</sup>

*H2: The turnaround process should be managed by a team of individuals that represents various vertical and horizontal segment of the JV. **Partly supported*** in that anchoring of the turnaround project could require a team of managers. **Partly rejected** as the JV partners involvement in the turnaround project should be limited.

### Aspects of structure not covered by previous literature

#### *Downsizing*

One of the most commonly reported problems when working with a state owned partner is the differences in objectives. For the Chinese government, local as well as national, keeping people employed is the key mean to avoid social unrest.<sup>24</sup> For many individuals in China, especially outside the main cities, there are few professional alternatives to the current employment. Mr. De Pretre, Principal Consultant at the Salzer Group, as well as Ms. Feng, Project Analyst at SKF, emphasised the importance of creating a throughout plan for laid off workers. The plan is not only a mean to secure the proper treatment of human resources (HR) but also a mean to maintain the necessary relationship with the local government.

#### *Turnaround of management*

Another important issue is how to find the right individuals for the right tasks. Many interviewees have related to the generation gap in China. Individuals above 40 years are often highly influenced by the schooling they received under the Cultural Revolution, a period with large political turmoil.<sup>25</sup> These individuals are deeply rooted in the systems of the planned economy and have a hard time adapting to the more business minded way of working in a capitalistic organization. The vast majority of the Chinese managers that we have met have all been in their thirties, and one strategic objective in the cases we have studied has been to replace older management with younger people.<sup>26, 27</sup>

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<sup>22</sup> GM, ITT Flygt; Financial Controller, Alfa Laval; President, Ericsson Simtec.

<sup>23</sup> DGM, PMO; DGM, Alfa Laval; Former Project Manager, ITT Flygt; VP, Atlas Copco; Project Analyst, Alfa Laval; Quality Manager, Ericsson Simtec.

<sup>24</sup> DGM, Alfa Laval; VP, Atlas Copco; GM, American JV; Project Analyst, SKF; Principal Consultant, The Saltzer Group.

<sup>25</sup> GM, Automotive Division, SKF; Financial Controller, Alfa Laval; GM, Alfa Laval; Lead Champion, ITT Flygt AB; Founder, APLDI; Design Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>26</sup> GM, Automotive Division, SKF; DGM, Alfa Laval.

<sup>27</sup> Please see sections 5.2.3. *Systems* and 5.2.5. *Skills* for further discussions on management systems and management skills.

## 5.2.2 Strategy

*“Key for turnaround success is to have a clear understanding of what the company should be turning into and why this is important”.*<sup>28</sup>

### Time perspective

*Previous research: It has been argued that change processes are not short run activities, and that turnaround managers thus must adopt a long run perspective in terms of strategy. Further more, the integrated perception of time in the Chinese culture requires patience from a manager used to a more sequential time perception.*

#### *Change at a slow pace*

The empirical study both support and provide further understanding of previous literature in this aspect. Even though the ground for the turnaround can be laid in short time, our conclusion is that more throughout changes have to involve also cultural change. Changing corporate culture takes time and calls for patience,<sup>29</sup> but this is rewarded by increased profitability.<sup>30</sup>

#### *Integrated versus sequential perception of time*

In terms of differences in time perceptions we made some interesting notations. Hampden-Turner and Trompenaars have argued that in China, the past, the present and the future are interrelated.<sup>31</sup> We observed this integrated perception of time as the Chinese ability to focus on the present and make the most out of every opportunity.<sup>32</sup> Some of the Western managers where frustrated over their Chinese partner low willingness to commit to strategic investments,<sup>33</sup> or lack of contingency planning.<sup>34</sup> Mr. Dullaert, GM at Volvo Sunwin, gave another interesting notation in relation to the concept of time: “The Chinese have an impressing ability to play with time. They know when to wait and when to act. This ability is priceless in negotiations with suppliers and customers in China.”

*H3: Turnaround strategy must have a long-run focus and allow for differences in time perception. **Supported***

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<sup>28</sup> Principal Consultant, The Saltzer Group.

<sup>29</sup> Financial Controller, Alfa Laval; DGM, Alfa Laval; Marketing Manager, Consilium; GM, ITT Flygt; Project Analyst, SKF; Logistic Manager, ITT Flygt.

<sup>30</sup> Director Production and Logistics, Consilium Navigation; DGM, Alfa Laval; VP, Atlas Copco; President, SKF; Design Manager, Ericsson Simtec; Business Development Director, SKF; Logistic Manager, ITT Flygt; President, Ericsson Simtec.

<sup>31</sup> Please see section 3.1.2. *Following Hampden-Turner and Trompenaars' approach* for theoretical findings.

GM, Volvo Sunwin; DGM, Alfa Laval; Senior Design Engineer, Ericsson Simtec.

<sup>33</sup> GM, Automotive Division, SKF; VP, Atlas Copco.

GM, Volvo Sunwin; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB; GM, ITT Flygt.

### Aspects of strategy not covered by previous literature

#### *Control*

The need for control that we highlighted under “structure” is evident also in terms of “strategy”. In all the studied cases, the Western management is reluctant to leave too much information to the partner.<sup>35</sup> This is also part of the reason why full ownership is regarded a strategic objective among many of the studied cases.<sup>36</sup> Mr. De Pretre, Principal Consultant at the Salzer Group, even advice international companies not to leave too much information to a local manager, even though he or she might have been recruited outside of the former CSOE.

#### *Governmental relations*

Maintaining good relationships with the local government was cited to be a strategic objective.<sup>37</sup> The government or governmentally controlled enterprises often represent important customers and/or suppliers. Governmental approval can also be needed for some investment decisions. Mr. Lingel, GM of Alfa Laval explained: “The government can make things easy for you, but they can also things very difficult. You therefore need a good relationship with the local government”.

### 5.2.3 Systems

*“If your Chinese organization is 60-70 percent of a best practice company after two to three years, you have done a good job”.*<sup>38</sup>

### Systems in the turnaround process

*Previous research: It has been argued that the turnaround process should be broken down to short term milestones that are continuously evaluated. By applying quantitative measurements to these milestones, turnaround success is easier to interpret. Previous literature alleged that one system of obtaining cultural integration is to align the change process to practical tasks. A communication system was stated to be vital for the turnaround process.*

#### *Evolutionary change, carefully controlled and evaluated*

The empirical research aligns strongly with previous findings in that systems are changed stepwise and that each step needs control and evaluation.<sup>39</sup> Moving from one step to another seems to be a time consuming task; finding a stepwise approach to change ensures quality of the turnaround project rather than

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<sup>35</sup> Market Consultant, The Swedish Trade Council; Director Production and Logistics, Consilium Navigation; Lead Champion, ITT Flygt AB; VP, Atlas Copco.

<sup>36</sup> Atlas Copco, Alfa Laval, Consilium, ITT Flygt.

<sup>37</sup> GM, ITT Flygt; President, Ericsson Simtec; VP, Atlas Copco; GM, Volvo Sunwin; GM Alfa Laval.

<sup>38</sup> Principal Consultant, The Saltzer Group.

<sup>39</sup> GM, Automotive Division, SKF; GM, Volvo Sunwin; Financial Controller, Alfa Laval; DGM, Alfa Laval; VP, Atlas Copco; Market and Sales Manager, Consilium; GM, ITT Flygt; Assembly Manager, ITT Flygt.

speed.<sup>40</sup> Ms. Feng, Project Analyst at SKF, argued quite to the point in stating that “you have to move step by step when changing systems”.

#### *Quantitative and qualitative measures*

Turnaround success was often described in quantitative terms, e.g. increase in efficiency or increase in quality.<sup>41</sup> However, we also found references to qualitative achievements such as changed opinions in regard to sharing information or the benefits of a more dynamic approach to management.<sup>42</sup> As Mr. Xu, Production Manager at Ericsson Simtec, explained to us: “I was taught in the SOE that the more you talk, the more mistakes you are likely to unveil. But now, I am getting much better at sharing my opinion at the meetings”.

#### *Dealing with the complexity of turnaround projects*

One way of sustaining that the “why” and “how” of the change process has been understood has been to link the change process to every day practices, just like suggested by Soderberg and Vaara (2003).<sup>43</sup> Many Western managers were keen to mention that understanding of “why” and “how” must be mutual.<sup>44</sup> As Mr. Falén, President at Ericsson Simtec, put it: “You both need to understand their [the Chinese] “why” and explain your [the Swedish] “why” in order to change the systems at place”.

*H4: Turnaround managers should design a system for creating short term milestones that are constantly evaluated, revaluated and controlled. Supported*

#### *Communication – language barrier*

Last but not least, we turn to previous literature’s concern with communication. We have not made one interview where communication has not been mentioned a crucial element of turnaround processes. The most obvious obstacle to overcome is the language barrier, often mentioned. The common language in all of the studied cases is English, which is of course not the mother tongue for either Swedes or Chinese. Both nationalities were attributed misunderstandings to language difficulties:<sup>45</sup> “There are always communication

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<sup>40</sup> GM, Automotive Division, SKF; GM, Volvo Sunwin; Financial Controller, Alfa Laval; DGM, Alfa Laval; VP, Atlas Copco; Market and Sales Manager, Consilium; GM, ITT Flygt; Assembly Manager, ITT Flygt.

<sup>41</sup> GM, Automotive Division, SKF; DGM, Alfa Laval; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB; GM, American JV.

<sup>42</sup> Financial Controller, Alfa Laval; DGM, Alfa Laval; Human Resources Manager, ITT Flygt; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec.

<sup>43</sup> VP, Atlas Copco; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt.

<sup>44</sup> Director Production and Logistics, Consilium Navigation; GM, Automotive Division, SKF; VP, Atlas Copco; President, SKF; Market and Sales Manager, Consilium; Design Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>45</sup> Market Consultant, The Swedish Trade Council; Director Production and Logistics, Consilium Navigation; DGM, PMO; GM, Automotive Division, SKF; Shipping Manager, ITT Flygt; GM, Volvo Sunwin; Financial Controller, Alfa Laval; GM, Consilium CSME; DGM, Alfa Laval; Marketing Manager, Consilium; Quality Manager, ITT Flygt AB; Purchasing Engineer, Alfa Laval; Project Co-coordinator,

problems to some extent”, Mr. Dullaert, GM at Volvo Sunwin stated. The financial controller at Alfa Laval further commented: “Learning the technical issues is the easy part, but to understand the higher contexts of a foreign language is much more difficult”.

The means to over bridge the language gap differs between individuals. Some prefer to confirm verbal agreements in written form to ensure correct interpretation.<sup>46</sup> A typical communication system in Chinese enterprises seems to be face to face communication since it ensures that higher context elements of communication are .<sup>47</sup> We argue that formalizing communication praxis is vital for the success of the turnaround process. This would imply that individuals have to travel more than might have been expected in absence of the language barrier and/or that a standardized checklist is used after meetings.

But treating the symptoms is not enough; the root of the problem must also be addressed. This implies extensive English language training programs for employees in all segments of the organization. We would also like to bring forward a complementary solution on how to bridge the language gap; to place individuals with dual language skills as communication hubs in the organization. In the absence of highly educated engineers fluent in English, we suggest that the technical competences are complemented by bilingual individuals employed with the sole purpose of enhancing communication.

#### *Communication – cultural barrier*

At Consilium and ITT Flygt, the communication difficulties have been directly addressed by employing an overseas Chinese manager. Individuals with such a dual cultural background (e.g. Singaporean, Hong Kong Chinese, Taiwanese or Western Born Chinese) are popularly referred to as “banana people” – “yellow on the outside but white on the inside”, as Ms. Liu, Human Resource Manager at ITT Flygt explained. Although employing an overseas Chinese at Consilium has enhanced the communication,<sup>48</sup> employing a “banana person” is not always the obvious solution on how to bridge the cultural gap.<sup>49</sup> Among the reported drawbacks is jealousy on behalf of locally employed Chinese and loss of

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Consilium Shanghai; Human Resources Manager, ITT Flygt; Lead Champion, ITT Flygt AB; VP, Atlas Copco; President, SKF; Financial Controller, ITT Flygt; Market and Sales Manager, Consilium; Project Manager, ITT Flygt AB; GM, ITT Flygt; Project Analyst, SKF; Principal Consultant, The Saltzer Group; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Marketing Dept. Engineer, Consilium CSME; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec; GM, Consilium Shanghai; President, Ericsson Simtec.

<sup>46</sup> GM, Automotive Division, SKF; GM, Volvo Sunwin; Marketing Manager, Consilium; Market and Sales Manager, Consilium; Area Sales Manager, Consilium

<sup>47</sup> DGM, PMO; Financial Controller, Alfa Laval; Project Co-ordinator, Consilium Shanghai; GM, ITT Flygt; Senior Design Engineer, Ericsson Simtec; Project Analyst, SKF; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt; Production Manager, Ericsson Simtec.

<sup>48</sup> Project Co-ordinator, Consilium Shanghai; Market and Sales Manager, Consilium; GM, Consilium Shanghai.

