

CHALMERS



Developing the next generation leaders in China
A cross-sectional study of 18 Swedish multinational companies in
Shanghai and Beijing
Master of Science Thesis

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Abstract

As a result of China's rapid financial growth, the Chinese market is shifting from being a low cost production site to focusing increasingly more on domestic consumption. Many of the largest Swedish firms are established in China, most of them have western leaders as executives. However, scholars show that expatriate managers often tend to lack both a sufficient understanding of the business life in China and an adequate proficiency of the Chinese language. This together with the quick development of China indicates a need for more Chinese at the top. Studies show that western leadership development theories might not be entirely applicable in China and that few western MNCs have a structured approach towards Chinese leadership development. Furthermore there are indications that the mindset among the next generation leaders has changed during the last decades. Studies indicate that today's companies have outdated views on the next generation leaders, why this study aims to clarify this topic.

Based on interviews with top executives and Chinese potential future leaders (high potentials) in 18 different Swedish companies in Shanghai and Beijing, this cross-sectional study discusses how well the views on leadership and leadership development correlate between these groups and what potential differences could imply.

The findings indicate significant gaps between the views on leadership and leadership development among the interviewed groups. For example, executives tend to see money as the most important motivational factor for Chinese high potentials, in contrast to the view of the high potentials themselves who seem to view money as more of a hygiene factor, valuing softer factors such as personal development higher. Executives also underestimate the importance of work-life balance, visionary leadership and creating a feeling of participation of ownership among the high potentials. Furthermore the study shows that high potentials want to take on more responsibilities, something that the executives seem hesitant to provide them with. By decreasing this gap, the study argues that the large retention problem among many companies in China can be reduced. The study also reveals differences in how a good leader is defined and points out difficulties on how to develop the knowledge of future leaders.

In order to bridge the identified differences, the study recommends a higher focus among the companies on building a strong corporate culture as well as establishing mentorship programs and providing the high potentials with more international assignments.

Keywords: *Leadership, Leadership development, Talent management, Multinational companies, Cross-cultural, China*

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1 Introduction

The importance of the Chinese market is steadily increasing. As of today, many of the largest Swedish companies are present in China. Most of them have western leaders as executives. Studies however indicate that expatriate leaders tend to lack both a sufficient understanding of the business life in China and an adequate proficiency of the Chinese language (Selmer, 2005). Having competent Chinese leaders in the management team is therefore of high strategic importance. At the same time, Jinsong et al. (2011) find that western leadership development practices might not be entirely applicable to a Chinese context and thus needs to be adapted to local conditions.

Further complicating the issue, the one-child policy together with China's strong growth in the global market has made the young population more career-focused and individualistic than before. A study by King-Metters (2007) indicates that the Chinese mindset has evolved significantly during the last years. She argues that because of this, the western perceptions of what drives and motivates Chinese employees might be outdated and wrong. This relates to a survey among 246 executives in China, conducted by Fernandez et al. (2012) which identifies that the top challenges for companies present in China are to find and retain the right human resources and to secure the right local knowledge. Furthermore, networking and to ensure the quality of the management team are seen as top success factors (Fernandez et al., 2012).

Cooke (2009, p. 24) concludes, by reviewing 265 journal articles about human resource management in China that *"more studies need to be conducted from the employee's perspective"*. Thus, the importance of a study in this area is significant since it can create better prerequisites for more effective leadership development among multinational companies in China.

1.1 Purpose & Research Question

The purpose of this master's thesis is to investigate how well the views on leadership and leadership development between current executives and promising young Chinese leaders in Swedish multinational companies (MNCs) correlate. As mentioned above, there is an indication that the quick development of China has changed the mindset among the future generation top leaders and that current executives might not be fully aware of how.

If there is a gap between what high potential Chinese employees perceive they need in order to be successful as future top leaders in Swedish MNCs, and what these firms offer and plan to offer the high potentials in terms of leadership development, there could be a strategically important problem. This master's thesis aims to identify whether there is a gap and to discuss what the potential consequences of this potential gap could be. The results can be used by Swedish MNCs to improve their understanding of the next generation leaders.

With this purpose in mind, the following research questions have been constructed:

- *How do Chinese high potentials perceive leadership and leadership development in Swedish multinational companies in China?*
- *How does this view differ from the views of top executives in Swedish multinational companies in China?*
- *What could be possible consequences of this potential mismatch?*

1.2 Scope and Delimitations

Given the vast geographical distances and the significant regional differences within China, this report has been delimited to cover Shanghai and Beijing. These are two cities of high importance for Swedish MNCs since this is where most Swedish establishments can be found as seen in Figure 1.

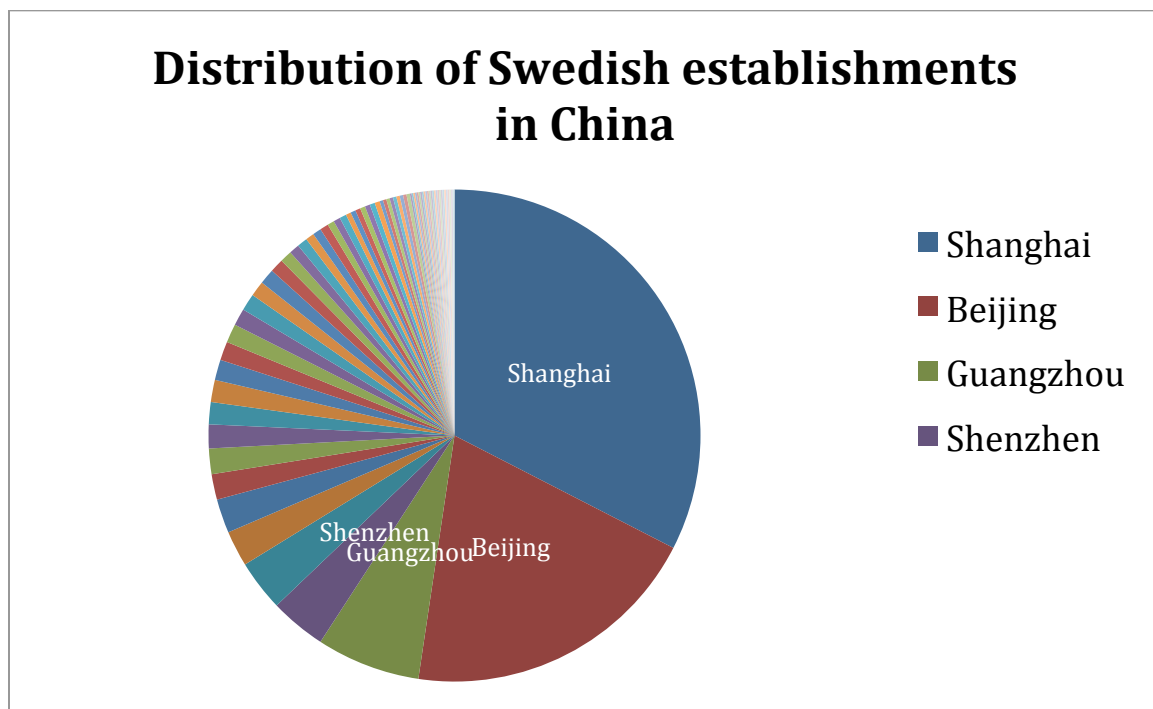


Figure 1: Illustration of geographical dispersion of Swedish establishments in China. Source: Swedish Trade Council, 2010

Rather than comparing differences between companies or industries, the ambition has been to identify general patterns and opinions among the interviewed executives and promising Chinese high potentials. Many of the interviewed companies operate in quite different industries and therefore the discussions around leadership development have been kept at a fairly general level, thereby avoiding industry specific topics.

2 Theoretical framework

Understanding leadership in China is difficult without considering the historical context. Therefore a brief history of China will be provided below. Subsequent is a presentation of how firms compete in changing markets, followed by a chapter on leadership and leadership development. This theoretical framework will form the baseline for the analysis of the empirical data.

2.1 A brief history of China and its culture

During 2000 years, China was ruled by imperial dynasties. The dynasties created a strong hierarchical, sometimes totalitarian society and each emperor ruled the empire with what was called a mandate from heaven. Before and parallel to the dynasties, the ideas of Confucius developed and influenced the mindset of the Chinese population. The emperors of China ruled the country until they were forced off the throne in early 1900s (Eklund, 2011). Even though the time of the emperors is long since past, the signs of Confucianism and the strong hierarchical system can still be seen, both in the behavior of the Chinese people and in Chinese company structures (Lin, 2008).

After the last emperor was forced off the throne in the early 1900, years of chaos followed, shattering the country into pieces and ruining the economy (Eklund, 2011). These years of turbulence became the seed for the communism in China, later forming what came to be the communist party (Eklund, 2011). Declaring the People's Republic of China in 1949 was the starting point for the regime still in power today (Eklund, 2011). More recently, the 20th century has been characterized by the Cultural Revolution, the one child policy and the rapid financial development.

All these topics can be said to have had an influence on the Chinese mentality and consequently the leadership (Eklund, 2011). Thoughts on how will be presented below, after an initial presentation of national culture.

2.1.1 National culture in a Chinese context

"From the lessons of history, culture seems a stronger force than any army or defense system. The real Great Wall defending China has always been its culture." (Fernandez, 2004, p. 24). This quote exemplifies the importance of the Chinese culture in the history of China. Even though many major changes have occurred during the history some strong aspects within the country have stayed similar (Fernandez, 2004).

In order to understand the aspect of national culture, Hofstede (1983) conveyed a big world-wide survey within IBM, comparing the results within different nations. He argues that an organizational culture is dependent on the national culture in which the organization acts. A national culture can be described in five different dimensions. Those dimensions are: power distance, uncertainty avoidance,

individualism versus collectivism, masculinity versus femininity and long-term versus short-term orientation (Hofstede, 1983).

