

# The Battle for Brainpower

## - How Swedish Companies Retain Middle Managers in China

### Master Thesis in Accounting and Financial Management Stockholm School of Economics

#### Abstract

Academic discourse and recent studies suggest that multinational companies in China are struggling to retain employees and that middle managers are one of the most attractive groups on the labor market. This master thesis discusses what measures large Swedish companies in China are taking to retain Chinese middle managers as well as how effective these measures are.

Six companies are examined with focus on three main areas: *Compensation and Benefits*, *Organizational Culture* and *Employee Development*. Empirical data is mainly gathered through qualitative interviews in China with Swedish managers, HR-managers and Chinese middle managers. In addition, a quantitative survey is performed among middle managers.

In contrast to previous studies, retaining middle managers is not considered to be a significant issue in the companies studied. This is demonstrated by the fact that the middle management turnover levels in these companies are significantly lower than the Chinese market average.

Out of the three areas studied, Compensation and Benefits is the least effective retention measure. In general, Swedish companies have market average compensation levels. Employee Development seems to be the most effective retention measure. The companies studied have implemented a wide array of Employee Development initiatives to retain their high-profile middle managers.

Finally, the authors discuss why the empirical findings do not correspond to theory and suggest areas for future research.

#### 摘要

#### 人才争夺战

学术讨论和最近的研究表明在中国的跨国公司正在为留住其最优秀的雇员而努力；特别是那些中层管理人员已成为了劳动力市场上最受青睐的群体。这篇硕士论文关注的是：在中国的瑞典公司为留住其中层管理人员做了什么？这些措施的效果又如何？

我们选择了 6 个公司作为案例，集中研究三个主要的留住雇员的因素：薪酬，公司文化和个人发展。调研数据既来自于对在中国的瑞典高层管理人员、人力资源经理和中国的中层管理人员的定性的访谈，也来自于定量的调查。

意外的是，与理论相反，作者发现作为案例的瑞典公司并不认为留住其中层管理人员是一个大问题。这些公司的管理人员的率明显低于市场平均水平也证明了这一点。

调研的数据表明：在研究的三个因素中，薪酬被认为是留住雇员最不重要的因素，瑞典公司付出的薪水与市场平均水平持平。

实际上，最重要的因素是个人发展。在这方面，公司实施了多方面的措施以留住其最具青睐的中层管理人员。最后，作者讨论了为什么调研数据与理论并不吻合，并提出了未来需要研究的三个方面。

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# 1. Introduction

Since 1978, the People's Republic of China (henceforth China) has undergone a remarkable development in its transformation from being a closed country tormented by starvation to a world-leading economic and political superpower. Thanks to vast reforms, China alone accounted for one third of the world's economic growth (World Bank, 2007) in 2007 and is today the fourth largest economy in the world, expecting to surpass the US in 2020 (The Economist, 2006).

For multinational companies, these figures translate into growing market opportunities in China. Thus, foreign firms are eager to get their fair share of the new market (Heidrick & Struggles, 2006). However, far from all companies are successful in their Chinese business ventures. Fierce competition, cultural differences, government regulations, and the war on talent (Chambers, 1998) are major challenges foreign firms are facing.

At a roundtable discussion with the Chinese government, 59 percent of the participants from foreign invested enterprises (FIE) considered recruiting and retaining managers to be the most important problem facing FIE's in China. The corresponding number for the bureaucracy problem, the second most important issue, was only 30 percent (Bjorkman & Lu, 1997). A 'job-hopping' culture is common among well-educated and skilled Chinese employees, aggravated by a salary explosion and poaching by competitors (Braun & Warner, 2002). Head-hunting firm Heidrick & Struggles (2006) comments:

*No matter what the industry, demand for experienced executives and leaders in China far outstrips supply. [...] A shortage of talent is creating a market where companies eager to attract and retain the best talent all pursue the same small core of high-profile, and increasingly high-priced, people. [...] Management turnover in China is extremely high and retaining talent is a major problem.*

Grant & Farrell (2005) have also identified a strong demand for executives in China:

*Effective managers are in short supply [...]. We estimate that given the global aspirations of many Chinese companies, over the next 10 to 15 years they will need 75,000 leaders who can work effectively in global environments; today they have only 3,000 to 5,000.*

Furthermore, Swedish corporations in China are expressing their concern for this challenge. In a survey by the Swedish Chamber of Commerce (2005), 51 percent of the responding companies in Beijing considered it *Hard* or *Very hard* to retain employees. The number had increased from 40 percent the previous year, indicating an escalating problem. Yvonne Chen (2006) at the Swedish Chamber of Commerce claims that retaining skilled employees is the greatest challenge for Swedish companies in China today. Lomberg (2006) reports how the challenge affects the business performance of the companies:

*The employees cannot be promoted fast enough. They often have inflated expectations and change companies so frequently that they do not have time to develop their professional skills. The situation leads to sky high recruitment costs, often accounting for 25–50 percent of total salary costs.*

According to Hewitt (2006), average turnover among middle managers is considerably higher than among top managers (11.5 percent compared to 6.5 percent), making the former group more interesting to study.

### **1.1. Purpose and Research Question**

In light of the discussion above, our purpose with this thesis is to get a better understanding of the measures Swedish companies in China are taking to retain employees and how these measures impact the retention of middle managers. By shedding some light on these topics, we hope to help companies established in China, as well as potential market entrants, to get a better understanding of how employee retention can be controlled.

With reference to this, we pose the following two research questions:

- Q1) What measures are Swedish companies in China taking to control the level of employee turnover among middle managers?**
  
- Q2) How are these measures affecting the middle managers' propensity to leave their companies?**

## 1.2. Definitions

### Employee turnover

By *employee turnover* or simply *turnover*, we mean the annual voluntary employee turnover among middle managers. Lay-offs are consequently not included. Turnover is defined as the number of people who resigned throughout the year divided by the average number of employees during the same year. This is the standard definition of employee turnover in the companies we have studied.

### Middle managers

We have defined middle managers as employees with employee responsibility. However, we have not included the local top management in our definition. Furthermore, we have chosen to only include managers with a local Chinese contract. Hence, expatriates are not included in the studied group of middle managers.

## 1.3. Disposition

In Chapter 2, we guide the reader through our methodological approach. Our theoretical framework is presented in Chapter 3 and our empirical results are demonstrated in Chapter 4. In Chapter 5, we account for our analysis, our own reflections and the conclusions of our study. Finally, in Chapter 6, we discuss strengths and weaknesses with our study, theoretical implications and suggestions for future research. We use the following outline to illustrate our thesis disposition:



## 2. Methodology



*In this chapter, we present the structure and justification of our research methodology. We discuss the selected research method; delimitations; how data has been collected, organized and analyzed; as well as the quality of our study.*

### 2.1. Overview of Our Methodological Approach

Using an *abductive research method*, we have performed *six case studies* of Swedish companies in China. Prior to our case studies, we conducted a *pre-study* consisting of a thorough literature study as well as expert and mock<sup>1</sup> interviews. The pre-study helped us to delimit our scope and identify three important focus areas for our study: *Compensation and Benefits*, *Organizational Culture* and *Employee Development*.

The case studies can be labeled as *mainly descriptive* and *partly exploratory*. The basis for our data collection has been *qualitative interviews*. To increase the validity of our case study findings, we have also conducted a *quantitative survey* among middle managers in the companies studied.

### 2.2. Connection between Theory and Method: The Abductive Method

When discussing the connection between theory and empirical findings, the classical dichotomy of the *inductive* and *deductive* methods is a natural starting point. Applying the inductive method means deriving a theory from pure empirical data. The researcher first observes a phenomenon and then seeks to find structures and patterns that can be formulated as theories. When employing the deductive method, however, existing theories are the starting point. The researcher creates hypotheses and expected results from existing theories, and then tests to what extent the formulated hypothesis can explain collected empirical data (Rienecker & Jörgensen, 2002).

The inductive and deductive methods have been considered to be two extremes on a continuum (Patel & Davidson, 2003). An interesting alternative to these two methods is the *abductive* method (Alvesson & Sköldberg, 1994). The term is used to describe the interplay between the inductive

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<sup>1</sup> The purpose of mock interviews is to test the appropriateness of the interview questions before using them to collect empirical data.

and deductive methods. The abductive method allows the researcher to approach empirical data inspired by preliminary theoretical explanatory patterns. Rather than merely starting with empirical data, as in the inductive method, the abductive method can help the researcher focus on the relevant areas, as well as explain empirical findings in the ongoing research process.

In this study, we have focused on the empirical end of the continuum and have let our empirical findings move the study forward. This implies that our thesis is based on the inductive method. However, we have also used previous studies and theories to better understand the overall topic, familiarize ourselves with various concepts and notions, and make delimitations. As our work has progressed, we have gained new insights from our empirical data, which has helped us to explore new theories. This, in turn, has helped us to further understand our empirical data and to raise new questions in our interviews. Since we have let existing theories and empirical data interrelate, we argue that we have used the abductive method to approach our research problem.

### **2.3. Delimitations**

Our two research questions, i.e. organizational retention strategies by Swedish companies in China (Q1) and how these strategies affect managers' propensity to leave their companies (Q2) are extremely vast and complex. Thus, within the scope of our thesis, we have delimited the breadth of our study.

The various measures companies can take to retain their managers are uncountable. Griffeth et al. (2000), for instance, discuss 20 such organizational measures. In order to achieve desirable depth in our study, our aim has been to identify the most important areas where companies can affect the middle management turnover. To identify these areas, we have conducted a pre-study consisting of a thorough literature review, nine expert interviews and two mock interviews. When carrying out this pre-study, three focus areas emerged:

- Compensation and Benefits
- Organizational Culture
- Employee Development

The literature review and the rationale for choosing these particular focus areas are described in Chapter 3. Our ambition is not to present an all-encompassing description of what companies

can do to retain managers. Instead, we will focus on and thoroughly analyze the three areas stated above.

## **2.4. Data Collection Approach: Case Studies**

We have chosen a *case study-based research approach*. This approach is justified by three reasons. First, since detailed empirical analyses are often necessary to interpret and understand control issues, case studies have come to dominate management control research (Samuelsson, 1999). Second, case studies have been used since they increase the understanding of how management control is used in practice as well as how the environment and other surrounding factors affect the control system (Kloot, 1997). Third, lack of research literature and previous empirical findings in our field motivate the use of case studies (Yin, 1994).

Whether to use a single or multiple case study approach is an important methodological consideration (Yin, 1994). The choice is mainly a trade-off between depth and breadth. We have chosen to conduct a *multiple case study* for two reasons. First, the multiple case study approach is more flexible as it allows us to take particular issues of every unique case into consideration (Eisenhardt, 1989). Second, it allows us to identify and describe general patterns rather than specific issues of one organization (Eisenhardt, 1991). Altogether, this will help us draw more general conclusions about the strategies in place to retain employees (Q1) and their actual effects on the managers (Q2). In this study, we have chosen to study six companies. Within the scope of this thesis, we believe that this will help us get a broad understanding of the research questions, while not compromising the depth of the analysis in each individual case.

According to Yin (1994), there are three types of case studies: exploratory, descriptive and explanatory. As the purpose of this thesis is to describe the control systems and how they are perceived by managers, the nature of the case studies can be labeled as *descriptive*. However, the lack of previous research and theories in this field also makes the study *partly exploratory*.

### **2.4.1. Company Selection**

The process of selecting cases is very important when drawing conclusions and deriving theories from case studies (Eisenhardt, 1989). Today, there are approximately 220 Swedish companies with operations in China (Forsberg & Langheim, 2006). We have chosen to only look at companies with at least 100 employees as they are more likely to have structured strategies and

systems in place to retain employees. Inevitably, the selection of companies has also been dependent on the people and companies we were able to access. Several companies declined to participate in our study due to lack of time.

Six companies have been selected to participate in the study. These are IKEA, SKF, EF, Sony Ericsson, Electrolux and Ericsson Simtek. A more detailed description of these companies follows in Chapter 4. However, a few things could be mentioned already:

- The companies represent different industries in Beijing and Shanghai, which gives the study desirable industry and geographical breadth.
- The number of years of activity in China varies greatly between the studied companies; SKF started its China operations in 1988 whereas Sony Ericsson opened its China branch in 2002.
- The studied companies represent different ownership structures. EF, for example, is a family-owned company, Ericsson Simtek is a joint venture and SKF is listed on the Stockholm Stock Exchange.
- The level of employee turnover varies greatly between the studied companies; between 0 and 15 percent among the case companies

In light of these facts, we believe that our diverse selection of companies will help us to draw general conclusions with regards to our two research questions.

## **2.5. Data Sources: Qualitative and Quantitative Data**

When studying our case companies, we have used a combination of qualitative and quantitative data collection. At first, we planned to only base our study on qualitative interviews. However, as our study progressed, the turnover numbers turned out to be considerably lower than we had initially expected and the middle managers did not seem to be as inclined to change jobs as we had thought. Also, in some of the studied companies, we did not get to interview as many middle managers as we sought to. In light of these facts, we chose to complement our interviews with a web-based survey to validate the results of our interviews. However, the foundation of our study is still based on *qualitative* data. The qualitative and quantitative data collection is described in Chapter 2.6 and 2.7.

## **2.6. Qualitative Data: Interviews**

A *qualitative approach* is suitable for several reasons. First, as previous studies in this field are very limited (see Chapter 3 below), it becomes more important to take an open approach that does not limit the respondents' answers (Jacobsen, 2002). Second, the qualitative data is more nuanced and circumstantial compared to the quantitative data (ibid). This is important as employee turnover is a very complex field with many different factors influencing the level of turnover. Third, the quantitative method allows a high level of flexibility which enables adjustments of the research question as the data collection continues (ibid).

The method of data collection for case studies can be divided into six distinct categories: documentation, archival records, interviews, direct observation, participant-observation and physical artifacts (Yin, 1994). Even though these methods are complementary, conducting interviews has generally been the most common method of data collection in a qualitative study (Langemar, 2005). Also, given the scope and layout of our study, gaining access to the other five sources has not been feasible. For example, information on control systems to retain employees is very seldom available to external parties. Hence, we have chosen to base our case studies on *interviews*.

### **2.6.1. Interviewee Selection**

Our first research question (Q1) aims at understanding the measures Swedish companies in China are taking to retain managers. To answer this question, we have interviewed Human Resources (HR) managers as well as Swedish managers in the case companies.

The HR Manager is responsible for keeping HR statistics on employee turnover and achieving a satisfactory rate of employee turnover. This person has an overview of the strategies in place to retain key employees, e.g. monetary compensation, benefits, training programs, health polls etc. In all studied companies but IKEA, the HR Manager is a native Chinese.

The Swedish managers, typically expatriates, contributed with an outside-in perspective of the employee turnover situation and employee retention measures. This person usually has previous experience from the company in other countries as well as an understanding of how the Organizational Culture is used to control turnover. Thus, these interviews are also used to understand the retention measures used (Q1).

To answer our second research question (Q2), i.e. how actions to retain middle managers affect their actual inclination to change jobs, we have conducted interviews with local, almost exclusively Chinese, middle managers. These interviews helped us understand how the incentive systems and retention control systems actually affect the group of managers in question.

In order to prevent disclosing sensitive company information, the names of the case companies have not been revealed in our empirical findings. Instead, we refer to them as Company A, Company B and so forth. To maintain anonymity, the names of our interviewees are not either disclosed in our empirical data. We will refer to the interviewees by their title (e.g. “middle manager” or “HR Manager”) or simply “she”. Since all middle managers were guaranteed full anonymity, their names are not even disclosed in Chapter 7.2 where all interviewees are listed. By granting anonymity we believe we got better access to the companies and more sincere answers (Yin, 1994). Otherwise, some middle managers may have been reluctant to express their innermost thoughts if they were revealed to their superiors. However, the names of the HR managers and Swedish managers are listed in Chapter 7.2. It should be noted that the middle managers in our case companies have different tasks with somewhat different levels of authority. However, we do not believe that our results have been notably affected by this fact.

Exhibit 2.1 shows the number of people interviewed in each position and in each company studied. Our aim was to interview at least one HR manager, one Swedish manager and 2-4 local middle managers in each company. As the table shows, the number of respondents in each category varies slightly, which was due to the availability of interviewees. In Ericsson Simtek, for instance, we could only meet with one middle manager. In IKEA, the HR Manager and the Swedish manager is the same person.

| <b>Company</b>  | <b>HR managers</b> | <b>Swedish managers</b> | <b>Local middle managers</b> |
|-----------------|--------------------|-------------------------|------------------------------|
| IKEA            | 1                  | 1                       | 4                            |
| Sony Ericsson   | 1                  | 1                       | 3                            |
| SKF             | 1                  | 1                       | 3                            |
| Ericsson Simtek | 1                  | 2                       | 1                            |
| EF              | 1                  | 1                       | 3                            |
| Electrolux      | 1                  | 2                       | 3                            |

*Exhibit 2.1*

As a complement to the case studies and to gain a more complete understanding of the subject, we also conducted several interviews with external experts, such as university professors, consultants, a head-hunting firm, MBA students and members of various chambers of commerce. These interviews have provided us with a general understanding of the Chinese job market and the job-hopping situation in China. They have also helped us to put the findings of our case studies into perspective.

### **2.6.2. Interview Methodology**

All interviews have been conducted in a *semi-structured approach* with open-ended questions. By using semi-structured interviews, the interviewees can freely elaborate on the questions posed. The purpose with the semi-structured approach is to generate more nuanced and profound answers (Trost, 1997).

An interview guide was used to structure the interviews and to ensure that all relevant areas were covered (see Appendix 1). We also performed two mock interviews to test the clarity and relevance of our questions and made adjustments thereafter. Some questions were identical for all interviewees and some questions were tied to their specific role in the company. Interesting areas were further explored by several follow-up questions. When interesting areas were discovered, the interview guide was updated with new questions. Hence, our interview guide has been dynamic and constantly developing throughout the process. All interviews were conducted in English except those with Swedish managers.

All 41 interviews were conducted between September and December 2006, except for one expert interview, which took place in May 2006. The specific date for each interview is disclosed in our list of references. Both researchers were present in all interviews but two. The interviews lasted an average of 55 minutes. We have met all interviewees but one in real life. The only telephone based interview was with Eva Hansdotter at SKF as she is located in Gothenburg.

### **2.7. Quantitative Data: Web-based Survey**

In addition to our quantitative interviews, we also carried out an anonymous and web-based *quantitative survey* among a random selection of 15 middle managers in each of the six case companies (see *Appendix 2*). Hence, the middle managers we interviewed were not the same as

the ones participating in our survey (although overlapping may have occurred). Our aim was to get at least 5 survey responses from each company. In two of the studied companies (Electrolux and Sony Ericsson), however, we did not reach this goal.

In the survey, the middle managers gave their views on various measures for retaining employees. For each of these aspects, the managers stated the *current satisfaction level of the factor in their company* as well as the *general importance of the factor in remaining with an employer*. The first factor was graded 1 (not satisfied) – 5 (very satisfied) and the other 1 (no importance) – 5 (very high importance). The satisfaction level tells us how well the company is *performing* and the factor importance indicates how *important* the factor is in the managers' inclination to change jobs.

As mentioned above, performing a quantitative survey was not part of our original methodological approach. It was added since our interviews yielded rather unexpected results which we wanted to validate. Qualitative data from semi-structured interviews and quantitative data from a scale-based survey are naturally not fully comparable. Hence, there is an inherent methodological problem in our approach. Even though the qualitative and quantitative data is not fully compatible we believe, in our case, that the dual method of data collection is more exhaustive than only relying on qualitative interviews. The advantages with qualitative interviews are discussed above. There are also several advantages with a quantitative survey. First, the quantitative approach is more precise than the qualitative approach (Holme & Solvang, 1997). Second, the relative importance of the studied factors among the middle managers is easier to assess. Third, as the answers in the questionnaire are standardized, the studied companies can be compared more objectively. All these advantages have been useful in our analysis.

## **2.8. Data Processing and Presentation**

The qualitative analysis can be split into reduction, structuring and interpretation of data (Langemar, 2005). Reduction implies concentrating data without losing content. Structuring involves arranging data into meaningful sub-categories or patterns. Interpreting means understanding what the data actually has to say and what the consequences are. We have had this framework in mind throughout the data collection and analysis process.

All interviews but five were recorded. Two informal discussions with Tsinghua students were not recorded and two interviewees in our case companies asked to not be recorded. In addition, one

interview was not recorded due to technical problems. When all interviews had been conducted and a more precise research question had emerged, we listened to all interviews and transcribed relevant parts. As a second step, we organized our empirical data around a few key topics derived from the pre-study. This empirical data was complemented by and compared to the results from the quantitative survey in order to reach a more thorough understanding of the companies.

The quantitative data has been a compliment to the interviews with the middle managers. It has been used to validate and more accurately analyze how the measures taken by the companies affect the managers in their choice to remain with the company (Q2). The respondents' interview answers have been compared to the results of the survey, and similarities as well as differences have been highlighted and discussed.

In Chapter 5, we have performed a horizontal cross-case analysis (Eisenhardt, 1989) structured by the three key areas identified by the pre-study described above. In other words, we have compared the six companies side by side in each of the three areas in order to find common patterns as well as interesting differences. In addition, we have added our own thoughts and drawn conclusions from our empirical data and theoretical framework.

According to Yin (1994), there are several alternatives to presenting data and findings from a multiple case study. In Chapter 4, we have chosen to present our data separately for each individual case, i.e. a *within-case presentation*. Also, we have presented the empirical findings using a relatively high level of detail. The reason for this is to create a vivid description of each company and to provide the readers with the opportunity to form their own view of each case study (Eisenhardt, 1989).

## **2.9. Overview of Thesis Methodology and Progress**

An illustrative overview of our thesis methodology and research progress can be found in Exhibit 2.2 below. First, we carried out a pre-study consisting of a literature study, expert interviews and mock interviews. This pre-study helped us to narrow the scope of our thesis and we identified three important key areas to focus our study on.

In the first part of our *main study*, we performed a thorough literature study of the three identified areas. With this knowledge, we interviewed people in our case companies. The results from our

empirical data were analyzed and new areas and perspectives were discovered. This led us back to studying theories again, which helped us refining our interview guide. This procedure was repeated as the interviews with our case companies continued. This illustrates how we used the abductive approach throughout the research process.

After conducting all interviews, we performed a complimentary quantitative survey on a random selection of middle managers in each company. The reason for this was to further validate the findings of our study.

Analyzing the qualitative data from our interviews and the quantitative data from our survey together, led us to a number of conclusions.

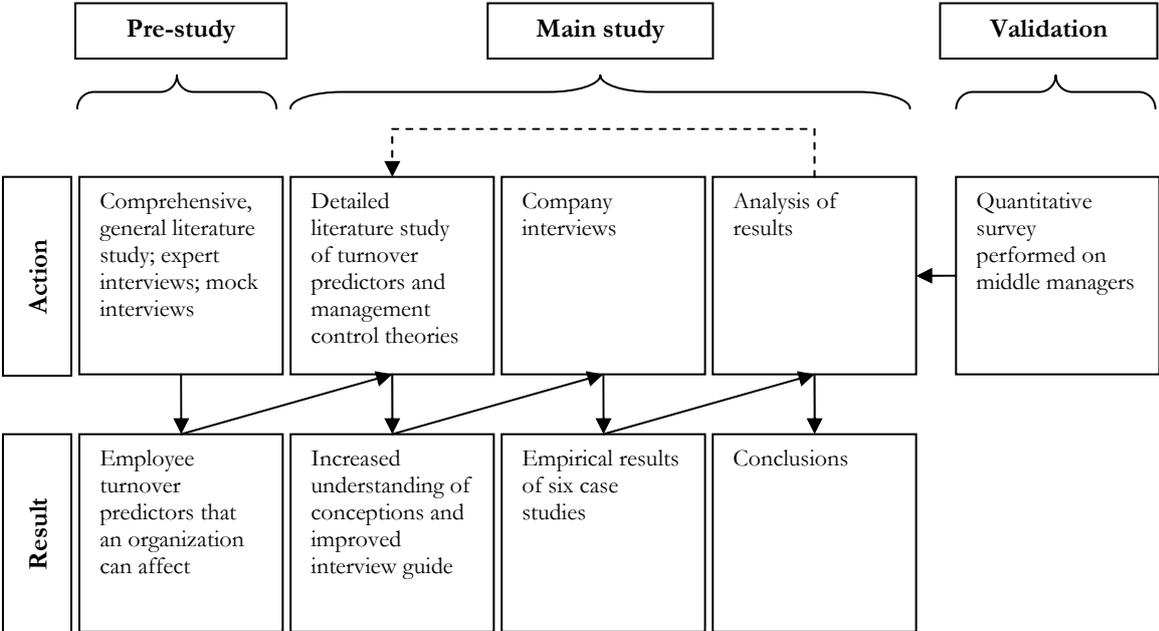


Exhibit 2.2

**2.10. Quality of Study**

Research quality can be measured by the two concepts of reliability and validity (Yin, 1994). Reliability relates to how things have been measured and whether another researcher would find the same results when replicating the study. Validity refers to how well a study actually measures what it intends to do.