<sup>49</sup> Human Resources Manager, ITT Flygt; Financial Controller, ITT Flygt; GM, American JV; Business Development Director, SKF.

authority since the “banana person” is regarded as a cultural traitor. Mr. Benoit, GM at Volvo CE described: “I have experience from a foreign Chinese on my staff, he found the working environment to be really tuff and he was very differently treated by his Chinese colleagues.”

#### *Communication – concern with face*

Another important aspect that hinders communication is the concern with “face” that is evident in the Chinese culture.<sup>50</sup> Concern with face holds back the Chinese employees from speaking their mind in front of a manager.<sup>51</sup> Long term relationships built on trust between managers and subordinates, the creation of a tolerating atmosphere and forcing critique through direct questions are means that have been used to counteract unproductive concern with face.<sup>52</sup>

*H5: A system for communication is vital for turnaround success. Supported*

#### **Aspects not covered by previous research**

The theoretical analysis focused on the systems of the turnaround project rather than the systems that apply for all organizational projects. The empirical study, however, indicates that the overall organizational systems in the studied CSOEs where in substantial need of restructuring. The turnaround project therefore involves systems that are not closely related to the turnaround.

#### *Lack of explicit systems*

One observation from the empirical study is the lack of explicit systems in the studied CSOEs. Whereas a Western firm uses standardized systems for obtaining information, conducting strategic planning and motivating employees, the CSOEs seems to be much more dependent on the individuals employed.<sup>53</sup>

#### *Lack of explicit systems – contingency planning*

Some interviewees have referred to the lack of contingency planning in Chinese organizations.<sup>54</sup> Mr. Dullaert, GM at Volvo Sunwin stated: “People here does not deal with problems until they have turned into crises.” The flipside of low contingency planning can be opportunity minded business. Mr. Dullaert further

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<sup>50</sup> Human Resources Manager, ITT Flygt; Financial Controller, ITT Flygt; GM, American JV; Business Development Director, SKF.

<sup>51</sup> GM, Volvo Sunwin; VP, Atlas Copco; President, SKF; Market and Sales Manager, Consilium; Assembly Manager, ITT Flygt.

<sup>52</sup> GM, Automotive Division, SKF; Quality Manager, ITT Flygt AB; Market and Sales Manager, Consilium; Project Manager, ITT Flygt AB; GM, ITT Flygt; Design Manager, Ericsson Simtec; Assembly Manager, ITT Flygt; President, Ericsson Simtec.

<sup>53</sup> GM, Automotive Division, SKF; GM, Volvo Sunwin; Financial Controller, Alfa Laval; GM, Consilium CSME; Quality Manager, ITT Flygt AB; Project Co-ordinator, Consilium Shanghai; VP, Atlas Copco; President, SKF; Market and Sales Manager, Consilium; Project Manager, ITT Flygt AB; Design Manager, Ericsson Simtec; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Production Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>54</sup> GM, Volvo Sunwin; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB.



explained: “When little time is spent at designing strategy, more time can be devoted at taking advantage of rising opportunities.”<sup>55</sup>

*Lack of explicit systems – network-based business*

Business in China is very much based on networks, based on personal relationships, within the organization as well as between organizational members and suppliers, costumers and the government.<sup>56</sup> The Western company may like the network based business or not; our opinion is that building strong personal relationship with the staff is a necessary tool for management to obtain information and implement decisions, thus a vital element of the turnaround process. Mr. Roberts, GM at the Automotive Division at SKF, described his way of creating intra-organizational networks: “I try to spend as much time at the production floor as possible, talking to the workers and hearing their opinions. First, they looked at me as if I was crazy, but now they have gotten used to it. It is important to me that they feel that they can approach me if there is a problem.”

*Lack of explicit systems – cross functional cooperation*

As stated previously under 5.2.1 *Structure*, CSOEs often lack process oriented thinking. Whereas the functions in the organization (e.g. assembly or finance) are existing, CSOEs often lack the holistic perspective.<sup>57</sup> Lack of cross functional cooperation in CSOEs was stated to hamper turnaround success.<sup>58</sup> If the different functions of a CSOE are not integrated, the turnaround project is affected: Not only must the turnaround management team concentrate on changing the seven dimensions of organization as a whole, but also focus on integrating the organization to one unit. This implies increasing the cooperation and information sharing in the organization.

*Lack of formal systems – reporting systems*

Another aspect that has impeded the turnaround process in the studied cases is the lack of adequate reporting systems.<sup>59</sup> Interviewees referred to low reliability in quantitative reports,<sup>60</sup> and lack of analytical processing of reported

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<sup>55</sup> GM, Volvo Sunwin.

<sup>56</sup> Market Consultant, The Swedish Trade Council; Director Production and Logistics, Consilium Navigation; DGM, PMO; GM, Automotive Division, SKF; GM, Volvo Sunwin; Financial Controller, Alfa Laval; DGM, Alfa Laval; Marketing Manager, Consilium; Lead Champion, ITT Flygt AB; VP, Atlas Copco; President, SKF; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; Logistic Manager, ITT Flygt; President, Ericsson Simtec.

<sup>57</sup> Market Consultant, The Swedish Trade Council; GM, Automotive Division, SKF; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; President, Ericsson Simtec.

<sup>58</sup> GM, Automotive Division, SKF; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB; Design Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>59</sup> GM Assistant, Alfa Laval; DGM, PMO; GM, Automotive Division, SKF; Financial Controller, Alfa Laval; GM, Consilium CSME; Project Co-coordinator, Consilium Shanghai; Human Resources Manager, ITT Flygt; President, SKF; Project Manager, ITT Flygt; Quality Manager, Ericsson Simtec; Area Sales Manager, Consilium; Assembly Manager, ITT Flygt.

<sup>60</sup> GM, Automotive Division, SKF; VP, Atlas Copco; Market and Sales Manager, Consilium

numbers.<sup>61</sup> The Financial Controller at Alfa Laval stated: “At Alfa Laval, I spend 70 percent of my time analyzing information, a CSOE is mainly focused on gathering the data”.<sup>62</sup>

We previously argued that constant evaluation and control are vital instruments of a turnaround project. Such valuation and control is often dependent on adequate reporting systems, the lack of adequate reporting systems can therefore be expected to hamper the turnaround project. To counteract this tendency, we argue that substantial effort is spent in developing reporting systems, using the techniques described in previous sections.

#### 5.2.4 Staff

*“People make difference in Chinese organizations”<sup>63</sup>*

##### **Motivating change**

*Previous research: It has been stated that true change cannot be implemented if not those who are to change are motivated. Such motivation is created by applying carrots rather than sticks in relation to communication and incentive systems.*

The empirical analysis strongly supports previous research in that motivating the staff to change is vital for turnaround success.<sup>64</sup> Such motivation can be created using monetary incentives,<sup>65</sup> verbal appreciation and training in corporate culture and new skills.<sup>66</sup>

*H6: Motivating the management to change is vital for turnaround success.*

**Supported**

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<sup>61</sup> Financial Controller, Alfa Laval; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB.

<sup>62</sup> Financial Controller, Alfa Laval.

<sup>63</sup> Principal Consultant, The Saltzer Group.

<sup>64</sup> GM, Automotive Division, SKF; DGM, Alfa Laval; Lead Champion, ITT Flygt AB; VP, Atlas Copco; President, SKF; Project Analyst, SKF; Design Manager, Ericsson Simtec; Logistic Manager, ITT Flygt; President, Ericsson Simtec.

<sup>65</sup> GM, Automotive Division, SKF; DGM, Alfa Laval; VP, Atlas Copco; President, SKF; Design Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>66</sup> Director Production and Logistics, Consilium Navigation; Shipping Manager, ITT Flygt; Human Resources Manager, ITT Flygt; Lead Champion, ITT Flygt AB; VP, Atlas Copco; President, SKF; President, Consilium; Founder, APLDI; GM, American JV; Project Analyst, SKF; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec.

### **Loss of personnel – job hopping**

*Previous research: It has been argued that change can lead to loss of key personnel. Such voluntary employee turnover can be counteracted by careful ex ante measurement of potential triggers to employee turnover.*

High turnover of top performing employees is common problem for organizations in China, whether they are going through a transformation process or not.<sup>67</sup> Nevertheless, some organizations have succeeded better than others in keeping turnover rates down. The study identifies salary, training, career opportunities and company culture as key variables that influence the Chinese staffs' decision whether to change job or not.

#### *Salary*

A foreign company is expected to pay a higher salary than a CSOE,<sup>68</sup> and paying a competitive salary is crucial for a company that values low management turnover.<sup>69</sup> However, a high salary is not always enough, there will most probably always be another company willing to pay more.<sup>70</sup> Mr. Lingel, GM of Alfa Laval gave a warning: "You have to be careful with high salaries; you don't want to employ the people that are only in it for the money". Consequently, non pecuniary benefits are a vital complement to high wages.

#### *Training*

One such type of non-pecuniary benefits is the possibility of personal development through training. The concept of training can incorporate various activities such as language training, team building or leadership training.<sup>71</sup> Much appreciated among most of the Chinese staff we met was overseas training in the company HQ.<sup>72</sup> Apart from developing the personal skills of the trainee, travelling abroad, for a limited period of time, were regarded an

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<sup>67</sup> Market Consultant, The Swedish Trade Council; Director Production and Logistics, Consilium. Navigation; DGM, PMO; Financial Controller, Alfa Laval; DGM, Alfa Laval; Human Resources Manager, ITT Flygt; VP, Atlas Copco; President, SKF; GM, ITT Flygt; Senior Design Engineer, Ericsson Simtec; Project Analyst, SKF; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>68</sup> GM, Automotive Division, SKF; Financial Controller, Alfa Laval; Human Resources Manager, ITT Flygt; VP, Atlas Copco; President, SKF.

<sup>69</sup> Market Consultant, The Swedish Trade Council; GM Assistant, Alfa Laval; Shipping Manager, ITT Flygt; Financial Controller, Alfa Laval; Purchasing Engineer, Alfa Laval; Project Co-ordinator, Consilium Shanghai; Human Resources Manager, ITT Flygt; Senior Design Engineer, Ericsson Simtec; Project Analyst, SKF; Principal Consultant, The Saltzer Group; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec.

<sup>70</sup> Market Consultant, The Swedish Trade Council; GM, ITT Flygt; Principal Consultant, The Saltzer Group.

<sup>71</sup> Director Production and Logistics, Consilium Navigation; GM Assistant, Alfa Laval; GM, Consilium CSME; Purchasing Engineer, Alfa Laval; Human Resources Manager, ITT Flygt; VP, Atlas Copco; President, SKF; Project Analyst, SKF; Business Development Director, SKF.

<sup>72</sup> Financial Controller, Alfa Laval; DGM, Alfa Laval; Project Co-ordinator, Consilium Shanghai; Quality Manager, Ericsson Simtec; Assembly Manager, ITT Flygt.

efficient tool in building relationships within the company and enhancing the communication across nations.<sup>73</sup>

#### *Career opportunities*

Another important aspect is career opportunities.<sup>74</sup> Contradicting ex ante expectation, the majority of the Chinese employees we meet were not eager to move abroad for a longer period of time. Mr. Runping, Design Engineer at Ericsson Simtec, expressed: "I have all my family and friends here in Shanghai; it is not an option for me to move. Why would I want to do that?"<sup>75</sup> Mr. Xu, Production Manager at the same company, has experience from temporary living in Sweden: "It was terrible, I was so lonely. In China my colleagues are my family, it was very different in Sweden. I was very homesick." Mr. Chenhui, GM at PMO had a differing opinion. He claimed that his staff welcomes the opportunities of an international career. His somewhat sceptical comment to our previous findings was: "Maybe the staff you have met [that did not want to move] was just very fortunate here in China."

#### *Company culture*

Company culture was often cited an important ingredient in retaining human resources. In particular, the freedom, personal responsibility, teamwork and relaxed atmosphere were particularly appreciated.<sup>76</sup>

*H7: Change lead to loss of key personnel. By identifying the triggers behind individuals' decision to quit, employee turnover rates can be reduced.*

**Supported**

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<sup>73</sup> DGM, PMO; Financial Controller, Alfa Laval; DGM, Alfa Laval; Design Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>74</sup> GM Assistant, Alfa Laval; DGM, PMO; Financial Controller, Alfa Laval; DGM, Alfa Laval; Human Resources Manager, ITT Flygt; Lead Champion, ITT Flygt AB; VP, Atlas Copco; President, SKF; Senior Design Engineer, Ericsson Simtec; Project Analyst, SKF; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Production Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>75</sup> Senior Design Engineer, Ericsson Simtec.

<sup>76</sup> GM Assistant, Alfa Laval; Financial Controller, Alfa Laval; DGM, Alfa Laval; Purchasing Engineer, Alfa Laval; VP, Atlas Copco; President, SKF; Senior Design Engineer, Ericsson Simtec; Project Analyst, SKF; Design Manager, Ericsson Simtec; Business Development Director, SKF; Quality Manager, Ericsson Simtec; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec; President, Ericsson Simtec.