1. Power distance

Power distance is described as the inequality of power among members of an organization. A country scoring high on power distance has a strong hierarchical structure, often based upon family relations. The leadership in the country is therefore also more hierarchical.

2. Uncertainty avoidance

Uncertainty is described as the anxiety levels of the employees and their behaviors to avoid situations that could increase this anxiety.

3. Individualism versus collectivism

Individualism refers to the importance of personal time, freedom and challenges. In an individualistic country families have looser bonds to each other and the importance of taking care of yourself is high. In the collectivistic country, bonds to the extended family are strong. There is also a need for people to practice and improve their skills, in contrast to the individualistic where acquiring new skills are of higher importance. Hofstede (2007) further argues that countries that are becoming richer can also expect to become more individualistic.

4. Masculinity versus femininity

This is to what extent the importance of salary, recognition, advancement and challenge are important, where high on these scores is described as a masculine behavior. A feminine country could also be seen as caring for the weak.

5. Long-term versus short-term orientation

This fifth dimension was added after the others and includes the relationship between long-term versus short-term orientation. In a long-term orientation thrift and persistence are important, while “face” and traditions are more important in the short-term orientation (Hofstede, 2007).

In Hofstede’s original study, China was not included, but Pheng and Yuquan (2002) describe the Chinese culture in a more recent study. They depict the Chinese culture as a collectivistic country with a high power distance and a medium high uncertainty and masculinity level. Hofstede and Bond (1988) add that China has a strong long-term orientation. If the Chinese dimensions are put into reference with the Swedish results of Hofstede’s four original dimensions from 1983, the following table is shown (see Table 1). Even though these studies are conducted with a long time in between, they do still elucidate a clear difference in country culture.

	Power Distance Range: 11-104	Uncertainty Range: 8-112	Individualism Range: 6-91	Masculinity Range: 5-95
China [2002]	64	35	18	34
Sweden [1983]	31	29	71	5

Table 1: Country culture in China and Sweden according to Hofstede's four original dimensions.

As shown in table 1, the Chinese dimensions differ to the Swedish culture according to these sources. The leadership needed in these cultures is therefore different, where hierarchy and incentives like money and titles differ, as well as the characteristics of the relationships. According to Lin (2008), the Chinese culture is affected by a mix of communistic, collectivistic and Confucian values, influencing leadership in China today. These three do not cover all aspects of Chinese culture, nor are they mutually exclusive. Instead they overlap and interrelate with each other, affecting the Chinese mindset in different ways.

2.1.1.1 Confucianism

How a leader is perceived by the Confucian values is described by Mayer (1960), stating that a Confucian leader should be a morally appealing "superior man". Fernandez (2004) continues stating that this "superior man" should be a leader by serving as a role model to his or her subordinates, a clear example of the strong hierarchical relations. Confucius argued that there are five relationships of importance. Four of them; ruler/subject, father/son, husband/wife as well as older/younger are based on power distances (Lin, 2008). According to Dorfman et al. (1997), the strong power distance due to centralization and hierarchy creates a weakness in Chinese management as employees seldom give their input to the organizations development. Lin (2008, p. 309) adds "*Open contradiction to superiors in presence of others is a taboo because it is considered as a threat to the superiors' face*". In addition, Spreitzer et al. (2005) argue that the Confucian values, due to their strong focus on hierarchy, harmony, respect for authority and conflict avoidance, have a negative effect on effectiveness and transformational leadership.

2.1.1.2 The importance of guanxi in Chinese relationships

Confucianism is described as the basis for the large power-distance in Chinese hierarchies. This is also mentioned by Beamer (1998) as a strong factor affecting cross-cultural collaboration in China. Confucianism as a tool to create social order does also include the notion of guanxi, a Chinese term closely related to work relationships, often discussed when touching upon leadership in China (Hui & Graen, 1998; Lin, 2008; Simon & Cao, 2009). Hedberg (2003, p. 2) defines guanxi as "*a Chinese system of favours emphasizing trust, often founded on ... common experiences*". Björkstén and Hägglund (2010) add that guanxi builds on mutual reciprocity between individuals, often warm and personal. Relationships within guanxi are, according to Hui and Graen (1998), extremely exclusive and

deterministic and often related to intimate relationships. Bian and Ang (1997) argue that two individuals need to know a great deal about each other in order to create guanxi. When created, a high level of trust exists between the two, often covering more than just the normal business favors. In comparison to the more western leadership style where leaders and subordinates exchange mutual knowledge with each other, a difference can be seen according to Graen and Uhl-Bien (1995). In western countries relations are often based upon competence, why they are more easily adapted to changes in the external environment. Guanxi on the other hand is a more static relationship but it contains a higher level of trust instead (Graen and Uhl-Bien, 1995). The importance of fulfilling duties within guanxi is also high. Bian and Ang (1997) even state that kinship connections can be lost if a person does not fulfill the obligations related to guanxi. The importance of guanxi was predicted to decrease due to an increase of international alternatives, according to Hedberg (2003). Ten years later though, Hedberg (2013) states that this has not been the case. The guanxi within the communist party has become stronger. Since the pace of development of China has been significant, Hedberg (2013) argues that personal relationships within guanxi have also functioned as a protection towards external corruption created by the rapid development of China.

An additional factor having an important role in the Chinese culture is the notion of saving face. Lin (2008) argues that some Confucian parts in the Chinese culture, such as saving face and avoiding damaging guanxi, would encourage managers in China to use gifts, coalition tactics and upward appeals as tools to influence decisions in their favor. Fu and Yukl (2000) add that because of the high uncertainty avoidance and the strong collectivistic tradition, Chinese managers would prefer indirect influencing tactics in favor of direct such.

2.1.1.3 Collectivism and communism

As described by Pheng and Yuquan (2002) and House et al. (2004), China has a strong collectivistic culture. Littrell (2002) describes a collectivistic culture as based around the “we”, in the Chinese case referring to the family, extended family and the communist party. This can also be seen in the importance of guanxi as mentioned above. Littrell (2002) adds that poor countries often tend to emphasize collectivistic values more than rich countries do. Littrell (2002) mentions a number of characteristics for collectivism. A few of them are:

- Collectivist cultures regulate behavior through shame or loss of “face”;
- Hiring persons from one’s family reduces business risk;
- In-group and out-group can be important in business relations, with friends and relatives getting better treatment.

Littrell (2002) p. 17

Even if these are described as collectivistic values and characteristics, Lin (2008) argues that they can also be found in the Confucian values.

The communistic part of the Chinese culture is harder to define, but Hui and Tan (1999) as well as Ling (1989) state that the strong moral aspect of the Chinese leadership origins from communism. According to Ling (1989), commitment to following the law, willingness to follow the directives of the communist party as well as fairness are important step stones influencing organizational behavior, not described by either Confucianism or collectivism. On the other hand, China is facing major problems with corruption, not in line with these step stones. For example, Fernandez et al. (2012) find that three fourths of all European companies in China regard corruption as a moderate to serious problem. This departure from the communistic values is affected by the financial development in China, in other words a drift from communism towards capitalism (Eklund, 2012).

2.1.2 The Cultural Revolution

In 1967, Mao Zedong initiated what has been known as the Cultural Revolution in an attempt to enforce the power of the communist party by reducing capitalism and cultural elements within the Chinese society. 17 million of the educated young in the cities were sent to rural areas to be educated by the farmers (Zhou & Hou, 1999). Mao stated in 1968 *"It is necessary for the educated youth to go to the countryside and be re-educated by the poor peasants. We need to persuade cadres and other in urban areas to send their children who graduated from junior-high, senior high and college to rural areas."* (Zhou & Hou, 1999, p. 12).

Apart from the extreme effect on the educational levels in China when schools and universities were closed, academics were killed and students were sent to be retaught, the Cultural Revolution did also bring several other major implications (Meng & Gregory, 2002). To reduce the capitalistic ideas among the population, many of the educated were accused of not being faithful to Chairman Mao and the communistic ideas. This created a culture where no one was protected from accusations, not even from their own family and friends. Millions were killed during the decade, which had a strong impact on openness, initiative and expressions among the Chinese people (Meng & Gregory, 2002).

2.1.3 One-child policy

In 1979-1980, the one-child policy was introduced in China as a tool to reduce the high growth of the population. By restricting the number of children every woman is allowed to have to one, the birth rates has decreased rapidly (Hesketh et al., 2005), see Figure 2. The policy has further had a larger impact, beyond affecting the birth rates. As a direct cause of the one-child policy, the ratio between old and young in China has changed rapidly. As shown in Figure 2, the percentage of the population over the age of 65 has increased from 5 % in 1982 to an expected level of 15 % in 2025 (Hesketh et al., 2005). On top of that, due to the lack of a public pension system, 70 % of the population above 65 are expected to need financial support from other sources than the government (Sun, 1998). This has created a strong financial burden upon the young, which is expected to grow further in the future, unless other changes take place (Zimmer & Kwong, 2003).