### **2.10.1. Reliability**

The objective of reliability is to ensure that another researcher would reach the same conclusions if the study were conducted again. Thus, reliability implies reducing biases and errors in the research (Yin, 1994). We have employed several measures to prevent such errors and biases. First, both authors have been present in all interviews but two and an interview guide has been used in all interviews (see Appendix 1). Furthermore, both researchers have listened to the recordings of all interviews.

It should be mentioned that a larger number of interviewees with middle managers in Ericsson Simtek would have been desirable. By complementing the interviews with the quantitative survey, we hope to have resolved this potential issue.

The interview guide has changed slightly during the process. When interesting areas have been discovered, new questions have been added. However, as the majority of the questions have been the same throughout all interviews, we do not believe that this has had a great effect on the reliability of our study.

All companies have imposed English as the company language and all employees are required to speak fluent English. Even so, some points may have been lost due to language barriers. The communication with some of the Chinese middle managers was not quite as clear as if the interviews had been conducted in Chinese.

### **2.10.2. Validity**

The concept of validity can be divided into three parts: construct validity, internal validity and external validity.

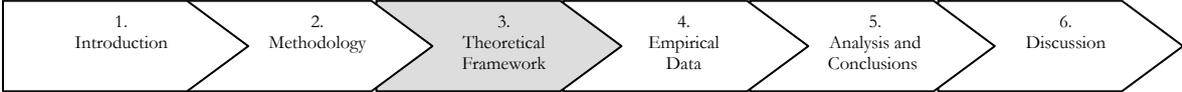
*Construct validity* involves minimizing subjectivity and setting up adequate measures for the studied phenomenon (Yin, 1994). We have taken several measures to ensure the construct validity. First, we have followed the interview guide and covered the same areas in all interviews. Second, we have used multiple sources for each data point, i.e. we have investigated how well the expositions provided by the HR Manager, the Swedish manager and the middle managers, respectively, correspond to each other. These views have been complemented by a survey in each company and interviews with external sources. This triangulation approach substantially increases the

quality of a study (Yin, 1994; Ryan et al., 2002). One problem may be that quantitative data and qualitative data are not fully comparable. However, we believe that the advantages of additional data outweigh this potential weakness.

*Internal validity* indicates how accurately the conclusions of a study depict the reality and whether the observed results could have been affected by other variables than those proposed in the study. Several steps have been taken to ensure the internal validity. First, all middle managers were assured anonymity, which gave them less reason not to share their actual thoughts and feelings. Second, the triangulation approach has reduced the risk of inaccurate data collection. Third, when in doubt about the meaning of an interviewee's response, we always cross-checked the answer by rephrasing the question posed.

*External validity* refers to whether a study can be generalized and applied to other situations (Yin, 1994). Whether the findings of a qualitative study can be generalized has been questioned (Ryan et al., 2002; Hägg & Hedlund, 1979). By thoroughly studying six separate cases with very different characteristics, we believe that the external validity in our study has been enforced.

### 3. Theoretical Framework

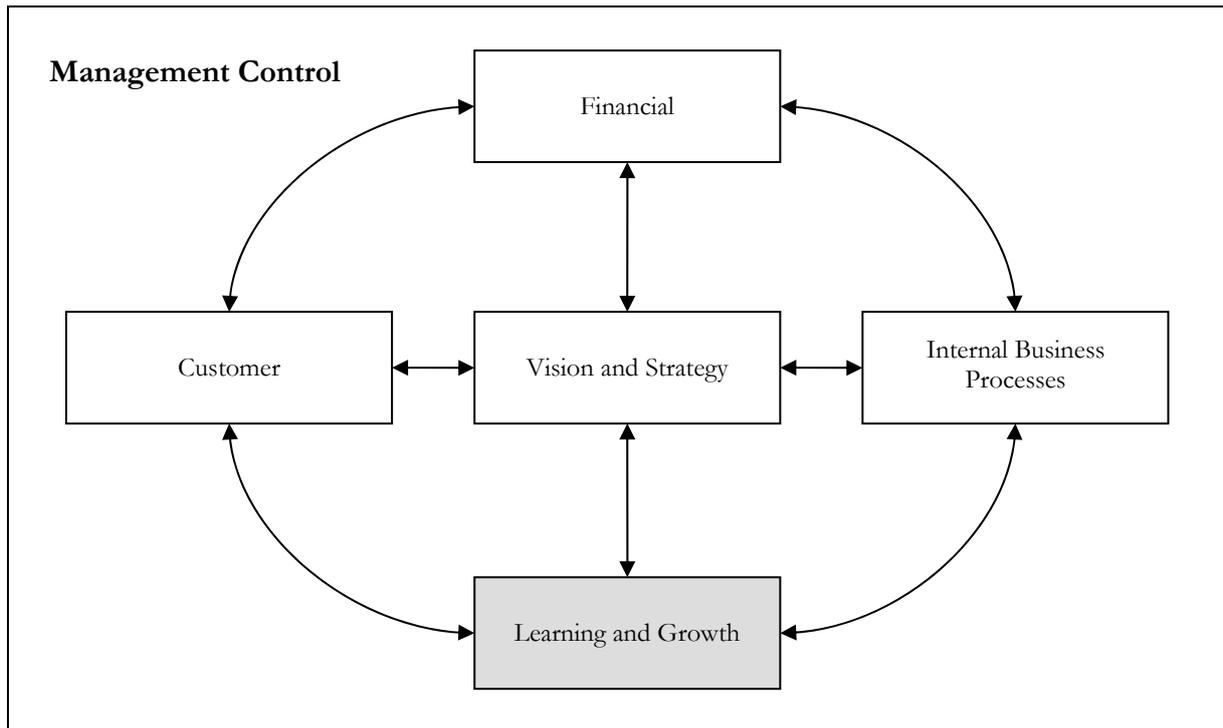


*In this section, we present our theoretical framework. First, we link the topic with its relevant academic field, management control. Then, we explain the theories we have used to structure, interpret and analyze the empirical data. Last, we describe our theoretical model.*

#### 3.1. Employee Turnover and Management Control

The overall academic field in this thesis is management control, which according to Anthony and Govindarajan (2005) is defined as “the process by which managers influence other members of the organization to implement the organization’s strategies.” The main objective of management control is strategy execution, intended to increase shareholder value (Copeland et al., 1990). Attracting and retaining key employees is increasingly important for companies on the knowledge-based labor market of today, and Samuelsson (2004) argues that there are many reasons for a company to highlight and emphasize employee related questions from a financial perspective.

In their renowned Balanced Scorecard model, Kaplan and Norton show the links between management control and employee turnover (Anthony & Govindarajan, 2005). Measures to retain employees are part of the *Learning and Growth* dimension in the model (see Exhibit 3.1 below).



*Exhibit 3.1*

When Swedish companies implement balanced scorecards, a fifth employee perspective is often added to Kaplan and Norton's original four factors (Bergstrand, 2003). This perspective focuses on attracting, retaining and developing employees. Hence, Swedish companies place specific emphasis on employee retention as part of their management control.

### **3.2. Literature Review on Employee Turnover**

Employee turnover is a much studied academic area. According to Muchinsky & Morrow (1980), there are over 1,500 studies in this field. Hom & Griffeth (1995) reviewed over 800 such studies in a meta-analysis. The great importance of controlling employee turnover in organizations explains why this field has received such great attention in academia (Morrell et. al., 2004). High rates of employee turnover incur significant costs to organizations. Direct costs include the recruitment process, temporary staff and management time. There are also several indirect costs such as employee morale, pressure on remaining staff, cost of learning, product/service quality and organizational memory. The connection between employee turnover and loss of social capital has also been discussed (Dess & Shaw, 2001).

However, a reasonable level of employee turnover also has positive effects. Staw (1980) discusses a few of them, including the possible inflow of new and better employees, fresh ideas and

increased opportunities by internal mobility. Most companies, however, have a very clear focus on lowering the employee turnover.

Although employee turnover has been thoroughly studied, there are no generally recognized models that can explain the predictors of employee turnover (Lee & Mitchell, 1994). Furthermore, the most widely used models focus on either *individual-level* predictors of employee turnover, e.g. perception of job security and family issues, or *industry-level* predictors, dealing with labor force composition, unemployment levels etc (Morrell et al., 2004). However, the determinants of employee turnover at the *organizational-level* have received very little attention in the academic world. Still, this field is of great importance as it relates to human resource management and management control; areas where companies can influence employee turnover (as opposed to external, uncontrollable areas on the individual or industry level). As our aim is to understand the measures companies can take to control employee turnover among middle managers as well as how these measures affect the middle managers, we have studied the *organizational-level predictors* of employee turnover.

Furthermore, much of the previous employee turnover literature focuses on companies in the Western World. To our knowledge, previous research on organizational-level predictors of employee turnover on the Chinese labor market is very limited.

### **3.3. Establishing the Theoretical Framework**

The predictors of employee turnover are many and complex. As mentioned in Chapter 2, our ambition is not to cover all areas that an organization can influence to control employee turnover. Our aim has been to identify *three of the most important organizational-level predictors* and limiting the scope of our two research questions to only include these factors. To identify these areas, we have studied several meta-analyses, e.g. Cotton & Tuttle (1986), Shaw (1998), Griffeth et al. (2000) and Mor Barak, Nissly & Levin (2001). In addition we have performed expert interviews and mock interviews. The three factors we have identified are *Compensation and Benefits*, *Organizational Culture* and *Employee Development*. These areas are discussed below. Exhibit 3.2 shows an overview of how these three focus areas were derived.

**Literature Review; Expert and Mock Interviews**

| Cotton, Turtle  | Shaw  | Griffeth, Hom, Gaertner   | Mor Barak, Nissly, Levin  |
|---|---|---|---|
| <ul style="list-style-type: none"> <li>▪ Pay (*)</li> <li>▪ Job performance</li> <li>▪ Role clarity</li> <li>▪ Task repetitiveness</li> <li>▪ Overall job satisfaction</li> <li>▪ Satisfaction with pay (*)</li> <li>▪ Satisfaction with work itself</li> <li>▪ Satisfaction with supervision (**)</li> <li>▪ Satisfaction with co-workers (**)</li> <li>▪ Satisfaction with promotional opportunities (***)</li> <li>▪ Organizational commitment (**)</li> </ul> | <ul style="list-style-type: none"> <li>▪ Average pay (*)</li> <li>▪ Benefits (*)</li> <li>▪ Job stability</li> <li>▪ Training (***)</li> <li>▪ Procedural justice</li> <li>▪ Electronic monitoring</li> <li>▪ Performance appraisal (***)</li> <li>▪ Time on the road</li> <li>▪ Selection ratio</li> <li>▪ Selection procedures (***)</li> </ul> | <ul style="list-style-type: none"> <li>▪ Leadership (**)</li> <li>▪ Supervisory satisfaction</li> <li>▪ Leader-member exchange(**)</li> <li>▪ Work group cohesion (**)</li> <li>▪ Co-worker satisfaction(**)</li> <li>▪ Stress (**)</li> <li>▪ Role clarity</li> <li>▪ Role overload</li> <li>▪ Role conflict</li> <li>▪ Overall stress</li> <li>▪ Promotional chances (***)</li> <li>▪ Participation</li> <li>▪ Instrumental communication</li> <li>▪ Job content</li> <li>▪ Job scope</li> <li>▪ Routinization</li> <li>▪ Work satisfaction</li> <li>▪ Job involvement</li> </ul> | <ul style="list-style-type: none"> <li>▪ Training (***)</li> <li>▪ Workload</li> <li>▪ Value conflict (**)</li> <li>▪ Physical comfort</li> <li>▪ Challenge</li> <li>▪ Financial reward (*)</li> <li>▪ Promotion (***)</li> <li>▪ Role conflict</li> <li>▪ Commitment</li> <li>▪ Values (**)</li> <li>▪ Self-esteem</li> <li>▪ Coworker support</li> <li>▪ Supervisor support (**)</li> <li>▪ Social support (**)</li> <li>▪ Direct control</li> <li>▪ Indirect control</li> <li>▪ Role stress</li> <li>▪ Job satisfaction</li> <li>▪ Emotional exhaustion</li> <li>▪ Personal accomplishment</li> <li>▪ Income (*)</li> <li>▪ Team cohesiveness(**)</li> </ul> |

**Expert Interviews**  
Professors, Chambers of Commerce, Swedish Trade Council

**Mock Interviews**

**Identifying Three Main Focus Areas**

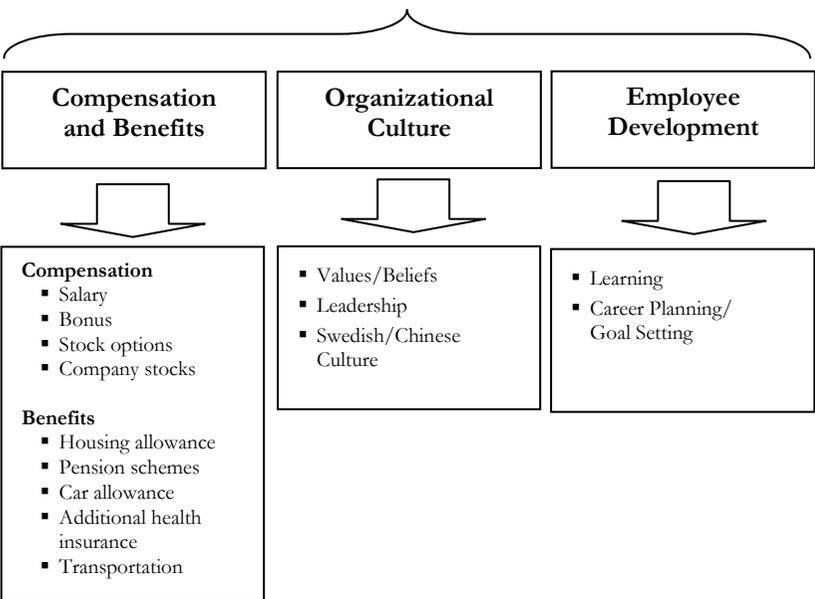


Exhibit 3.2

(\*) = Compensation and Benefits; (\*\*) = Organizational Culture; (\*\*\*) = Employee Development

### **3.4. Compensation and Benefits**

Compensation is defined as “cash and non-cash remuneration provided by an employer for services rendered” (American Compensation Association, 1995). Compensation has several purposes, but the main purpose is to attract and retain employees (Zobal, 1998). Lawler (1996) finds that compensation is a powerful tool as it impacts everyone in the organization.

Feldman & Arnold (1993) conclude that people value their compensation level mainly in contrast to others. This comparison determines whether people feel satisfied with their current compensation level. If an employee considers himself or herself underpaid, it will likely result in frustration. This is confirmed by Wang (2006) arguing that external inequity in compensation is the most common reason for employees to leave their companies.

The relation between compensation and retention is very clear. Cappelli (2000) argues that the most popular retention measure today is a competitive compensation package. However, compensation has a great weakness since it is “easy” for competitors to match the remuneration scheme due to the high level of transparency. Orr (2004) emphasizes the apparent risks of getting caught up in a bidding war; “A company that relies solely on bidding wars to poach experienced managers will quickly find that they can be lured away by offers of even higher-paying jobs.”

There is no one best-practice answer on how to create the optimal compensation and benefit program – every company must adapt its schemes to the employees’ demands, the market levels and the financial capabilities of the company. For example, some listed companies can offer stock options, whereas many private companies cannot. As remuneration is an important strategic tool, companies are often reluctant to disclose their compensation set-up to the outside world for competitive reasons.

On the Chinese market, there is a clear trend of increasing the proportion of performance-related compensation compared to the fixed salary. In the nineties, an average of approximately 20 percent of the salaries of the second level of management was performance-related. Today, this proportion has increased to 35 percent (Job-hopping and its reasons, 2004).

To make this area easier to analyze, we have chosen to call it *Compensation and Benefits*, where compensation is defined as all direct monetary payments, and benefits being the non-financial

and indirect remuneration. Still, some of these compensation types have both monetary and non-monetary aspects.

### **3.5. Organizational Culture**

The Organizational Culture plays a vital role for an organization in retaining employees. Sheridan (1992) proves, for example, that employees in companies emphasizing a culture of inter-personal relations rather than task-orientation have significantly lower turnover rates. But what is Organizational Culture? We use the definition of Mahlberg & Brattström (2006): “the shared beliefs of how problems are to be solved and the common perception of what makes actions meaningful,” which encompasses the values of the organization, how employees are treated and the management style.

The role of the Organizational Culture is a common area of academic debate, with three main views according to Ogbonna & Harris (1998). The first view is that an organization’s culture *can be controlled* by management activity; the second is that cultural change *may occur* only under particular organizational conditions, and the third is that conscious management of Organizational Culture is *unlikely*. Ogbonna & Harris argue that the rationale for cultural management attempts is to gain control and to accomplish the goals of the organization. In this thesis, we hold the first view to be true, namely that the Organizational Culture can be changed and therefore used as a tool for management. This is a prerequisite to regard Organizational Culture as a tool for controlling employee turnover. To further elaborate on this, we focus on three areas: *values and belief systems, leadership, and Swedish and Chinese culture*.

#### **3.5.1. Values and Belief Systems**

Astley & Van de Ven (1983) suggests that the primary role of executives should be to articulate and embody a mission and role for the organization. Simons (1995) discusses belief systems in his renowned *Levers of Control* and argues that the belief system is one of the levers to be used by management. Simons argues that “a belief system is the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization [...]. These core values are linked to the business strategy of the firm.”

Kerr & Slocum (1987) suggest that some organizations have cultures that emphasize values of teamwork, security, openness and respect for individual members and that these values foster loyalty and long-term commitment to the organization among all employees. Sheridan (1998) also argues that the organization's level of respect for people has an effect on the turnover figures of an organization, with a high level of respect leading to low turnover and vice versa. Schneider (1987) suggests that the fit between personal and organizational values is very important for employee retention and that people who do not support the company culture soon leave the organization.

### **3.5.2. Leadership**

Leadership is another cultural dimension, as well as a powerful lever for managers to control employee turnover. The leadership often reflects the shared values of the organization and the leaders are value-drivers. Positive employee attitudes toward firm leadership will be associated with higher levels of firm performance and lower turnover rates (Law et al., 2003). Burton et al. (2000) attributed firm success to the effectiveness of their leaders.

However, almost all prevalent leadership literature is based on Western leadership ideals. These do not take the Asian and Chinese cultures into consideration according to Littrell (2002). He concludes that leaders should nurture the group, be task-oriented, authoritative, and tolerant of uncertainty in order to achieve high employee commitment. A common quote from the Chinese labor market is "Employees join companies, but leave managers" (Wang, 2006), referring to the high degree of personal relations originating from the traditional Chinese culture.

### **3.5.3. Swedish and Chinese Culture**

We use the material of Franke, Hofstede & Bond (1991) and Hofstede & Bond (1988) to understand differences and similarities between the Chinese and the Swedish culture, as they have conducted the most thorough study on different cultural values. Using five dimensions, Hofstede assigns a score to each country, as described below. Since China is not included, we use Hong Kong to approximate the Chinese values.<sup>2</sup> Below is a brief summary of the findings.

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<sup>2</sup> Mahlberg & Brattström (2006) also use Hong Kong as a proxy for China.

*Power distance*, an individuals' relation to social inequality

- Germanic countries less accepting of inequalities in society than China

*Individualism versus Collectivism*, the relationship between the individual and the group

- Sweden is more individualistic than China

*Masculinity and Femininity*, the social implications of being male or female

- Implications are less apparent in Sweden than in China, indicating higher gender equality

*Uncertainty avoidance*, the degree individuals feel uneasy in unknown situations

- Both Sweden and China score rather low on this dimension

*Confucian Dynamism*, related to status, thrift and shame

- China scores high with a culture of face and non-excessive behavior with money, whereas Sweden receives an average score

### **3.6. Employee Development**

Logan (2000) shows that giving employees the opportunity to learn, try new things, and grow as individuals are some of the most critical factors for retaining employees. Rosenwald (2000) also shows that there is a link between instituting learning programs and maintaining a low employee turnover.

The notion of Employee Development involves assisting co-workers to develop in their current role or advance, in order to create job satisfaction and to fulfill their personal goals for the future (Shelton, 2001). It is also important for companies to make sure their employees can access new information and knowledge as quickly as possible and to secure an order of succession (Garger, 1999). Aligning employees with a changing environment and to make sure that all employees are adding value to the company (O'Herron & Simonsen, 1995) is also essential to retain employees.

Although there is no single definition of Employee Development, Shelton (2001) argues that the concept includes learning as well as career planning and goal setting. These parts will be discussed below.

#### **3.6.1. Learning**

Due to rapid technological development and the fact that new information and knowledge are moving faster than ever, learning, rather than training, is becoming more and more important to

be successful on the job (Garger, 1999) and to retain employees. Although important, a higher education cannot substitute continuous on-the-job learning (Gerbman, 2000). When employees need information or knowledge, they often need it instantly. Hence, companies have to make the learning process very flexible and make sure employees can adopt new information and knowledge at any time (Garger, 1999). Intranets and computer based training courses is one way for companies to meet this demand.

Cunniff (2000) argues that knowledge is capital, both for the individual worker and for the company. Individuals should value knowledge in the same way as they value money since they go hand in hand today. Learning has the advantage of improving the overall performance of the employees rather than just skills in performing certain job tasks. Learning, rather than training, will also create a more analytical and critical thinking workforce that is more ample to think differently, and solve new problems in the future (Gerbman, 2000). By offering employees these opportunities to learn and develop, the turnover rate can be lowered substantially (Logan, 2000).

Feldman (2000) argues that companies are controlling and directing employees' careers to a lesser extent today than before. Even though companies are providing development and career opportunities, the individuals are responsible for utilizing these opportunities and positioning themselves for their future careers (Garger, 1999). If the employee possesses broad knowledge and the skill to adopt new skills, he or she will be very marketable. Hence, providing learning opportunities is important in attracting and retaining employees.

### **3.6.2. Career Planning and Goal Setting**

As employees are becoming more responsible for the realization of their own careers, it is essential that organizations provide career planning and signal that they are willing to support the employees to reach their potential and their goals (Moses, 2000). Such career reviews should be forward-looking and distinguished from performance reviews to show an on-going support for the employee (Nunn, 2000).

The purpose of career planning, however, does not only have symbolic value in showing that the employer invests in the employee. As there generally is no clear, linear career path and promotion processes seem intricate and opaque, career planning also becomes an important tool for the employee to find a suitable career path (Moses, 1999).

Employees should view themselves as holders of certain skills rather than holders of certain positions (Moses, 2000). Thereby, they can attain a broader perspective on their career. Nunn (2000) argues that an organization should help employees plan a career they understand and value. First, people must reflect over their identity, work preferences and current skill set. After that, they can identify attractive opportunities and skills needed to attain those positions (Moses, 2000). As a result, employees should have attained a better understanding of their career aspirations and a greater responsibility of how to get there. When employees get appropriate career planning their career opportunities become clearer, which increases their propensity to stay with the employer.