### 5.2.5 Skills

*“I have very much appreciated the leadership training that I have received at ITT Flygt. It has enabled me to focus less on details and understand the bigger picture”<sup>77</sup>*

#### Management practise

*Previous research: It has been argued that that management practise should be transformed, rather than just transported from the Swedish organization.*

##### *Applying best practise*

The empirical study does not support previous literature in this aspect. As mentioned above, the CSOEs we have studied have been in need for substantial restructuring and the use of Swedish management practise was cited as key for turnaround success.<sup>78</sup> Where previous literature referred to how the embedded nature of knowledge complicate management practise transportation, the empirical study suggest that the embedded knowledge is addressed through ambitious training programs.<sup>79</sup> Please not how we are not making the argument that Swedish management practise should be directly transported and implemented in the JV from day one. A certain degree of adaptation to local practises is certainly necessary and change will take a long time also in this aspect. But we are claiming that Swedish management practise can be an important competitive advantage, thus implementing such practises should be a long term strategic objective.

*H8: Management practice cannot only be transported but must also be transformed to fit the local business. **Partly rejected**, transporting management practice with minor modifications can be a long run strategic objective.*

#### Leadership

*Previous research: Leaders of turnaround project should have problem-solving skills, be able to cope with uncertainty and willing to accept responsibility. Furthermore, leaders should be powerful hold technical competence.*

##### *Leadership and professional skills*

Leadership traits that where commonly cited as important where communication skills,<sup>80</sup> openness,<sup>81</sup> ability to generate trust,<sup>82</sup> and ability to cooperate across cultures.<sup>83</sup> The need for technical competence is also evident.<sup>84</sup>

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<sup>77</sup> Human Resources Manager, ITT Flygt.

<sup>78</sup> Director Production and Logistics, Consilium Navigation; GM, Automotive Division, SKF; VP, Atlas Copco; President, SKF; Market and Sales Manager, Consilium; Founder, APLDI; GM, American JV; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group.

<sup>79</sup> Director Production and Logistics, Consilium Navigation; GM, Automotive Division, SKF; VP, Atlas Copco; President, SKF; Market and Sales Manager, Consilium; Founder, APLDI; GM, American JV; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group.

<sup>80</sup> Director Production and Logistics, Consilium Navigation; DGM, Alfa Laval; Human Resources Manager, ITT Flygt.

*Empiric result in relation to theory*

As of our analysis, the personal traits and skills cited in the empirical study are complements rather than substitutes to the traits highlighted in previous literature. We believe that the cross cultural setting in combination with the radical changes that have been implemented in the studied CSOEs, calls for a higher ability to communicate than what previous literature have identified. Adding this notation, we believe that the empirical study supports previous findings.

*Power*

The study clearly signifies that power is an important attribute in implementing decisions.<sup>85</sup> In a typical CSOE, real authority is defined in terms of titles and ability to implement decisions.<sup>86</sup>

*H9: Turnaround management should be socially intelligent and technically competent. Supported*

## 5.2.6 Style

*“Contradiction creates ideas.”<sup>87</sup>*

### **The road is the purpose of the journey**

*Previous research: Previous research suggested that the tension between the CSOE culture, the Swedish culture and the ideal state of culture could provide a stimulating environment where well-tried solutions to problems are challenged.*

The empirical study provides some general descriptions of traditional CSOE culture and traditional Swedish company culture. Although the data provides large individual variances in these aspects, there where some attributes commonly referred to:

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<sup>81</sup> GM Assistant, Alfa Laval; DGM, PMO.

<sup>82</sup> Director Production and Logistics, Consilium Navigation; Quality Manager, ITT Flygt AB; Project Manager, ITT Flygt AB.

<sup>83</sup> GM, Automotive Division, SKF; VP, Atlas Copco; President, SKF.

<sup>84</sup> Director Production and Logistics, Consilium Navigation; Shipping Manager, ITT Flygt; Human Resources Manager, ITT Flygt.

<sup>85</sup> GM, Automotive Division, SKF; Quality Manager, ITT Flygt AB; President, SKF; Market and Sales Manager, Consilium; GM, ITT Flygt; President, Ericsson Simtec.

<sup>86</sup> Market Consultant, The Swedish Trade Council; GM, Automotive Division, SKF; Financial Controller, Alfa Laval; GM, ITT Flygt; President, Ericsson Simtec.

<sup>87</sup> President, Ericsson Simtec.

As for traditional CSOE culture, it was often cited as:<sup>88</sup>

- Hierarchic where authority is given by age rather than performance.
- Closed in terms of information. As information is regarded an asset, those with access to information seek to hold it private.
- Based on control and punishment.

Traditional Swedish company culture on the other hand was described as:<sup>89</sup>

- Using management based on discussion, logic and reasoning.
- Open and transparent in terms of information.
- Based on trust and rewards.
- Encouraging individuals to take initiatives and accept responsibility.

Many interviewees claimed that the most important cultural characteristic of the turnaround project was to have a “no-blame” culture where individuals are allowed to pose critical questions and learn from their mistakes.<sup>90</sup> Mr. Lingel, GM at Alfa Laval, explains his first experience of understanding the staff in his JV and how it affected his management style in the turnaround process: “Chinese people do not like to talk about negative things, they hide it. I believe that it originates from Chinese management style that uses punishments a lot. The first thing I did as a GM was to tell people that they have to talk about negative things and mistakes they made, that mistakes are natural. I really stressed that open communication makes the work more efficient.” The ideal state of culture where commonly referred to as a mix between the two cultural poles described above.<sup>91</sup> As of our conclusion, this supports previous literature; the tension between different cultures is valid because it challenges the traditional values, and stimulates a climate where individuals are allowed to act outside the box defined by the global corporate culture. Mutual respect for cultural differences was often cited as crucial if the benefit of cross-cultural dynamics was to be leveraged.<sup>92</sup>

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<sup>88</sup> Director Production and Logistics, Consilium Navigation; GM Assistant, Alfa Laval; Financial Controller, Alfa Laval; DGM, Alfa Laval; Business Development Director, SKF.

<sup>89</sup> GM Assistant, Alfa Laval; GM, Automotive Division, SKF; Financial Controller, Alfa Laval; President, SKF; Design Manager, Ericsson Simtec; Logistic Manager, ITT Flygt; Production Manager, Ericsson Simtec; President, Ericsson Simtec.

<sup>90</sup> Director Production and Logistics, Consilium Navigation; GM, Automotive Division, SKF; Quality Manager, ITT Flygt AB; VP, Atlas Copco; President, SKF; Project Manager, ITT Flygt AB; GM, ITT Flygt; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; President, Ericsson Simtec.

<sup>91</sup> Shipping Manager, ITT Flygt; DGM, Alfa Laval; Purchasing Engineer, Alfa Laval; Project Analyst, SKF; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt.

<sup>92</sup> Market Consultant, The Swedish Trade Council; Director Production and Logistics, Consilium Navigation; DGM, PMO; GM, Automotive Division, SKF; DGM, Alfa Laval; VP, Atlas Copco; President, SKF; Founder, APLDI; Design Manager, Ericsson Simtec; Principal Consultant, The Saltzer Group; President, Ericsson Simtec.

Nevertheless, we hope to make clear that a mix does not have to imply that one culture cannot dominate the other. A global company use its global culture as a competitive tool, thus having a clear interest in implementing this tool also in China. Ms. Zue, GM assistant at Alfa Laval cited corporate culture to be one of the reasons to why she works for Alfa Laval, despite her long commuting hours: "The main thing that I like in Alfa Laval is the corporate culture. I feel happy going to work every morning. You are appreciated and encouraged; therefore I feel successful leaving work every evening." Alfa Laval's previous GM, Mr. Lingel, emphasized that: "You *have to* establish a Western management style and culture. But it is also important not trying to change the Chinese individuals; they are Chinese at heart and must still be that."

Our conclusion is that malfunctioning cultural characteristics ought to be changed, but this must be done with patience and respect, assuming that cultural paradox can have a positive effect on company performance.

*H10: The tension between two cultures is very valuable. Supported*

### 5.2.7 Super Ordinate Goals

*"I want to contribute to society, be useful to the country and be useful to the world".<sup>93</sup>*

#### **Super ordinate goals and turnaround**

*Previous research: The turnaround's and the staff's sense of purpose should be aligned. Such an alignment can be achieved through communication, by linking super ordinate goals to daily practises and by reaching short term tangible goals.*

Part of Waterman et al.'s analysis in the 7S framework is that super ordinate goals are not present in all organizations - only the most successful ones. This may partly explain the lack of references to super ordinate goals in the empirical study. Defining and using such goals is simply not the priority task for a turnaround manager.

However, we have found one common reference to what super ordinate goals can imply in Chinese organizations. Bearing in mind that any study of cultural patterns is a generalization, we could not help but notice how many Chinese employees who were clear about being part of a greater collective. They felt that they were responsible for the development of China as well as for the development of the world.<sup>94</sup> Mr. Wang, Logistic Manager at ITT Flygt, formulated his version of super ordinate goals as "if I improve my efficiency,

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<sup>93</sup> Financial Controller, Alfa Laval.

<sup>94</sup> Financial Controller, Alfa Laval; President, SKF; Design Manager, Ericsson Simtec; Assembly Manager, ITT Flygt; Logistic Manager, ITT Flygt; President, Ericsson Simtec.



then Flygt will improve theirs, then the suppliers will have to follow and China as a whole will improve her efficiency.” Our conclusion is that the willingness to contribute can explain some of the openness towards new cultures that the Chinese interviewees expressed.

We leave further discussion open to a more philosophical forum when suggesting that by applying a greater sense of purpose to your every day actions, you might be more able to handle unfamiliar knowledge. If the Chinese employees regard their work as a contribution to a greater good, they might be more motivated to internalize the knowledge and ideas that the Swedish company bring to China.

*H11: The staff's and the turnaround projects sense of purpose should be aligned in order to implement turnaround success. Supported*

#### 5.2.8 Integrating the 7-S

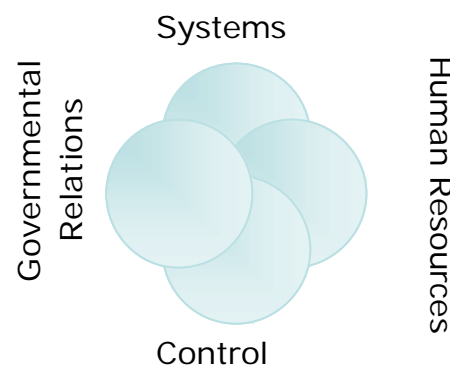
**Just like in the theoretical section, we address the interrelation of the 7 S:es in the Appendix of tables, Table 9 – Integration of the 7S, empirical findings.**

## 6. Discussion

*Based on previous literature as well as the empirical findings, this section provides a theoretical framework regarding turnaround processes that fits the special context facing a JV between a Swedish enterprise and a CSOE.*

### 6.1 The Four Factors of Chinese SOE Turnaround

Figure 5 - The Four Factors of Chinese SOE Turnaround



We begin to conclude that turnaround processes are very much dependent on the starting and the terminal point. Some CSOEs are more developed than others. Some business activities (e.g. R&D) place higher demands on the organization than others (e.g. plain assembly). In consequence, providing bullet-point guidelines for how to implement organizational change can never be more than a very general answer to the research question.<sup>95</sup> Instead we provide a framework; “The Four Factors of Chinese SOE Turnaround”. The framework is developed to give structure to the complex task of turnaround. It covers four factors of a JV with a CSOE that need to be addressed by a turnaround manager. By assessing the current state and the need for change in each factor, a turnaround analyst can develop a structured plan for the turnaround project.

As previously discussed, turnaround can be assessed from many perspectives. Previous sections have applied an organizational perspective, where the turnaround project have been analysed based on seven dimensions of organization. By presenting the Four Factors of Chinese SOE Turnaround, we allege that a turnaround of a JV of a CSOE is affected by internal, organizational, factors (i.e. Systems and HR) as well as by external conditions specific to the business climate of China (i.e. Control and Governmental

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<sup>95</sup> The research question is formulated as: “How should a Swedish enterprise conduct a Joint Venture turnaround of a Chinese state owned enterprise?”

Relations). “The Four Factors of Chinese SOE Turnaround” is thus not a contradiction, but rather a complement to the “7S” model. Our analysis is that the 7S model is very useful for understanding the internal dimensions, but a successful turnaround of a JV with a CSOE requires understanding of the external dimensions as well.

The most important insight in relation to The Four Factors of Chinese SOE Turnaround is that the four factors are consequences of the same institutional climate and that they are interrelated.<sup>96</sup> In consequence, when the current state and the need for change in each factor are assessed, Four Factors’ relative importance must be taken into account.

The following section describes the dynamics that affect the current state and the need for change in a JV with a CSOE in The Four Factors of Chinese SOE Turnaround in more detail.

## 6.2 Systems

The concept of system in this model is inspired by Waterman et al.’s definition of systems in the 7S model.<sup>97</sup> By systems, we imply all the every day procedures that take place in any organization. That could be the strategic planning, obtaining of internal and external information, the communication within the company, the actual manufacturing of products or the research and development conducted in a company. More or less explicit, the business activity of a company is seldom conducted ad hoc, it follows a pattern.