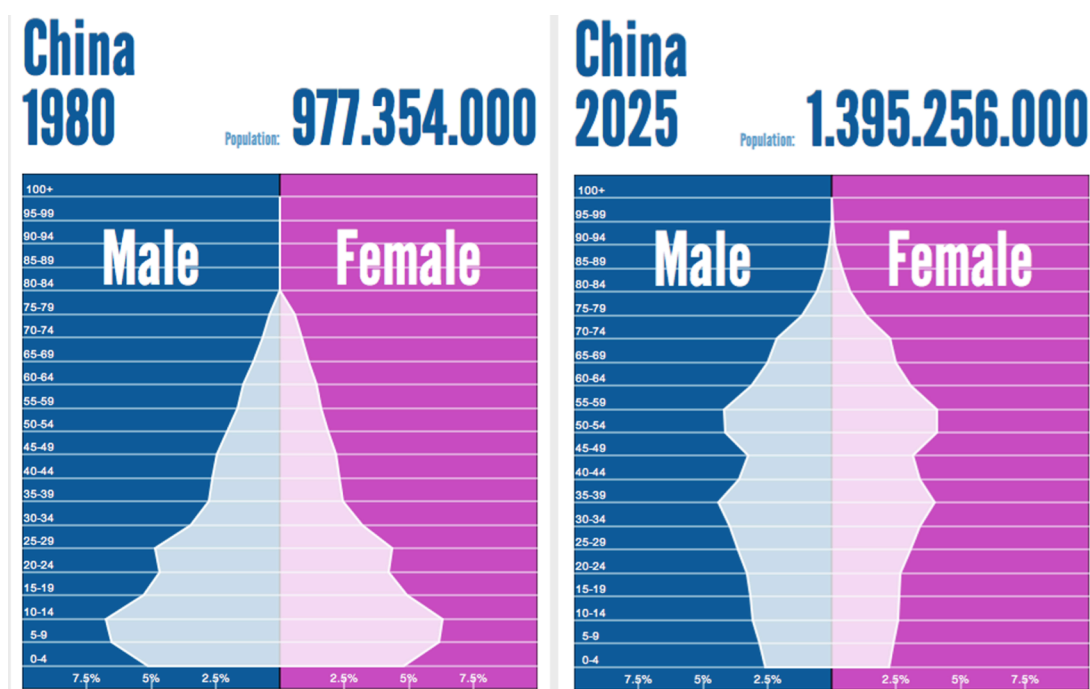


Figure 2: Historic and predicted population pyramids of China 1980 and 2025.
 Source: (United Nations, 2011) Retrieved from <http://populationpyramid.net>

The one-child policy is also argued to have changed the mindset of the young as they gain the full attention of their parents. Some say that this changing mindset of the spoiled “little emperors” is a major concern in Chinese society (Baker, 1987; Cutler, 1988). Others argue that Chinese parents do not spoil their children, but state that they just worry about their children’s coming careers (Zhang et al., 2001). In a study by Luo and Lagerdahl (2011), clear differences in behavior can be seen between the different generations of Chinese. According to the authors, people born in the 70s have a strong family focus, while the focus of the 90s generation has shifted into a much more individualistic such. The people born in the 80s are said to be more competitive than other generations, partly due to the one-child policy, but also due to the increased competitive climate in China. These differences are also brought up by Singh (2011), who agree to these differences but do further emphasize the gap in mindset between the current middle manager of large companies, often born in the 70s or earlier, and the younger generations. He argues that these differences are a major concern for international companies in China because behaviors among the young are not understood by the older generations.

According to Lagerdahl et al. (2012), the younger generation also have a changed view upon employment and work. Graduates have very high expectations on their work, sometimes even unrealistic. They expect to be promoted early and will not stay if they become dissatisfied with their job. Lagerdahl et al. (2012, p. 23), further emphasizes this change in behavior by stating “*Many graduates reject as outdated the notion that they have to work hard in order to succeed*”. The authors recommend a focus on management of the expectations among middle managers as one step in order to reduce the clash between the older and the younger generations. These

middle managers can in turn affect the expectations of newly employed (Lagerdahl et al., 2012).

2.1.4 China's rapid financial development

After the Cultural Revolution, China went through major changes that created a strong growth in the economy. Today, the role of China as the world's low cost producer is changing as the salaries and welfare increases. This in turn has increased domestic consumption, reducing the dependency on export. The GDP growth has been steady at levels around 10 % per year over the last 20 years, as shown in Figure 3 (World Databank, 2013).

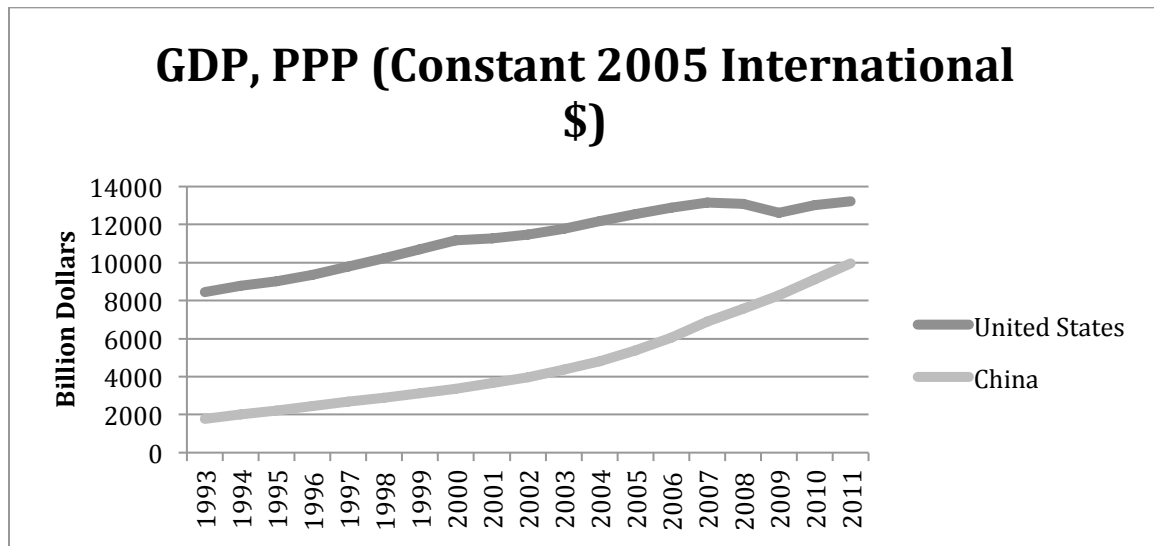


Figure 3: China's economical growth during the last 20 years compared to the growth of the United States.¹

Source: World Databank (2013)

The role of China is changing from export towards a greater service focus, which can be illustrated by looking at the share of wages to GDP. The share has been around 50 % between 1990 and 2008, not far from the numbers of US in the beginning of the 20th century. This implies a strong export due to low prices of production as a consequence of low wages. In 2015, the share is predicted to have grown to 62 % of GDP, getting closer to the numbers of the US in the end of the 20th century (Credit Suisse, 2011). The Chinese market is continuing to grow in size as well. Credit Suisse (2011) expects the GDP to almost double in size during 2010 to 2015. McKinsey Quarterly also discuss the rapid growth of the Chinese market. They argue that the

¹ The figure shows gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States.

upper middle class segment will grow quickly at the same time as the numbers of urban households will increase from 191 million to 280 million between 2005 and 2015. This is predicted to accelerate the middle class spending, for example on things such as food, recreation and household products. (Farrell et al., 2006)

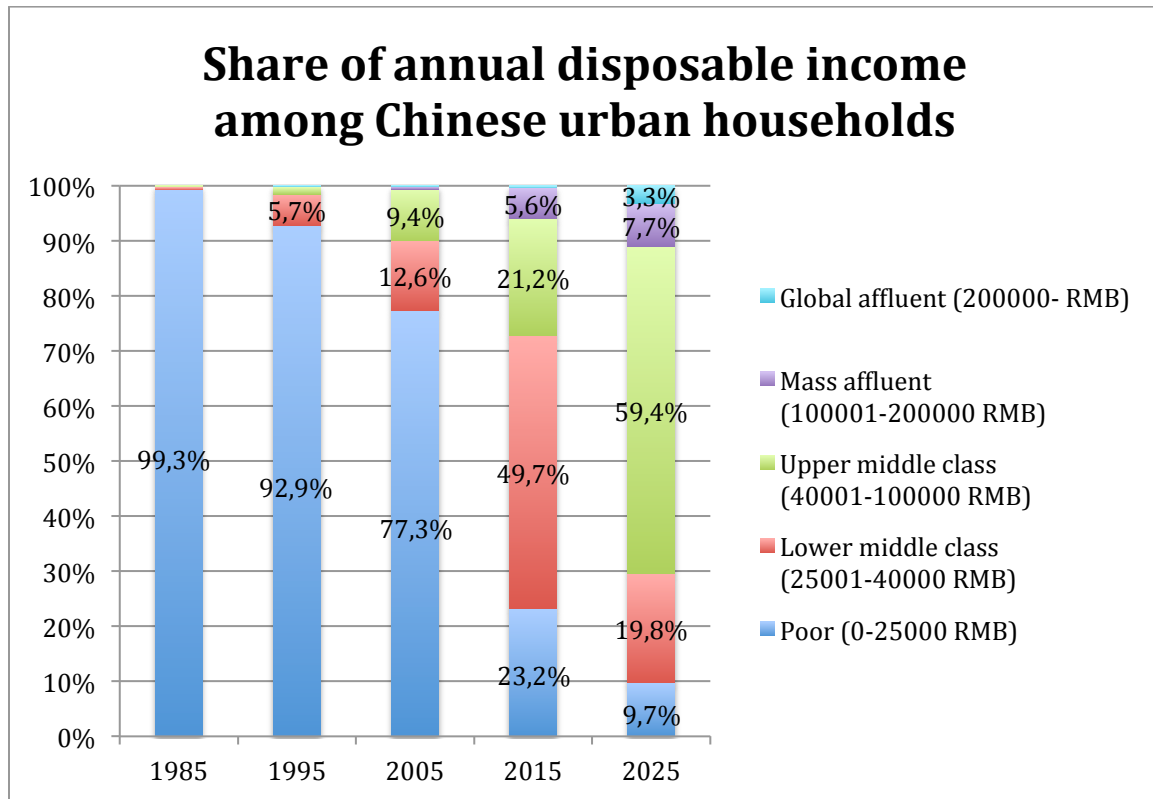


Figure 4: Illustration of the growing middle class in urban families in China.²
Source: Farrell et al. (2006)

As shown in Figure 4, the economical buying power among the Chinese is changing. With 90 % of the urban population in lower middle class or above at year 2025, the focus of the country will have moved higher up the value ladder (Farrell et al., 2006).