### 3.7. Summary of Theoretical Framework

| Compensation and Benefits   |  | Organizational Culture                                  |   | Employee Development           |  |
|-----------------------------|--|---|---|--------------------------------|--|
| <i>Zobal</i>                | <ul style="list-style-type: none"> <li>• Purpose is to attract and retain employees</li> </ul>   | <i>Sheridan</i>   | <ul style="list-style-type: none"> <li>• Culture as a retention measure could have very high impact</li> <li>• Respect for individuals is highly correlated with retention</li> </ul>                                 | <i>Shelton</i>                 | <ul style="list-style-type: none"> <li>• Employee Development implies development in job role, learning, opportunities to advance and ability to fulfill long-term personal goals</li> </ul>                             |
| <i>Lawler</i>               | <ul style="list-style-type: none"> <li>• Powerful tool as it impacts all employees</li> </ul>  | <i>Ogbonna &amp; Harris</i>                             | <ul style="list-style-type: none"> <li>• Culture can be controlled by management and used for retention</li> </ul>  | <i>Logan</i>                   | <ul style="list-style-type: none"> <li>• Opportunity to learn, try new things, and grow as individuals are critical factors in retaining employees</li> </ul>  |
| <i>Feldman &amp; Arnold</i> | <ul style="list-style-type: none"> <li>• Satisfaction dependent on relative salary levels</li> </ul>   | <i>Astley &amp; Van de Ven</i>                          | <ul style="list-style-type: none"> <li>• Primary role of executives is to articulate mission and the organization's role</li> </ul>   | <i>Rosenwald</i>               | <ul style="list-style-type: none"> <li>• Link between instituting learning programs and low employee turnover</li> </ul>   |
| <i>Wang</i>                 | <ul style="list-style-type: none"> <li>• External inequity in compensation most common reason to leave a company</li> </ul>                                  | <i>Simons</i>   | <ul style="list-style-type: none"> <li>• Belief systems (values, purpose and direction) is a lever of control and can be used for employee retention</li> </ul>   | <i>Garger</i>                  | <ul style="list-style-type: none"> <li>• Letting employees access new information/ knowledge is important to retain employees</li> <li>• Providing learning opportunities is important in retaining employees</li> </ul> |
| <i>Cappelli</i>             | <ul style="list-style-type: none"> <li>• Most popular retention measure today</li> <li>• High transparency is great weakness as retention measure</li> </ul> | <i>Kerr &amp; Slocum</i>                                | <ul style="list-style-type: none"> <li>• Teamwork, security and respect for individuals increase retention</li> </ul>   | <i>O'Herron &amp; Simonsen</i> | <ul style="list-style-type: none"> <li>• Aligning employees with the changing environment lowers employee turnover</li> </ul>  |
| <i>Orr</i>                  | <ul style="list-style-type: none"> <li>• Risk of bidding war</li> <li>• No best practice applying to all companies</li> </ul>                                | <i>Schneider</i>  | <ul style="list-style-type: none"> <li>• Fit between individual and organizational values is an important retention factor</li> </ul>   | <i>Gerbman</i>                 | <ul style="list-style-type: none"> <li>• Higher education cannot substitute continuous on-the-job learning</li> </ul>  |
|                             |  | <i>Law et al.</i>                                       | <ul style="list-style-type: none"> <li>• Positive attitudes towards management is associated with higher firm performance</li> </ul>  | <i>Cunniff</i>                 | <ul style="list-style-type: none"> <li>• Learning will create an analytical workforce more ample to solve new problems</li> </ul>  |
|                             |  | <i>Litrell</i>  | <ul style="list-style-type: none"> <li>• Most studies performed in Western cultures</li> <li>• Leaders should be task-oriented, authoritative, and tolerant of uncertainty</li> </ul>                                 | <i>Feldman</i>                 | <ul style="list-style-type: none"> <li>• Companies are controlling/ directing employees' careers to a lesser extent today</li> </ul>   |
|                             |  | <i>Franke, Hofstede &amp; Bond, Hofstede &amp; Bond</i> | <ul style="list-style-type: none"> <li>• Chinese culture is more accepting of inequalities, less individualistic and more "masculine" than Swedish culture</li> <li>• Concept of "face" important in China</li> </ul> | <i>Moses</i>                   | <ul style="list-style-type: none"> <li>• Organizations should provide career planning to help employees find a suitable career and to signal their support in order to lower employee turnover</li> </ul>                |
|                             |  |   |   | <i>Nunn</i>                    | <ul style="list-style-type: none"> <li>• Organizations should help employees plan a career they understand and value</li> </ul>  |

Exhibit 3.3

## 4. Empirical Data



*This chapter contains a presentation of the empirical data we have collected. First, we give a general background of the topic, based on expert interviews. Then, we present the findings from our case companies, including both the qualitative interviews and the quantitative survey. Each company is presented separately.*

### 4.1. Overview of Case Companies

|                                       |   |   |   |  |   |   |
|---------------------------------------|---|---|---|--|---|---|
|                                       |  |  |  |  |  |  |
| <b>Industry</b>                       | Mobile communications   | Manufacturing   | High technology   | Language education   | Retail  | Home appliances   |
| <b>Year of establishment in China</b> | 2002  | 1988  | 1996  | 1994   | 1998  | 1996  |
| <b>Employees in China</b>             | 600   | 2,800   | 240   | 750  | 1,750   | 2,000   |
| <b>Offices in China*</b>              | BJ, SH, HK, CD  | Sales has 11 rep. offices in China  | SH  | SH, BJ, GZ, SZ   | SH, BJ, CD, GZ, SZ  | BJ, SH, CD, NJ, HZ  |

\* Abbreviations: BJ=Beijing, SH=Shanghai, HK=Hong Kong, GZ=Guangzhou, CD=Chengdu, NJ=Nanjing, HZ=Hangzhou, SZ=Shenzhen.

\*\* One of their main products was terminated

*Exhibit 4.1*

### 4.2. General Empirical Background

To gain a better understanding of the research topic, we conducted a number of interviews with experts in the fields of Chinese business and human resource management. These experts were Mats Harborn, Chairman of the Swedish Chamber of Commerce in China; Zhang Jin, Professor at Tsinghua University in Beijing; Steve Mullinjer, General Manager of executive search company Heidrick & Struggles in China; and Fredrik Hähnel, Vice President at SEB Merchant Banking in Shanghai.

We also interviewed Candice Wang, and Charles Yang, MBA students at Tsinghua University, to get a better understanding of the students' views.

In addition, we interviewed Diana Niu, Emily Liu and Benoit Rimaz, all senior managers at Volvo Group in China. Initially, our intention was to include Volvo in our group of case companies, but as several of our interviews were cancelled, we did not have enough empirical

data to include Volvo. Instead, we took the opportunity to pose some general questions. These more general aspects of the Chinese labor market touched upon in the interviews have been included in this section.

All these interviews have yielded several important insights regarding middle management turnover, which we would like to introduce before presenting the six case studies. The first area of importance pertains to the Chinese market in general, the second is related to the company's performance, the third describes industry differences, the fourth covers the importance of brand and ownership structure, and the fifth area deals with Swedish management in China. These factors are important for understanding the turnover situation, but are not necessarily under the companies' control.

#### **4.2.1. The Immature Chinese Market**

Magnus Johansson, General Manager of SKF in Shanghai, describes the Chinese market as immature. The fact that Chinese people have been able to apply freely to companies for only 13 years inevitably contributes to this conclusion. He believes it will take 20-30 years for the market to mature. Rimaz emphasizes that China has not had a recession since the economic reforms in 1978. He comments that people are not careful since they do not understand the risks. Employees who have jumped from company to company will be viewed as disloyal and become unmarketable if a recession hits China, Rimaz warns. For young people, this risk is difficult to understand. Employees will only be concerned about keeping their jobs when they have experienced a true recession, Rimaz concludes. Zhang points out that people without ample work experience do not understand the importance of working for a company with a strong culture. This can explain why young professionals value salary increases higher than more senior managers, and therefore have a higher propensity to change jobs. Hähnel believes that the issue of job-hopping Chinese managers is likely to remain since the number of foreign companies will most likely increase, which will fuel the hot labor market.

#### **4.2.2. Company Performance**

Another factor frequently recurring in our expert interviews is the importance of company success, i.e. financial profits, sales growth or high levels of recruitment. This is an important factor since well-performing companies can afford to have higher salaries and offer greater career development opportunities. These levers cannot be used directly by management to lower

turnover – a company is always trying to achieve business success in the long run – but this factor is nonetheless critical in explaining why some companies have lower turnover figures than others.

### **4.2.3. Industry Differences**

Companies in different industries also have different average turnover figures. According to Liu, companies with strong sales forces have higher turnover. This is due to the nature of the job as salesperson, which is very demanding and stressful according to Liu. To get a fair benchmark, companies must measure their turnover in relation to other companies in the same industry and not to the entire labor market.

### **4.2.4. Importance of Company Brand and Ownership Structure**

A third company specific factor affecting turnover is the brand strength. This makes it easier for companies with a strong consumer brand (such as IKEA) to retain staff, compared to less well-known industrial companies. Further, the ownership structure also affects retention. Wholly-owned foreign enterprises are more attractive than joint ventures according to Rimaz, as this affects the degree of freedom and job design for managers in the organization. Niu goes on to explain that companies listed on the stock market have an additional opportunity to retain managers in offering company stock and options.

### **4.2.5. Swedish Management in China**

Harborn suggests that companies recruit more women and older employees as these seek more stability and are less likely to frequently change jobs. The Swedish management style appears to be ideal for Chinese employees, Harborn argues. One of Sweden's largest companies used to have a turnover of 20 percent in China. But when they changed their American and Chinese managers to Swedish managers, the turnover figures dropped substantially. This, Harborn argues, is one of many examples proving that the Swedish management style has positive effects on turnover. Zhang says that Swedish (and other northern European) companies have a diametrically different view on work life balance and culture compared to Chinese, Japanese or American firms; a fact well-known and appreciated by Chinese people applying for jobs.

On the other hand, having too many expatriates in an organization can also be detrimental for turnover. Wang expresses that Chinese managers often perceive a cultural “glass ceiling” below the top management level of expatriates. Mullinjer uses an airplane metaphor to describe how the expatriate ratio relates to Chinese managers. Both are flying to the same place (i.e. doing the same jobs), but expatriates are flying first class and the Chinese are flying economy. “If someone offers the Chinese a free business class upgrade, of course they’ll take it,” Mullinjer explains.

### **4.3. Case Company Backgrounds**

In this section, we provide a brief introduction to the six case companies and their businesses in China. In Chapter 4.4, we will present the empirical findings relating to Q1 and Q2.

#### **4.3.1. Sony Ericsson**

Sony Ericsson, a joint-venture between Swedish LM Ericsson and Japanese Sony, was founded in 2001. The company’s mission is to establish Sony Ericsson as the most attractive and innovative global brand in the mobile handset industry. The global management is located in London and the company has R&D and production operations in Sweden, Japan, China, the US and the UK. Global turnover in 2005 was over SEK 65 billion.

Sony Ericsson established its China operations in 2002. The 600 employees are working in offices in Beijing, Shanghai, Chengdu and Hong Kong.

#### **4.3.2. SKF**

SKF, the internationally well-known producer of rolling bearings, seals, mechatronics, services and lubrication systems, was founded in 1907. In 2005, the company had more than 38,000 employees in 70 countries generating revenues of over SEK 49 billion.

SKF established its China operations in 1988. With a total staff count of 2,800, the company has eleven offices in China. The sales growth in China is strong; 20–30 percent according to company figures.

### **4.3.3. Ericsson Simtek**

Ericsson Simtek is a leading supplier of power solutions. The company focuses on the communication industry for advanced applications such as switches, routers and radio base stations. Ericsson and Shanghai Simtek established Ericsson Simtek as a joint venture in 1996. Since then, Ericsson has gradually increased its ownership in the company from 51 percent in 1996 to 90 percent in 2006. Today, the company has 240 employees.

### **4.3.4. EF**

EF, short for Education First, is the world's largest private education company. The company was founded in 1965 by Bertil Hult. EF offers on-line language courses, traditional language schools, cultural exchange programs and cultural tours. Today, the company has 3,000 office workers and 22,000 teachers in more than 100 offices in 50 countries.

EF established their operations in China in 1994. Today, the company has a total of 750 employees. In 2006, the revenues grew by an impressive 65 percent and the company is about to hire an additional 600 employees over the next twelve months.

### **4.3.5. IKEA**

IKEA was founded in 1943 by Ingvar Kamprad and today IKEA offers a wide range of functional and low-priced home products, including furniture accessories, bathrooms and kitchens. These products are sold in 273 retail stores in 35 countries. The company has more than 110,000 employees world-wide, and had revenues of over SEK 160 billion in 2006.

The first store in China opened in 1998. Today, IKEA has three wholly-owned stores in Beijing, Shanghai and Chengdu, and two franchise stores in Guangzhou and Hong Kong. However, we have chosen to study only the three wholly-owned IKEA stores as information is much easier to access for these stores. The current expansion plan is very aggressive and the company is planning to open 25 new stores in China over the next 10 years.

**4.3.6. Electrolux**

Electrolux was founded in 1915 and is today one of the world’s leading manufacturer of home appliances, such as fridges, freezers, dishwashers, washing machines and vacuum cleaners. In 2005, 57,000 employees in 150 countries generated sales of roughly SEK 100 billion.

Electrolux started its China operations in 1995 and had 2000 employees in 2006. The company has had profitability problems in China and has not made a positive result since the establishment. The company has also undergone several major organizational restructurings.

**4.4. Case company findings**

Each case review follows the same structure and consists of four parts: Company Background, Compensation and Benefits, Organizational Culture, and Employee Development. For each sub-category in each company, the empirical data has been separated into Q1 and Q2 in order to increase clarity. All companies and interviewees are anonymous.

Exhibit 4.2 below explains the structure and data sources for the presentation of our empirical findings. Each area in each case study presentation has been split up into data relating to Q1 and Q2 respectively.

|    | <b>Research question</b>  | <b>Input type</b>             | <b>Empirical source</b>   |
|----|---|-------------------------------|---------------------------|
| Q1 | <i>What measures are Swedish companies in China taking to control the level of employee turnover among middle managers?</i> | Qualitative Interviews        | Swedish Managers          |
|    |   | Qualitative Interviews        | HR Managers               |
| Q2 | <i>How are these measures affecting the middle managers’ propensity to leave their companies?</i>                           | Qualitative Interviews        | Middle Managers (Chinese) |
|    |   | Quantitative Web-based Survey | Middle Managers (Chinese) |

*Exhibit 4.2*

**4.4.1. Company A**

**Turnover situation**

In 2006, the employee turnover among middle managers was 0.45 percent. The industry average is 12 percent according to the HR Manager. Since the company initiated the HR function last year, there are no historical turnover numbers available. She says that the level of turnover varies

among the company's divisions. The Shanghai factory had 20 percent total turnover last year due to recent restructuring whereas other factories have significantly lower turnover.

The company's General Manager (GM) in China does not think that management turnover is a big problem. She stresses that the important issue is who stays and who leaves. If a key employee leaves without any replacement arranged, the company may suffer greatly. She talks about the chimney effect implying that some people have to leave the chimney for other employees to climb the organizational ladder.

### **Compensation and Benefits**

#### *Measures by company (Q1)*

The GM explains that the company's ambition is to pay "market competitive" salaries, but she does not know how well the company ranks on the market in terms of salary levels. Both she and the HR Manager agree that US firms pay higher salaries, but point out that Company A aims to create a more long-term oriented commitment with its employees and managers. One measure to achieve this objective is to use retroactive sign-on bonuses. The compensation and benefits package consists of fixed monthly, variable monthly and variable annual parts. The variable compensation constitutes about 30 percent of the total package. The HR Manager mentions additional medical insurance and housing allowances as the main benefits offered to managers.

A recent initiative by top management was to implement a Key Position Holders Program, where the 100 most important people are being acknowledged publicly and offered a higher salary. As the program is relatively new, the GM thinks it is too early to evaluate its effects on turnover.

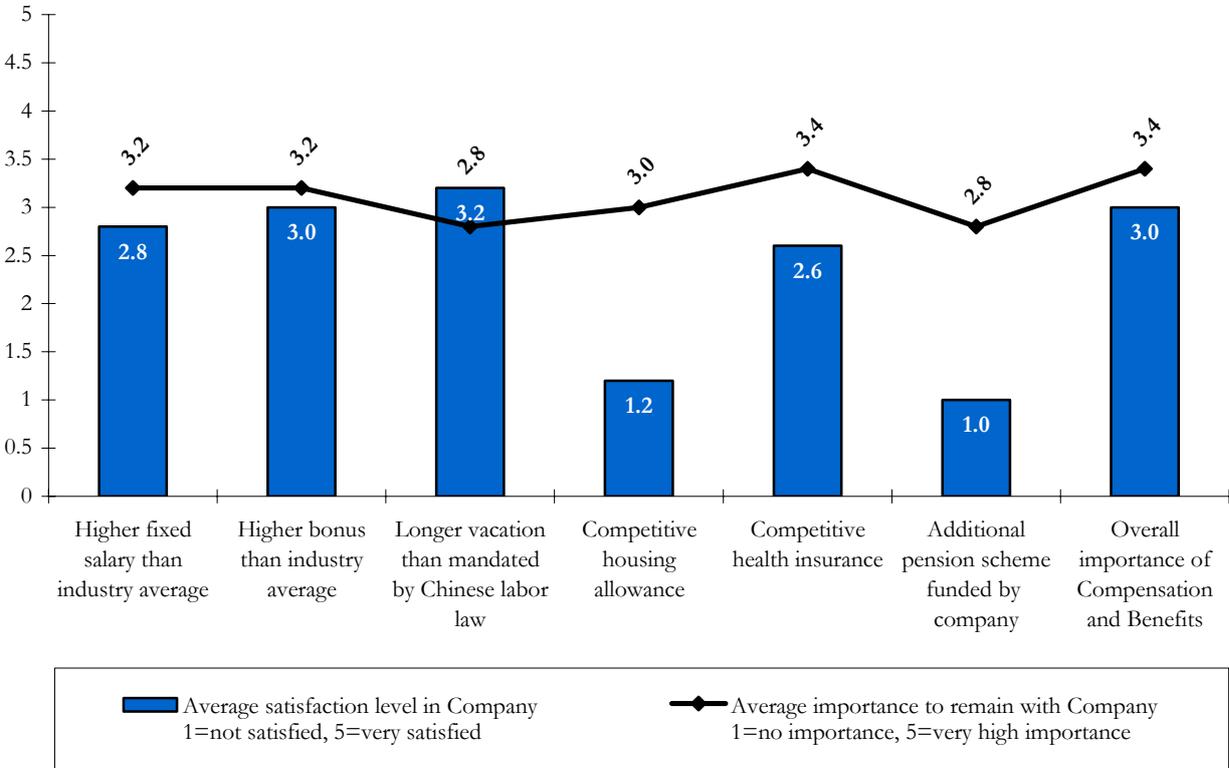
Another opinion shared by both the GM and the HR Manager is that there is no room for salary negotiation if a manager is offered a job with another firm. That would imply that their current salary is too low, which is a signal they try to avoid.

#### *Effects on retention (Q2)*

Middle managers also believe that salaries at Company A are in the "middle segment compared to other international companies." Generally, the managers do not attach great importance to compensation and benefits. One manager expresses that "pay is just one component; I look at the total package." The managers generally believe that a 30-50 percent salary increase would make another job offer interesting to consider. Below this level it would not be worthwhile to

change. One manager says that “even with 1,000 percent increase I’m staying with [Company name]!”

Results from web-based survey (Q2)



No of respondents: 5

Exhibit 4.3

**Organizational Culture**

Measures by company (Q1)

The GM strongly acknowledges the strategy of using culture as a control mechanism to retain employees. She carefully seeks to only recruit people who share the company’s values. “People can always learn skills and acquire competencies while the attitude is more difficult to change,” she says. In recruitment situations, she spends a lot of time explaining the company culture, since few interviewees ask about this spontaneously. She describes the culture as informal and fun. The HR Manager adds open, empowering and team-oriented to the description.

The GM describes the company’s values in the following way:

*Everyone wants to work for a company that respects you, appreciates your work, promotes your development, provides you with influence on your working situation, share the values of the company, and on top of that – gives you a fair remuneration!*

Even though Company A's Group CEO is British, top management in China works to instill a Swedish company culture, called the "[Company name] style."

The GM comments:

*Being a foreign manager in China is very challenging. To bridge these cultural gaps we actively encourage foreign expatriates to enroll in training programs to get them accustomed to the Chinese culture.*

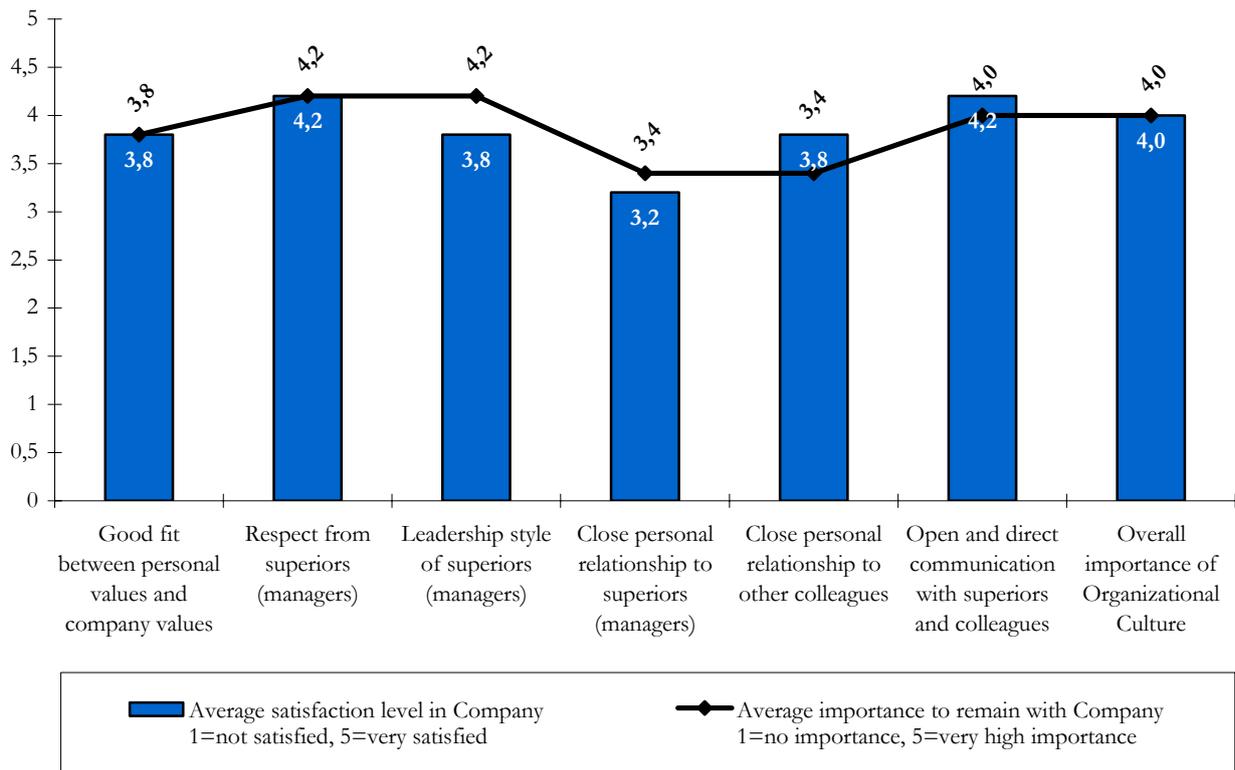
To further enforce the company culture, Company A arranges events such as birthday and wedding parties for employees. The GM also tries to create a flat atmosphere in the organization by urging everyone to use the Swedish first name policy.

#### *Effects on retention (Q2)*

The middle managers perceive the culture as caring, open and flat. The relaxed atmosphere marked by respect for the employees is generally much appreciated by the managers. All of the middle managers mention the relation and communication with their managers as one of the most important factor in their choice to stay with the company. The sometimes strained relationship between expatriate managers and local employees is mentioned as a reason why some employees recently quit.

One middle manager perceives the culture as slow, with decision making as the biggest time thief. One manager says that "In China you need quick decisions. At [Company name], we have a lot of people involved in decision-making but the process is very slow."

*Results from web-based survey (Q2)*



No of respondents: 5

*Exhibit 4.4*

**Employee Development**

*Measures by company (Q1)*

The HR Manager mentions personal development opportunities as one of the strongest aspects of Company A’s retention strategy. The GM’s strives to give employees energy and opportunities to grow. More specifically, she uses processes, programs and policies to control the personal development of her employees. She adds:

*I actively try to let Chinese managers attend meetings, present their work for top management and make them feel as they are members of a privileged group.*

Company A recently opened a college outside Shanghai since the company was growing so fast in China. However, Johansson is still sending many managers to Sweden to give them international exposure and personal development.

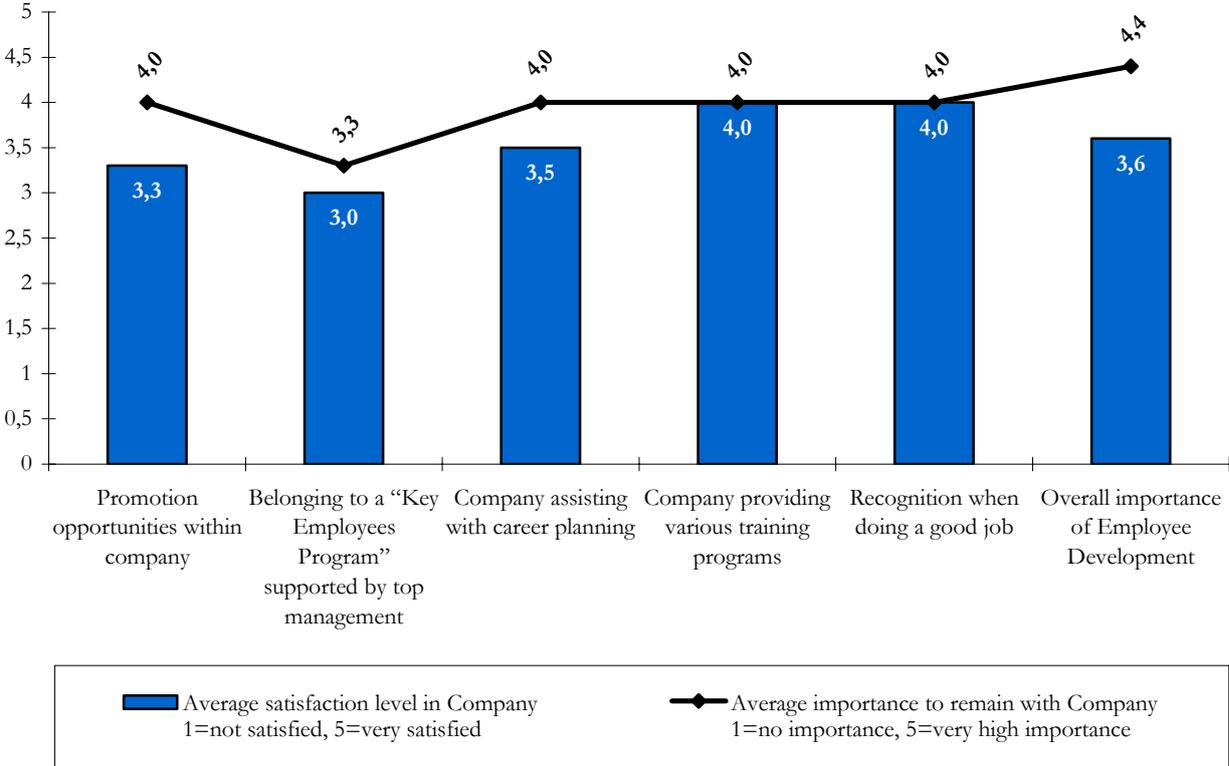
All managers (and other employees) hold performance appraisal talks where competence strengths and gaps are identified. The competences and gaps are matched against the development and needs of the organization, and a personal development plan is subsequently put in place.