### 6.2.1 Explicit and implicit systems

The studied former CSOEs all showed a lack of explicit systems in favour of well developed implicit systems. Let us take the decision-making process as one example:

A traditional Swedish manager will most likely call for a meeting prior to a decision to consult his or her subordinate colleagues’ opinion on the subject. The meeting as such is the system through which the manager obtains information before the decision is made. A typical manager in a CSOE would not use the same system to obtain similar information. Mr. Chenhui, DGM of SKF’s state owned JV partner in Shanghai, described how he prior to the meeting makes sure to consult subordinate colleagues to hear their opinion. The purpose of the meeting as such is only to communicate the manager’s

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<sup>96</sup> By institutional factors in this aspect, we mean factors such as the Confucian heritage of China, the political turmoil of the CCP state, the past 20 years of economical reforms, today’s globalisation of the world economy, etc.

<sup>97</sup> Please see sections 3.2.3 *Systems* and section 5.2.3 *Systems* for theoretical and empirical findings on system in relation to the 7S framework

conclusion, drawn on basis of the pre-meeting consultations. After the meeting, Mr. Chenhui welcomes his subordinate colleagues one by one once again to hear their meaning on the decision.

Using the example above as an illustration of the difference between implicit and explicit decision-making systems, the logic applies also for other systems. That could be *financial systems* such as budgeting or reporting, *HR management systems* such as incentive systems and career plans, as well as *information systems* such as market analysis and benchmarking.

One way of describing the difference between explicit and implicit systems is to study the different types of products that the two systems yield. A company operating *explicit* systems can with short notice give quantitative statements of a situation. That could be a financial statement of the last quarter, a written career plan of each employee or a quantitative benchmarks of its performance vis-à-vis competitors. A company operating *implicit* systems will have a harder time providing such quantitative reports. Instead, it may focus on the qualities of the individuals employed, their relations to each other and to external parts and on how the relations with key customers are maintained.

As of our analysis, the implicit nature of systems in a CSOE give rise to two major concerns. The first and maybe most obvious is that the organization becomes very dependent on the individuals employed. We will address this issue further below under 6.3 *Human resources* and 6.4 *Control*. Secondly, lack of explicit systems implies lack of integrated thinking in the organization. In the absence of explicit systems, the management of a company simply does not have a tool for grasping the overall situation of the firm. As discussed in the empirical analysis, CSOEs often have low cooperation across the functional departments of the organization.<sup>98</sup> Our conclusion is that the human capability of processing information and multidimensional thinking is limited. When there are no explicit systems at place, managers of functional departments are forced not only to manage their own function but also, without the help of systematised processes, manage the integration between departments.

### 6.2.2 Identify the current state of systems

Successful change cannot be implemented if the current state of conditions is not understood. One key objective for the turnaround management team is therefore to identify the implicit systems at place in the organization. Taking into account the high context nature of these systems, this might be a time and effort consuming task.

The key is to build and utilize personal networks<sup>99</sup> within the organization and to understand the logic behind the implicit systems. Let us once again refer to

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<sup>98</sup> Please see section 5.2.1 *Structure*.

<sup>99</sup> Please see section 5.2.3 *Systems* for empirical findings on network based business.

the decision making system of Mr. Chenhui. We identified the system as Mr. Chenhui described to us the working processes in a traditional CSOE. We understood the logic behind the system as Mr. Chenhui explained how his colleagues gave him face by not confronting his opinion at a meeting, but rather approach him one by one after the meeting. The most important insight on our behalf was that only because the meeting as such was not used for discussion, this did not imply that Mr. Chenhui does not have a system for obtaining information on his colleagues' opinions. It simply implies that his system is more implicit than that of a typical Swedish firm

The two types of systems, implicit and explicit, will most likely yield different results. We previously explained the differences between explicit and implicit in quantitative terms, stating that explicit systems are more likely to yield quantitative results such as financial reports. Taking the example of Mr. Chenhui's decision making process, it is also expected to yield different results than what a typical Swedish meeting would. The Swedish meeting will make all available information public so that each individual can build on the argument of his or her colleagues, not only on the managers second-hand summary of those arguments. In consequence, the Swedish-style meeting is more likely to generate ideas, information is less likely to get lost in the decision-making process and if needed, it is possible to track the decision making process through a formal record. Following the CSOE-style process on the other hand, information will remain private to the manager, a formal record will be harder to establish and it will be more difficult for an outsider to question the decision ex post

### 6.2.3 Determine the need for change

The most obvious decision to make in settling the need for change is to determine the degree of local adaptation versus implementation of global, standardized systems. As the turnaround is initiated and most preferably controlled by the Swedish part, the same part will have the privilege of defining the need for change. As Mr. Johansson, President of SKF China, proclaimed: "We own the company, therefore we get to decide what is right". A global company is likely to use standardized systems as a competitive tool. Ericsson Simtec, for example, values its innovative capacity. In consequence, it has implemented the open meeting-practise of Ericsson in order to sustain the free flow of ideas in the organization.

The downside of replacing local systems for global is that change can be hazardous. It is difficult to predict the exact course of events once the change project is initiated. Change is a time consuming task and can take the focus off regular business activities. We therefore urge turnaround managers to prioritise. Some systems, like reporting practises, are likely to require immediate attendance. Other systems, like the implicit decision making system of Mr. Chenhui, may be less urgent to transform. By implementing change in one

system at a time, the organization will be able to take notation of the progress. The opposite alternative, trying to change everything at once, may result in change processes that are perceived as constant and static, thus exhausting the staff's motivation.

#### 6.2.4 The road to change

As the current state of system is identified and understood and the ideal state declared, the question remains on how to move from one state to the other. In this aspect we urge the management team to:

- Begin by listening to get a broader understanding of the existing systems.
- Devote considerable time to communicating the “why” and “how” of the change.
- Be persistent in pursuing change, repeat the message.
- Be friendly towards those who are to change, understand that change has to be gradual and come from the inside.

Our firm opinion after conducting the empirical study is that most people are able to change their working systems, as long as they understand the logic behind the change.

### 6.3 Human Resources

The success of an organization is always dependent on the people employed, especially when the organization face the difficult task of turnaround of a JV. What makes the turnaround of JVs with CSOEs special is that the lack of explicit systems makes the organization even more dependent on the quality of its staff. Assuming that systems will not change over night, the organization is likely to remain dependent on key individuals.

This dependence gives rise to two major concerns. First of all, it is a matter of control: A manager that in her or himself both functions as a key source of information, a key competence and as a system, becomes a very powerful manager. We will address this issue more closely below, see *6.4 Control*.

Secondly, as the organization depends heavily on key individuals, the *skills* and *mindset* of those individuals strongly affect turnaround speed and success. As there is high variation in the skills<sup>100</sup> among Chinese employees,<sup>101</sup> employing the wrong individuals negatively affects firm performance. But whereas skills can always be developed, running a turnaround project without employing

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<sup>100</sup> Please see section 5.2.5 *Skills* for empirical findings in relation to skills

<sup>101</sup> Principal Consultant, The Salzer Group; President, SKF, Market Consultant, Swedish Trade Council.

people with the proper mindset<sup>102</sup> will be very hard. As discussed in more detail in the empirical analysis, it is very important that the JV employees hold a positive attitude towards change.

### 6.3.1 The current state of Human Resources

The current *skills* may be easiest to assess by evaluating the products of current systems. For example, low quality of financial reports indicates that the accounting skills are fairly low in the organization. Evaluating the current *mindset* of the organization is a task of higher context. Just like when identifying implicit systems, identifying mindset is done through building personal networks within the organization.

The turnaround management team must devote time to talking to the people employed, not only to the CSOE management. By doing so, the team can identify which individuals that hold a positive attitude towards change and which individuals that are most likely to actively resist change. Most important is to understand why some and not others are interested in change. Those resistant to change might find their personal position in the company to be threatened or they might lack the skills that are required. In any case, if the logic behind resistance is understood, the resistance can be fought.

### 6.3.2 Determine the need for change

As for the other dimensions of change, change in the HR of a firm should be evolutionary, but progressive. Too swift turnaround in the HR structure will most likely be counterproductive. But pursuing a constant change program that never reaches tangible result is likewise ineffective and exhausts the organization's motivation to change.

The need for change in relation to *skills* is dependent on the conducted business; a high-tech company is likely to require other skills than a purely assembly-oriented plant. The need for change in relation to *mindset*, on the other hand, is not dependent on the business activity. In all the studied cases, an open mindset among the employees involved was beneficent for the turnaround, independent of the degree of technical sophistication in the firm. As Mr. Jin Fojia, currently DGM at Alfa Laval, formerly MD of the CSOE, explained to us: "Most of the former management is replaced. I am still here because I have always been positive to change."

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<sup>102</sup> Please see sections 5.2.5 *Skills*, 5.2.6 *Style* and 5.2.7 *Super ordinate goals* for empirical findings in relation to mindset.

### 6.3.3 The road to change

The road to change in HR follows three paths, prevent job hoping, provide training and conduct necessary lay-offs.

#### **The road to change – prevent job hoping**

The empirical analysis provides an extensive assessment on the concept of job hopping and how it is counteracted. Please see section 5.2.4 *Staff*.

#### **The road to change - provide training**<sup>103</sup>

By training in this aspect, we refer to training in new *skills* and training in *mindset* or organizational culture. While both types of training are very important, it may be easier to communicate the practical use of skills than mindset. It is therefore important that training programs addressing organizational culture are linked to practical tasks and that the organizational values are implemented in every day practise. Most important is that the practical application of the training is understood by those that are to be trained.

Training in new *skills* often includes technical skills, management skill and language skills. The training should be related to every day practise and continue over time. Training is also a much appreciated mean of preventing job hoping among key employees.

The empirical study indicates that training in *organizational culture*<sup>104</sup> is necessary in order to implement change in the other seven dimension of organization identified in the 7S model. The corporate culture at the studied cases was also often cited as one of the reason why high performing individuals stayed with the firm. The Financial Controller at Alfa Laval explained to us: “Working at Alfa Laval gives me an easier life. I can joke with my colleagues and I am allowed to have a messy desk without my competence being questioned”.

#### **The road to change – lay offs**

Although we strongly believe that most individuals are able to change, there may be individuals that either strongly resist change or are counterproductive for the organization. Those could be individuals that will loose their status and privileges in the turnaround process or it could be individuals that are simply too rooted in the communistic planned economy to welcome the organizational change that the Swedish owner bring about. Our recommendation is that those individuals should be separated from the daily business activity of the company. That implies that these individuals should not have a large influence on the daily decisions, the direct production, R&D or the communication with suppliers and customers.

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<sup>103</sup> Please see sections 5.2.4 *Staff* and 5.2.5 *Skills* for empirical findings on training.

<sup>104</sup> Please see sections 5.2.4 *Staff*, 5.2.6 *Style* and 5.2.7 *Super ordinate goals* for empirical findings on organizational culture.



Also in this aspect of change, we strongly advocate an evolutionary approach. If the turnaround management team chooses to replace the company management too swift, it may cause unnecessary turmoil in the rest of the organization and it may disturb the important relationships with the government, customers and suppliers. There are always alternatives to instant dismissals of a large number of people. One such alternative could be to offer the previous management high positions in an advisory board of some kind where their influence on every day practises is reduced but their valuable networks can still be used and their social status is preserved. The empirical study indicates that the Swedish organization needs to take control over the process, rather than just the finances, in order to implement change.<sup>105</sup> Slowly reducing the influence on daily practises from individuals that hampers the development of the firm, is therefore a valid alternative to simply removing them from the organization.

## 6.4 Control

Without control over the organization, a successful turnaround cannot be completed.<sup>106</sup> We identify two aspects of control in relation to the turnaround of CSOEs; control in relation to the Chinese JV partner and control in relation to the employees of the organization. Please keep in mind that this thesis is written from the perspective of the Swedish organization, thus focusing on the Swedish rather than the CSOE's objectives.

### 6.4.1 The current state of Control –in regard to the JV partner

Control in relation to the JV partner has been an issue in all of the studied cases.<sup>107</sup> We conclude that formal control in terms of owner shares is not enough to obtain the real control over the organization, even though it helps in taking the decisions that can affect the real control. Real control can only be obtained through the control over daily practises.

Nevertheless, the JV partner is likely to bring knowledge into the JV that will be lost if the partner is excluded from daily business activity. What we allege is therefore again an evolutionary approach to change. Getting into immediate confrontation with the JV partner is probably not very productive and may disturb important relationships with governmental officials, suppliers or customers. Our recommendation that the partner is excluded from operating activity should be regarded as a long term strategic objective.

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<sup>105</sup> Please see section 5.2.1 *Structure* for empirical findings in relation to control over daily practises.

<sup>106</sup> Please see sections 5.2.1 *Structure*, 5.2.2 *Strategy* and 5.2.3 *Systems* for further empirical findings in relation to control.

<sup>107</sup> Please see sections 5.2.1 *Structure* and 5.2.2 *Strategy* for empirical findings.