2.2 How to compete on a changing market

Given that the environments in which companies operate are changing, companies must change too. In order to be successful, companies must innovate and adapt to prevailing market conditions. Porter (1996) suggests that only those companies who can establish and maintain a key difference to their competitors can be

² The figure shows annual disposable income (after tax income, including savings) for Chinese urban families. Figures are based on the RMB exchange rate from 2000. 1 RMB = \$0.12

successful in the long run. Therefore, strategy is about deliberately doing things differently compared to competitors, and to make sure that these differences are positive. For example, these differences can be manifested in resources or capabilities connected to a company. To gain competitive advantage, firms need to have strategies that guide them in the decisions on how to act in the markets in which they compete. In addition, companies also need to have structures and processes that support their resources and capabilities needed for the strategies to be successful (Nelson, 1991). In the process of strategizing, Porter (1996) emphasizes the importance of leaders who are capable of carrying out these strategic choices as well as having the ambition to do so.

Peteraf (1993) stresses that a critical strategic task for competitive organizations is to make sure the available resources within the organization are used in the best possible way. This view is shared among many scholars promoting a resource-based perspective of the firm (Barney, 1991; Collis & Montgomery, 1995; Conner & Prahalad, 1996). It is suggested that companies can gain a competitive advantage by possessing resources that are valuable, rare, inimitable and non substitutable (Barney, 1991). Such resources can both be tangible and intangible. In fact, Collis and Montgomery (1995) suggest that the most important resources are often intangible, like company culture or competent leadership. They also emphasize that a valuable resource today is not guaranteed to be valuable tomorrow. Therefore companies need to be able to manage the resources strategically in the context of changing markets and competition.

An organizational culture is described by Schein (1985, p. 7) as *“the deeper levels of basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously, and that define in a basic ‘taken for granted’ fashion an organization’s view of itself and its environment”*. O'Reilly (1989) continues stating that culture can be seen as a mechanism for social control. It is therefore important both for implementation of strategy as well as creating commitment among the employees. Organizational culture can be seen as a strategic tool, highly dependent on the employees and the interaction between them. Björkman and Lu (1999) further states that organizational culture is a key success factor for retaining talent.

The resource-based view has not been free from criticism. The framework has been said to be too static, especially in markets characterized by quickly changing and unpredictable conditions. Eisenhardt and Martin (2000) propose that firms in these markets derive competitive advantage by having dynamic capabilities, which is defined as *“the firm’s processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die.”* (Eisenhardt & Martin, 2000, p. 1107). In other words, competitive advantages in these markets do not stem directly from the resources themselves, but rather in the ways firms manage to configure the available resources. According to Teece et al. (1997), the ability to identify new opportunities and to organize

accordingly often has a larger impact on profitability than more classical strategizing, which aims at raising entry barriers, increasing rivals' costs etcetera. Therefore they highlight the ability within companies to develop high performance routines and processes to make sure companies can keep up with changing markets. To build such capabilities involves a considerable amount of both time and resources (Teece et al., 1997).

2.3 Leadership

Leadership plays a key role in companies' abilities to adapt to and manage quickly changing markets. Heinen and O'Neill (2004) argue that securing a competent leadership can create stronger competitive advantage than any other firm effort. Former CEO at P&G, A.G. Lafley illustrates this opinion with the following quote: *"Nothing I will do will have a more enduring impact on P&G's long-term success than helping to develop other leaders"* (Holstein, 2005, p. 18). Before digging further into the area of leadership development, it is important to elucidate the distinction between leadership and management, as these are two concepts that are commonly intertwined and confused with each other (Kent, 2005; Kotter, 2001). Although scholars have not yet agreed upon a universal definition of leadership versus management, Kent (2005) brings forward the idea that leadership is different from management by illustrating the following points:

- Managers do things right; leaders do the right things;
- Managing is an authority relationship, leading is an influence relationship;
- Managing creates stability; leading creates change.

(Kent, 2005, p. 1012)

This is quite in line with Kotter (2001, p. 85) who cites about leaders *"They don't make plans; they don't solve problems; they don't even organize people. What leaders really do is prepare organizations for change and help them cope as they struggle through it"*. Heifetz and Laurie (1997) further suggest that leaders should provide direction, protection, manage conflict and shape norms.

There are different styles with which leaders can perform their tasks. Several scholars stress the view that leaders must adapt their leadership style depending on the particular situation they face (Heifetz & Laurie, 1997; Kent, 2005; Vera & Crossan, 2004). This view can be illustrated by Goleman who claims; *"Many studies, including this one, have shown that the more styles a leader exhibits, the better. Leaders who have mastered four or more - especially the authoritative, democratic, affiliative, and coaching styles-have the very best climate and business performance."* Goleman (2000, p. 87)

In his highly influential Harvard Business Review article, Goleman (2000) describes six particular styles of leadership. The style he calls *coercive* is very top-down driven and according to the study only works well in situations where leaders need to change direction quickly, such as when companies face severe crisis or need quick restructuring. The style Goleman (2000) calls the *authoritative* leadership style is

claimed to have the best performance. This leadership style is based on communicating a clear vision to the employees so that they feel part of contributing to something larger. The *affiliate* leader strives to create harmony, trust and happiness among the employees. This is a good style to create strong teams with well functioning communication. A *democratic* style puts emphasize on employees' opinions and concerns to build consensus within the group. This creates a strong feeling of responsibility and flexibility among the team, but it also implies lots of meetings and slow decision making which can cause confusion and a sense of feeling leaderless. The *pacesetting* leader sets very high goals and leads the way by performing extremely well and expecting others to follow. Such a leader puts high pressure on low performers and always demands improvements from people. The last style described by Goleman (2000) is the *coaching style*. This leader delegates responsibilities and develop people long term by handing them challenging tasks and coaching them on how to accomplish the goals. (Goleman, 2000)

On top of this, Caligiuri (2006) adds a number of factors needed by global top leaders in MNCs today, including high cultural awareness and language skills. This evidently implies high requirements for persons that are or want to become future global leaders.

2.3.1 Leadership development

How to develop competent leaders is something MNCs are struggling with continuously. It is no secret that ensuring the quality of future leaders is one of the top challenges for multinational companies today (Stahl et al., 2007). McDonnell et al. (2010) argue that efficient management of high potential leaders is of utmost importance for MNCs. One reason to this is that the competition for talents is increasing due to rapid growth of developing countries and an increasing internationalization among many companies. According to Boudreau and Ramstad (2005) many companies are unaware of how to design their strategic leadership development.

This seems to be true on the Chinese market as well. Hartmann et al. (2010) argue that one of the greatest challenges for western MNCs in China today is to find and develop talented people needed to continue doing business in China. Fernandez et al. (2012) come to the same conclusion in a survey with foreign 250 companies operating in China. This is also in line with Farrell et al. (2005) who claim that China's universities seem incapable of delivering sufficiently qualified Chinese graduates in sufficient numbers to satisfy the needs of MNCs. Studies show that 50 000 foreign firms enter China every year, which creates a fierce competition for competent staff, especially for managers and middle-managers (Hartmann et al., 2010). In 2005 the consulting firm McKinsey & Company predicted that there would be an extreme shortage of qualified top managers in the next 10 - 15 years in China (Farrell & Grant, 2005). The shortage of qualified Chinese managers is also confirmed by more recent sources such as Chung (2013) and Fernandez et al. (2012)

Efficient development of talented employees is therefore a key success factor on the Chinese market today. Especially since capable Chinese top managers could work as a bridge between a complex and increasingly important Chinese market and the head quarters of the MNCs (Hartmann et al., 2010). Hence there is a need to clarify how successful firms do to develop their talented employees. McDonnell et al. (2010) define talent management as a way to:

1. Systematically identify the key positions within the firm, which contribute significantly to sustainable competitive advantage;
2. Develop a talent pool of high-potential and high performing people to fill these positions;
3. Develop a differentiated human resource architecture to facilitate filling of these positions with competent incumbents.

(McDonnell et al., 2010, p. 151)



Figure 5: Illustration of the concept talent management
 Source: Stahl et al. (2007, p. 7)

This view correlates well with the view of Stahl et al. (2007) whose definition of talent management is depicted in Figure 5. Due to the limited resources and scope of this study, it will largely adhere to the above-mentioned definition, but will not be able to cover all areas in depth. Rather the focus is to elucidate the relationship between them and their connection to Chinese leadership development.

2.3.1.1 *What do companies that excel in leadership development do differently?*

In one of the few studies investigating how companies actually work with developing high potentials, Stahl et al. (2007) find that exceptional companies within this area work deliberately with assuring internal, cultural as well as strategic fit in their development of high potentials. By internal fit they mean making sure to maintain internal consistency and reinforcement of the company's particular way to attract, select, develop, evaluate and retain talent. Cultural and strategic fit means to align talent management with company culture and long-term strategy. By doing so, these companies gain strategic competitive advantage firstly by fostering highly capable leaders but also through having well worked out processes for knowledge management and organizational learning (Stahl et al., 2007). In a case study on seven large MNCs in China, Hartmann et al. (2010, p. 176) conclude *"although MNCs in China regard talent management as a topic of high strategic relevance, they do not necessarily have specific talent management strategies in place to identify, develop and retain their talented employees."* Instead, Hartmann et al. argue that most MNCs try to implement global best practices without adjusting processes to the Chinese market.