*Effects on retention (Q2)*

One of the middle managers explains that she has a five-year plan, and that top management has explained their clear vision for her future in the company. In general she is satisfied with her development opportunities.

Another middle manager thinks the system for personal development is working well. She says that the company pushes her to take on new challenges and constantly develop, while at the same time giving her great flexibility in her career development. There is also an ongoing discussion between managers and employees on how discontent can be voiced.

*Results from web-based survey (Q2)*



No of respondents: 5

*Exhibit 4.5*

## 4.4.2. Company B

### Turnover situation

Company B had six percent middle management turnover in 2006, which can be compared to the industry average of 14 percent (Hewitt, 2006). The HR Manager explains:

*This year's high turnover can be explained by that some of the new recruits [...] left us shortly after they joined. This is usually the case; the people who quit have only been with us for a short while. And for the most part, the people we lose never adapted to our culture and values. Losing these employees is perhaps not all that bad.*

Although the employee turnover is not considered to be a problem, the issue receives great attention from top management. The Swedish Manager says that the company cannot afford to lose any of their managers since they are growing so fast.

### Compensation and Benefit

#### *Measures by company (Q1)*

For the middle managers in Company B, the main part of the compensation is fixed, but there is a variable part depending on the performance of the whole store. The maximum bonus is equal to a month's salary, i.e. about 8 percent. Company B offers a few benefits apart from those mandated by Chinese law and all employees have the same benefits. These are 10 percent housing allowance, medical insurance for the employee and his or her family, and five days additional vacation for employees with a tenure longer than five years. Also, there is a long-term performance based bonus system which relates to the last five years' performance. The HR Manager describes the system:

*We offer an average compensation package compared to competitors, and we have no ambition to compete with salaries. We do not offer the highest salaries, but offer our employees many other things. Some companies only offer high salaries and do not give a damn about the rest. It all depends on how you choose to allocate your resources.*

Even though Company B offers average salaries and ties compensation to specific positions, the HR Manager emphasizes the importance of being flexible in the setting of wage for key employees. However, Company B rarely matches the compensation package when employees are offered new jobs at other firms.

*Effects on retention (Q2)*

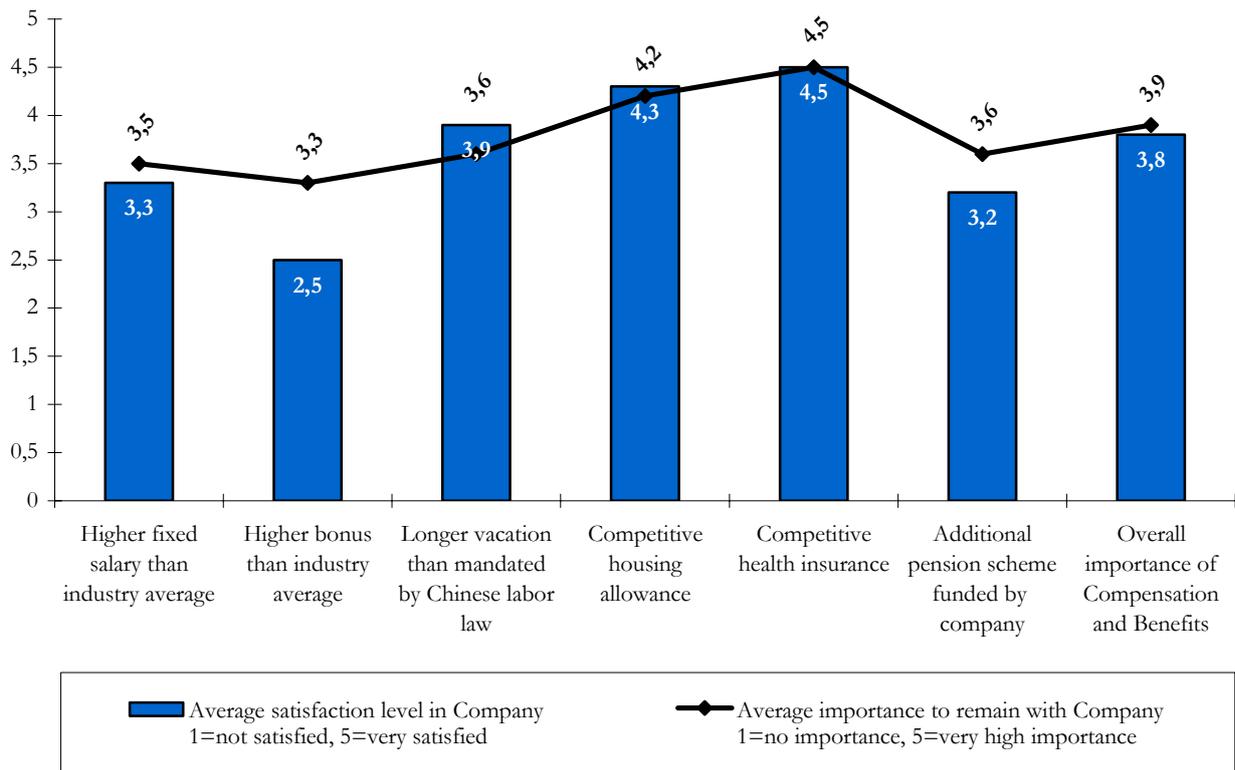
Three middle managers agree with the fact that Company B is paying average-level salaries compared to other companies in the retail industry, whereas one middle manger believes that the company is paying more than the industry average. One middle manager explains:

*[Company name] is not competing with salary. Competitors offer much higher salaries but are also much stricter, harsher and more demanding than [Company name]. If you work for these companies, you lose your freedom and dignity and have to work unreasonably hard.*

In general, all middle managers state that they are satisfied with the total compensation package, although none of them regard it to be the most important factor to stay with the company. Two of them, however, acknowledge that some of their colleagues have left the company because they were offered higher salaries.

Two of the managers are particularly satisfied with the 10 percent housing allowance and the extended vacation. One manager would like to increase the variable compensation as this would create more incentives for employees to perform well. Two other managers, however, think that the proportion of variable salary is satisfactory. As the industry in itself already is very stressful, they argue that a larger variable compensation would put too much stress on the employees. Furthermore, all managers assert that they would not consider a similar job in another company unless they were offered a 100 percent salary increase.

Results from web-based survey (Q2)



No of respondents: 13

Exhibit 4.6

**Organizational Culture**

*Measures by company (Q1)*

The HR Manager emphasizes the importance of the company culture in retaining employees. She says that the culture is an active instrument to attract, retain and develop employees. The [Company name] Way describes the company values and “how things should be done.” She gives a general description of the company and its values:

*The [Company name] culture is marked by openness, flatness and honesty, meaning that any employee can speak his mind, raise issues of any kind, and question superiors. As for the communication between co-workers and managers, no company can be compared to [Company name]. We are outstanding! [Company name] is also very equal in the sense that all employees have the same rights, the same obligations and wear the same clothes. Being humble and respectful are other important cultural traits.*

The HR Manager says that the [Company name] Way is set up in a way it can be adopted all around the world and that the company culture is very similar regardless of country. However,

she explains that they had to make some adoptions of the company culture and values in order for it to fit with the Chinese culture:

*We had to change the notion of 'honesty' as that word was sending wrong signals to the employees. In Chinese, 'honesty' means not doing anything illegal rather than being sincere, so we changed it to 'straightforwardness'. 'Learning from mistakes' is probably the value that our Chinese co-workers find most difficult to adapt to as admitting a mistake collides with the Chinese culture. We have worked hard to get our co-workers to accept this value.*

#### *Effects on retention (Q2)*

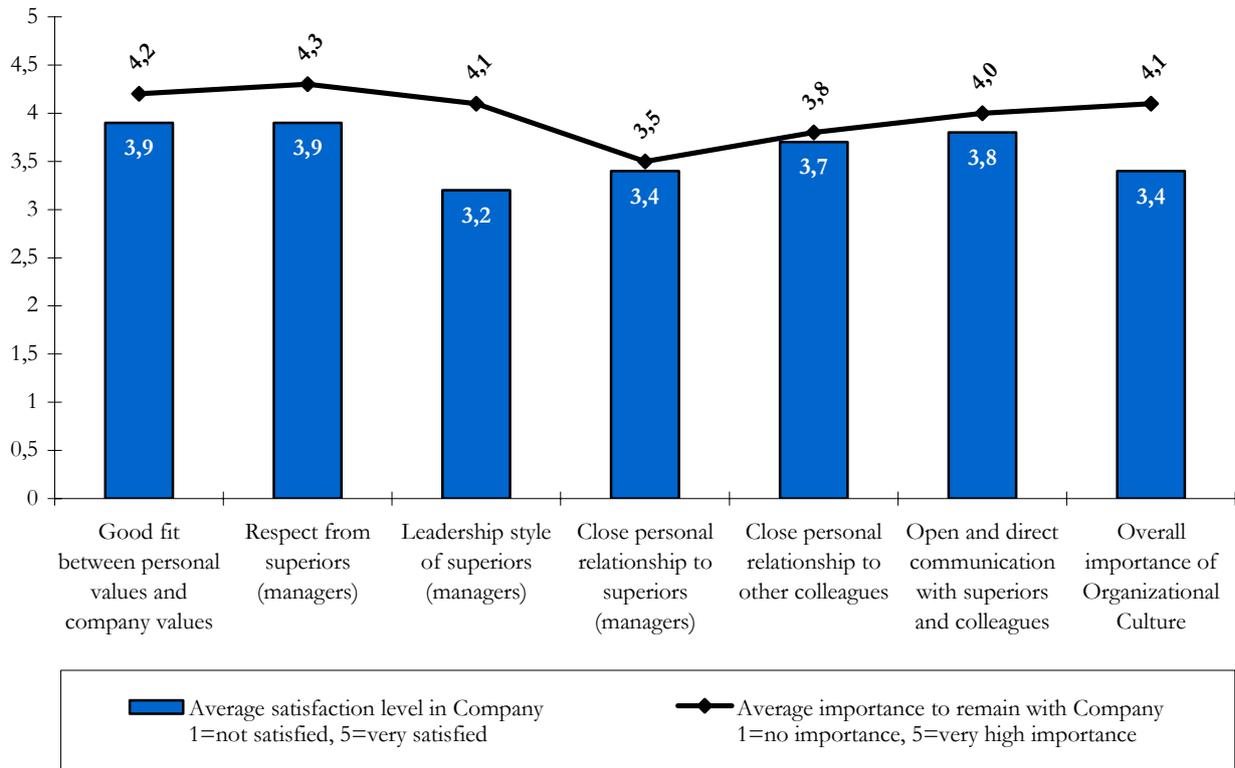
The middle managers description of the culture is similar to the HR Manager's. In general, they are all very satisfied with the company culture and one manager says that several of her colleagues have rejoined Company B because of the corporate culture. Two of the managers say that they had not realized how important the company culture is until they got their jobs at Company B. All managers stress that their superiors are very supportive and coaching and that they give very few orders. Another manager adds that the company culture is very down-to-earth and that the company truly cares about its employees.

Some of the managers mention differences between the traditional Chinese culture and the culture at Company B. Straightforwardness, less focus on obedience, and a more relaxed working atmosphere are examples of such differences. These dissimilarities are not looked upon as problems but rather as differences that take time to get used to. One manager, however, says that the high level of straightforwardness can be problematic as people may be offended or insulted when receiving very straight and honest remarks.

Another issue raised is that the company may be *too* flat and *too* equal. One manager explains:

*Having to wear overalls and dealing with upset customers in the store is not fancy enough for some people. [...] And the atmosphere in the store can be very stressful and demanding.*

Results from web-based survey (Q2)



No of respondents: 13

Exhibit 4.7

## Employee Development

### Measures by company (Q1)

The HR Manager enthusiastically points out that personal development opportunities is “the big thing” in Company B. “We will help each and every employee to reach their goals, whatever their goals may be,” she says. International opportunities and functional job rotation are strongly promoted. She stresses that “you can try anything you want in [Company name].”

All employees have their own career development plan and a career coach. In addition, all co-workers have two semi-annual development talks and monthly discussions with their coach. Company B also works hard to encourage day-to-day feedback rather than sporadic accumulated feedback.

Furthermore, Company B has a broad set of training programs for all levels and positions. One of the most important programs is the Group Development Program aiming at developing

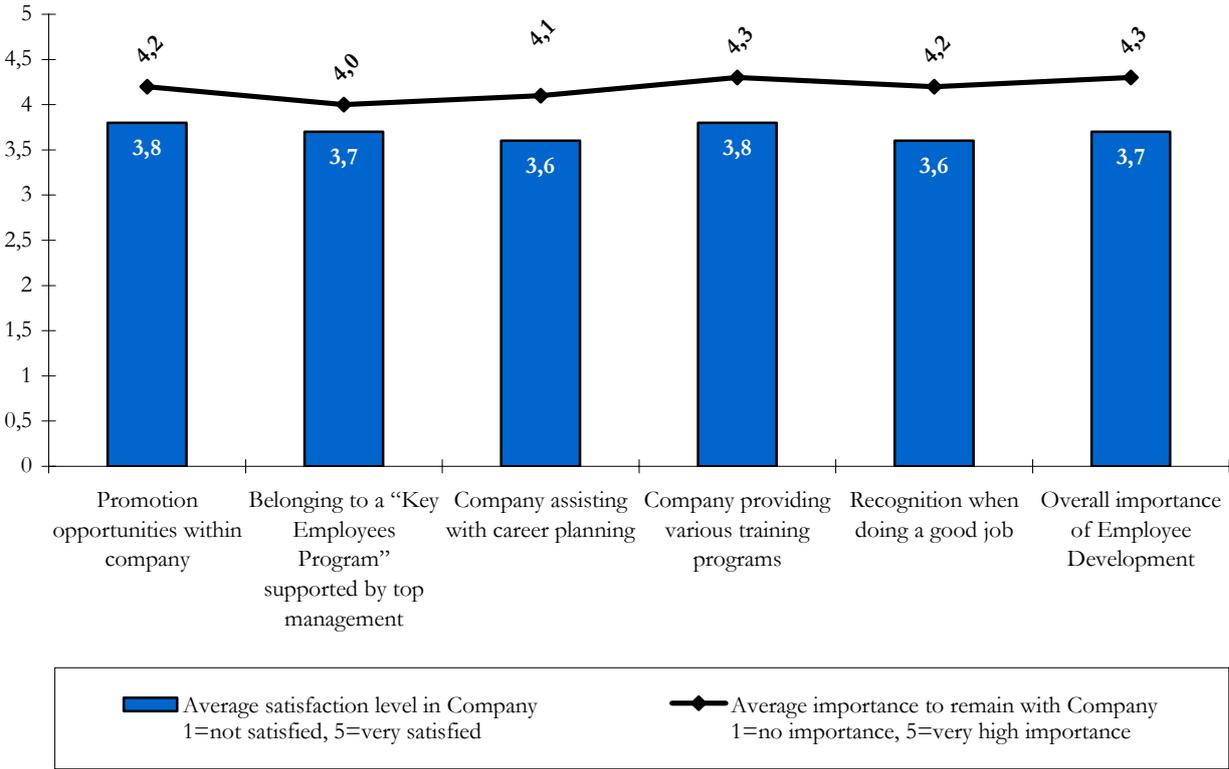
leaders. Apart from class room teaching, learning by doing and close mentor relationships are also important parts of the program.

*Effects on retention (Q2)*

Three middle managers clearly state that their development opportunities are the most important factor in their choice to stay with Company B. Opportunities to find the right position as well as to learn and grow are stressed by several managers. So is the extensive coaching and encouragement by superiors. One manager says “The encouragement from my managers is the most important thing. It gives me great confidence and my development has been tremendous.”

Three middle managers also clearly state the growth of the firm as an important aspect in their choice to stay with Company B. The growth indicates that there are great opportunities and that it is easy to visualize an attractive career path going forward.

*Results from web-based survey (Q2)*



No of respondents: 13

*Exhibit 4.8*

### 4.4.3. Company C

#### Turnover situation

The company has managed to keep the overall turnover level at 4-5 percent. The HR Manager, comments that only one manager voluntarily left the company this year, which can be compared to the industry average of 10 percent (Hewitt, 2006). She adds that the turnover has been stable for the past two years. A Swedish Manager explains that one factor strongly contributing to the low turnover is that the Company C is the fastest growing company in its industry in China.

#### Compensation and Benefits

##### *Measures by company (Q1)*

The compensation package offered to Company C's middle managers is fairly standardized. Beyond the fixed monthly salary, middle managers can earn 1-3 additional monthly salaries depending on how well individual and firm performance targets are met. The benefit package includes a 10 percent housing allowance as well as a transport allowance. Insurance schemes, on the other hand, follow the statutory standards. The salaries for managers are lower than the corresponding salaries of an American competitor, but the company aims to be "in the 50<sup>th</sup> percentile," according to the HR Manager. The Swedish Manager comments:

*We manage to get the people we want without paying them more than our competitors, and lately we have even been able to pay less. But there is some room for flexibility if a strongly performing manager receives an offer from another company.*

She further explains that a Taiwanese competitor raised salaries for managers with 80 percent but still lost many people due to poor business performance. She believes that the salary level is important for retention but not the most important factor.

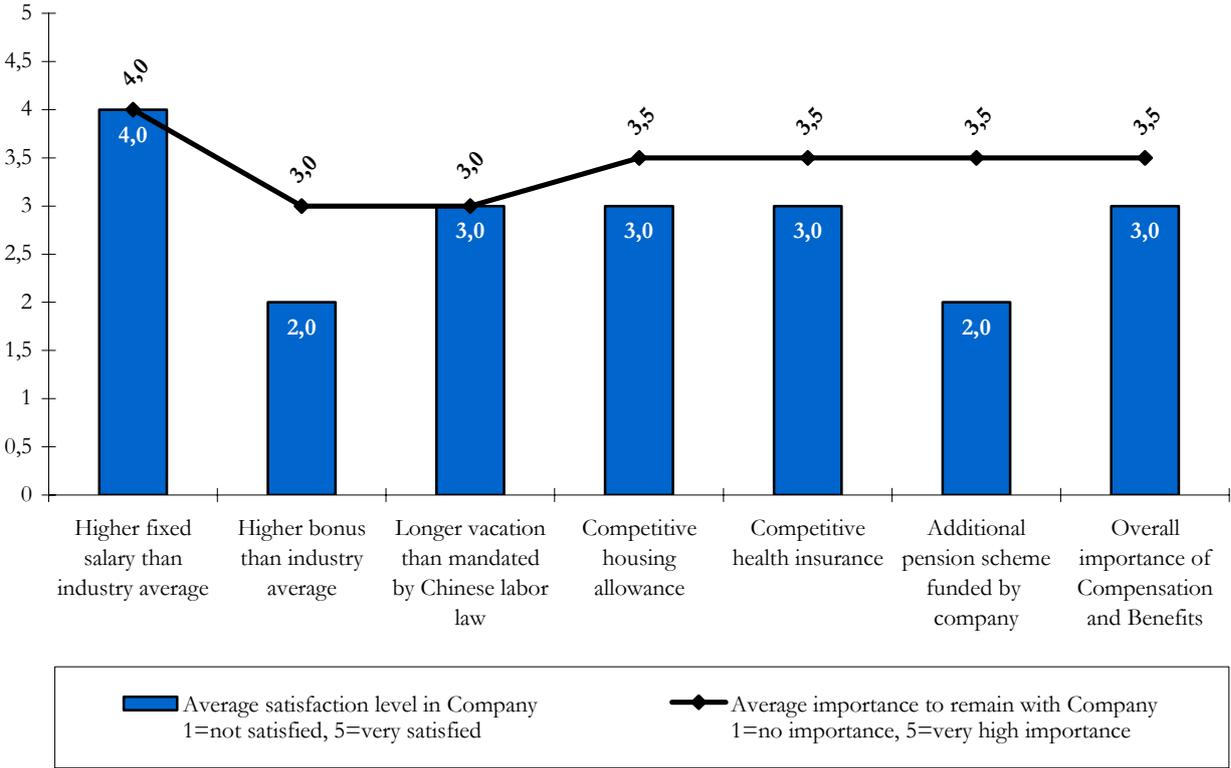
##### *Effects on retention (Q2)*

The middle managers seem somewhat unsatisfied with the compensation level at Company C. All middle managers think that the salary level is too low. One of the managers declares:

*I could get a much higher salary at many of our competitors. And the variable compensation is much too low. Even if I try my best and achieve great results, I still get the same pay as if I wouldn't.*

Compensation is mentioned as a reason why managers have left the company in the past. In contrast, the salary level does not seem to be a determining factor in the middle managers choice to stay or move on. One manager explains that she does not work at Company C for the compensation but rather for the personal development and learning opportunities. In general, managers would consider changing jobs if they were offered a 50 percent salary increase.

Results from web-based survey (Q2)



No of respondents: 2

Exhibit 4.9

**Organizational Culture**

Measures by company (Q1)

According to the Swedish Manager, the three strongest values in Company C are respect, passion for success and innovation. The HR Manager further uses *energetic*, *open* and *personal* to describe the company. Even though the parent companies are Swedish and Japanese, the company has promoted a “European” culture across the organization, according to the Swedish Manager. She points out that the young company has managed to free itself from the cultural heritage of Ericsson and Sony to create a culture of its own. Further, she stresses that Company C tries to create a company that is more pleasant to work for than competitors.

The Swedish Manager believes that the management style is an important retention factor. The management is influenced by “delegation and respect, but sometimes seen as relaxed and slacking,” according to her. She tries to influence the managers to be open for comments and criticism from their subordinates, even though this is uncommon in China. “It’s easy to be a manager in China – no one questions what you say and do, whereas in Sweden they question everything,” the Swedish Manager concludes. Therefore, she adds, management is trying to create a company culture that fits well with the *new* China.

*Effects on retention (Q2)*

One of the middle managers with previous experience from working for an American competitor expresses her content with Company C’s European culture:

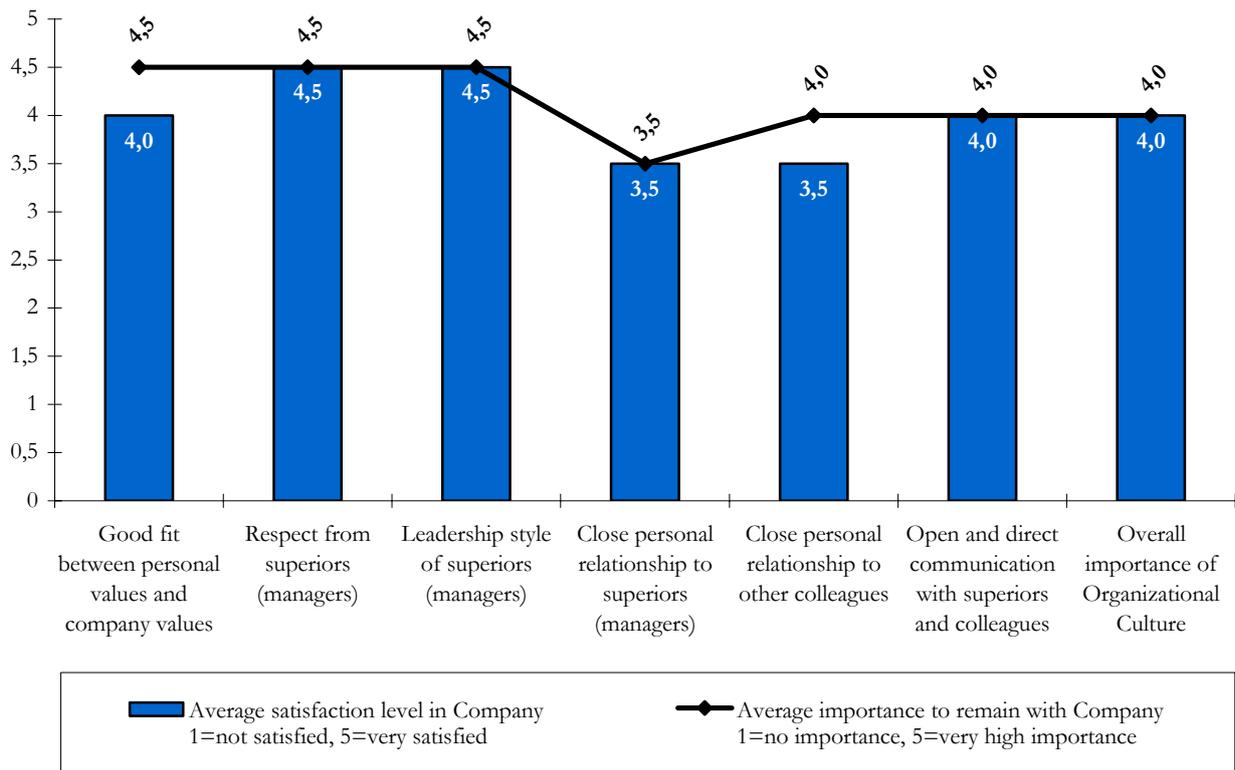
*In other companies they only care about some key people, but in Company C they care about all people. Here, people show respect and I always have very open and productive discussions with my managers. My previous employer was nothing like this.*

Another middle manager says:

*In China, there are three quite different types of companies; American, European and Japanese/Korean. In American companies, people are pushed all the time, and in Korean/Japanese companies it’s even worse. Generally people are happy to work for European companies. Company C is a European company.*

Another middle manager believes that the culture is “too democratic” resulting in a very slow decision-making process.