#### 6.4.2 The road to change – in regard to the JV partner

From the perspective of the Swedish organization, a successful turnaround implies the following:

- Take control over the key positions such as GM and FM. By doing so, the Swedish partner controls the daily business activities but can still use the competence of the Chinese partner through the board of directors.
- Do not place the organization in buildings that are either integrated with or have previously been a part of the Chinese partner's own buildings.
- Make sure that the Chinese partner does not alone control the important relationships with customers and government.

Although we claim that majority ownership is not enough to sustain control, we do believe that majority ownership is very valuable. Controlling the turnaround of the JV is difficult enough; majority ownership can enable the Swedish management to implement decisions that affect the daily practises of the firm. That could be control over key positions such as GM or FM or the decision to move out of the old CSOE buildings.

#### 6.4.3 The Current state of control – in regard to the employees

As previously discusses under the internal factors Systems and HR, lack of explicit systems grant power to the individuals that in themselves compose the implicit systems. Mr. Johansson, President of SKF, China, stated that “It is important to understand that our Chinese employees have a different type of loyalty than what we are used to from back home. The family is the first priority here, not the company. Therefore, the employee will always look after his or her own position in the company prior to the position of the whole company as such”. Mr. De Pretre, Principal Consultant at the Salzer Group related to the same issue as he described the situation of one of his former clients: “The Western company found themselves in a much unpleasant situation. The Chinese GM had practically taken control over the entire company, he had made sure that he was the one in control of important relationships, and he was the only one to have information of the entire process. Even though the Western company did not like the situation, they had few alternatives. If they had fired the GM, they would have had low chances of running the company successfully. If the GM had chosen to leave, he would have set up a competing business, taking all their customers with him”.

#### 6.4.4 The road to change – in regard to the employees

The lack of explicit systems makes the firm very dependent on the people employed. Controlling the staff is therefore crucial. We do not imply that employees in China cannot be trusted. We simply argue that in the absence of high bounds of loyalties between the firm and the employee, the turnaround management team must make sure that the employee acts in the interest of the

firm rather than in his or her personal interest. Mr. Lingel, GM of Alfa Laval used the following expression: “You can’t supervise control, you have to create control”. Whereas a surveillance camera is a mean of *supervising* control, *creating* control is a task of higher context. We believe that control is created when the interest of the firm is aligned with the interest of the individual. In concrete terms, that could imply incentive systems based on team performance and/or firm performance rather than individual performance. In a more qualitative context, it could be aligning the super ordinate goals of the individual to the super ordinate goals of the firm.<sup>108</sup>

## 6.5 Governmental Relations

In any business environment, the local government affects the business activity of a company. The difference between China and most Western countries is that in China, the government is much more of an active participant. Even though government policies may affect accounting practises or investment decisions for a Swedish firm working in Sweden, we find it unlikely that a Swedish manager would state good relationship with the local government as a crucial element of business success.

### 6.5.1 The government as an active part

In the studied cases, independent of whether the government held owner shares or not, maintaining the relationships with the local government was cited as an important part of every day business activity (see also Tung & Worm 2001).<sup>109</sup> Let us exemplify with Ericsson Simtec’s situation in Shanghai:

Ericsson Simtec has invested time and effort in sustaining a good relationship with the local government. As a result of that investment, Ericsson Simtec is warned several weeks in advance to a power cut, as opposed to the few days that is common practise. Thus given more time to adapt the production, Ericsson Simtec holds a competitive advantage.

### 6.5.2 The current state of governmental relations

By taking over a CSOE, the relationship with the government is existent from day one. The key question is then to *track down the structure* of this relationship and to *assess its quality*. As previously discussed, business in China is often based on personal networks<sup>110</sup> or *guanxi*.<sup>111</sup> The structure and the

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<sup>108</sup> Please see section 5.2.7 *Super ordinate goals* for empirical support.

<sup>109</sup> Market Consultant, The Swedish Trade Council; GM Automotive Division, SKF; Project Manager, ITT Flygt; Lead Champion, ITT Flygt AB; President, Atlas Copco; President, SKF; GM, ITT Flygt; Project Analyst, SKF).

<sup>110</sup> Please see section 5.2.3 *Systems* for empirical findings.

quality of the CSOE's governmental relations are thus dependent on the investment in *guanxi* that previously has been made:

In *intra-organizational terms*, the quality of the investment is dependent on which individuals that have been involved in building governmental relations. I.e., are those individuals negatively affecting the turnaround of Systems, HR or Control?

In *external terms*, the following assessments affect the quality of *guanxi*:

- Which governmental officials has the firm focused its investments on?
- Why has the firm choose to invest in these particular individuals?
- How strong are the relationships?

Taken the implicit nature of *guanxi*, it is hard to conduct a quantitative valuation. Nevertheless, we strongly recommend at least an attempt at conducting a qualitative valuation. Citing Mr. Nordengren, Market Consultant at the Swedish Trade Council, "The CSOE often exaggerates the quality of governmental contacts when entering a JV". Simply relying on the JV partner's own assessment might not be enough.

#### 6.5.3 Determine the need for change

To have good relationship with the local government is without doubt considered an asset. However, there is usually a trade-off between maintaining a good relationship with the local government and achieving high quality in the other Four Factors (Systems, HR and Control). As we have argued above, a typical Chinese enterprise relies heavily on the individuals employed. Some individuals in the CSOE are most likely vital for future development of the company. Others will probably hamper the turnaround project and should sooner or later be replaced.

Determining whether or not the current investments in *guanxi* can be used is dependent on how important the governmental relations are in relation to other factors of turnaround (Systems, HR and Control). Reliant on which individuals that has built governmental relations, the turnaround management team must asses:

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111 Guanxi is established on mutual benefits between two parts of equal bargaining power. Two parts invest in mutual guanxi through the extension of gifts and wine-and-dine. The invested guanxi will turn worthless if one of the parts loses his or her power (Leung & Wong 2001). Further more, since *guanxi* is established between two individuals rather than between two organizations, a company that chose to dismiss those who have established *guanxi* with external parts will lose that *guanxi*. (Tung & Worm 2001).

For more information on *guanxi*, please see section 3.1.3 *Guanxi*.

- *Systems*: Are these individuals likely to hamper the development of explicit systems? That could be if the individuals in question are likely to engage in political manoeuvring or resist the development of formalized reporting systems.
- *HR*: Does these individuals possess and/or are able to develop the skills and mindset that are required by the turnaround managers?
- *Control*: Are these individuals likely to reduce the mother company's control over the organization? That could be if the individuals in question hold strong loyalties to the Chinese JV partner and/or if the overall strategy is to reduce the organization's dependence on a few individuals.

The desired quality of governmental relationships can thus be dependent on the current state and the need for change in the other factors of turnaround. Again, we cannot provide a single solution to how a company should weight governmental relations against well functioning Systems, HR and Control. All we can state is that the importance of good governmental relationships should not be neglected.

Please note that new *guanxi* can be developed between governmental officials and organizational members if those that previously held *guanxi* are dismissed.<sup>112</sup>

#### 6.5.4 The road to change

We suggest that governmental relations are assessed from two perspectives. One is to invest in *guanxi* between key individuals and governmental officials.<sup>113</sup> The other is to take efforts in understanding the governmental objectives and how the firm can meet these objectives. The empirical study brings forward two such objectives:

- The government is interested in high tax revenues. Thus the firm should prove how its business generates such revenues.
- The government fears social unrest. Too large social inequalities in China are a potential threat to political stability. High unemployment rates can cause such inequality, which explains the government reluctance towards large layoffs.<sup>114</sup> Thus the firm should prove that it has done everything in its power to reduce the amount of layoffs, and that it may reemploy once the profitability has increased.

Please see *Figure 2 – The Four Factors of Chinese SOE Turnaround* modelled for an overview of section 6.5.

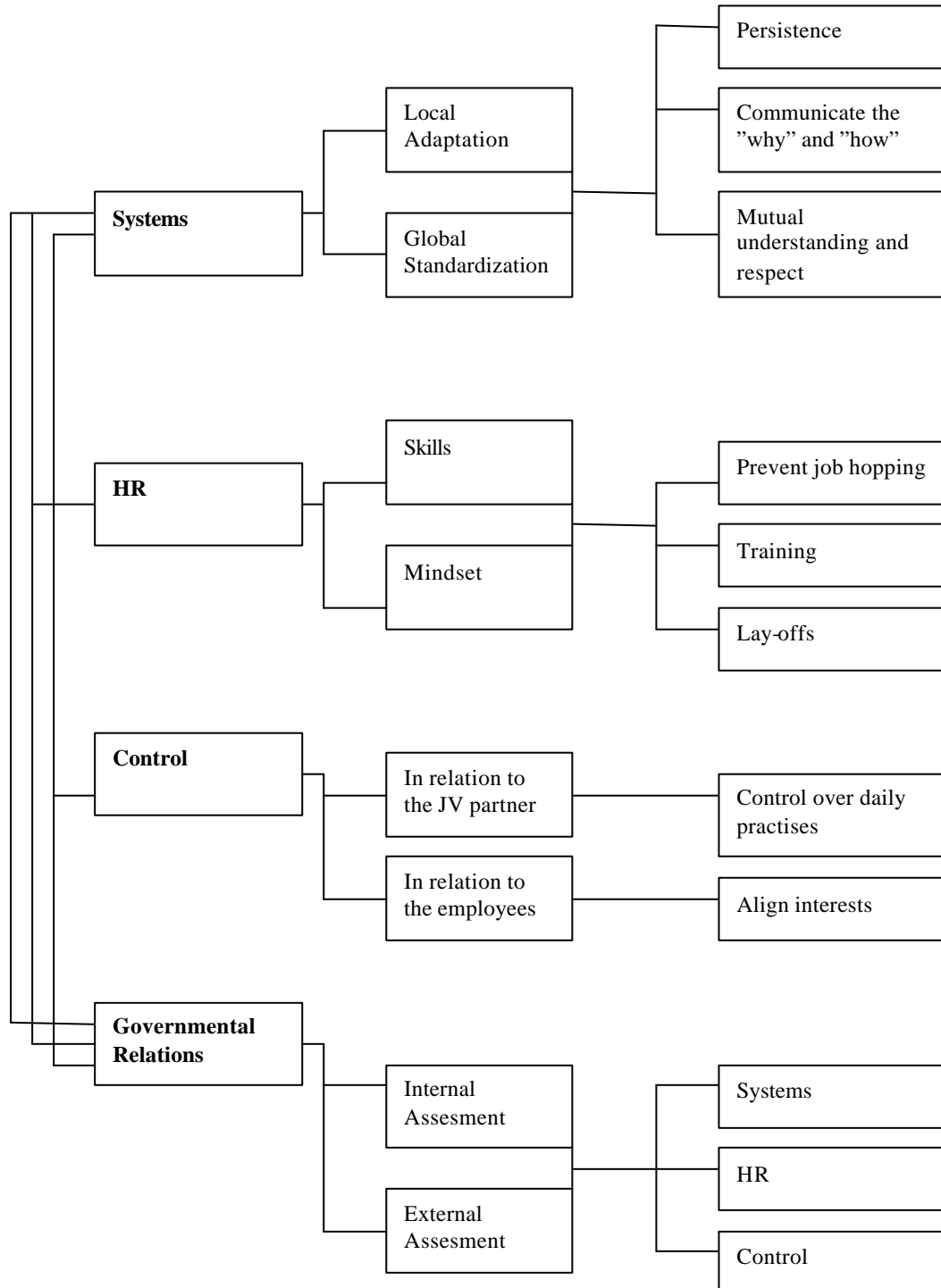
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<sup>112</sup> Market Consultant, Swedish trade Council, GM Volvo Sunwin.

<sup>113</sup> Please see section 3.1.3 *Guanxi* for how *guanxi* between two individuals is built.

<sup>114</sup> Please see section 5.2.1 *Structure* for empirical findings on downsizing.

**Figure 6 – The Four Factors of Chinese SOE Turnaround modeled**



## 6.6 Generalizing the model

The purpose of this thesis is answer the question “*How should a Swedish enterprise conduct a Joint Venture turnaround of a Chinese state owned enterprise?*”. A note on the possibility of generalizing the conclusions outside the scope of this thesis may therefore be in order:

We believe our findings to be relevant also for the turnaround of wholly foreign owned former CSOEs. It may also be useful for assessing JVs or acquisitions of privately owned Chinese enterprises, although the model should be used with care in such cases. However, we do not recommend The Four Factors of Chinese SOE Turnaround framework to be used outside the Chinese market. The model is developed to fit the institutional business climate of China. Other markets may have elements that resemble the Chinese; one might for example expect the degree of governmental involvement in every day business activity to be high in other countries with autocratic governance. But if there are other markets where all Four Factors are evident, we do not dare to say. Since one important aspect of the model is the interrelation between the Four Factors, taking the model out of its context by only assessing one or two factors will not result in adequate analysis.