This global one-size fits all approach could be a drawback according to Stensgaard (2007) and Jinsong et al. (2011) who stress that what works in one culture does not necessarily work in another. Therefore leadership development practices often have to be adapted to local conditions, especially with cultural differences in mind. The same is argued by Littrell (2002) who stresses that most research on the topic of leadership development has strong American influences, which might not always be applicable in other cultures due to the following characteristics of the theories:

- Being individualistic rather than collectivist;
- Stressing follower responsibilities rather than rights;
- Assuming hedonism rather than commitment to duty or altruistic motivation;
- Assuming centrality of work and democratic value orientation;
- Emphasizing assumptions of rationality rather than asceticism, religion, or superstition.

(Littrell, 2002, p. 10)

Still, little research has been done about leadership development in China. Therefore global best practices will be presented and complemented with description of talent management in China where applicable. Stahl et al. (2007) have identified three distinguishing areas for talent management; staffing and recruiting, training and development, and retention management. These points correspond well with the view of Collings et al. (2009) who proposes that companies should focus on identifying a few "key" employees, develop them and last but not least retain them. Each practice will be presented below.

2.3.1.2 Staffing and recruitment

Some of the success factors found by Stahl et al. (2007) within this topic are the following:

- Recruiting great people and putting them on free positions rather than recruiting specific people for specific positions;
- Very deliberate selection of candidates in terms of cultural fit in addition to job-related skills and experience;
- High focus on attracting a specific niche of talents by tailoring the recruitment branding to their particular preferences.

(Stahl et al., 2007, p. 21)

These above mentioned factors correlate well with Caligiuri (2006) and Groysberg et al. (2004) who emphasize that before MNCs can start to develop global leaders, they first need to be very particular in which candidates to choose for development. Knowledge is usually easy to develop and change, skills and abilities a bit harder, but personality traits are very difficult to develop and change according to Caligiuri (2006). Hence, it is more efficient for companies to choose carefully from the start rather than trying to change people's behavior.

Hartmann et al. (2010) find that MNCs in China have a strong interest in identifying top talents (employees that could become future top leaders of the organizations) internally due to the high competition for talents in China. However, only a minority of their studied companies had a structured way for this, and these were the largest companies in their study. These companies applied their global criteria for identifying talents, while the rest of the companies had a more haphazard approach around this area.

2.3.1.3 Training and development

Regarding development of talents, Hartmann et al. (2010) found varying approaches. Some companies relied on external as well as internal development while other companies relied solely on internal development activities. Internal development was found to include qualified courses, mentorship programs, leadership development programs as well as various supports regarding talents' career development. McDonnell et al. (2010) conclude that traditional development programs are present in almost all MNCs. Sending employees abroad seems to be rarer according to McDonnell et al. (2010). This finding is supported by Hartmann et al. (2010) who find that a minority of their studied companies send talents on assignments abroad. Those who do, do so to give talents a broader view of the business and deeper international understanding. These assignments also expose talents to more company culture, and are thought to create a stronger loyalty towards the companies.

Regarding external development, the most common example was sending employees to trainings held by local universities and business schools (Hartmann et

al., 2010). The main reason why companies invested in these kinds of activities was because of a clear objective to increase the number of local executives in the future.

Stahl et al. (2007) identifies the following success factors for training and development of talented employees:

- Strong focus on leadership development deeply embedded in company culture;
- Promotion from within rather than external recruitments;
- Continuous evaluation of training needs and feedback;
- Clearly articulated development plans for high potentials;
- Deliberate job rotation including international experiences;
- Mentorship programs.

(Stahl et al., 2007, p. 21)

Regarding internal development of top leaders rather than external sourcing of talent, this is very much in line with Groysberg et al. (2004) who proposes that growing high potentials within the company is clearly a better strategy than sourcing high performers from competitors in nearly all situations. *“When a company hires a star, the star’s performance plunges, there is a sharp decline in the functioning of the group or team the person works with, and the company’s market value falls. Moreover, stars don’t stay with organizations for long, despite the astronomical salaries firms pay to lure them away from rivals.”* (Groysberg et al., 2004, p. 2). Their explanation to why recruited high performers tend not to measure up to the expectations is that performance is not only linked to the individual’s capabilities but also to the capabilities of the organization. The latter takes time to adjust to when switching employer, which means lowered performance while learning. This risks creating a vicious circle embracing both the star’s ego as well as the general team spirit at the new employer.

Colvin (2009) proposes that one way to develop competent leaders used by some successful MNCs is to provide risky and challenging assignments to high potentials to make them learn from tough experiences. Filou (2006) notes that poor English skills, lack of experience in big companies and limited exposure to international business are the main reason why Chinese graduates fail in their first corporate positions. Caligiuri (2006) also proposes that global leaders should be trained in language skills as well as cross-cultural understanding. These skills could for example be acquired from overseas experiences, complementing the reasons for sending employees overseas previously mentioned in this chapter.

Regarding mentorship programs, they are thought to promote a stronger relationship between employee and organization. This hopefully leads to greater job satisfaction and better employee retention. However, Hartmann et al. (2010) concluded that only a minority of their studied companies had formal mentorship programs. Some companies had tried to implement it but failed due to cultural

differences. Thus informal mentorship relations were more common. The largest inhibitor of well-functioning mentorship programs was found to be a strong respect for hierarchy among the Chinese employees.

2.3.1.4 Retention management

Within this field, the following areas seem to be of particular importance for successful companies according to Stahl et al. (2007):

- Continuous monitoring of attrition rates;
- Highly competitive compensation, especially regarding long-term wealth accumulation;
- Personalized career plans and focus on providing a wider view of the organizations;
- Close connection between high potentials and senior management;
- Practices ensuring work-life balance and flexibility in working arrangements;
- Ensuring development and promotion of a diverse talent pool.

(Stahl et al., 2007, p. 21)

Regarding career plans, Hartmann et al. (2010) notes that long-term planning regarding talent's development is hard due to the high mobility rate of Chinese talents. They state that Chinese employees are seen as very short sighted and very driven by money, which makes them prone to switch employer if offered a higher salary elsewhere. Björkstén and Hägglund (2010) provide an additional angle to this issue, as the current job-hopping culture reduces the number of experienced workers. A company in a market with 30 % yearly growth and 20 % yearly employee turnover will only have 1 employee with 10 years experience for every 100 newly employed (Björkstén & Hägglund, 2010). Comparing this ratio to the Swedish numbers from a similar business in the Swedish market, the ratio would be one employee with 10 years experience in every six newly employed (see full calculations in Appendix 8.3). 20 % employee turnover seems like a large number but it is also mentioned as a reasonable number by Fernandez et al. (2012). According to Wong et al. (2002) the shortsightedness is against China's traditional Confucian culture, which emphasizes long-term relationships. Thus, the authors state that opportunities in terms of wealth and career development suppresses these traditional cultural values.

Despite these challenges, most companies studied by Hartmann et al. (2010) made an effort to provide clear career paths and communicating opportunities of development within the organizations, for example by exposing high potential's resumes to their global HR departments. However, most of the effort on retaining talents seems to be put into various forms of compensation models, preferably tied to long-term commitments among employees. This effort can be seen in contrast to Björkman and Lu (1999) who claims that companies that manage to keep a high retention of employees in China are the ones who manage to create a sense of belonging and proudness of the company among the employees.

This correlates with the findings of Groysberg et al. (2004) who claim that companies excelling at talent retention realize that compensation schemes are not enough to keep top stars. In addition, the talents must also feel that they are developing, getting wider skills and that they are appreciated and trusted by the company. For example this could be done by letting high potentials represent the company at conferences or trusting them with building relations to key customers. As brought up above, successful companies also provide arrangements so that star employees can improve their work-life-balance and spend more time with their families. Good management of these activities seems to create a high retention rate, despite offering less competitive salaries (Groysberg et al., 2004).

As indicated by Björkman and Lu (1999), company culture seems to be a key success factor in retaining Chinese talents. Hartmann et al. (2010) did also find that all their studied companies tried to create a strong company culture, partly to assimilate the employees and partly to create commitment and team spirit.

2.4 Main takeaways from existing theory

Together the theoretical background illustrates that history has a strong influence on the behavior of the Chinese people. Examples of influencers are the emperor dynasties, Confucianism, the communist regime, the one-child policy and the recent rapid financial development. The chapter also shows that competent leadership can be a strong competitive advantage, especially in quickly changing markets, but that cultural differences can obstruct effective talent management. The Chinese mindset is argued to have changed rapidly during the last decades, creating further complications for leadership development in MNCs. If current and future executives have different views on leadership, it could be assumed that none of the parties will be content with the development of the future leaders, which is a problem.

Consequently the need to seek a better understanding of the future leaders' mindsets is of high importance in order to establish a better platform on which to build effective leadership development. How this thesis tries to build this platform will be described below in the methodology chapter, followed by the results of the study as well as the discussion and conclusions.

3 Methodology

This chapter presents definitions of important concepts for the study, as well as a description of the chosen research design together with a motivation on why this particular design was chosen. The different stages of the research process are presented together with the particular research methods used in each stage. Lastly the chapter closes with a discussion around validity and reliability.

3.1 Definitions and descriptions

The term *executive* in this report means a person working at the very top layer of the Chinese organizations, for example by being country manager, general manager, CEO, board member, vice president, partner or director. All so-called executives must have several years of working experience in China in order to be eligible for being interviewed.

The definition used for a *high potential* in this study is a person identified by the executives as a particularly talented employee with the potential and possibility to attain an executive position within a conceivable future. The chosen employees ranged from relatively newly recruited talents in trainee programs to more experienced middle managers with high potential for advancement. All were native Chinese, with a university background.

Swedish multinational companies (MNCs) in China are defined as companies or organizations with Swedish origin that have establishments or offices in China. The sample of companies ranges from firms with several thousands employees to smaller organizations with about 50 employees.