*Results from web-based survey (Q2)*



No of respondents: 2

*Exhibit 4.10*

**Employee Development**

*Measures by company (Q1)*

Company C does not have a very structured Employee Development program. Instead, it is the employees' responsibility to develop their careers given the opportunities in the company. The Swedish Manager emphasizes that the company is trying to expose Chinese managers to the international business environment by sending them to Sweden and other countries. However, there is a discrepancy between the people who express their interest in moving abroad and the number actually interested when the opportunities are provided.

She also believes Chinese people are often too impatient to wait for their scheduled promotion. The company has therefore added several additional organizational levels with new titles in China to reduce the time between promotions. In practice, the additional organizational levels only have symbolic value, but are a way of communicating appreciation for well-performing employees. The HR Manager believes the most important measure for Employee Development is the cross-promotional opportunities between the traditional expert career and the generalist career.

*Effects on retention (Q2)*

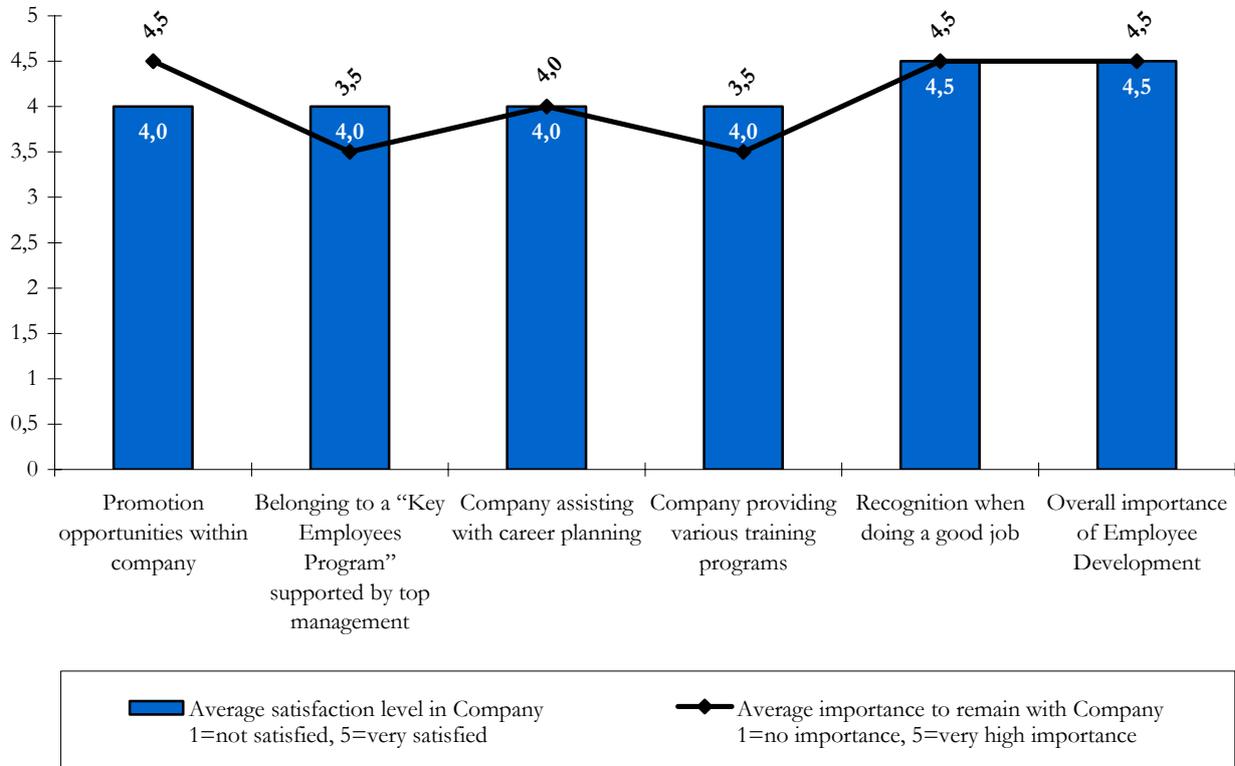
One middle manager comments:

*The formal system for career planning is not working very well. You have to talk to people and take actions yourself. Nobody is going to guide you or push you in your career.*

Another manager, with the future ambition of starting her own company, believes the opportunities to learn on the job is the number one reason to work for the firm. To her, the lack of formal structures is of less importance.

One manager complains of the glass ceiling between middle management and top management. “As a local Chinese, it is almost impossible to reach the top management,” she explains. Another manager expresses that there is only one position above her in the line organization but more people on her level struggling to get this desired position.

*Results from web-based survey (Q2)*



No of respondents: 2

*Exhibit 4.11*

#### **4.4.4. Company D**

##### **Turnover situation**

In 2003, Company D had serious problems with its employee turnover among middle managers. Approximately 40 percent of the managers resigned that year. The MD says that this was mainly due to the massive workload and the stress created by cheating franchisees. The HR Manager has the same view.

In 2006, the employee turnover among middle managers was approximately five percent. High employee turnover is not considered to be a problem. However, for young and up-and-coming co-workers that could potentially become managers in a few years time, the level of employee turnover is considered to be an issue. “The co-workers with the ability to become managers in a few years, the potential stars, that is, are the ones that are most difficult to retain,” the MD says.

##### **Compensation and Benefits**

###### *Measures by company (Q1)*

The HR Manager claims that company salaries are in the 65<sup>th</sup> percentile on average and according to the MD, Company D has a “very competitive compensation package.” The company has to add a salary premium compared to the competitors that fight for the same top talent. “We are a private, relatively unknown company, in an industry that is not that sexy,” she explains.

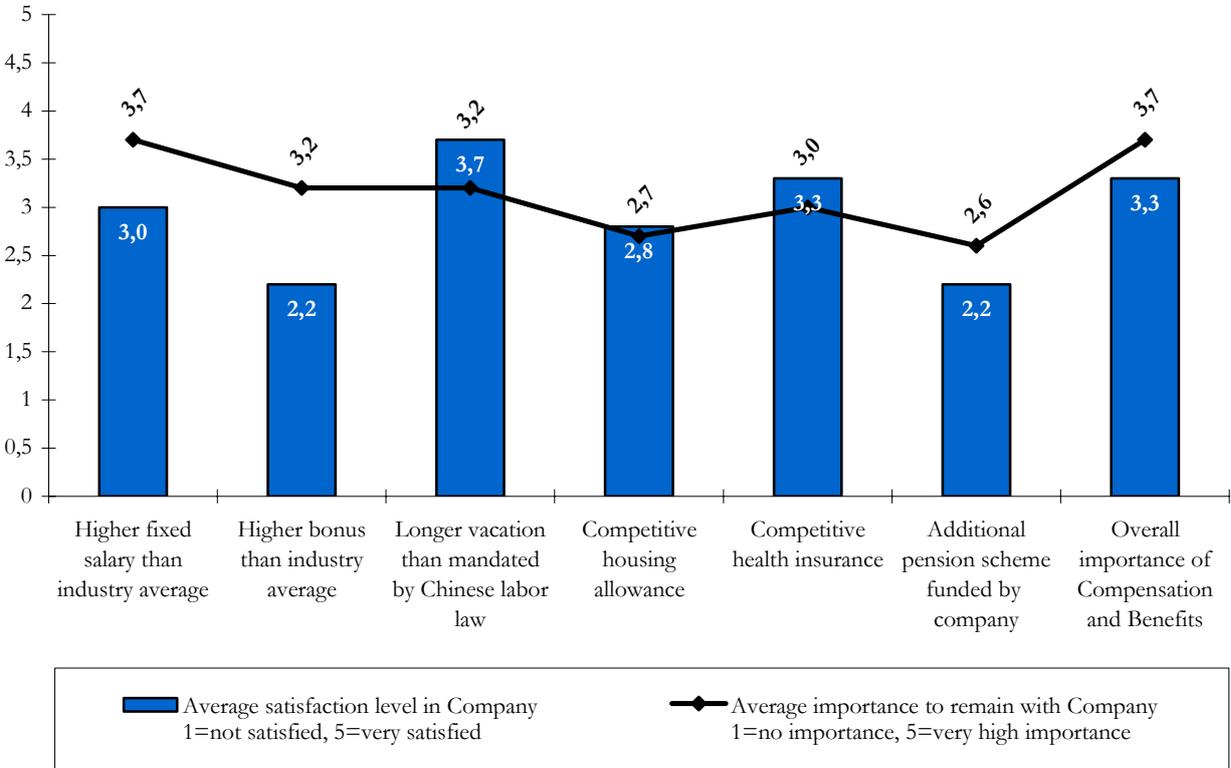
For middle managers, 30-50 percent of the salary is variable. The MD says that they try to match salaries from other companies if they see great potential in the co-worker that is offered a new job. However, she adds that they have lost some of their young co-workers due to the fact that they offer too low salaries. She also believes that compensation is one of the more important things in retaining managers. Apart from the high salary, the company also offers substantial discounts on traveling and attending language courses.

###### *Effects on retention (Q2)*

Both interviewed middle managers are quite satisfied with their compensation package and acknowledge that they are paid above average compared to similar positions in other companies. One manager says that the salary level is important but not the most important thing. The same manager claims that non-monetary benefits are not that important, and that people just care

about the base salary and the bonus. Another manager, however, says that more benefits would be desirable as they are tax deductible.

Results from web-based survey (Q2)



No of respondents: 6

Exhibit 4.12

**Organizational Culture**

Measures by company (Q1)

The HR Manager says that the company culture is a very important measure in retaining key employees. She describes the culture as international, flat, creative and entrepreneurial, with very open communication and respect for all co-workers. She says that all managers are educated in the Company D culture when recruited. In addition to a book on the culture and business principles (that is not disclosed outside the company), managers are involved in role plays and other team exercises.

The MD describes Company D as a Swedish company with many American features. She also points out the openness and the entrepreneurial spirit and emphasizes the importance of nice office premises at attractive locations. In addition, she stresses the significance of informing the

employees about the company's products, performance and strategies in order to create a 'one-firm' culture. She also mentions that the culture is distinguished by hard work and result-orientation.

*Effects on retention (Q2)*

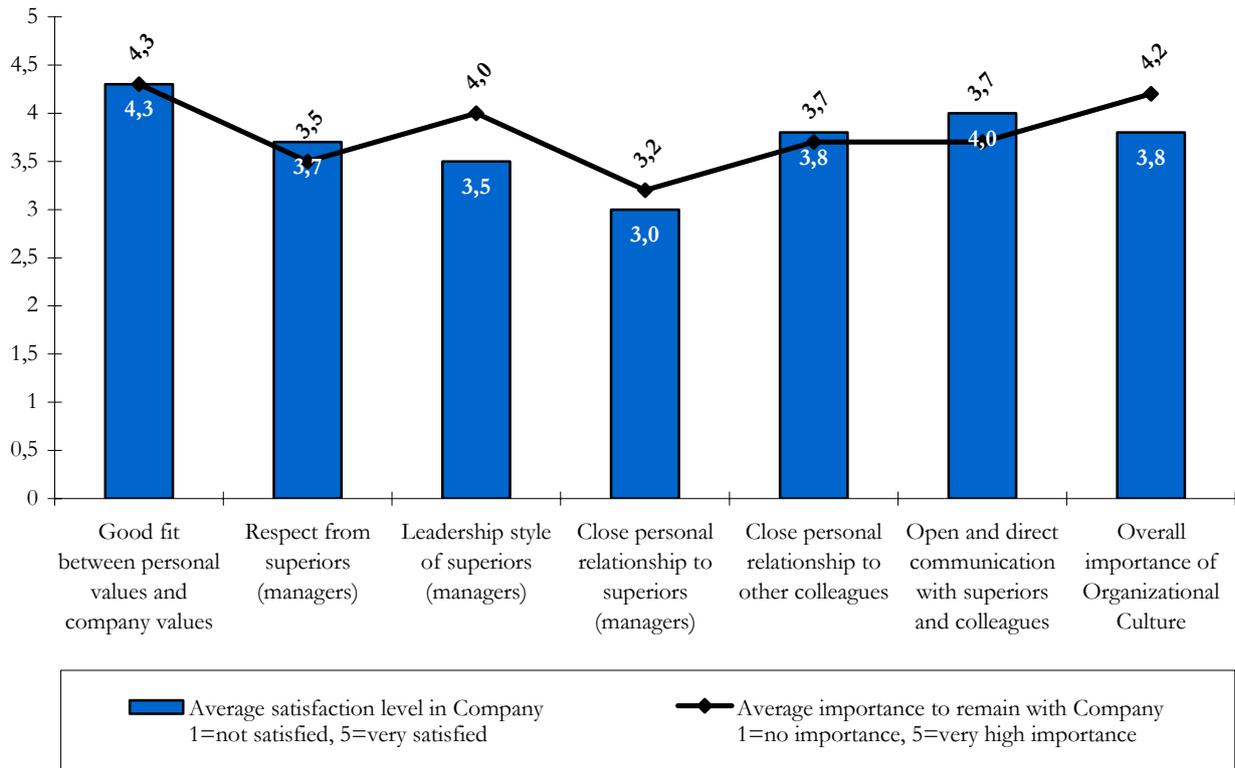
The two middle managers both state that the company is very entrepreneurial with flat hierarchies and performance focus, and that very few rules and formal structures exist. One of the middle managers says:

*I like the 'work hard – play hard' mentality. I'm not so focused on the hours, sometimes you have to work all night, but then you can take a day off. At [Company name], it is not about the hours, it is about the results.*

Another manager reflects:

*The [Company name] culture is right for me. I like to have freedom in my job and to take on great responsibilities. But this is highly individual. A person who likes clear structures and processes would probably be very confused here.*

Results from web-based survey (Q2)



No of respondents: 6

Exhibit 4.13

## Employee Development

Measures by company (Q1)

Company D in China is changing rapidly and does not have any formal Employee Development programs. The MD says:

*We have not had time to develop an Employee Development program. We have just hired an HR Manager and will hopefully have a program in place shortly. The HR function has traditionally been very weak in [Company name] and we have not been good at visualizing development opportunities for our employees. We may have lost some people due to this shortcoming.*

The HR Manager says that personal development and making a career is encouraged at all levels in the organizations, but admits that no formal structures are in place. She has lunch with a few selected managers every month to follow-up on their personal development needs.

Company D has several sales courses and leadership courses. The HR Manager argues that “An employee joins a company but leaves a boss. We invest a lot in leadership courses to develop our leaders.” The MD adds that organizing structured management training programs will be a key priority for the future in order to retain managers. It is important for managers to understand that they are a key resource to the firm and that they are part of an exclusive development program.

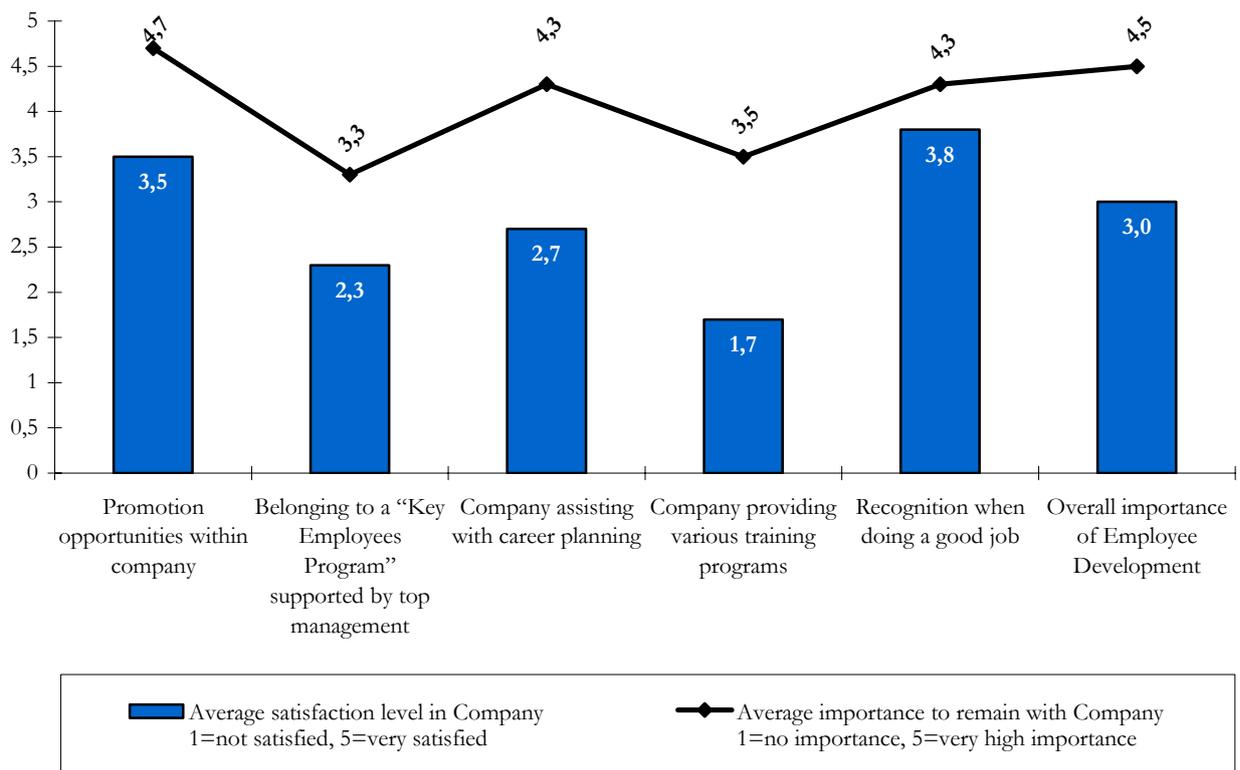
The company also encourages job rotation, according to the HR Manager. In addition, she stresses the importance of company growth as this will create opportunities and positions for the employees.

### *Effects on retention (Q2)*

In many senses, the middle managers portray the same image as the MD and the HR Manager. The openness, flatness, entrepreneurial spirit and freedom permeate the descriptions. Two managers comment on the skilled top management team and describe the people as proactive, supportive and non-controlling. They both stress how closely linked the company’s growth is to their personal development and career opportunities. One of the managers says that visualizing a clear career path is very important for her if she is to stay with the company. The managers hold the company to be a bit unorganized, especially when it comes to development opportunities and career planning, which can be somewhat frustrating. One manager explains:

*It’s very much up to you if you want to make a career. The opportunities are here but it’s up to you to seize them. Nobody is going to make it happen but you.*

Results from web-based survey (Q2)



No of respondents: 6

Exhibit 4.14

#### 4.4.5. Company E

##### Turnover situation

Middle management turnover is considered to be a problem in Company E. In 2006, 15 percent of the middle managers resigned. In some divisions, the figure is above 30 percent. A Swedish Manager (1) says that the poor performance of the company is an important factor in explaining the high employee turnover. Another Swedish manager (2) also believes that the poor performance of the business is a key explanation to the high turnover. She says:

*[Company name] did not bring in enough resources and skilled people to solve the problems. The market here in China is immature. We do not have the same processes and functions in place as offices in other countries. Therefore, we needed outside resources.*

Also, the company lost many managers when moving the local head office from Beijing to Shanghai, Swedish Managers 1 adds.

## **Compensation and Benefits**

### *Measures by company (Q1)*

Generally, Company E pays less than its competitors. The HR Manager says that the salaries on average lie in the 40<sup>th</sup> percentile and that Company E offers the benefits mandated by Chinese law. However, some key employees are better paid. The variable compensation depends on individual performance and varies between functions. On average, it constitutes 20 percent of the total package.

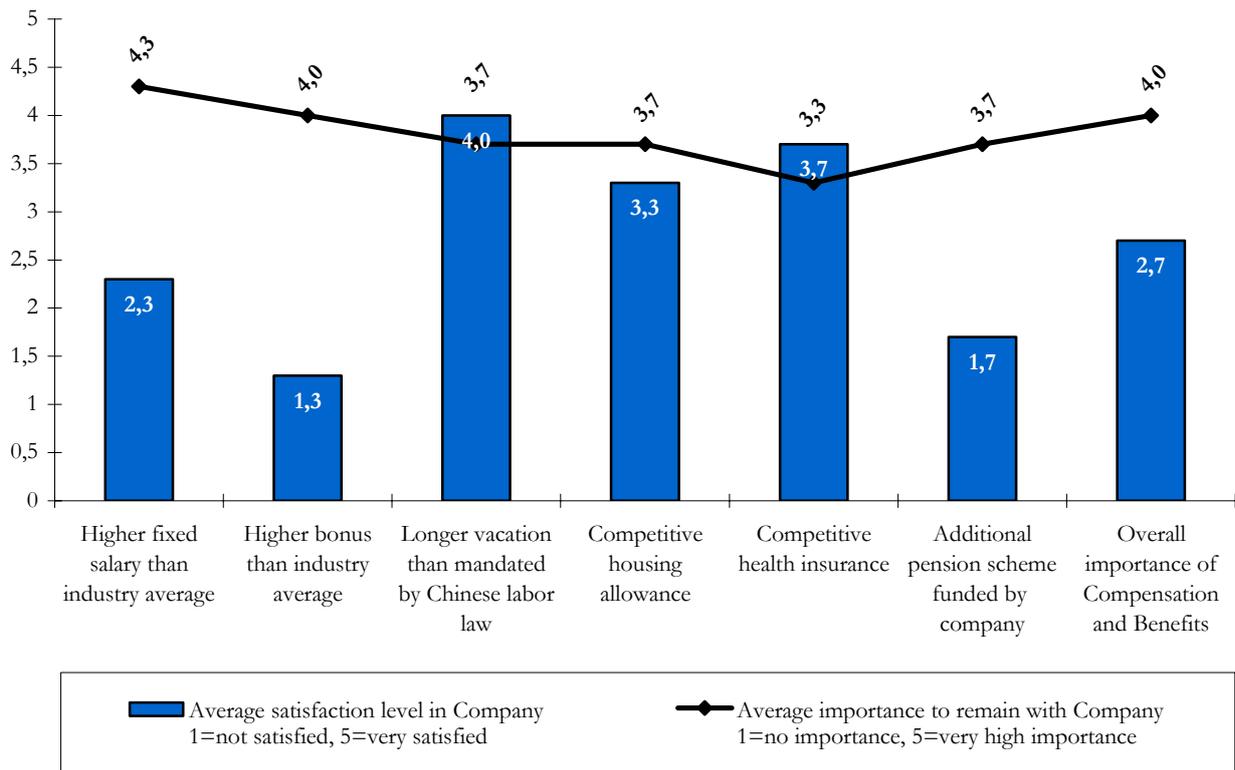
Swedish Manager 1 says that they are aiming to employ “second tier people” rather than the first tier as they cannot compete with the most high-profile companies for the best talent. Consequently, she explains, their employees cannot be paid as much.

### *Effects on retention (Q2)*

Two middle managers say they think the salary level is too low. They would both change to a similar job in another company if they were offered a 30 percent salary increase. One middle manager says:

*The compensation level is one of the most important things for me to stay with a company. Too low a compensation could definitely be a reason for me to change jobs.*

*Results from web-based survey (Q2)*



No of respondents: 4

*Exhibit 4.15*

**Organizational Culture**

*Measures by company (Q1)*

The HR Manager describes the culture as open, informal, flat and change-oriented with few guidelines and rules. Neither she nor any of the Swedish managers mention the culture as a strategy or control system to retain people.