## 6.7 Critique to The Four Factors of Chinese SOE Turnaround

Systems, HR, Control and Governmental Relations are key elements of turnaround processes in JVs with CSOEs. Nevertheless, The Four Factors Chinese SOE Turnaround is a very general model. Not only can the relative importance of each factor differ between two JVs, but there may be issues in relation to turnaround that are not covered by the model. Two turnaround projects are never alike and we therefore strongly urge turnaround managers to conduct a careful analysis before the project is initiated. Our hope is that the model can provide guidance in structuring such analysis, but finding a full solution is up to every single turnaround management team.

It should also be noted that the model is developed from a Swedish perspective. A similar study, conducted by two Chinese business students, might yield different results. We can only speculate in this aspect, but it may be that the language barrier between us and the Chinese interviewees has affected the quality of the data.

Like previously discussed in section 4. Methodology, our conclusions may be influenced by the fact that the study is conducted on a biased sample of relatively successful cases.

## 7. Concluding remarks

### 7.1 The Four Factors of Chinese SOE Turnaround

A modern researcher or a business person of today should encounter no difficulties on obtaining information about today's China. Flights take us directly from Stockholm to Beijing in less than eight hours, emails travel instantaneously over the globe, newspapers report on a daily basis on the affairs of governments, companies and individuals. The main issue is to structure this information. What we provide in this thesis is therefore a framework that can help to understand the complex task of JV turnaround of a Chinese state owned enterprise (CSOE).

We have named the framework The Four Factors of Chinese SOE Turnaround. By assessing the current state and the need for change in **Systems, Human Resources, Control** and **Governmental Relations**, a business representative, as well as a nervous business student at a case-interview can form a recommendation on how the turnaround process of a CSOE should go about. Section 7.1 summarizes the main conclusions of each factor, Figure 6 in section 6. *Discussion* sketches those conclusions.

General conclusions on a JV turnaround of a CSOE are doubtful, given that the project is always dependent on the point of kick-off and the management team's objectives. However, we argue that if the turnaround management team fails to address these Four Factors and their interrelations, we argue that the turnaround project may encounter difficulties.

#### 7.1.1 Systems

- CSOEs are often characterised by **implicit, network-based systems** for reporting, communication, human resource management etc. a typical Swedish or Western firm, on the other hand, operates explicit and standardized systems.
- If the **explicit systems** of a Swedish firm are considered a competitive advantage, then the systems should and **can be implemented** also in the JV.
- When replacing implicit systems with explicit system, the turnaround management team must strive to:
  - Be **persistent** in changing malfunctioning systems. Systems will not change overnight, but determination will eventually pay off.
  - **Communicate the “why” and “how”** of the new systems. Systems can only change if those who are to operate the new systems understand the logic behind them.



- **Understanding the “why” and “how” of the old, malfunctioning systems.** The systems of a CSOE may seem irrational to a western manager, but there is most certainly an explanation to their current design. If the western manager does not understand the old system, he or she will have a hard time communicating the “why” and “how” of the new systems.

#### 7.1.2 Human resources

- In the absence of explicit systems, **the CSOE is very dependent on its employees.** Two examples: The dependence can be critical if key people choose to leave the company and there are no systems in place to keep the organizational structure afloat. An incompetent manager can have a devastating effect on the firm's performance when there are no systems to function as a safety net for individual mistakes.
- Since the replacement of implicit systems for explicit system will not happen over night, the JV is likely to remain dependent on the employees for quite some time. Thus, the turnaround management team must focus on the development of human resources:
- The turnaround management team must build and utilize personal networks in the organization to assess the current **skills** and **mindset** of the people employed.
  - Part of the turnaround is to develop the skills of the organization.
  - Operating a turnaround without ensuring that the staff holds a positive attitude to change will be very difficult.
- The empirical study addresses three issues in relation to human resources in JVs with CSOEs:
  - **Job hopping** among top performing employees is very common in China. By offering a competitive salary, training in new skills and an organizational culture that emphasize personal freedom and responsibility, employee turnover rates can be kept down.
  - **Training** is an important aspect of turnaround. This would include training in technical skills, management skills and in how to operate in a meritocratic organization.
  - **Managers that hamper the future development of the organization should laid-off** but such releases should be conducted with care as to not jeopardize the relationships with the remaining employees and the local government. Separating incompetent management from daily activities by placing them on an advisory board is one method of conducting careful lay-offs.

### 7.1.3 Control

- The Swedish organization must maintain tight control over the JV in order to conduct a successful turnaround.
- **Control of the Chinese JV partner implies that the partner should be separated from daily business activity.** By holding majority ownership, the Swedish organization can make sure to assign the GM and the FM of the JV.
- **The employees can be controlled if the turnaround management team manages to align the personal interests of the employees with the interests of the organization.** Such an alignment can be achieved through monetary incentive systems that are not only dependent on short-term financial performance, but also on building a well functioning organization. To simply trust the employee's implicit loyalty to the firm is not enough to sustain long-term organizational development.

### 7.1.4 Governmental Relations

- Maintaining good **relationships with the local government** can be very rewarding. Such relationships are built through investments in *guanxi*, i.e. personal relationships between company employees and governmental representatives.
- The quality of the governmental relations is determined through an **external assessment** (i.e. strength and extent of the governmental network) and an **internal assessment**.
- The importance of governmental relations must be **weighted against** maintaining high quality in **the other three dimensions of turnaround**. Generally speaking, there may be a trade-off between governmental relations and the other three factors of turnaround:
  - Maintaining the implicit governmental relations versus implementing explicit **systems** in other parts of the organization.
  - Keeping the individuals that have built governmental relationships versus replacing the old management team with new individuals (i.e. **HR**).
  - Keeping the individuals that have built governmental relationships versus obtaining employee **control**.

## 7.2 Final Remarks

On a more general note, the experience we have gained while working with the topic of global management has been one of excitement, enrichment and enlightenment. Many takeaways have been drawn from these past four month of work. First and foremost we have realized that the difference between human beings across the globe is not that large, it is in fact rather small. Finding ourselves in a deep conversation about the meaning of life in the ice-cold-non-isolated office of a Chinese manager in Shenyang, was one such moment. The perceptions that both parties shared was remarkably similar.

Second, and in the spirit of enrichment, we trust that each encounter between two individuals bears the possibility of opening the door to an unexplored universe. As long as individuals remain open to the perspectives of others, even the most stubborn perceptions of right and wrong can be changed. The main difficulty is to understand where to start and what map to follow. In relation to Chinese state owned enterprise turnaround, that would be to identify the current state and the need for change in Systems, Human Resources, Control and Governmental Relations.

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## Appendix of tables

Table 1- Overview of the 7S

S	Example
<b>Structure</b>	How the organization is structured. E.g. structural characteristics in regard to decentralisation, matrix structure, flexibility, ownership, hierarchy etc.
<b>Strategy</b>	The actions that an organization plans in response to or in anticipation of change in its external environment. The short and long run objectives and how the management plan to reach them
<b>Systems</b>	The procedures, formal and informal, that controls every-day conduct of work within the organization and in contact with external actors.
<b>Staff</b>	Is the staff regarded as a valuable asset or only as a replaceable production input? How is the staff treated and motivated to maximize productivity and minimize employment turnover? The analyses focuses on HR management of executives.
<b>Skills</b>	Identifies the main skills and crucial attributes of the organization.
<b>Style</b>	The atmosphere and style that permeate the organization, communicated by the management.
<b>Super Ordinate Goal</b>	The organization's underlying contribution to the world/society; its guiding concepts. "The goals of higher order."
<b>Integration of the 7S</b>	The 7 factors in this model all influence an organization's ability to change and its proper mode of change. It is difficult to make significant progress in one area without making progress in others as well. There is no obvious starting point or implied hierarchy within the 7 factors, different cases will be analysed with different weighted emphasis on the individual S's.

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**Table 2 - Scores on Hofstede's five dimensions**

Dimension		Sweden	Hong Kong	Highest score	Lowest score
Power Index	Distance	31	64	Malaysia (104)	Austria (11)
Individualism Index		71	25	USA (91)	Guatemala (6)
Masculinity Index		5	57	Japan (95)	Sweden (5)
Uncertainty Avoidance Index		29	29	Greece (112)	Singapore (8)
Confucian Dynamism		33	96	Hong Kong (96)	Pakistan (0)

**Table 3 - Summary of relevant previous research on organizational change and corporate integration**

	Organizational Change	Corporate Integration
<b>Structure</b>	<p>Traditional, hierarchical structure is not beneficent for change projects (Hoag 2002)</p> <p>Assign a management team to the change project and give the project autonomy (Kotter 1995, Sirkin et al. 2005)</p> <p>Involve middle management in the change project (Killing 2003, Smith 2003, Moran and Brightman 2001)</p> <p>If time is a scarce resource, limit the number of participants involved in the change project (Kotter and Schlesinger 1979)</p>	<p>Integrate the structures of two merging companies, but let the R&amp;D divisions maintain some autonomy to secure innovative capacity (Belcher and Nail 2000, Bannert and Tschirky 2004)</p> <p>Assign a manager to the integration process (Ashkenas and Francis 2000, Bower 2001, Bannert and Tschirky 2004)</p> <p>Let the integration manager maneuver freely, both horizontal and vertical in the organization (Ashkenas and Francis 2000)</p>
<b>Strategy</b>	<p>Relate change to the core business of the firm (Reisner 2002 Slywotzky and Nadler 2004)</p> <p>Allow the change project to take time (Hoag et al. 2002, Moran &amp; Brightman 2001, Kotter 1995, Smith 2003, Reisner 2002, Bower 2001)</p> <p>The appropriate strategy for implementing change is dependent on the time span of the change project (Kotter and Schlesinger 1979)</p>	<p>Apply a holistic strategy to the integration process that encompass all dimensions of organization (Bannert and Tschirky 2004)</p> <p>Continuously review and restructure your alliance strategy (Ernst and Bamford 2005)</p> <p>Use concrete projects to make the integration strategy understandable for those involved (Soderberg and Vaara 2003)</p>
<b>Systems</b>	<p>Establish, continuously review and reward short term milestones in the change process. Quantify results (Kotter 1995, Sirkin et al. 2005, Smith 2003)</p> <p>Develop a strategy for change according to four phases of organizational change (Moran and Brightman 2001)</p> <p>Communication is everything (Kotter 1995, Sirkin et al. 2005, Hoag et al. 2002, Moran and Brightman 2001, Kotter and Schlesinger 1979)</p>	<p>Manage the integration project as if it were a business unit, e.g. assign a manager to the integration that reports directly to the CEO (Bannert and Tschirky 2004)</p> <p>Set up concrete goals for the integration process that are continuously reviewed and evaluated (Ashkenas and Francis 2000)</p> <p>Be aware of that the goals of the integration may change as the project moves along (Vaara 1995)</p> <p>Make sure that the integration process is continuously evaluated and do not let the evaluation process take more than two-three months (Ernst and Bamford 2005)</p> <p>Communication is everything (Ernst and Bamford 2005, Vaara 1995)</p>
<b>Staff</b>	<p>Carefully measure and manage HR to avoid loss of key personnel (Morrell et al. 2004)</p> <p>Ensure that the management in changing organizations is committed to and prioritize the change. Use carrots rather than sticks and avoid creating losers (Schein (1992, Hoag et al. 2002, Kotter 1995, Sirkin et al. 2005, Bower 2001, Killing 2003)</p>	<p>HR issues are very important in relation to alliances but often receive too little attention (Howarth (2002, Bannert and Tschirky 2004, Soderberg and Vaara 2003, Vaara 1995)</p> <p>Listen to employee input and build confidence among middle management (Belcher and Nail 2000, Ashkenas and Francis 2000)</p>

(Table 3 continued)

	Organizational Change	Corporate Integration
<b>Skills</b>	<p>Ensure that managers of change project possess necessary skills, e.g. problem-solving, ability to cope with uncertainty and willingness to accept responsibility (Kotter 1995, Sirkin et al. 2005, Hoag et al. 2002)</p> <p>Transformation of Western management practice is preferred over mere transportation (Liu and Mackinnon 2001)</p> <p>Provide training for those whose skills are threatened by the change project as a means to overcome resistance to change among the staff (Hoag et al. 2002, Moran and Brightman 2001, Kotter and Schlesinger 1979)</p>	<p>Apply a powerful leader with social intelligence and high adaptability to the integration process (Bower 2001, Ashkenas and Francis 2002, Liu and Mackinnon 2001)</p> <p>Simple transformation of “best-practice” management technique is not possible. Instead, build a corporate structure and culture as to facilitate knowledge transfer (Soderberg and Vaara 2003)</p> <p>Involve managers with technical competences in the integration team if the company is R&amp;D intensive (Bannert and Tschirky 2004)</p>
<b>Style</b>	<p>Pay respect and attention to cultural differences and have patience in changing cultural aspects of a company (Smith 2003, Bower 2001, Liu &amp; Mackinnon 2001)</p> <p>Cultural change has a long time cycle, the strength of the existing culture acts as a barrier to change (Smith 2003, Hoag et al. 2002, Kotter and Schlesinger 1979, Moran and Brightman 2001)</p> <p>Create a “safe environment” that encourages individuals to take risk and pose critical questions during the transformation process (Moran and Brightman 2001)</p>	<p>Integration of culture requires mutual understanding and willingness to change (Bannert and Tschirky 2004)</p> <p>Do not eliminate the cultural differences that made the alliance attractive in the first place (Bower 2001, Vaara 1999)</p> <p>Allow a HR team to manage the integration process and avoid top-driven socio-cultural change (Soderberg and Vaara 2003, Bannert and Tschirky 2004)</p> <p>Address cross-cultural clashes as soon as possible but avoid oversimplification and too much ex-ante analysis (Belcher and Nail 2000, Soderberg and Vaara 2003)</p>
<b>SOG</b>	<p>Use the vision of the change project as a glue that holds the organization together during the fragmented change process (Kotter 1995)</p> <p>Align the purpose of change with the staff’s sense of meaning (Moran and Brightman 2001)</p>	<p>Use short-term achievements as a means to shift the mindset of an organization (Ashkenas and Francis 2000)</p> <p>Align the integration process to the staff’s sense of meaning through implementing visions and missions in every-day activities (Soderberg and Vaara 2003)</p>