The company sizes have been categorized as either Small and Medium-sized Enterprises (SME) or Large firms. The definition of SME adheres to the definition suggested by the The European Commission (2003, p. 39) saying that “*small and medium-sized enterprises (SMEs) are enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million*”. The firm size has been measured based on the size of the firm globally, not the size of the firm in China. The interviewed companies are presented in the Table 2 below. All names and companies have been anonymized in order not to reveal any of the employees or any of the companies.

	Company	Size	Industry
1.	Conco	SME	Consultancy
2.	Serviceco	Large	Service
3.	Manufaco	Large	Manufacturing
4.	Logistico	Large	Logistics
5.	Paperco	Large	Manufacturing
6.	Tradeco	Large	Trade
7.	Adviceco	Large	Consultancy
8.	Construco	Large	Manufacturing
9.	Shippingco	SME	Manufacturing
10.	Communico	Large	Communications
11.	Techco	Large	Manufacturing
12.	Legalco	Large	Legal
13.	Retailco	Large	Retailing
14.	Sourceco	SME	Logistics
15.	Industryco	Large	Manufacturing
16.	Produco	Large	Manufacturing
17.	Financeco	Large	Finance
18.	Consulco	SME	Consultancy

Table 2: List of interviewed companies and their respective sizes and industries.

3.2 Data collection

Research design is defined by Bryman and Bell (2011) as “*a framework for the collection and analysis of data*”. Since research methods is the way data is collected, the choice of research design will naturally influence the choice of available research methods.

The chosen research design can be described as a qualitative cross-sectional design. As pointed out by Bryman and Bell (2011), cross-sectional research designs are commonly associated with quantitative research but can also be qualitative in nature, in particular when researchers are conducting open- and semi-structured interviews to investigate more than one case at a single point in time. This can be applicable when aiming to identify variations between people or organizations (Bryman and Bell, 2011). Although semi-structured interviews are hard to quantify, efforts have been made to identify and quantify general opinions among the interviewees in order to compare and contrast the views of the executives and the high potentials. The coding procedure for this will be described further below.

The main research methods applied in this study have been open and semi-structured interviews.

3.2.1 Open interviews.

Open interviews were used in the initial phase of the study as a way to efficiently gain knowledge on the research topic. Bryman and Bell (2011) points out that one advantage of open interviews is that it allows interviewees to answer in their own terms, allowing unexpected but potentially valuable aspects of the topic to appear. They also point out that open interviews are especially useful when researchers have limited prior knowledge in an area. The downside of open interviews is complicated coding and comparing of answers (Bryman and Bell, 2011) but since they were used mainly as an explorative tool, not as a way to gather empirical data, this is not seen as a problem.

The open interviews played an important role in the creation of the semi-structured interview guides since areas of particular interest could be identified and discussed. Some open interviews were also conducted as a way to prepare for the two month long field trip to China. For example topics such as cultural barriers and differences between China and Sweden were discussed to avoid cultural mistakes, which could have had negative influences on the Chinese interviewees attitude and willingness to answer the interview questions.

The open interviews were conducted with previously established contacts and people recommended by the previously established contacts. Some interviewees were selected due to their expertise in Sino-Swedish leadership, while some were selected based on their general knowledge of China. Seven open interviews were conducted prior to departure to China and three open interviews were conducted while in China. All interviews were conducted face-to-face and the duration was between 60 and 90 minutes in length.

3.2.2 Semi-structured interviews

The research method of choice for collecting the empirical data was semi-structured interviewing. Given that the data would form the basis for the comparison between executives and high potentials, it was of importance to achieve a degree of comparability between the interviews. Taking into consideration the qualitative and explorative nature of the study, it was also of importance to allow for some flexibility in the interviews. Accordingly semi-structured interviewing was the research method found to fulfill these criteria best (Bryman and Bell, 2011).

The majority of the semi-structured interviews were performed during a period of six weeks in Shanghai and two weeks in Beijing. A few of the interviews were conducted prior to departure with previous China executives that had recently returned back to Sweden. In total 35 semi-structured interviews were conducted where 17 of them were with high potentials and 18 with top executives. The interviews were between 60 and 90 minutes in length and all but one was conducted face to face. One had to be conducted through Skype due to geographical differences. In accordance with the recommendations of Bryman and Bell (2011), all semi-structured interviews were recorded and transcribed. In order to make the interviewees feel more secure and consequently more prone to provide their actual

thoughts, all the presented data has been anonymized. The aliases still represent the gender of the interviewees and the industries of the companies, in order to provide a better context for the reader.

Bryman and Bell (2011) mentions the importance of understanding not only the language spoken during the interviews but also understanding the context in which it is spoken. Since the majority of the interviewees were from a different cultural background than us, this was an area that required some consideration. In particular the choice between conducting interviews in English and using an interpreter was considered. In the end it was decided not to use an interpreter, mainly due to the reason that the interviewees were either already high executives in MNCs or potential future executives. Taking into consideration the English proficiency required to reach such a position, their language skills were deemed to be sufficient enough for conducting the interviews in English. In order to avoid misinterpretations to the greatest possible extent, Swedish was used when interviewing Swedes.

3.2.2.1 Selection of interviewees

The sample for the semi-structured interviews was based on a list of the majority of the Swedish establishments in Shanghai and Beijing, provided by the Swedish Trade Council in China. An email with request for interviews was sent out to all email addresses on the list, and respondents were selected based on response time. Given this non-random sampling technique, it could be argued that the findings of the study will be biased towards the kind of companies interested in this particular research topic. However, based on budget and time restraints it was not deemed feasible to conduct the study with a completely random sample. Quota sampling is also mentioned by Bryman and Bell (2011) as almost as good as a probability sample.

As mentioned above, executives and high potentials were the targeted respondents of the interviews. Executives expressed interest in participating through answering the emails, while the interviewed potentials were selected based on the executives' recommendations. In one company, two executives wanted to participate in the study. A few companies also selected more than one high potential for the study. Given that the study's purpose was to identify differences in mindset and opinions between executives and potentials rather than differences between companies, this was not seen as a problem.

3.2.2.2 Creation of semi-structured interview guide

An interview guide used in a larger research project on leadership development conducted at Chalmers University of Technology was used as an influence for the interview guide in this study. The guide was adjusted based on input from the open interviews as well as from an initial theoretical study. Effort was put into making sure that the questions were arranged in a structured and logical way. Questions were also formulated as comprehensible and simple as possible in order to avoid misinterpretations among the interviewees, particularly taking into consideration

that English was not the mother tongue of most interviewees. Leading questions were further avoided in order to minimize the risk of biased answers. The interview guide can be found in Appendix 8.2.

3.2.2.3 Coding of semi-structured interviews

After the completion of the last interview, all transcriptions were read through in order to identify common patterns and opinions among the executives and high potentials. These common patterns and opinions were used to construct a number of statements as a way to quantify the findings of the study. It is important to note that those statements do not correlate with the questions asked in the interviews, but are the researchers' interpretations of the most significant opinions among the interviewees. In total 57 mutually exclusive statements were constructed. Afterwards the transcriptions were read once again to determine how each interviewee positioned themselves towards each of these statements. As suggested by Bryman and Bell (2011) the dimensions for the coding manual were discrete and mutually exhaustive. Either the interviewees were found to explicitly agree to a statement, explicitly disagree, or not mention anything about it at all. In order to assure highest possible inter-coder reliability, the coding procedure was thoroughly discussed between the researchers before one person was fully responsible for the whole coding, thereby avoiding the possibility of interpreting the transcriptions differently. All the statements can be found in Appendix 8.1.

To illustrate how to interpret the results, the following example has been created. By looking at the statement in Figure 6, *"We have a problem to recruit the right talent"* it can be seen that about 70 % of the interviewed executives and 60 % of the interviewed high potentials explicitly mentioned agreement to this statement. About 20 % of the executives did not mention anything about a problem to recruit the right talent, and about 5 % mentioned that they did not have a problem to recruit the right talent.

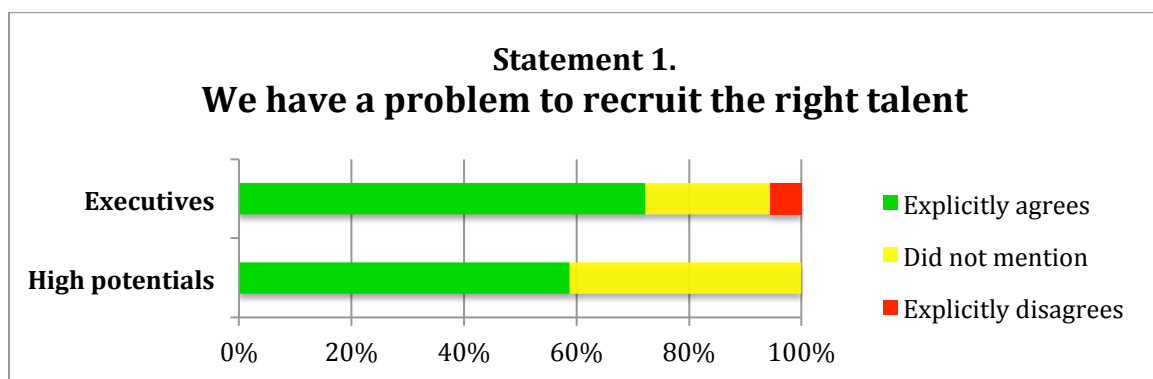


Figure 6: Illustrating example of statement codification

Some of the illustrated statements show a large proportion of answers categorized as "did not mention", colored by yellow. This means the interviewees did not take any explicit standpoint for or against the statement. It could be argued that they surely would have a standpoint if they had been asked the statement. However, the

intention of this study was to find the most important factors regarding leadership and leadership development as perceived by the high potentials and executives. Thus it is interesting to see what is “top of their mind”. If they do not mention a topic as particularly important during the interviews, it is questionable whether they think of the same topic in their daily work. Thus the relevance of statements with high proportions of “did not mention” is still seen as significant.