*Effects on retention (Q2)*

One middle manager says that the company's bad results have affected the culture negatively and that the high turnover can be partly explained by the new CEO who joined the firm in March, 2006. According to her, the new manager has entirely transformed the culture of the company. She explains:

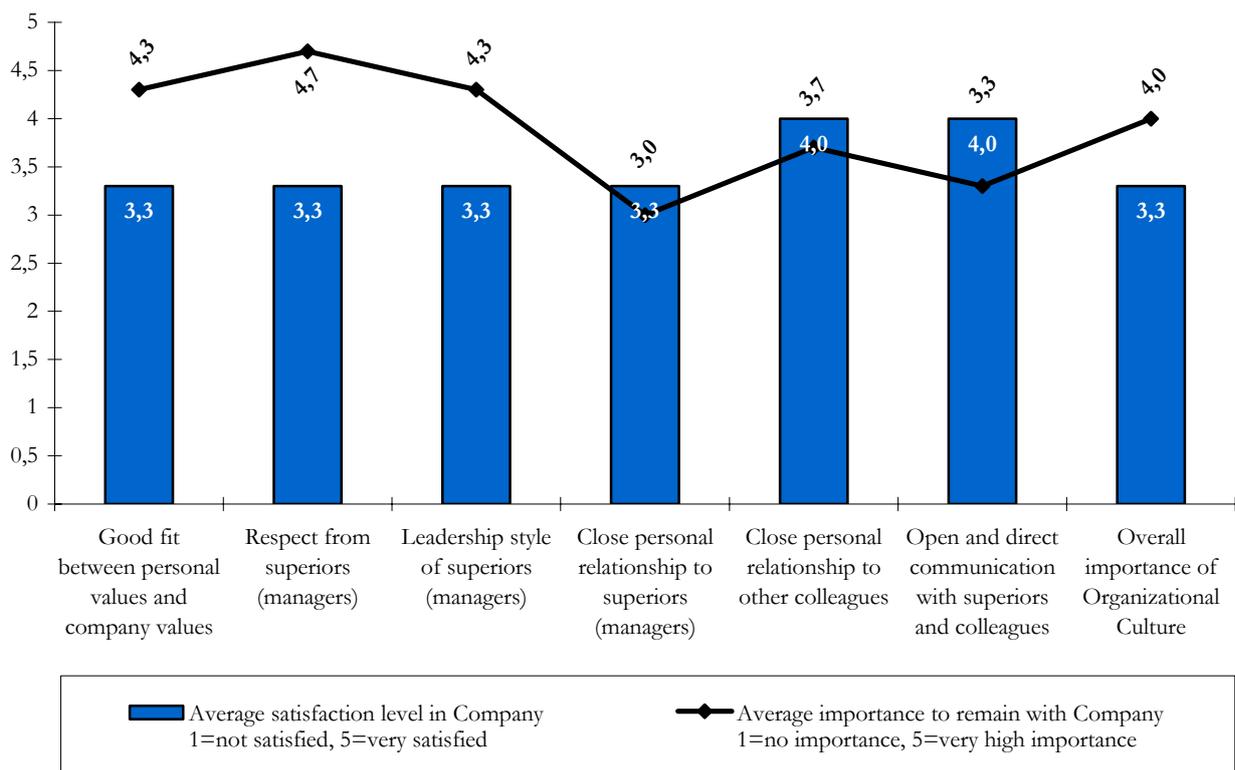
*The company used to be an open, non-authoritarian and entrepreneurial company. Today, [Company name] has turned into a non-democratic organization run from the top. Everything is supervised and*

*obedience is rewarded. [...] The work force is set up like an army. Regularity and punctuality have great focus. [...] People have become afraid of making mistakes.*

The same middle manager changed divisions recently to one that is not controlled operationally by the new CEO. When asked about what it would take for her to go back to her old job and work for the new CEO, she says: “Over my dead body. I took a 30 percent hit to my salary to avoid working for her.” Two of the middle managers are more diplomatic in their views but admit that the working climate has become tougher since the new CEO took office.

Two middle managers describe the culture as open and non-hierarchical. Company E is said to give the employees great freedom and welcome change. Furthermore, the communication is quick, according to one middle manager.

*Results from web-based survey (Q2)*



No of respondents: 4

*Exhibit 4.16*

## **Employee Development**

### *Measures by company (Q1)*

Several of the Swedish managers admit that Company E has failed in offering Employee Development and career opportunities. Swedish Manager 1 says that the HR function in Company E is weak, which has affected the career planning and development opportunities negatively. “We are lagging behind on the opportunities to personal development,” she says. There are few training courses and no Employee Development programs in Company E. Swedish Manager 1 comments on the former leadership program:

*To be frank, the strategies to retain managers have fallen short. When I joined the firm we started a leadership program for six handpicked top talents, but none of these people are with us today.*

The managers in the company generally give their subordinates weekly feedback. “Weekly appraisals are very important. Yearly appraisals are bullshit. They will not create openness,” Swedish Manager 2 says. She also stresses job rotation as an alternative to making a vertical career. She states:

*We do not offer so many promotional opportunities but rather slow job-rotation in various functional areas. In reality, very few people actually make a career, but you can make them think they do by making them rotate in the organization.*

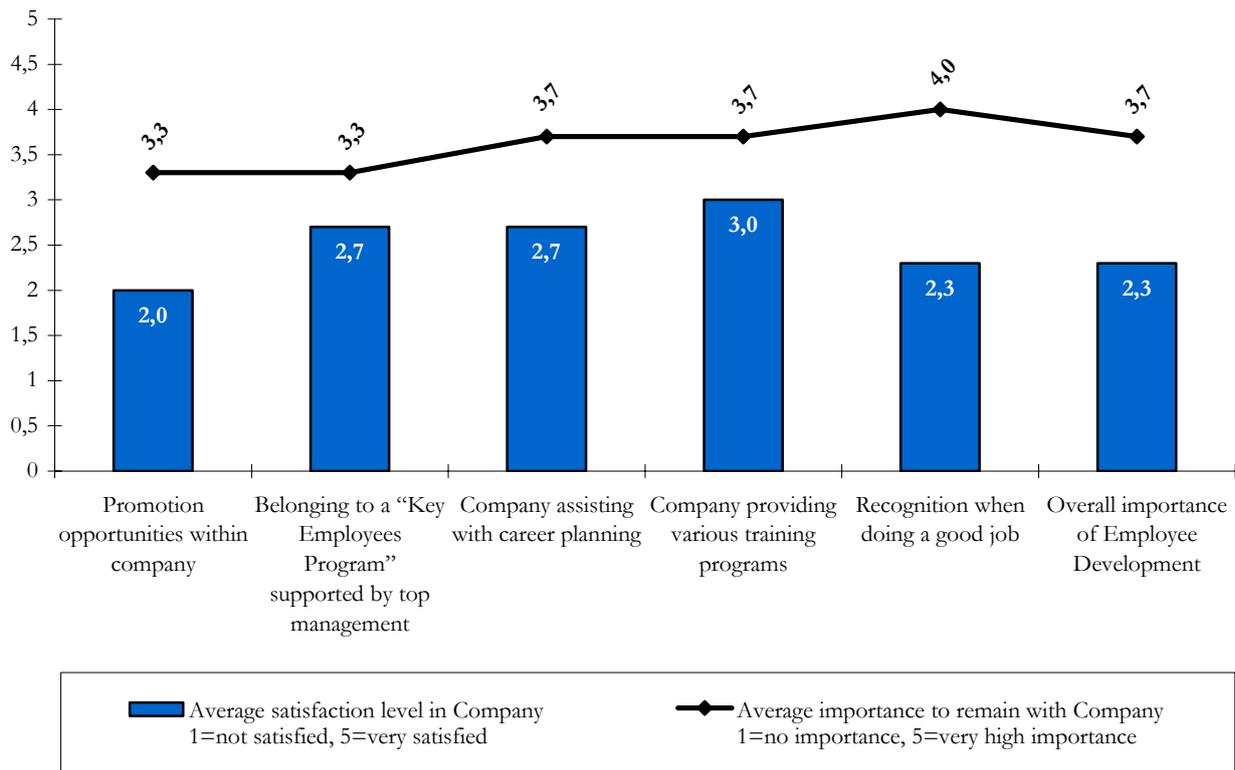
### *Effects on retention (Q2)*

Two of the middle managers are unsatisfied with their career and development opportunities. One of them comments:

*It's not easy to make a career within [Company name] as there are few openings. The only way to be promoted is to take initiatives and really push for them. The company has no career coaching or system to encourage career development.*

Another middle manager says that she is satisfied with her development opportunities but would like to have more courses and training opportunities.

Results from web-based survey (Q2)



No of respondents: 4

Exhibit 4.17

#### 4.4.6. Company F

##### Turnover situation

Company F does not consider employee turnover to be a problem. No middle managers have quit voluntary over the last three years. The MD says “We are happy that our people stay with us, but having zero-turnover may not be an ideal situation. We have to renew ourselves to be competitive.” She also believes that the turnover issue in general is exaggerated:

*The problem of employee turnover is like SARS. Everybody is talking about it and the press is writing all about it, but in reality the problem is not really that big.*

However, in 2002 and 2003, the company had great problems with middle managers leaving the company. One middle manager says: “The production, logistic and HR managers left the company and many others thought about it.” Since then, many people on the management team have been replaced. The MD joined the firm in 2003.

## **Compensation and Benefits**

### *Measures by company (Q1)*

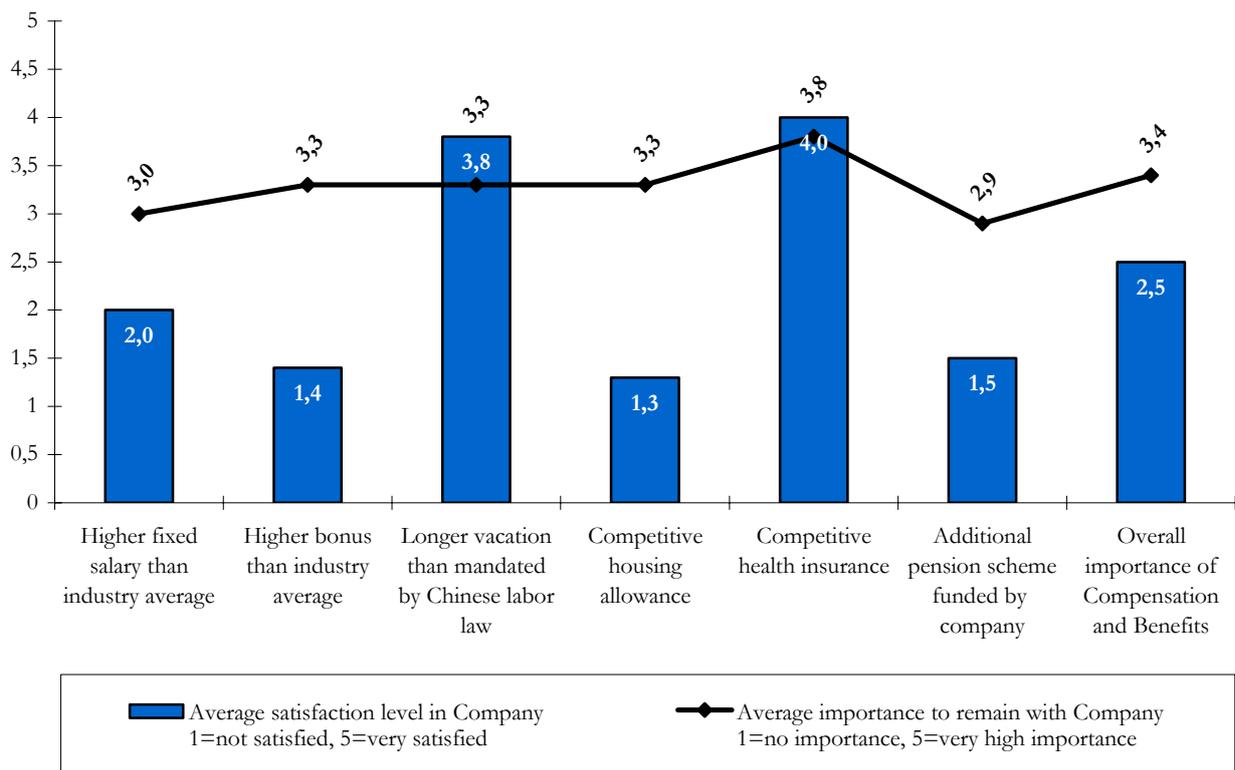
According to the HR Manager, Company F pays market average salaries. For some key people, however, the company pays up to the 75<sup>th</sup> percentile. The company has a principle of paying for people, performance and position. The variable compensation is on average around 30 percent of the total pay. She says that the main change over the past few years has been an increase in the variable compensation. Some key employees also have a cash incentive program, i.e. an additional variable compensation. As to benefits, Company F offers housing allowance, medical insurance and sports allowance in addition to statutory benefits.

### *Effects on retention (Q2)*

One middle manager seems to be happy about her salary, and says that she would only consider a similar job at another company if her salary was doubled. However, she also points out that the salary level could be a reason for people to leave the firm and says:

*The salary is not that important for me. It is usually more important for younger people. Overall, I am satisfied with my package. If I could make one change, it would be to increase the variable compensation.*

Results from web-based survey (Q2)



No of respondents: 8

Exhibit 4.18

## Organizational Culture

### Measures by company (Q1)

Since 2003, when the company lost many of its important middle managers, many measures have been taken to improve employee retention. The HR Manager says:

*We have [MD's name] to thank for the turnaround of this company. Together, we have worked hard with forming a flat organization marked by respect for all employees. Empowerment has also been an integral part of this strategy. [...] The management is probably the most important factor in people's choice to stay or leave. People come for the company but leave because of the management.*

Finding the right people who fit the culture and share the values is also an outspoken strategy to retain employees. She explains that retaining people starts with recruitment. Then, they are given the confidence and opportunities to grow. "But if they don't fit with the company from the start, they will not be long-lived," the HR Manager adds. The MD also comments on the culture:

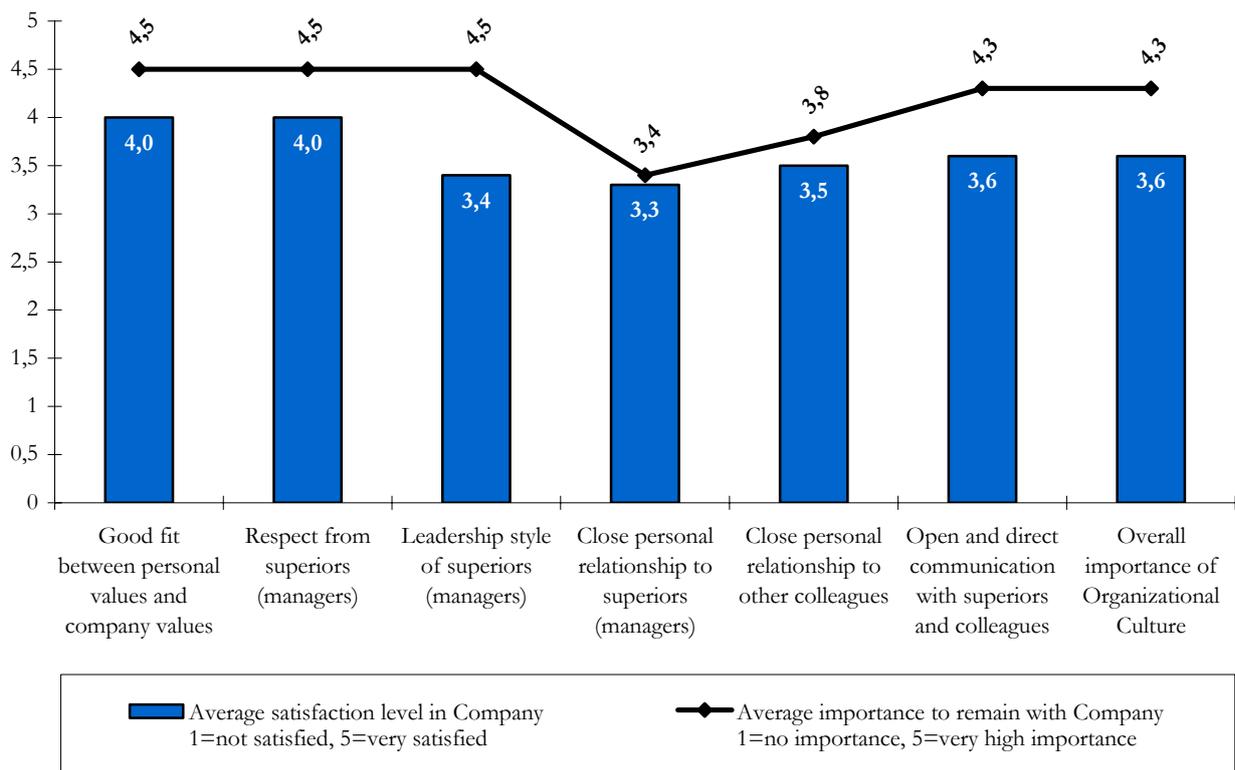
*We focused on the big picture; where are we today and where are we going? We worked very hard to communicate the trajectory of the company to all employees and to give hope for the future. Giving hope was probably the most important thing we did. We also tried to create openness as well as simple, visible processes throughout the company. [...] Another thing we work with was symbolic things. We connected our two buildings by a physical bridge and we renovated the canteen and the gym.*

#### *Effects on retention (Q2)*

One middle manager has experienced both the old and the new management and how they affected the culture. She thinks that the old management had several shortcomings. According to her, they neither encouraged the employees nor informed them about the trajectory of the company. Also, they did not seem to believe in the future. The same manager comments on the new management:

*The new management, especially [MD's name], is very professional and encourages people, lets them make mistakes and makes them feel that they are achieving great things. Also, employees now feel that they are part of the Group. We are not a separate company anymore. [...] I also enjoy that the company is flat and innovative.*

Results from web-based survey (Q2)



No of respondents: 8

Exhibit 4.19

## Employee Development

### Measures by company (Q1)

The new management also made many changes to the Employee Development structures. The HR Manager says that creating opportunities for people to grow and thrive is the most important thing in keeping the employee turnover low. She continues:

*It is important that people feel challenged all the time and see opportunities within the organization. [...] We have worked hard with giving all managers great responsibilities. The managers should feel that they can achieve things and see the result of their work in order to grow. [...] We have created clear career paths for all employees and have many training programs.*

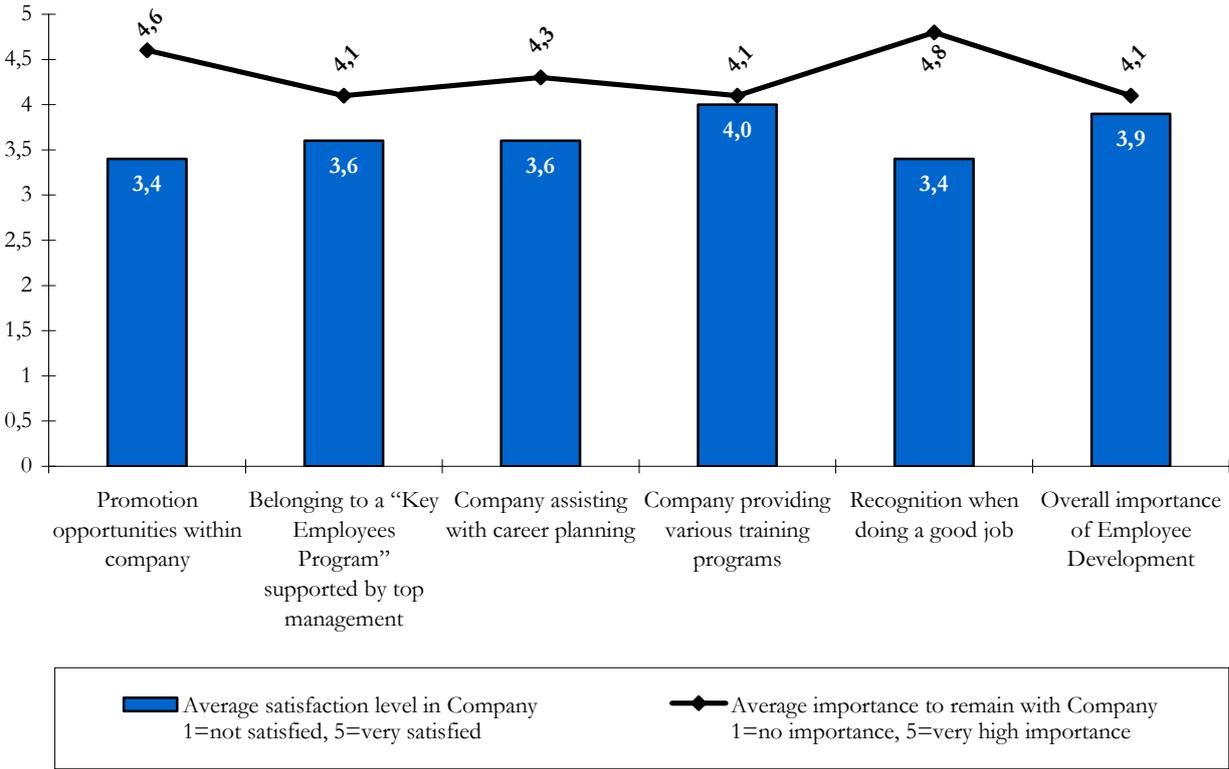
The HR Manager also stresses the importance of offering long-term career opportunities and says that 80 percent of all managers have been promoted internally.

The MD stresses the work of further integrating Company F with the Group Company and visualizing the opportunities that exist. She also describes the global Group management training programs that have been introduced to the managers. “Visualizing the big picture is very important for people to realize their potential and to see their development and career opportunities,” the MD explains. She also emphasizes the importance of company growth and the close relation between development opportunities and company performance.

*Effects on retention (Q2)*

One middle manager accentuates the development opportunities within Company F and how they have changed during the past years. “It is not until now that I realize my full potential and the opportunities I have within [Company Name] and [Company Group Name],” she explains excitedly. She believes that the management is very supportive in her career development and that the company takes a long-term view in developing its employees.

*Results from web-based survey (Q2)*



No of respondents: 8

*Exhibit 4.20*

#### **4.5. Results from Interviews with HR Managers and Swedish Managers (Q1)**

Exhibit 4.21 below summarizes the interviews with the HR managers and Swedish managers. These summarized results have been collected from *Measures by company (Q1)* above, for each company and retention measure respectively.