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**Table 4- Integration of the 7S, theoretical findings**

	Str.	Strategy	Systems	Staff	Skills	Style	SOG
Structure	-	Turnaround managed by a team allow for differences in time perspective.	Vertical representation. in the mt enhances communication.	-	Team management of turnaround gives access to broad competences.	Vertical representation in the turnaround mt facilitates cultural change.	-
Strategy	-	-	A long run perspective on strategy balanced against short term milestones.	A strategy for keeping key employees should be a strategic objective.	The long run perspective on strategy requires certain management skills.	Changing corporate culture is a long run strategic objective.	-
Systems	-	-	-	Reaching short term milestones enhance the motivation to change.	Training in new skills can enhance communication.	Cultural change should be linked to every day practise.	Communication links the SOG of the organization to those of the staff.
Staff	-	-	-	-	Training in new skills can allow the staff to understand the urgency of change.	Too swift attempts at changing style can result in loss of key personnel.	The turnaround should be aligned to the staffs sense of purpose.
Skills	-	-	-	-	-	Management with the ability to cope with uncertainty appreciate cultural contradiction.	-
Style	-	-	-	-	-	-	Awareness of differences is necessary if SOGs of the organization and staff are to be aligned.
SOG	-	-	-	-	-	-	-

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**Table 5 - Case overview**

	Alfa Laval	Consilium	Ericsson	ITT Flygt	SKF
Background and interviewed employees	<p>JV between Alfa Laval and local government formed in -94. WFOE since -97. Currently a German GM who personally has a high influence on the organization.</p> <p><i>Interviews with GM, Deputy GM, Finance Controller, GM Assistant, Purchasing Engineer.</i></p>	<p>50/50 JV since -85 with a CSO research institute. Chinese partner holds the informal control over the company. Low profitability.</p> <p><i>Interviews with Director of Production &amp; Logistics of Consilium Sweden in Beijing, Marketing and Sales Manager, Marketing Manager, Area Sales Manager in Gothenburg GM of Consilium's WFOE in Shanghai. Chinese GM and Engineer in the Marketing dept. of the JV.</i></p>	<p>51/49 JV with a CSOE since -96 but Ericsson has now expanded their majority owning to 90/10. Are currently developing a R&amp;D department.</p> <p><i>Interviews in Shanghai with President, Design Manager, Quality Manager, Production Manager and Senior Design Engineer.</i></p>	<p>Formed a JV with a CSOE in -94, transferred into a WFOE in -96.</p> <p><i>Interviews with Lead Champion, Stockholm; GM, Shipping Manager, Human Recourses M, Assembly Manager, Financial Controller, Logistic Manager ShenYang; Project Manager and Quality Manager stationed in Emmabod but interviewed in Shenyang; Retired responsible of starting up ITT Flygt in China.</i></p>	<p>SKF run three JV with CSOEs, SKF hold majority owning in all three. Strategic objective is full ownership. SKF also operates a green field organization since -95, and a takeover of a CSOE.</p> <p><i>Interviews in Shanghai with President, Project Analyst, General Manager, Business Development Director and Deputy General Manager of SKF's CSO partner.</i></p>

**Table 6 - Supporting interviews**

	Atlas Copco	Volvo Sunwin	"American JV"	Swedish Trade Council	The Salzer Group	APLDI
Background and interviewed employees	<p>25 % of a former CSOE is 100 % owned by AC. The remaining facility is run as a JV where AC holds 25 % of the shares. Long negotiations and different strategic objectives between the JV partners.</p> <p><i>Interview with GM at Atlas Copco China investment.</i></p>	<p>50/50 JV between Volvo and CSO investment firm. Shanghai government is the main customer.</p> <p><i>Interview with GM.</i></p>	<p>Former JV between an American company and a CSOE. Inadequate pre contractual analysis. Eventually, the American company left the JV.</p> <p><i>Interview with the former GM.</i></p>	<p>Export consultancy financed by the Swedish government and the Swedish business community. Present in China since 1994.</p> <p><i>Interview with Market Consultant.</i></p>	<p>Consultancy firm oriented at human capital project management and executive search.</p> <p><i>Interview with principal consultant, head of Beijing office.</i></p>	<p>Consultancy firm oriented at leadership development in Chinese organizations.</p> <p><i>Interview with one of the founders.</i></p>

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**Table 7 - Data coding**

Coding Category	Example
<b>Background</b>	<p><i>Western:</i> I have been in China for 5 years. The JV started in -96 .... the negotiations took several years. Our partner was a state owned research institute originally in high dept and 2300 employees.... now we are 700.</p> <p><i>Chinese:</i> Before I started to work here, two years ago, I was employed at a SOE. So the JV was already functioning since a couple of years when became employed.</p>
<b>Structure</b>	<p><i>Western:</i> We started off with a 50/50 JV but since our partner did not want to invest when it was needed later we increased our share to 90/10. We made sure to get the GM and financial controller position, the rest are locals .</p> <p><i>Chinese:</i> At the JV a big proportion of the CSOEs own staff is being used. We try to change this by using external recruitment. It is important to have majority control.</p>
<b>Strategy</b>	<p><i>Western:</i> The plan is to hand over control to local Chinese staff eventually , but it will not happen in the nearest future. To be successful in China in the long run we have to expand outside the Shanghai region.</p> <p><i>Chinese:</i> Off course employment is a key issue here in China.</p>
<b>Systems</b>	<p><i>Western:</i> Chinese do not want to loose face. We had to introduce our own reporting system, but there have not been any problems. You can't expect to have full control, but most things work out even though it takes time.</p> <p><i>Chinese:</i> When it comes to communication systems I prefer to meet face to face but my Swedish manager often write me emails instead. The finance and IT systems are very different now, the financial reports are more analyzed.</p>
<b>Staff</b>	<p><i>Western:</i> Incentives? Money is very important here in China but we have also noticed that our strong corporate culture is important.</p> <p><i>Chinese:</i> I like to go to work every day. I feel that I am appreciated and encouraged to take responsibility.</p>
<b>Skills</b>	<p><i>Western:</i> What really differs is the management style. We have implemented our way of working and it is appreciated. Chinese people are flexible and good at getting things done. Their market knowledge is priceless.</p> <p><i>Chinese:</i> The Swedes are very kind and have good multicultural management skills. We here in China are better at getting things done.</p>
<b>Style</b>	<p><i>Western:</i> The CSOE style is different. Punishment is used and they avoid planning, focusing on opportunities and dealing with problem when they occur.</p> <p><i>Chinese:</i> The Western culture in our company is moving towards the SOE's and the SOE's is moving towards the Western, this is natural and not being forced by any part.</p>
<b>Super Ordinate Goal</b>	<p><i>Western:</i> I like working in China, it is somewhat like a mission. It is fun to be able to design practise, especially here since no one really know the key recipe.</p> <p><i>Chinese:</i> My work here feels meaningful since I help building the Chinese society.</p>



**Table 8 - Case descriptions in the 7S framework**

	Alfa Laval (AL)	Consilium	Ericsson	ITT Flygt	SKF
<b>Background</b>	JV between AL and local government from -94. WFOE since -97.	50/50 JV since -85 with a CSO research institute. The CSOE hold the informal control. Low profitability.	51/49 JV with a CSOE since -96. Now a 90/10 majority ownership in favour of Ericsson. Also a R&D department.	Formed a JV with a CSOE in -94, transferred into a WFOE in -96.	SKF runs three majority owned JV with CSOEs. They also have a green field organization since -95 and a CSOE-takeover.
<b>Structure</b>	AL holds control, frequent contact with HQ. Structure based on divisions of sales and operations.	The CSOE hold informal control as they provide staff and resources.	Flat, process-oriented structure.	Semi-flat structure.	Exclude partner from operational decisions. Majority ownership.
<b>Strategy</b>	CSOE's strategic objective was high employment. AL strategic objective is increased market share.	Market shares and cost reductions are main strategic objectives.	Maintaining networks is a strategic objective.	Increase control over the supply chain is a strategic objective.	Maintaining market share/leading global position and lower production cost are the main strategic objectives
<b>Systems</b>	AL systems have been implemented in the former CSOE. E.g. quality of reports has been improved.	Consilium control and reporting systems has been implemented. Chinese staff reports lack of flexibility in Consilium's systems.	Has increased process based systems and consensus management but network-based systems are still evident.	Management system: Explicit communication, increased information sharing. Reward, never punish.	SKF standard systems have been implemented in practices, reports, safety etc. Quality control is improved and reliability of the reports.
<b>Staff</b>	Above market pecuniary benefits complemented with non pecuniary benefits, e.g. training. AL culture prevents job hoping.	Training, career opportunities and decent salaries prevents job hoping.	Compete with unique culture, not salary. Provide training and individual career coaching.	Pay below WFOE average salary. Provide training.	HR management strategic objective. Provide good pecuniary benefits, overseas training and career opportunities.
<b>Skills</b>	CSOE: Market knowledge. CSOE employees that lacked the right skills were resistant to the JV. AL: Technology, products and management skills.	CSOE: Low cost production, relationships and local knowledge. Consilium: Product, planning, efficiency, quality and R&D. Overseas Chinese bring cross cultural understanding.	CSOE: Technical skills, efficient but lack process-minded business skill. Ericsson: Management skills. Understanding of why instead of how; integrated thinking.	CSOE: Cheap labor and access to large market. ITT Flygt: Leadership skills, efficiency encouraging own initiatives.	CSOE: Customer, suppliers and government relationships. Can navigate "the grey areas". SKF: Production process, quality. Right product sold to right application. Multicultural management skills.

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(Table 8 continued)

	Alfa Laval (AL)	Consilium	Ericsson	ITT Flygt	SKF
<b>Style</b>	Corporate culture is a mix from CSOE and AL. Chinese employees likes AL culture since they feel appreciated and encouraged, it is based on teamwork and equality.	CSOE corporate culture dominates in the JV.	Operates a Swedish corporate culture with Chinese influences.	Corporate culture is a 50/50 mix between "Chinese" culture and ITT Flygt culture. ITT Flygt culture expected to dominate in the future.	Implement SKF culture with Chinese influences.
<b>SOG</b>	"Personal achievements are important. " "I want to contribute to society, be useful to the country and the world". "Freedom to talk is important also for blue collars."	"Core values [long term focus, quality focus] are not shared by the partner, they have their own agenda." "They want to earn more money."	"The right values [open minded, urge for own responsibility] are important when we employ." "Chinese staff is interested in money, possibly more than Swedes."	"The ambition is to develop China. If Flygt improve their efficiency, then the suppliers will have to follow and China as a whole will improve her efficiency."	"The system is design to protect the society from the individual. Thus, the individual in China takes no responsibility for the society, even though she is proud of her country."