3.3 Literature Review

In parallel with the interviews a literature study was done. The purpose of this was to increase the authors’ knowledge within the research area, as well as provide a context in which to analyze the gathered data. A thorough literature study was also needed in order to know what contributions this inductive study made to the existing theory. The literature was sampled through Chalmers University of Technology’s library database by searching for keywords such as leadership, leadership development, China, etcetera. Sometimes valuable theory was also suggested by the interviewed China experts.

3.4 Reliability and validity

Reliability and validity are two important concepts every researcher must keep in mind. Reliability concerns the replicability of the study and validity is related to the extent to which the findings can be generalizable.

The term reliability contains both external reliability and internal reliability. External reliability measures how well a study can be replicated. As pointed out by Bryman and Bell (2011), external reliability is often hard to achieve in qualitative research, partly because much of the data and interpretations depends heavily on the social context and circumstances of the study. However, the external reliability has been addressed by recording and transcribing the interviews, as well as designing as clear and unambiguous questions as possible for the semi-structured interviews.

Internal reliability means the degree to which more than one observer agrees with what they interpret. This has been addressed by always conducting the interviews together, as well as discussing and noting the main takeaways on paper directly after the interview sessions. Internal reliability was also in mind when deciding that one person alone should be responsible of the coding of the semi-structured interview transcriptions. The opinion during the research process is that internal reliability has not been a major concern.

Like reliability, validity can also be divided into internal validity and external validity. Internal validity relates to the fit between the actual observations and the theories generated by them. Internal validity is usually not a concern for qualitative research according to Bryman and Bell (2011). Furthermore, this study is more comparative than theory building and this concept is therefore not seen as a major issue.

External validity on the other hand refers to the generalizability of the study. This is of greater interest for this study. Based on the relatively small sample and the potential bias resulting from the non-random sampling, the external validity must be deemed as weak. Given that the number of interviewees differed between companies, it is possible that factors such as strong company culture could bias the interview answers towards the companies with more than one interviewee per group. This has not been taken into account when analyzing the results, but may be a point worth noticing when interpreting the conclusions of the study. External validity is according to Bryman and Bell (2011) a common problem for qualitative research. Still, the study can illuminate some interesting indications and areas for future research, and it could provide executives in Swedish MNCs guidance on how to better understand their high potential Chinese employees.

Construct validity is also important since it describes how well a quantitative measure reflects what it intends to measure. This study intends to compare the views on what is most important for high potentials and executives regarding leadership and leadership development. As described in Chapter 3.2.2.3 some statements show a high proportion of answers categorized as “did not mention”. However, the interviewees were asked about the most important factors regarding each topic, therefore not mentioned topics could still be seen as important answers. Thus, the proportion of “did not mention” is not deemed to affect the construct validity of the study in a negative way.

4 Results - How high potentials and executives perceive leadership and the development of the next generation leaders

In this chapter, the results from the semi-structured interviews will be presented. For guidance on how to interpret the statements illustrated below, please refer to Chapter 3.2.2.3. Only the statements deemed of most importance with regard to the stated research questions will be presented below. A full representation of all statements as well as the interview guides can be found in the appendix.

4.1 Description of the interviewed executives and high potentials

In the study, 18 executives and 17 high potentials were interviewed in 18 Swedish companies with offices in China. In some companies only executives or potentials were interviewed and in some companies more than one high potential were interviewed. The interviewees are presented in the tables below. For anonymity reasons the titles of the high potentials are not shown.

	Alias	Title	Company
1.	Mr Torgersson	Country Manager	Conco
2.	Mr Zachrisson	Country Manager	Serviceco
3.	Mrs Wei	Executive Vice President	Serviceco
4.	Mr Larsson	Director	Logistico
5.	Mr Lu	Managing Director	Paperco
6.	Mr Ding	Country Manager	Tradeco
7.	Mr Johansson	Global Operations Manager Asia	Adviceco
8.	Mr Gong	Director of China Operations	Construco
9.	Mr Bengtsson	Former CEO	Shippingco
10.	Mr Ekström	Chairman of the board	Communic
11.	Mr Salminen	Member of the board	Techco
12.	Mr Lööf	Resident Partner	Legalco
13.	Mrs Algottson	Global Production Manager	Retailco
14.	Mr Dahlby	CEO	Sourceco
15.	Mr Nordén	Vice President	Industryco
16.	Mr Myrgren	Continental Manager Asia	Produco
17.	Mr Eurén	General Manager	Financeco
18.	Mr Lidberg	CEO	Consulco

Table 3: List of interviewed executives

	Alias	Title	Company
1.	Mr Zhang	Anonymized	Logistico
2.	Mr Wang	Anonymized	Serviceco
3.	Mrs Ye	Anonymized	Serviceco
4.	Mrs Sun	Anonymized	Serviceco
5.	Mrs Guo	Anonymized	Serviceco
6.	Mr Wu	Anonymized	Manufaco
7.	Mrs Cao	Anonymized	Industryco
8.	Mr Ma	Anonymized	Industryco
9.	Mr Chen	Anonymized	Industryco
10.	Mr Li	Anonymized	Industryco
11.	Mrs Feng	Anonymized	Paperco
12.	Mrs Zou	Anonymized	Retailco
13.	Mrs Tian	Anonymized	Legalco
14.	Mrs Luo	Anonymized	Produco
15.	Mrs He	Anonymized	Consulco
16.	Mr Dong	Anonymized	Consulco
17.	Mrs Qin	Anonymized	Financeco

Table 4:List of interviewed high potentials

4.2 The mindset of the next generation leaders

The interviews show that the mindset of Chinese high potentials in Swedish companies is different in some aspects compared to what the executives believe. For example the results indicate that executives and high potentials have different views regarding drive factors, promotion and how well the young generation can handle responsibility. The main findings are presented below.

4.2.1 A challenge to recruit and retain talents

One fundamental challenge that companies struggle with is to recruit and retain the right talents. Before it is possible to develop future leaders, the leadership potentials have to be employed by the company and preferably stay loyal to the company for a long time ahead. Both potentials and executives identify these challenges. The interviews indicate that recruitment is a larger issue compared to retention, as shown in Figure 7 and Figure 8. For example, more than half of the interviewed high potentials and three fourths of the executives mention that recruiting is or will be a major challenge for their companies. This can be illustrated by the following quote from the executive Mr. Lidberg at Consulco. *“Recruitment is one of our largest challenges. We have a hard time recruiting the right people. Since we can’t find people with the right competencies from the start, we need to put much resources on training them.”*

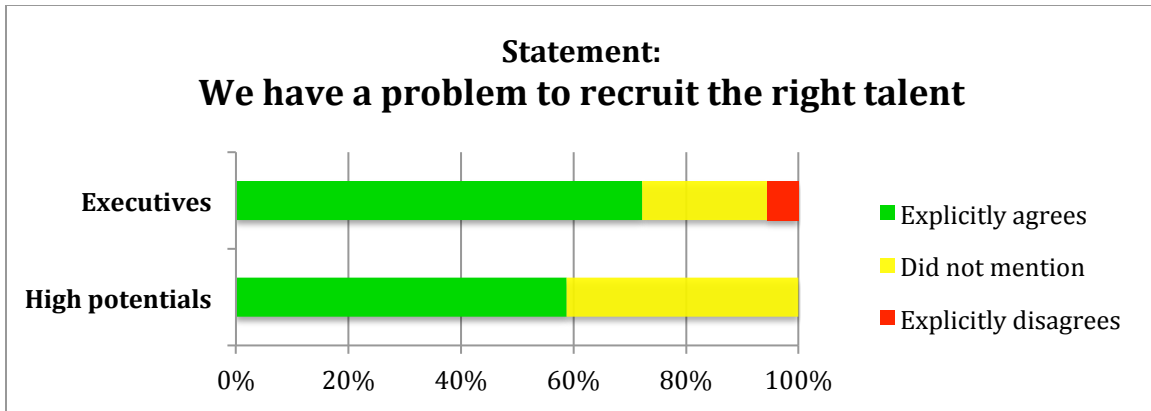


Figure 7: A majority of both executives and high potentials agree that recruitment is a problem.

The interviewees experience a competitive market for talented employees in China's 1st tier cities today. Due to the speed of which the economy is growing, many companies are expanding and consequently need more talents. At the same time it seems like China's education system cannot keep up with the increasing demand on people, illustrated by the following quote: *"A struggle we have is also the extreme gap in supply-demand of qualified employees. It is a warzone and everyone will be a loser. As long as China has this strong growth, everyone will lose, but perhaps you can lose more or less compared to others."* (Mr. Nordén, Industryco). On top of that, some potentials like Mrs. Tian at Legalco also believe that international firms are starting to lose attraction among the Chinese talents. *"International firms lose competitive advantage regarding recruitment of top talents. It is more and more difficult for us to get good people."*

Many executives also mention that this competition leads to increasingly higher costs. A common quote among the executives is: *"China is no longer a low-wage place"*. At the same time, some executives believe the newly graduated Chinese are lacking fundamental business skills that are needed in multinational corporations. *"China has a school system with big groups and one-way communication ... They learn a lot, but not how to think outside the box, which is a skill needed in Swedish firms."* (Mr. Nordén, Industryco). Thus companies pay increasingly more for employees that invariably will incur further cost through internal trainings before they really can start to deliver value.