The table lists the most important measures each company is taking to retain employees within each of the three areas we are focusing on: Compensation and Benefits, Organizational Culture and Employee Development. Thus, these results are the empirical base for answering Q1, i.e. what measures Swedish companies in China are taking to control the level of employee turnover among its middle managers. These results are discussed in Chapter 5.1.

| Company                          | Company A   | Company B  | Company C   | Company D   | Company E  | Company F   |
|----------------------------------|---|--|---|---|--|---|
| <b>Compensation and Benefits</b> | <ul style="list-style-type: none"> <li>▪ Industry average compensation</li> <li>▪ Variable compensation approx. 30% of total package</li> <li>▪ Sign-on bonus</li> <li>▪ Housing allowance</li> <li>▪ Little flexibility in salary negotiation</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Industry average compensation</li> <li>▪ Variable compensation approx. 1 month salary</li> <li>▪ Long-term bonus</li> <li>▪ Flexible levels for key employees</li> <li>▪ Housing allowance (10%)</li> <li>▪ Medical insurance</li> <li>▪ Additional vacation</li> </ul> | <ul style="list-style-type: none"> <li>▪ Industry average compensation</li> <li>▪ Variable compensation approx. 1-3 month salary</li> <li>▪ Housing allowance (10%)</li> <li>▪ Transportation allowance</li> <li>▪ Flexible salary level for key employees</li> </ul> | <ul style="list-style-type: none"> <li>▪ Higher than industry average compensation (65<sup>th</sup> percentile)</li> <li>▪ Variable compensation approx. 30-50% of total package</li> <li>▪ Flexible salary level for key employees</li> <li>▪ Discounts on traveling and language courses</li> </ul> | <ul style="list-style-type: none"> <li>▪ Lower than industry average compensation (40<sup>th</sup> percentile)</li> <li>▪ Variable compensation approx. 20% of total package</li> <li>▪ Only statutory benefits</li> </ul>                                       | <ul style="list-style-type: none"> <li>▪ Industry average compensation</li> <li>▪ Variable compensation approx. 20% of total package</li> <li>▪ Housing allowance (10%)</li> <li>▪ Medical insurance</li> <li>▪ Sports allowance</li> </ul>                       |
| <b>Organizational Culture</b>    | <ul style="list-style-type: none"> <li>▪ Aims at creating a respectful, flats and team-oriented culture</li> <li>▪ Swedish cultural values</li> <li>▪ Emphasizes culture at recruitment phase</li> <li>▪ Expatriate cultural training</li> <li>▪ Wedding and birthday parties arranged for employees</li> </ul> | <ul style="list-style-type: none"> <li>▪ Aims at creating an open, flat and honest culture</li> <li>▪ Strong equality ideal</li> <li>▪ "[Company name] Way" Program for all employees</li> <li>▪ Has slightly modified original culture to fit with Chinese culture</li> </ul>                                   | <ul style="list-style-type: none"> <li>▪ Aims at creating a respectful, success-driven, innovative and energetic culture</li> <li>▪ European culture despite Japanese/ Swedish heritage</li> <li>▪ Promoting an open management culture</li> </ul>                    | <ul style="list-style-type: none"> <li>▪ Aims at creating a culture marked by respect and entrepreneurship</li> <li>▪ Few rules and formal structures</li> <li>▪ Mix of Swedish and American cultures</li> <li>▪ High level of information to employees on company performance</li> </ul>             | <ul style="list-style-type: none"> <li>▪ Aims at creating an open, informal and change-oriented culture</li> <li>▪ New GM and bad business results have affected culture negatively</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Aims at creating a flat, respectful and encouraging culture</li> <li>▪ Strong focus on big picture and future</li> <li>▪ Focus on recruitment to find "right" people</li> <li>▪ Symbolic artifacts</li> </ul>            |
| <b>Employee Development</b>      | <ul style="list-style-type: none"> <li>▪ Company College in Shanghai</li> <li>▪ Encourages top management exposure</li> <li>▪ Extensive appraisal talks</li> <li>▪ Stresses patience in promotion</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Strong focus on Employee Development</li> <li>▪ International opportunities and job rotation</li> <li>▪ Extensive leadership program</li> <li>▪ Emphasizes on the job training</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Not very structured Employee Development program</li> <li>▪ Every employee has to take care of own development</li> <li>▪ Informal feedback talks</li> <li>▪ Adding new organizational levels in China</li> </ul>            | <ul style="list-style-type: none"> <li>▪ No formal structures for feedback or career development</li> <li>▪ Leadership courses</li> <li>▪ International experience encouraged</li> <li>▪ Growth enables job-rotation</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Few courses and no programs for employee/leadership development</li> <li>▪ Every employee has to take care of own development</li> <li>▪ Weekly feedback</li> <li>▪ Job-rotation instead of vertical careers</li> </ul> | <ul style="list-style-type: none"> <li>▪ Clear promotion paths for all employees</li> <li>▪ 80% of managers recruited internally</li> <li>▪ Offers many training programs</li> <li>▪ Integration of Ericsson group to open new promotion opportunities</li> </ul> |

Exhibit 4.21

## **4.6. Results from Interviews with Middle Managers (Q2)**

Exhibit 4.22 below provides a summary of the results from the interviews with the middle managers. These summarized results have been collected from *Effects on retention (Q2)* above, for each company and retention measure respectively.

The table lists the *effectiveness* of the retention strategies we are focusing on: Compensation and Benefits, Organizational Culture and Employee Development. Thus, these results are the empirical base for answering Q2, i.e. how the retention measures affect the middle managers' propensity to leave their companies. These results are discussed in Chapter 5.1.

| Company                          | Company A  | Company B   | Company C  | Company D  | Company E  | Company F  |
|----------------------------------|--|---|--|--|--|--|
| <b>Compensation and Benefits</b> | <ul style="list-style-type: none"> <li>▪ Not a particularly important retention measure</li> <li>▪ 30-50% salary increase necessary to consider other job</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Not a particularly important retention measure</li> <li>▪ Satisfaction with compensations level is high</li> <li>▪ Particular satisfaction with housing allowance</li> <li>▪ 100% salary increase necessary to consider other job</li> </ul> | <ul style="list-style-type: none"> <li>▪ Dissatisfaction with low compensation level</li> <li>▪ Other factors are more important</li> <li>▪ 50% salary increase necessary to consider other job</li> </ul>                             | <ul style="list-style-type: none"> <li>▪ Compensation fairly important retention factor</li> <li>▪ High satisfaction with compensation level</li> <li>▪ More benefits would be desirable</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Dissatisfaction with low compensation level</li> <li>▪ 30% salary increase necessary to consider other job</li> </ul>                                       | <ul style="list-style-type: none"> <li>▪ Not a particularly important retention measure</li> <li>▪ Satisfaction with compensations moderate</li> <li>▪ 100% salary increase necessary to consider other job</li> </ul> |
| <b>Organizational Culture</b>    | <ul style="list-style-type: none"> <li>▪ Relation to managers is a very important retention measure</li> <li>▪ Slow decision-making is frustrating</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Company culture considered to be very important retention measure</li> <li>▪ Management coaching, respect and relaxed atmosphere are highly valued</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Respect and close relationship to managers is highly valued</li> <li>▪ The European culture is appreciated</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Culture considered to be important in staying with company</li> <li>▪ Freedom, great responsibilities and result-orientation is appreciated</li> </ul>  | <ul style="list-style-type: none"> <li>▪ The open and non-hierarchical culture is appreciated</li> <li>▪ Bad company performance and new management could be reasons to leave the company</li> </ul> | <ul style="list-style-type: none"> <li>▪ Important retention factor</li> <li>▪ Close relationship to managers and encouragement are important to stay</li> </ul>   |
| <b>Employee Development</b>      | <ul style="list-style-type: none"> <li>▪ Development opportunities are considered to a very important retention factor</li> <li>▪ Satisfaction with development opportunities, challenges and flexibility is high</li> </ul> | <ul style="list-style-type: none"> <li>▪ Most important reason to stay with the company</li> <li>▪ Coaching and encouragement by superiors is most important</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Development opportunities considered to be a very important retention factor</li> <li>▪ Although formal programs do not exist, satisfaction with development opportunities is high</li> </ul> | <ul style="list-style-type: none"> <li>▪ Development opportunities considered to be an important retention factor</li> <li>▪ Unorganized career planning</li> <li>▪ Satisfaction with development opportunities is high</li> <li>▪ Company performance considered to be vital</li> </ul> | <ul style="list-style-type: none"> <li>▪ Important retention factor</li> <li>▪ Dissatisfaction with lack of development program and few career opportunities</li> </ul>                              | <ul style="list-style-type: none"> <li>▪ Very important retention factor</li> <li>▪ Long-term perspective and support from management is important to stay with company</li> </ul>                                     |

Exhibit 4.22

## 4.7. Results from Web-based Survey (Q2)

Exhibits 4.23-4.25 below provide an overview of the results gathered from the web-based survey. These results have been derived from *Results from web-based survey (Q2)* for each retention measure respectively.

The higher the *satisfaction* score, the better the company is at retaining its middle managers. The propensity to change jobs is also affected by the level of *importance* middle managers attach to the retention measure. A high importance score enhances the effect of the satisfaction score, e.g. a low satisfaction score will have a greater effect on employee turnover if the retention measure in question is considered to be important than if it is considered not to be important. These results are used to validate the results of the middle manager interviews. Thus, these findings help us answer Q2. The results from the web-based survey are discussed in Chapter 5.1.

### Compensation and Benefits

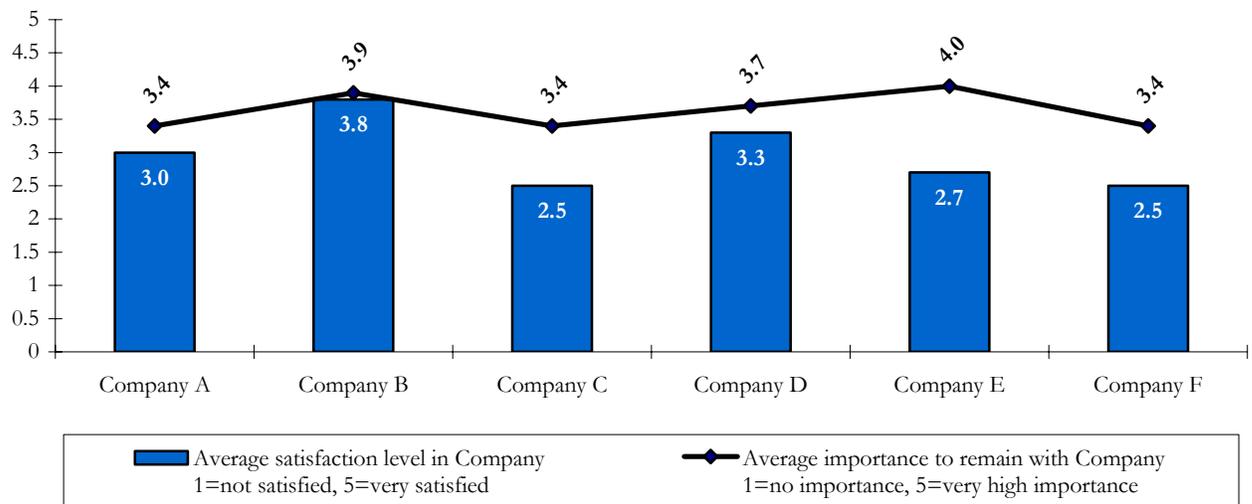


Exhibit 4.23

### Organizational Culture

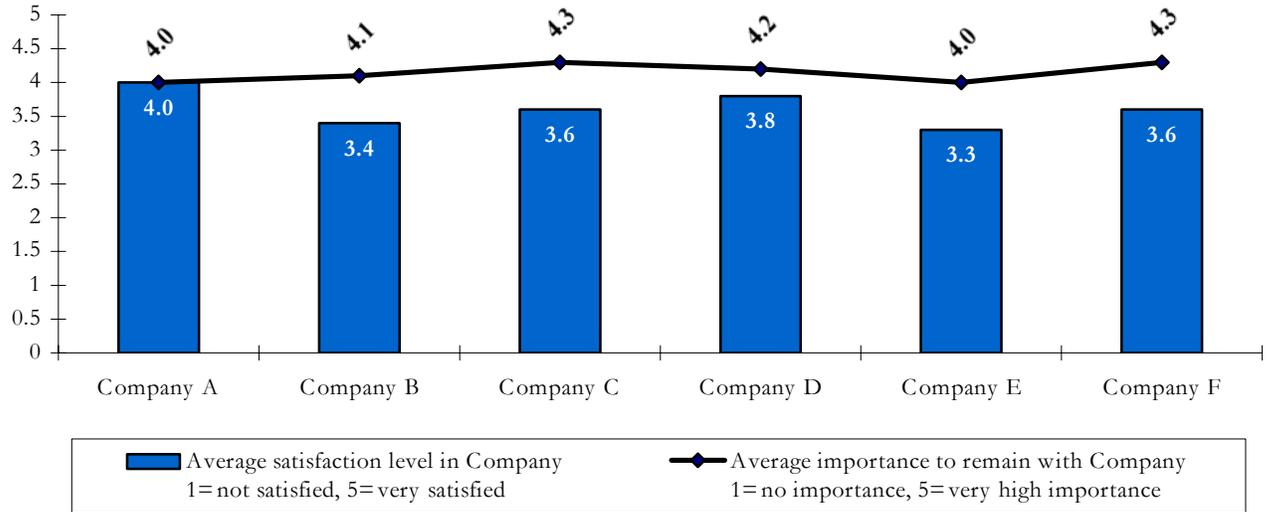


Exhibit 4.24

### Employee Development

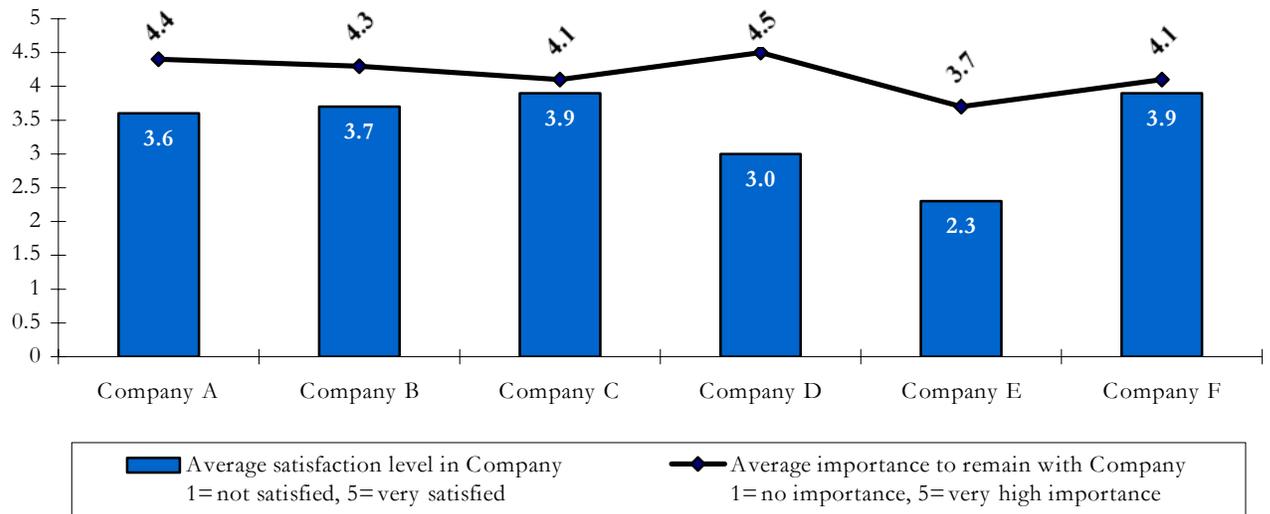


Exhibit 4.25

## 5. Analysis and Conclusions



*In this chapter, we analyze our empirical findings in order to answer the two research questions. First, we will carry out a horizontal analysis, where all companies are compared side by side for each of the three focus areas we have identified. Both the qualitative and quantitative data is used in the analysis. Second, we take a step back to discuss the broader implications of our findings and present our own reflections. Third, we show the conclusions of our study.*

### 5.1. Horizontal Analysis

#### 5.1.1. Compensation and Benefits

The studied companies generally aim at paying market average salaries. Our pre-study advocated that Compensation and Benefits may be the most important factors to retain employees (Chambers, 1998). This fact was confirmed in our interviews with Hähnel and Zhang. After conducting qualitative and quantitative research, we do not find support for this statement in the Swedish companies studied. Compensation and Benefits is in fact considered to be the least important factor of the ones we have studied; both in terms of interview answers and in the quantitative survey.

##### Measures by company (Q1)

In terms of compensation level, the six Swedish companies had remarkable similarities. Four out of six companies expressed an intention to pay “market average” salaries in the 50<sup>th</sup> percentile with regards to their respective industries. There are two deviants, however; Company D aims at the 65<sup>th</sup> percentile, whereas Company E strives to be in the 40<sup>th</sup> percentile.

Breaking down the monetary compensation into fixed and variable parts discloses some significant differences between the studied companies. Company D has the largest proportion of bonus with 30-50 percent of the total compensation being variable. Some

managers have an even larger proportion of variable compensation. Company B and C base their variable salaries on the company performance to a larger extent than the other companies, reflecting a team-oriented culture.

Another area where we observe differences is the companies' flexibility in negotiating individual salaries when middle managers receive higher salaries from competitors. Company A, E and F all have a policy not to match salaries, whereas Company B C and D are flexible in wage talks in order to retain the most attractive managers.

Regarding non-monetary benefits, the most frequently mentioned ones are housing allowance, medical insurance and additional vacation days. Company A, B, C, and F all offer their employees housing allowances. Company B stresses that the company offers a competitive medical insurance package, which is also the case for Company A and F. Among case companies, Company B has the most generous vacation package for its managers. Company D has chosen to keep the compensation package simple, with higher salary levels and few benefits. Company E offers only statutory benefits.

## **Effects on Retention (Q2)**

### *Interviews*

From a retention perspective, the level of Compensation and Benefits seems to be much less important than our pre-study indicated. Middle managers of most companies express that they could obtain a more attractive compensation package with competitors, but that other factors are much more important than the compensation level. Some of their colleagues, however, have resigned over the past year when a competitor offered a more competitive package. Furthermore, the relative salary level compared to competitors seems to be much more important than the absolute salary level. Hence, we find strong support for Feldman & Arnold (1993).

The biggest source of discontent seems to stem from having a low variable compensation. Most managers would like their performance to have a larger impact on their salary. As this factor varies between interviewees depending on their areas of responsibilities, a comparison between managers in different functions becomes slightly skewed.

Another important finding is that managers of companies without additional health insurance express that this would be the most attractive change to the compensation package. In addition to housing allowance and health insurance, one company (Company F) offers sport allowance and two companies (Company C and B) offer transportation allowance to their employees. Considering the results from our interviews, however, we do not consider these benefits to be critical for retaining managers.

Regarding the split between compensation and benefits, no clear conclusions can be drawn. Some managers prefer competitive benefits to a high fixed salary as they are convenient and tax deductible. Others, however, say that only salary counts.

#### *Web-based Survey*

The quantitative survey confirms that Compensation and Benefits is the least important retention factor. Company B receives the highest satisfaction scores, followed by Company D. This is not surprising as Company B offers the most attractive benefit package and Company D offers the highest salaries. Furthermore, as these two companies have rather different compositions of compensation and benefits, we conclude that there seems to be no best practice in designing a remuneration package.

It should be mentioned that Company F and C receives the lowest satisfaction scores while Company E gets the third lowest score. Although the first two companies pay higher salaries, the satisfaction level in these companies is lower. One possible explanation is that the perceived opportunities of getting better-paid jobs in these companies are more apparent than in Company E.

#### **Summary**

With regards to our first question (Q1), we can draw three important conclusions. First, salary levels for Swedish companies are in line with market average. Second, benefits are often more competitive than the market average, as many companies offer attractive insurance and housing allowances. Third, there is a great difference between the general attitudes on salary level – some companies emphasize a principle of equality with little

flexibility, whereas others stress the importance of paying key employees better than average performers.

As to our second question (Q2), the opinions are also rather consistent. First, most managers attribute moderate importance to compensation as retention factor, contrary to what our pre-study suggested. Second, and in slight contrast to the first point, most managers would still like to have a higher salary, particularly when it comes to variable compensation. Third, offering a competitive health insurance emerges as a strong retention factor as many managers stress the importance of health security. In the quantitative survey, health insurance also emerges as the most important benefit.

### **5.1.2. Organizational Culture**

Regarding Organizational Culture, the literature review advocated that culture is an important mechanism for retaining employees. Most companies acknowledged the Organizational Culture as an important retention factor and claimed to be using it as a measure to retain key employees. Managers in all companies brought up culture as one of the primary factors to stay with their company. Moreover, many respondents compared the typical Swedish company culture with American and Japanese cultures, concluding that the Swedish culture is more desirable. The qualitative and quantitative findings show that culture is a vital tool to retain employees in the studied companies.

#### **Measures by company (Q1)**

Most companies are actively working with promoting their culture towards its employees. Many companies place new employees in training programs when they join the firm. Company B takes great pride in their nine-step *[Company name] Way* program. Company D, also a private company, transfers culture through a secret book, story telling and team exercises. Company A has expatriate training, aiming at making expatriates understand the Chinese culture better.

Management at company A and F emphasize recruitment. According to them, it is important to find people who can identify themselves with the company culture and values from the

start. The reason for this is that affecting people's values is a difficult and time-consuming process. This supports Schineider's (1987) conclusion that the fit between personal and organizational values is very important to retain employees.

All companies have enforced certain explicit values to which the employees should adhere in their work. "Openness" is mentioned by a majority of the case companies, as is "respect" for colleagues and co-workers. "Flatness," referring to a limited hierarchy, is also a common denominator among the studied companies. Company C, however, is working on increasing the hierarchy by adding more organizational levels. The purpose is to adapt to the traditional Chinese organization structure with its many management layers.

We find ample amounts of symbolism used to enforce the company culture. Company F's newly built bridge between the two offices and Company D's aims to have pleasant premises are two examples.

## **Effects on Retention (Q2)**

### *Interviews*

Many middle managers express their appreciation for their companies' culture, which in many ways is affected by the Swedish legacy. For example, Company B's middle managers say that the company value that "all should be treated equally" corresponds well to Chinese socialistic values. Having a flat organization is appreciated by managers of some companies, whereas others wish there would be more middle-steps on the career ladder.

Being respected is mentioned by almost all middle managers as one of the key retention factors. The importance of being respected by top managers is stressed and considered to be uncommon in American and Japanese peer companies. Another thing managers find unique in Swedish companies is that *all* members of the organization are respected, not just the top managers. This corresponds well to Kerr & Slocum (1987) and Sheridan (1992), who find a strong correlation between employee respect and employee retention.

The top management and its leadership style frequently recur as an important factors affecting employee turnover. Swedish mangers, HR managers and middle managers in all

companies revert to the same phrase: “people join a company but leave because of a boss.” Clashes between the Swedish and Chinese leadership style as well as personal differences could be reasons for managers to leave a company. It seems, however, as if there is a great match between the Swedish and Chinese cultures. The appreciation for the Swedish management style and the match between the Chinese and Swedish cultures are often stressed by the middle managers interviewed. This claim is supported by Hofstede’s cultural dimensions where Chinese culture resonates better with Swedish than with many other countries’. However, some managers are frustrated since Swedish managers seldom give clear orders and that decision-making takes too much time.

#### *Web-based Survey*

The quantitative survey confirms that managers find the Organizational Culture to be very important for their retention, as well as relationship with their superiors and colleagues. Company A and C receive the highest overall scores for Organizational Culture, while Company E has the lowest score. In both Company A and C, managers stress respect and openness as cultural traits. Interestingly, however, Company C takes pride in being agile and entrepreneurial, while Company A is considered to be a conservative and slow-moving company. This shows that there is no one best way to form an Organizational Culture. Rather, it is important to find employees whose personal values match the organizational values.

#### **Summary**

With regards to Q1, most companies use culture as a control mechanism to some extent. They mainly use explicit values and training programs to enforce the Organizational Culture, and try to find employees with personal values that match the company values.

Concerning Q2, respect is the most important trait for a manager to enjoy the company culture, followed by openness and teamwork. We find support that the Swedish culture and the Chinese culture are fairly compatible, and few managers mention cultural clashes as a reason to leave the company.

### **5.1.3. Employee Development**

Three of the case companies (Company A, B and F) have pronounced and structured Employee Development programs. These companies offer their employees continuous learning opportunities as well as structured career planning and goal setting in order for employees to grow and develop as individuals. Company C and D do not have such programs but have informal structures that satisfy the same purpose. Managers in all companies have a very strong focus on their development opportunities. The qualitative survey shows that this is the most important factor in the manager's propensity to leave their company.

#### **Measures by company (Q1)**

Company A, B and F have extensive training and learning programs. All of them have leadership programs and many functional training courses. Company B has a strong focus on learning by doing and close mentoring relationships. Company A has founded a college in Shanghai where employees and managers receive education.

Through continued coaching and visualized career paths, employees in these companies are encouraged to take on new challenges, strive for promotion and rotate between various functional areas. Also, career opportunities are clearly visualized by top management and commonly discussed. Company B is the company with the best overall training and development opportunities. No other company can match its efforts in terms of on-going coaching, on-the-job learning and job rotation opportunities.

Company A, B, C and F encourage managers to get international experiences. Chinese middle managers are sent abroad (often to Sweden) to be trained and to acknowledge their importance to the company.

Neither Company C nor D offers any formal career development programs to their middle managers. Instead they use informal ways of encouraging and supporting their managers. Managers chat with their subordinates in relaxed, social settings at all levels of the organization. Feedback, development needs, career opportunities and career goals are discussed at lunch walks, dinners and other social events. In both these companies, the

employees seem to have great development opportunities, even though these are not communicated to the employees in a transparent and structured way.

Company E offers its employees limited Employee Development opportunities. The company does not have any formal career planning and there are few signs of informal structures to promote the personal development of the employees. Company E has very few training courses and limited possibilities to offer its employees a vertical career. Functional job rotation, however, exists to some extent. Several Swedish managers admit that the company has failed in providing their employees with opportunities to personal development.

## **Effects on Retention (Q2)**

### *Interviews*

The middle managers in Company A, B and F are valuing career development opportunities highly. These managers are also generally very satisfied with the career opportunities within their respective companies and state that this is one of the most important factors in their propensity to change jobs. Particularly in Company B, the satisfaction with the opportunities to personal development is stressed among all middle managers.

Even though Company C and D only have limited formal career development programs to support their employees, the middle managers seem to be quite satisfied with their career development opportunities. Thus, the lack of formal training and formal career development programs do not seem to have a great influence on the middle managers satisfaction level.

This can mainly be explained by the fact that both Company C and D are fast-growing and successful companies. By being expansive companies, the middle managers can easily visualize attractive career opportunities. Also, as these companies need numerous managers in their rapid expansion, a well-performing manager has great opportunities to negotiate attractive training, tasks and positions with the company. Hence, informal development opportunities seem to be a satisfactory substitute to the employee programs discussed by Rosenwald (2000) and Moses (1999). It should be noted, however, that the managers in Company C and D are concerned with the lack of structured Employee Development

opportunities and consider this to be slightly frustrating. If the companies' expansion were to decline, the lack of such programs is likely to become much more problematic.