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**Table 9 – Integration of the 7S, empirical findings**

	Structure	Strategy	Systems	Staff	Skills	Style	SOG
Structure	-	Need for control makes 100% ownership a common strategy.	A system for cross functional cooperation may require structural changes.	Global integration brings about career opportunities.	A traditional CSOE structure does not stimulate personal responsibility.	Important with vertical responsibility for the turnaround of style.	A flatter structure can help in aligning the SOG of the staff and the organisation.
Strategy		-	Adopting a flexible strategy requires flexible systems.	Preventing job hopping should be one strategic objective.	Cultural change requires managers with the ability of cross cultural cooperation.	Value cultural tension or implement a global corporate culture?	Develop a strategy for how the turnaround contributes to the global development.
Systems			-	Linking the turnaround to every day practises motivates the staff to change.	Managers' communicative skill contributes to the communication system.	Managers implement cultural change by creating a safe environment.	How the turnaround contributes to a greater good should be communicated.
Staff				-	Training enhances the skills as well as prevents job hopping.	An appreciated corporate culture prevents job hopping.	Contributing to the national and global development was cited to prevent job hopping.
Skill					-	Socially intelligent leaders can create a "safe environment" for the cultural turnaround.	Managers with a cross-cultural understanding can communicate super ord. goals.
Style						-	A corporate culture that values contribution to society may be in line with the super ord. goals of the staff.
SOG							-

**Table 10- Previous research in relation to empirical findings**

	Previous Literature	Empirical Study	Hypothesis
- Structure -  Post- turnaround structure	The higher dimensions of organizational change are easier to implement if the formal structure remains relatively stable (Based on the following authors' argument for establishing a sense of security in the organization: Moran and Brightman 2001, Bower 2001, Killing 2003).	The higher dimensions of organizational change where easier to implement if the formal structure was changed. Nevertheless, structural change must be implemented at a slow pace, too radical changes may not be appropriate.	<i>H1: The post-turnaround structure should be kept relatively stable to facilitate change in other dimensions of organization.</i> <b>Neither supported, nor rejected.</b>
- Structure -  Leadership	Multiple leadership of turnaround process (Kotter 1995, Sirkin et al. 2005).  Vertical and horizontal representation (Killing 2003, Smith 2003, Moran and Brightman 2001, Ashkenas and Francis 2000).  Representatives from both JV partners (Belcher and Nail 2000, Bannert and Tschirky 2004, Ashkenas and Francis 2000).	The turnaround is driven by top management; one key issue for the Swedish organization is therefore to control the top management.  Vertical anchoring of the turnaround process is important.  Need for control on behalf of Swedish firm reduces Chinese partner's representation in the turnaround management team.	<i>H2: The turnaround process should be managed by a team of individuals that represents various professional, vertical and horizontal segment of the JV.</i> <b>Partly supported</b> as anchoring of the turnaround project could require a team of managers. <b>Partly rejected</b> as the JV partners involvement in the turnaround project should be limited.
- Structure -  Aspects of structure not covered by previous literature	Downsizing staff requires cooperation with local government.  Turnaround of the management team often require replacement of older people with younger.  CSOEs often have high walls between the functional departments of organization. One aspect of the turnaround process is thus to increase cross functional cooperation and -management.		
- Strategy -  Time perspective	Turnaround managers should adapt a long run perspective on strategy (Kotter 1995, Smith 2003, Reisner 2002).  Differences in time perception can cause frustration (Hampden-turner and Trompenaars 1996, Tung, 1996)	Turnaround projects should include cultural change in their strategic objectives. As cultural change takes time, turnaround managers are inclined to have a long run time perspective in terms of strategy.  Western managers related to differences in time perception when appreciating the Chinese colleagues' opportunity minded business focus, but complained about their lack of interest in strategic planning.	<i>H3: Turnaround strategy must have a long-run focus and allow for differences in time perception.</i> <b>Supported</b>
- Strategy -  Aspects not covered by previous literature	All of the studied cases regard 100 % ownership as an important strategic objective.		

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(Table 10 continued)

	Previous Literature	Empirical Study	Hypothesis
- Systems –  Turnaround systems	The turnaround project should be broken down to short term milestones that are continuously followed up (Kotter 1995, Sirkin et al. 2005, Ashkenas and Francis, 2002).	A stepwise approach to change is advocated by most interviewees. Some, however, emphasize a holistic but gradual approach to change.	<i>H4: Turnaround managers should design a system for creating short term milestones that are constantly evaluated, reevaluated and controlled.</i>
	Need for continuous evaluation and control of the turnaround process, preferably in quantitative terms (Kotter 1995, Sirkin et al. 2005, Ashkenas and Francis 2002, Ernst and Bamford 2005, Smith 2003, Bannert and Tschirky 2004, Soderberg and Vaara 2003).  One system that can be used for implementing cultural change is to align the change project to practical tasks (Soderberg and Vaara 2003). Resistance to the turnaround is counteracted with a communication program (Kotter 1995, Sirkin et al. 2005, Hoag et al. 2002, Moran and Brightman 2001, Ernst and Bamford 2005, Kotter and Schlesinger 1979).	The need for continuous evaluation and control is evident. Turnaround success was described in quantitative as well as qualitative terms.  Linking the change project to everyday practise was cited a successful method of sustaining that the “why” and “how” of the change process are understood.	<b>Supported</b>
		Communication is a crucial element of the turnaround process. The main obstacle to efficient communication is the language barrier.  Systematize communication through travelling and written confirmation of verbal agreements.  Some cases have addressed the communication issue by employing an overseas Chinese manager, although this is not reported as a universal solution to bridge the cultural gap. Concern with face can hamper negative communication .	<i>H5: A system for communication is vital for turnaround success.</i> <b>Supported</b>
- Systems –  Pre-turnaround and post-turnaround systems	Working in the network focused business context of China, turnaround management team should build strong personal relationships with the staff in order to obtain information and implement decisions.  As cross functional cooperation is often lacking in CSOEs, turnaround management team must focus on integrating the company. This is done both in addition to and as a mean of obtaining turnaround success in other aspects of organization.		
- Staff -  Motivating change	Lack of adequate reporting systems hamper the valuation and control of turnaround progress.  Turnaround success is enhanced by creating a sense of urgency for change in the organization. Urgency is created by reaching tangible goals and using carrots rather than sticks (Hoag et al. 2002, Kotter 1995, Sirkin et al. 2005, Bower 2001, Ashkenas and Francis 2000, Killing 2003).	Turnaround success is enhanced if the staff is motivated to change. Carrots are preferred over sticks. Incentives should be of verbal as well as pecuniary nature.	<i>H6: Motivating the management to change is vital for turnaround success.</i> <b>Supported</b>

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(Table 10 continued)

	Previous Literature	Empirical Study	Hypothesis
- Staff - Loss of key personnel	Change can result in loss of key personnel. Important to identify the triggers behind such voluntary employee turnover (Morrell et al. 2004, Howarth 2002, Bannert and Tschirky 2004).	High employee turnover is a problem in China, in changing as well as in more stable organizations. High salary, training, career opportunities and company culture reduced employee turnover rates.	<i>H7: Change lead to loss of key personnel. By identifying the triggers behind individuals' decision to quit, employee turnover rates can be reduced.</i> <b>Supported</b>
- Skills - Management practise	Management practise should be transformed, rather than just transported from the Swedish organization (Soderberg and Vaara 2003, Liu and Mackinnon 2001).	The management practise of the Swedish organization is one of the key competitive advantages and should therefore be carried forward to the Chinese organization.	<i>H8: Management practice cannot only be transported but must also be transformed to fit the local business.</i> <b>Partly rejected</b> , transporting management practice with minor modifications can be a long run objective.
- Skills - Leadership	In terms of personal traits, a management team consisting of individuals with ability to cope with uncertainty and ability to accept responsibility should be put in charge of the turnaround project (Killing 2003, Sirkin et al. 2005, Hoag et al. 2002, Ashkenas and Francis 2002, Liu and Mackinnon 2001).  In terms of professional skills, these individuals should hold technological competence as well as HR competence (Bannert and Tschirky 2004).  Powerful leaders should be put in charge of the turnaround project.	In terms of personal traits, turnaround managers should be open, able to generate trust and able to communicate across cultures.  In terms of personal skills, turnaround managers should hold technical competence and strong communicative ability.  Powerful leaders should be put in charge of the turnaround project. Formal authority implies informal authority.	<i>H9: Turnaround management should be socially intelligent and technically competent.</i> <b>Supported</b>
- Style - The road is the purpose of the journey	The tension between the Swedish, the CSOE and the ideal corporate culture generates a constructive challenge to well-trying solutions (Trompenaars and Woolliams 2003, Soderberg and Vaara 2003).	Tension between cultures is valuable, but implementing the global company culture is an important part of the turnaround project.	<i>H10: The tension between two cultures is very valuable.</i> <b>Supported</b>
- Superordinate goals -	The turnaround and the staff's sense of purpose should be aligned. This can be achieved through linking SOG to daily practises (Trompenaars and Woolliams, 2003, Soderberg and Vaara 2003).	Turnaround managers should communicate how the turnaround project contributes to the national and global development.	<i>H11: The staff's and the turnaround projects sense of purpose should be aligned in order to implement turnaround success.</i> <b>Supported</b>

Table 11- Case by case accounts for the hypotheses

	Alfa Laval	Consilium	Ericsson	ITT Flygt	SKF
<i>H1: The post-turnaround structure should be kept relatively stable to facilitate change in other dimensions of organization.</i> <b>Neither supported, nor rejected.</b>	<b>Rejected</b>	<b>No evidence</b>	<b>Rejected</b>	<b>Partly supported</b>	<b>Partly rejected</b>
<i>H2: The turnaround process should be managed by a team of individuals that represents various professional, vertical and horizontal segment of the JV.</i> <b>Partly supported</b> as anchoring of the turnaround project could require a team of managers. <b>Partly rejected</b> as the JV partners involvement in the turnaround project should be limited.	<b>Partly supported</b> as anchoring of the turnaround project could require a team of managers. <b>Partly rejected</b> as the JV was shortly acquired by Alfa Laval.	<b>No evidence on vertical representation.</b>  <b>Partly rejected</b> as the Chinese partner has controlled the JV, low profitability.	<b>Partly supported</b> as anchoring of the turnaround project could require a team of managers. <b>Partly rejected</b> as the JV partners involvement in the turnaround project should be limited.	<b>Not supported</b> as the turnaround has been controlled by management representatives from the Swedish organization. <b>Partly rejected</b> as the JV was shortly acquired by Flygt.	<b>Partly supported</b> as anchoring of the turnaround project could require a team of managers. <b>Partly rejected</b> as the JV partners involvement in the turnaround project should be limited.
<i>H3: Turnaround strategy must have a long-run focus and allow for differences in time perception.</i> <b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>
<i>H4: Turnaround managers should design a system for creating short term milestones that are constantly evaluated, revaluated and controlled.</i> <b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>
<i>H5: A system for communication is vital for turnaround success.</i> <b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>
<i>H6: Motivating the management to change is vital for turnaround success.</i> <b>Supported</b>	<b>Supported</b>	<b>Supported</b> (the staff has not been motivated to change, the JV show low profitability)	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>

(Table 11 continued)

	Alfa Laval	Consilium	Ericsson	ITT Flygt	SKF
<i>H7: Change lead to loss of key personnel. By identifying the triggers behind individuals' decision to quit, employee turnover rates can be reduced.</i> <b>Supported</b>	<b>Supported</b>	<b>No evidence</b> (Individuals that have left the JV have started independent sales organizations. This in turn has increased Consilium's control over the business)	<b>Supported</b>	<b>Partly supported</b>	<b>Supported</b>
<i>H8: Management practice cannot only be transported but must also be transformed to fit the local business.</i> <b>Partly rejected</b> , transporting management practice with minor modifications can be a long run strategic objective.	<b>Rejected</b> (only minor local adaptation of management practise)	<b>No evidence</b> (But high success in those few management practises that has been transferred, e.g. formalised reporting)	<b>Rejected</b> (only minor local adaptation of management practise)	<b>Supported</b>	<b>Rejected</b>
<i>H9: Turnaround management should be socially intelligent and technically competent.</i> <b>Supported</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b> (stronger emphasize on social intelligence than technical competence)	<b>Supported</b> (stronger emphasize on technical competence than social intelligence)	<b>Supported</b>
<i>H10: The tension between two cultures is very valuable.</i> <b>Supported</b>	<b>Supported</b>	<b>No evidence</b> (CSOE culture dominates the JV, low profitability)	<b>Supported</b>	<b>No evidence</b> (Cultural tension has not been addressed by turnaround mt)	<b>Supported</b>
<i>H11: The staff's and the turnaround projects sense of purpose should be aligned in order to implement turnaround success.</i> <b>Supported</b>	<b>Supported</b>	<b>No evidence</b>	<b>Supported</b>	<b>Supported</b>	<b>Supported</b>



**Table 10 - Vocabulary**

Expression	Meaning
<b>CCP</b>	China Communistic Party
<b>CSOE</b>	Chinese State Owned Enterprise
<b>DGM</b>	Deputy General Manager
<b>FM</b>	Financial Manager
<b>FSOE</b>	Former State Owned Enterprise. This abbreviation will be used when extra clarification of owner status is needed. In most cases, the abbreviation SOE encompasses also FSOEs.
<b>GM</b>	General Manager
<b>Guanxi</b>	A relationship between two individuals of equal status that enables the individuals to request favours of each other.
<b>HR</b>	Human resources
<b>HT and T</b>	Hampden-Turner and Trompenaars
<b>HQ</b>	Head Quarter
<b>JV</b>	Joint venture
<b>M&amp;A</b>	Merger and Acquisition
<b>MD</b>	Managing Director
<b>MT</b>	Management team
<b>SO</b>	State owned
<b>SOE</b>	State Owned Enterprise. Of practical reasons, this abbreviation will also encompass Former State Owned Enterprises with organizational elements are determined by the previous SOE owner structure.
<b>Strategic alliance</b>	Agreement between two or more companies where there is a shared risk, return and control, as well as some operational integration and mutual dependence (Ernst and Bamford 2005).
<b>R&amp;D</b>	Research and Development
<b>SOG</b>	Super ordinate goals
<b>Turnaround</b>	Turning from malfunctioning to functioning
<b>VP</b>	Vice President
<b>WFOE</b>	Wholly Foreign Owned Enterprise