Company E, a company that offers very limited Employee Development, has obvious problems. Overall, the middle managers are unsatisfied with their development opportunities within the company, and many of them state this as a possible reason to leave the company. Even though Company E offers some functional job rotation, this does not seem to satisfy the middle managers in the company.

#### *Web-based Survey*

In the quantitative survey, Employee Development receives the highest scores among the three factors studied. Managers at Company B, C and F are most satisfied with their Employee Development. Company B and F have explicit programs and take pride in their Employee Development. Company C has no formal program but we believe the rapid development of the company has created ample development opportunities without formal programs or structures. Company E has by far the lowest satisfaction score for Employee Development, which corresponds well to the interview results.

#### **Summary**

With regards to Q1, three of the companies have formal employee training programs with courses, coaching and career planning. Two additional companies provide learning and career opportunities through informal structures, much thanks to the growth and development of the companies. One company lacks Employee Development opportunities.

As to Q2, Employee Development is emerging as the most important factor in retaining middle managers. The formal and informal structures to Employee Development seem to be working rather alike, but the latter is dependant on rapid company growth. Lack of Employee Development opportunities is a main factor why middle managers change jobs, as the Company E case clearly shows.

## **5.2. Reflections**

In this section, we will first discuss potential reasons for why the problem of employee turnover does not seem to be as great as we had expected. Second, we will look ahead and discuss trends and our beliefs of the future with regards to retaining managers in China.

### **5.2.1. Employee Turnover – A Less Significant Problem Than Expected**

After studying six Swedish companies in China, we conclude that the employee turnover situation was much less severe than we had initially expected. Two out of six companies have not lost a single manager during the past twelve months, and three additional companies have turnover figures below half of the China average. Only one company, Company E, has a turnover number higher than the country average. These results were quite surprising in light of the articles and reports we read prior to our study.

We believe the fact that the companies are Swedish could be a compelling factor explaining the low employee turnover. In a simple comparison with other multinational companies, Swedish companies seem to have considerably lower turnover rates. Sweden has remarkably low employee turnover on a national level and an exceptionally immobile labor market. Strong statutory employment security and strong labor unions can partly explain this (Harborn, 2006). It seems as if the Swedish tradition of employee security and focus on employee satisfaction apply for their Chinese subsidiaries as well.

Another potential explanation to our results may be that the problem in fact is actually less important than our pre-study indicated. The companies and organizations behind the reports and surveys claiming this to be a problem are not unbiased. HR consultants, management consultants and chambers of commerce all have an interest in magnifying problems of this kind since solving such problems is their source of income. When newspapers cover the issue, they often use statistics and statements from these organizations, which further reinforce the scale of the problem. Hence, a potential explanation is that the problem may not be as significant as various consultancies state.

### 5.2.2. Chinese Market Trends – The Future of Job-hopping

Johansson and Rimaz share the view that job-hopping is a sign of an immature labor market. Therefore, it is likely that the situation will change in the future when the Chinese market matures – but when, and how?

China has maintained a growth rate of approximately 9 percent since the first economic reforms were introduced in 1978 (World Bank, 2007). Johansson believes it will take an additional 20–30 years for the market to mature. Volvo's Rimaz believes the short-term oriented job-hopping can be explained by the fact that China has not experienced a recession in 30 years. After experiencing a recession, employees will be more wary about keeping their jobs, Rimaz argues.

Another factor possibly affecting the future of management turnover in China is the planned ratification of the new Chinese labor law, expected to take place in 2007. The draft of *Labour Contract Law of the People's Republic of China* has been widely criticized by foreign companies threatening to withdraw from China should the law be passed. The purpose of the new law is to strengthen employee rights and consequently weakening the employer rights. If anything, these measures are likely to increase the risk of job-hopping as regulatory measures such as lock-in periods after training programs will no longer be possible to put in employment contracts.

Hähnel believes that the issue of job-hopping in China is likely to remain unchanged in the near future since the number of foreign companies competing for talents is likely to increase, contributing further to an overheated market.

### **5.3. Conclusions**

This thesis aims at answering two questions:

- Q1) What measures are Swedish companies in China taking to control the level of employee turnover among middle managers?**
  
- Q2) How are these measures affecting the middle managers' propensity to leave their companies?**

Before presenting our answers to these two questions we will briefly comment on the management turnover in Swedish companies in China.

The six Swedish companies studied do not consider middle management turnover to be a major problem. The average turnover rate among middle managers in China is 11.5 percent (Hewitt, 2006), whereas the companies we examined have an average turnover of 4.6 percent. When conducting our interviews, it seems as if Swedish companies have lower turnover than many other foreign companies. However, as we have only studied Swedish companies, this conclusion lies outside the scope of our thesis.

There are a number of measures companies can take to retain its middle managers. After conducting a pre-study consisting of a literature study, expert interviews and mock interviews, we have identified the three areas we believe are the most important; Compensation and Benefits, Organizational Culture and Employee Development. Our key conclusions for Q1 and Q2 in each of these three areas are presented below.

### **5.3.1. Q1: What measures are Swedish companies in China taking to control the level of employee turnover among middle managers?**

#### **Compensation and Benefits**

Most Swedish companies aim at offering market average compensation. Among our case companies, only two companies deviated from this strategy; Company D aims at being in the 65<sup>th</sup> percentile and Company E in the 40<sup>th</sup> percentile compared to competitors in the same industry. Furthermore, the companies studied offer generous benefits, where health insurance and housing allowance are most prominent. None of the companies claim that the remuneration package is the most important strategy in retaining managers, but all companies admit that the level of compensation has a clear effect on the retention rate.

#### **Organizational Culture**

Most companies are very conscious about how they work with the Organizational Culture to retain employees. There are a number of striking similarities between how the studied companies use culture as a mean to retain employees. Respect for the individual, openness, teamwork and hierarchical flatness are some of the recurring cultural traits the studied companies are striving to achieve.

#### **Employee Development**

Three out of six companies have extensive Employee Development programs for the employees, with opportunities to learn, leadership courses, career planning and visualized career opportunities. Two other companies do not have any formal or structured Employee Development, but have informal structures aiming at achieving the same things. One of the studied companies, only have very limited Employee Development opportunities. All companies recognize the importance of offering ample Employee Development in order to retain the high-profile employees.

### **5.3.2. Q2: How are these measures affecting the middle managers' propensity to leave their companies?**

#### **Compensation and Benefits**

Middle managers are in general somewhat unsatisfied with their compensation in Swedish companies, mainly because they could earn more money in other companies. On the other hand, few middle managers state that the compensation level is crucial in their propensity to leave a company. Furthermore, according to the managers, the companies should redistribute parts of the fixed compensation to the variable compensation. The employees interviewed generally state they would demand a 50-100 percent raise to change jobs, whereas the market average salary increase is a 20-30 percent. This indicates that the Swedish companies studied have succeeded in creating retention structures where the employees are tied to the company by other than financial means.

#### **Organizational Culture**

Chinese middle managers generally find the Organizational Culture to be very important in their decision to stay with a company. Respect for people seems to be the cultural trait they value most. Many managers say that receiving respect is absolutely necessary to stay with an employer. Open communication, non-authoritarian leadership and acceptance towards mistakes are other important cultural traits that managers value. The managers generally speak very positively about the Swedish company culture.

#### **Employee Development**

In the companies studied, Employee Development emerges as the most important factor affecting the middle managers' propensity to leave a company. Interestingly, managers in the companies with formal structures are as satisfied as the managers in the companies with informal structures. We conclude that satisfactory company growth and performance may be enough to create opportunities for managers to learn and grow, even though no formal structures are in place. If there are only limited formal or informal Employee Development opportunities, however, managers tend to be unsatisfied and be more inclined to change jobs.

## 6. Discussion



*In this section, we discuss our research findings. Strengths and weaknesses, additional retention measures, generalization, and suggestions for further research will be discussed.*

### 6.1. Strengths and Weaknesses

Even though much is written on employee turnover, previous studies on our specific subject are very limited. Investigating what measures organizations are taking to limit their employee turnover among managers in the emerging Chinese market has, as far as we are concerned, not previously been investigated. In addition, the Chinese market is rapidly growing in importance for international companies. Hence, we believe that the relevance of our study is high.

Our study is based on extensive empirical data. In total, we have conducted 41 interviews of which 29 were interviewees in our six case companies. Apart from the company representatives, we have also interviewed external experts from various institutions and organizations. The consensus among middle managers, on the most important factors in their choice to stay with an employer, is striking. So is much of the way companies work with Compensation and Benefits as well as Organizational Culture. We believe that these results make our study more generalizable (see Chapter 6.4).

Our study has several weaknesses. First, there is an inherent problem in our approach as our ambition has *not* been to present an all-encompassing picture of the measures taken to limit employee turnover nor how these measures affect the managers in their propensity to leave their firms. Instead, we have chosen to focus on the three areas we believe are most important.

Second, we could have conducted more interviews with each company as well as with employees that have left the studied companies in order to get a more nuanced description

of the cases. The latter, however, would have been a difficult practical and logistical challenge as our stay in China was very limited. Also, more responses to the survey would have increased the reliability of our results.

Third, HR managers, Swedish managers and the Chinese middle managers may have incentives to idealize the image of the employee turnover situation, i.e. the measures taken and how these measures affect the employees. By granting all Chinese middle managers anonymity, we hope that this problem has been partly mitigated. Also, we have used the triangulation method to ensure the degree of truth and accuracy of our empirical results.

Last, performing interviews with Chinese people in English creates language barriers. The expositions are likely to be less detailed and less clear compared to if the interviews had been performed in Chinese.

## **6.2. Theoretical Implications**

### **Compensation and Benefits**

We have found that Compensation and Benefits are integral parts of the retention strategy in all of our case companies. It also seems to be a powerful factor in retaining employees. Hence, we find support for the arguments presented by Zobel (1998) and Lawler (1996). In accordance with Feldman & Arnold (1993), we find evidence for the argument that the relative compensation level, rather than the absolute level, has a great impact on employee retention. Furthermore, we find support for the argument that a high level of transparency in compensations packages weakens their effectiveness as a retention strategy, as this method can be imitated and matched by other companies on a structural level (Cappelli, 2000).

Our results, however, do not confirm Wang's (2006) argument that external inequality in compensation is the most common reason to leave a company. Rather, Compensation and Benefits seem to be the least important retention factor of the three areas we have studied. A majority of the middle managers claim that they would not change jobs even though they were offered a considerable salary raise.

### **Organizational Culture**

Our results correspond well to Sheridan's (1992) findings; the Organizational Culture is an important and widely used retention measure. Along with Sheridan (1992) and Kerr & Slocum (1987), we also find respect for employees to be particularly important to make employees stay. Moreover, our results support that argument that a good fit between individual and organizational values lowers employee turnover (Schneider, 1987). Kerr & Slocum (1987) also argue that a high level of teamwork, openness and feeling of security have a positive effect on employee retention. Our study backs these findings. Hence, our study confirms much of the literature regarding Organizational Culture as a retention measure.

### **Employee Development**

Our study confirms that providing learning programs as well as opportunities to grow and fulfill personal goals are common and important tools to retain employees (Logan, 2000; Garger, 1999). As Rosenwald (2000) suggests, we find a positive correlation between companies with learning programs and low employee turnover. We also find strong support for Moses' (1999) findings; career planning is important to help employees find a suitable career as well as to signal that the company is supporting employees in pursuing their goals.

### **6.3. Other Measures to Control Employee Turnover**

Our three-factor analysis does not attempt to present an all-encompassing survey of the measures Swedish companies take to retain middle managers. Instead, we have identified the three factors we believe are the most important ones. When carrying out our semi-structured interviews, several other measures to retain managers as well as other factors affecting managers' propensity to change jobs have been discussed. Even though we did not have the same focus on these factors (and will not elaborate on them to the same length as the three areas discussed above), we will briefly discuss them below. It should be noted that these factors are *not* included in the empirical data in Chapter 4.

One of these areas is *job design*, including the level of autonomy, flexibility and variation in the everyday job. These factors were, to a small extent, mentioned as a part of the

companies' retention strategies. However, several of the middle managers held these factors to be quite important in their choice to stay with a company.

Another area that receives attention is the *work life balance*. Some of the companies state that they explicitly encourage their employees not to work overtime whereas other companies encourage their co-workers to work hard and long hours. Interestingly, the stated efforts to create work life balance do not seem to affect the satisfaction level of the middle managers. Company B seems to have the strongest focus on work life balance whereas Company D has the least focus of the studied companies. Even so, the middle managers at Company B in fact seem to be less satisfied with their work life balance than the ones at Company D.

*Office location and office environment* were other factors that the middle managers claimed to be important. Apart from Company D, which has a pronounced strategy to lease high-class offices in attractive areas, none of the companies state that they take these factors into consideration in their efforts to retain middle managers.

#### **6.4. Generalization**

We have performed six case studies of Swedish companies in China. These companies represent different industries and are located in different cities. The companies have very different experiences of the Chinese market, varying from 4 to 12 years of activity in China. Although the selection of companies is diverse, we have found many similarities in terms of measures taken to reduce employee turnover among managers as well as how these measures seem to affect the middle managers. Hence, we believe that our study rather well can be generalized to large, Swedish companies in China. However, as the Chinese market is rapidly developing, there is a risk that our findings will become obsolete within a relatively near future.

#### **6.5. Suggestions for Further Research**

When starting to conduct research on this subject, we strongly believed that the turnover situation in Swedish companies was similar to other foreign companies in China. After

finishing our study, we have several indications that Swedish companies are performing significantly better than their foreign peers in terms of retaining employees. However, we had neither time nor resources to test this hypothesis. Therefore, a comparison between Swedish companies, on the one hand, and American, Asian and other European companies, on the other, would be interesting.

A second area we would like to shed light on is the financial consequences of particular retention strategies. At the end of the day, a company's main purpose is to create shareholder value. Having a low turnover therefore is no end in itself, but a mean to create shareholder value. Obviously, having the highest salaries on the market, spending the most resources on Employee Development and investing greatly in creating a strong culture would most certainly have a positive effect on retention, but would it be worth the investment? Are American companies losing money because they have higher turnover than Swedish companies? They generally appear to have higher recruitment costs and salary costs, but possibly also more productive and hard-working employees. This question is difficult to answer, but clearly many American companies are being successful in China despite high employee turnover. We suggest that scholars investigate the financial effectiveness of various retention measures.

A third area of interests is the concept of cultural glass ceilings, namely that Chinese managers cannot reach top positions as they are earmarked for foreign managers. Some additional research on how much the nationality of the top managers influence turnover and company performance would be an interesting contribution to the academia.

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## **7.2. Case Company Interviews**

### **7.2.1. SKF**

Johansson, Magnus, *General Manager*, Shanghai, 2006-11-20

Wang, Sarah, *HR Manager*, Shanghai, 2006-11-20

Person 1, *Middle Manager*, Shanghai, 2006-11-20

Person 2, *Middle Manager*, Shanghai, 2006-11-20

Person 3, *Middle Manager*, Shanghai, 2006-11-20

### **7.2.2. IKEA**

Rosengren, Johan, *HR Manager*, Beijing, 2006-11-06

Person 1, *Middle Manager*, Beijing, 2006-11-06

Person 2, *Middle Manager*, Beijing, 2006-11-06

Person 3, *Middle Manager*, Beijing, 2006-11-06

Person 4, *Middle Manager*, Beijing, 2006-11-06

### **7.2.3. Sony Ericsson**

Fan, Flora, *HR Manager*, Beijing, 2006-11-09

Oscarson, Joakim, *General Manager*, Beijing, 2006-11-09

Person 1, *Middle Manager*, Beijing, 2006-11-09

Person 2, *Middle Manager*, Beijing, 2006-11-09

Person 3, *Middle Manager*, Beijing, 2006-11-09

#### **7.2.4. EF**

Södervall, Dan, *General Manager*, Shanghai, 2006-11-24

Xu, Angela, *HR Manager*, Shanghai, 2006-11-23

Person 1, *Middle Manager*, Shanghai, 2006-11-24

Person 2, *Middle Manager*, Shanghai, 2006-11-24

#### **7.2.5. Electrolux**

Rydh, Ronny, *Sales Operations Manager*, Shanghai, 2006-11-24

Vigren, Anders, *CFO China*, Shanghai, 2006-11-27

Wang, Henry, *HR Manager*, Shanghai, 2006-11-27

Person 1, *Middle Manager*, Shanghai, 2006-11-24

Person 2, *Middle Manager*, Shanghai, 2006-11-24

Person 3, *Middle Manager*, Shanghai, 2006-11-27

#### **7.2.6. Ericsson Simtek**

Fahlén, Åke, *General Manager*, Shanghai, 2006-11-21

Grahn, Stefan, *Design Manager*, Shanghai, 2006-11-21

Xiong, Iris, *HR Manager*, Shanghai, 2006-11-21

Person 1, *Middle Manager*, Shanghai, 2006-11-21

### **7.3. Expert Interviews**

Chen, Yvonne, *General Manager*, Swedish Chamber of Commerce Beijing, 2006-05-29

Harborn, Mats, *Chairman of the Swedish Chamber of Commerce in China*, Shanghai, 2006-11-13

Hähnel, Fredrik, *Vice president, SEB Merchant Banking*, Shanghai, 2006-11-24

Liu, Emily, *Compensation and Benefits Manager, Volvo Group*, Beijing, 2006-11-10

Ljungwall, Christer, *Professor at Beijing University*, Beijing, 2006-10-30

Mullinjer, Steve, *General Manager of Heidrick & Struggles China*, Shanghai, 2006-11-24

Niu, Diana, *HR Manager, Volvo Group*, Beijing, 2006-11-08

Rimaz, Benoit, *General Manager at Volvo Construction Equipment*, Shanghai, 2006-11-22

Zhang, Jin, *Professor Tsinghua University and former HR-manager*, Beijing, 2006-11-01

#### **7.4. Mock Interviews**

Hansdotter, Eva, *HR Manager SKF*, Gothenburg, 2006-10-31

Zhang, Jin, *Professor Tsinghua University and former HR-manager*, 2006-11-01

#### **7.5. Informal Discussions**

Wang, Candice, *MBA Student at Tsinghua University in Beijing*, Beijing, 2006-10-24

Yang, Charles, *MBA Student at Tsinghua University in Beijing*, Beijing, 2006-10-27

# Appendices

## ***Appendix 1: Interview Guide***

### **Questions to all Interviewees**

#### **General Questions**

- Briefly describe your previous working experience
- Briefly describe your current job

#### **Compensation and Benefits**

- Please describe the different parts in your Compensation and Benefits package
- What is the split between fixed and variable salary?
- How is your compensation level compared to competitors? What part(s) of the combined Compensation and Benefits package stand(s) out in a comparison?
- Is the level of compensation flexible/negotiable on the individual level?
- Describe the opportunities for long-term salary increases in your company
- Is the compensation system transparent, i.e. do employees know how their salaries are set and what other employees make?

#### **Organizational Culture**

- Please describe the Organizational Culture of your company. What are the most important traits of the culture?

#### **Employee Development**

- What learning programs and courses are offered?
- Is career planning offered to employees? How is it structured?

## Specific Questions to HR and Swedish Managers

### General Questions

- What is the current rate of employee turnover among all staff and middle managers respectively? How has this number changed over the last five years?
- Is employee turnover among middle managers considered to be an issue in your company? Has this changed over the last five years?
- What measures are you taking to control middle management turnover?
- What do you think are the main reasons middle managers choose to *stay* with your company?
- What do you think are the main reasons middle managers choose to *leave* your company?

### Compensation and Benefits

- Are you using Compensation and Benefits as a tool to retain middle managers? If so, please elaborate.

### Organizational Culture

- Are you using the Organizational Culture as a tool to retain middle managers? If so, please elaborate.
- Please comment on how you work with the following cultural traits:
  - Respect
  - Communication
  - Hierarchy
  - Relationship between top and middle management
  - Information channels to inform middle management
- How much is the local subsidiary's culture influenced by the global company culture?

### Employee Development

- Are you using Employee Development programs as a measure to retain middle managers? If so, please elaborate.

- Please comment on how you work with the following measures to enforce Employee Development:
  - Learning opportunities and training courses
  - Help with career planning
  - Opportunities to make a horizontal career
  - Opportunities to work abroad
  - Opportunities to job-rotation
- Please comment on the career opportunities for middle managers

## **Specific Questions to Middle Managers**

### **General Questions**

- What do you think are the main reasons middle managers chose to *stay* with your company?
- What do you think are the main reasons middle managers chose to *leave* your company?
- What are the most important reasons why you have stayed with your company?
- What could potentially be reasons for you to leave your company?

### **Compensation and Benefits**

- In general, are you satisfied with you Compensation and Benefits package?
- What is the best part and what could be improved?
- How important are the Compensation and Benefits in your decision to stay with your company?

### **Organizational Culture**

- What is good about your company's culture?
- What could be better?
- Is the company culture an important factor for your staying with the company? What are the most important cultural traits affecting your retention?
- Please comment on how satisfied you are with the following cultural traits and how important they are in your decision to stay with a company:

- Respect
- Open communication
- Hierarchies
- Relationship with top management
- Information flow from management

### **Employee Development**

- How important is your personal development needs in your decision to stay with a company
- Please comment on how satisfied you are with the following aspects of your personal development and how important they are in your decision to stay with a company:
  - Learning opportunities and training courses
  - Help with career planning
  - Opportunities to make a horizontal career
  - Opportunities to work abroad
  - Opportunities to job-rotation
- What improvements could be made to your company's Employee Development?

## Appendix 2: Web-based Survey

Below is web-based survey sent to middle managers in our case companies used to quantitatively validate the results from the qualitative interviews.

**Experience**

Number of years of work experience

Number of years with your current company

**Compensation & Benefits (C&B)**

|   | Your current satisfaction level regarding this factor in your company |                       |                         |                       |                       | Importance of this factor for your staying with the company |                       |                        |                       |                         |                                 |
|---|---|-----------------------|-------------------------|-----------------------|-----------------------|---|-----------------------|------------------------|-----------------------|-------------------------|---------------------------------|
|   | 1) Not satisfied  | 2) Somewhat satisfied | 3) Moderately satisfied | 4) Satisfied          | 5) Very satisfied     | 1) No importance  | 2) Little importance  | 3) Moderate importance | 4) High importance    | 5) Very high importance | Don't know/Don't want to answer |
| 1. Higher fixed salary than industry average:                             | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |
| 2. Higher bonus than industry average:                                    | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |
| 3. Longer vacation period than what is mandated by the Chinese labor law: | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |
| 4. Competitive housing allowance:   | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |
| 5. Competitive health insurance:  | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |
| 6. Additional pension scheme funded by the company:                       | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |
| 7. Overall importance - Compensation and Benefit package:                 | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/>                                       | <input type="radio"/> | <input type="radio"/>  | <input type="radio"/> | <input type="radio"/>   | <input type="radio"/>           |

**Company culture**

|  | 1                     |                       |                       |                       |                       | 2                     |                       |                       |                       |                       | N/A                   |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 1                     | 2                     | 3                     | 4                     | 5                     | 1                     | 2                     | 3                     | 4                     | 5                     |                       |
| 8. Good fit between your personal values and company values:     | <input type="radio"/> |
| 9. Respect from superiors (managers):                            | <input type="radio"/> |
| 10. Leadership style of superiors (managers):                    | <input type="radio"/> |
| 11. Close personal relationship to superiors (managers):         | <input type="radio"/> |
| 12. Close personal relationship to other colleagues:             | <input type="radio"/> |
| 13. Open and direct communication with superiors and colleagues: | <input type="radio"/> |
| 14. Overall importance - Company Culture:                        | <input type="radio"/> |

**Personal development**

|  | 1                     |                       |                       |                       |                       | 2                     |                       |                       |                       |                       | N/A                   |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 1                     | 2                     | 3                     | 4                     | 5                     | 1                     | 2                     | 3                     | 4                     | 5                     |                       |
| 15. Promotion opportunities within your company:                                     | <input type="radio"/> |
| 16. Belonging to a "Key Employees Program" (or similar) supported by top management: | <input type="radio"/> |
| 17. Company assisting with career planning:  | <input type="radio"/> |
| 18. Company providing various training programs:                                     | <input type="radio"/> |
| 19. Recognition when doing a good job:   | <input type="radio"/> |
| 20. Overall Importance - Personal development:                                       | <input type="radio"/> |

**Other factors or comments relating to retention and turnover:**

Submit Reset

### **Appendix 3: Hofstede's Cultural Dimensions**

| <b>Dimension</b>            | <b>Sweden</b> | <b>Hong Kong</b> | <b>Highest score</b> | <b>Lowest score</b> |
|-----------------------------|---------------|------------------|----------------------|---------------------|
| Power Distance Index        | 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 Index    | 33            | 96               | Hong Kong (96)       | Pakistan (0)        |

*Table composed by Brattström and Mahlberg (2006) based on Hofstede (1988)*