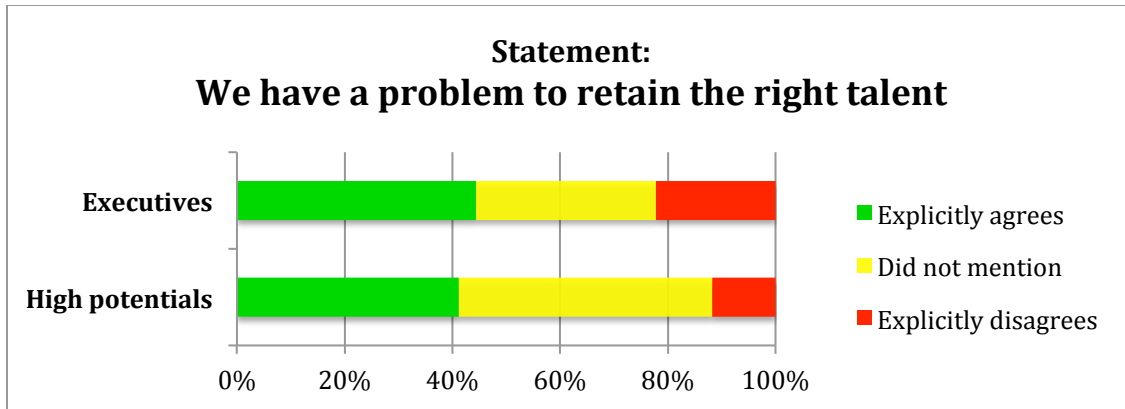


Figure 8: About half of both the executives and potentials mention retention as a problem.

Regarding retention, about half of both the high potentials and the executives bring up the challenge of retention, as shown in Figure 8. The competition for talents has caused a situation where employees can double or even triple their salaries by switching to a competitor. *“Due to the education we give them, our talents become very attractive for other companies. Such companies can triple their salary to attract them away from us.”* (Mr. Larsson, Logistico). China’s rapid growth seems to have created so many opportunities for young talents that many expect a very fast career where they can reach managerial positions in just a few years. Several high potentials speak of success stories from friends or classmates. They also reveal that these successes induce a social pressure on the talents to succeed rapidly, especially from their families. This challenge is illustrated by the following quote from a potential working as an HR manager at Paperco: *“Newly recruited graduates expect a very quick career. They want to be a manager after 3 years. What they do not seem to understand is that in order to handle a position like this you need training and experience ... but since China is growing so fast companies are often forced to put the young employees at high positions even before they are ready for it. It is such a demand on people here.”* (Mrs. Feng, Paperco). The many available opportunities for Chinese talent have according to both executives and high potentials led to a significant shortsightedness of the young talents’ career thinking.

Such a situation seems to cause a dilemma for many executives. The incentives to invest money and time on training employees is reduced when executives know that the talents have a high probability of switching to a competitor. At the same time, the employees need training, and not investing in them makes it even more probable that they will switch (see Figure 13 and 23). By not investing in their employees they will not feel appreciated or important for the companies and this will make them prone to switch. Mr. Nordén at Industryco describes this dilemma well: *“Some say that it is not worth it to invest in the employees because they will go away anyway. I think that we have no alternative. If we do this [training] good, hopefully we can at least keep some of the employees. That is a price you have to pay in this market, the alternative is not an alternative”.*

Thus the interviews indicate that recruitment and retention is a major challenge for companies both from the potentials' and executives' point of view. The view on how to manage these challenges seems to differ though and will be covered in Chapter 4.4.

4.2.2 Promotion based on skills rather than relationships

Mentionable is also the answers relating to promotion. Slightly more than half of the high potentials emphasize the importance of being promoted based on skills rather than whom you know, in contrast to one fourth of the executives. *"The reason Chinese sometimes prefer working in foreign companies is that promotion is not based on performance in Chinese organizations. It is not fair. You need to have connections. In foreign companies, your performance talks."* (Mrs. Tian, Legalco) one high potential said when speaking about this issue. Another potential describe this issue as well, when speaking about Chinese companies in general: *"You don't get to the top by being the best, connections are very important. You need to manipulate your guanxi in order to get good career opportunities."* (Mrs. Sun, Serviceco)

4.2.3 Disagreement on what motivates generation Y

A further challenge commonly mentioned in the interviews among the potentials can be illustrated by the following quote: *"Young Chinese today are more selfish since they are the only child. They have richer parents and their position in society is higher than older generations. Children don't need to fight for themselves. They already have things older generations lack. This makes it a challenge for leaders to manage these young guys. ... Their common hobbies are hip-hop and computer games, few companies can fulfill these dreams. Therefore a lot of young people change jobs frequently"* (Mrs. Guo, Serviceco).

Half of the executives and about 75 % of the potentials speak of that the people born in the 80s and 90s are more individualistic than their older peers. As mentioned earlier, the young generation is also perceived to be more shortsighted. The interviews find that high potentials think this to a larger extent than executives. About 75 % of the potentials say so versus 50 % of the executives, as shown in Figure 9. At the same time, about two thirds of the high potentials regard themselves as more open-minded compared to older generations. This is mentioned by about one third of the executives.

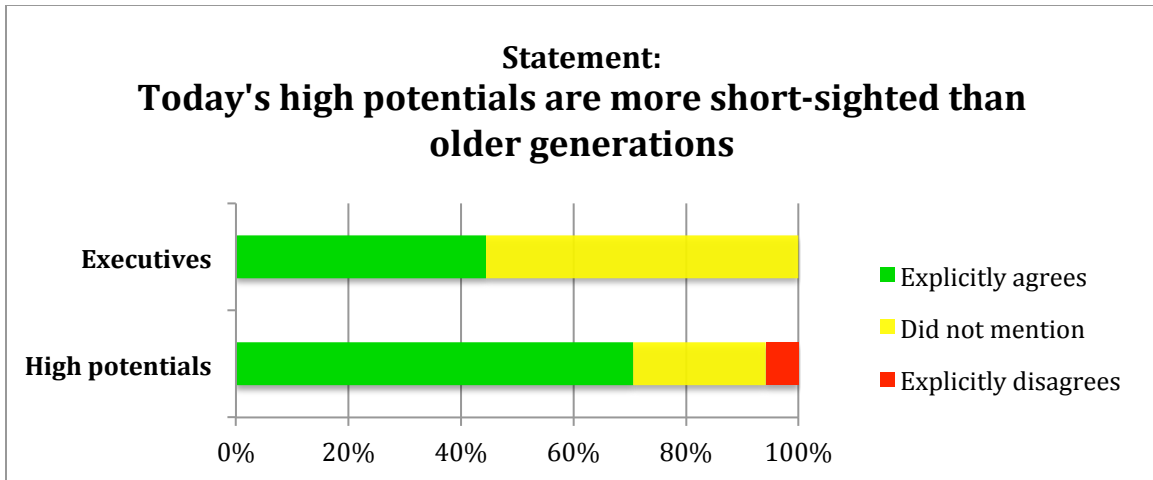


Figure 9: High potentials consider themselves as more short-sighted than the executives do.

One thing that all of the high potentials mention as an important motivational factor is career development. A majority of all the interviewed potentials also mention that getting new titles is important in their career, like Mrs. Tian at Legalco when asked about career development. She also touches upon the reason why this is important: *“Economical reasons as well as personal achievements are important when looking at career development. You will be viewed differently by your classmates, your mates and people at the same age as you.”* The executives seem well aware of the importance of career development since they answer quite similar to the high potentials regarding these two factors, as seen in Figure 10.

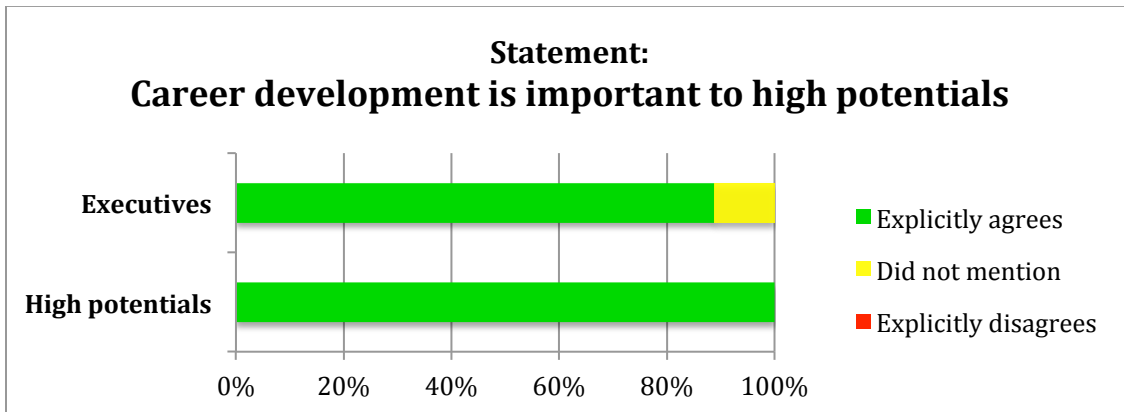


Figure 10: Career development is of importance for high potentials according to almost all the interviewees.

The results do also indicate that the high potentials consistently put greater emphasis on softer values compared to what the executives think they do. For example, nearly 80 % of the high potentials reject the statement that money is the most important motivational factor for them, as shown in Figure 11. The following quotes illustrates this well: *“If I got to choose between strong personal development and no salary increase, versus no personal development but good salary increase, I*

would choose the personal development. Hopefully in the future the personal development would lead to a higher salary anyway. I think long-term.” (Mrs. He, Consulco). This can be contrasted with the view of the executive at the same company as the high potential just cited: “I think that money in the pocket is the most important for the Chinese today. The future doesn’t exist for these guys. They don’t believe in it, therefore they don’t want to wait for 5 or 10 years to be rich. They want to become rich today!” (Mr. Lidberg, Consulco). About one third of the executives think that money is the most important motivational factor for high potentials.

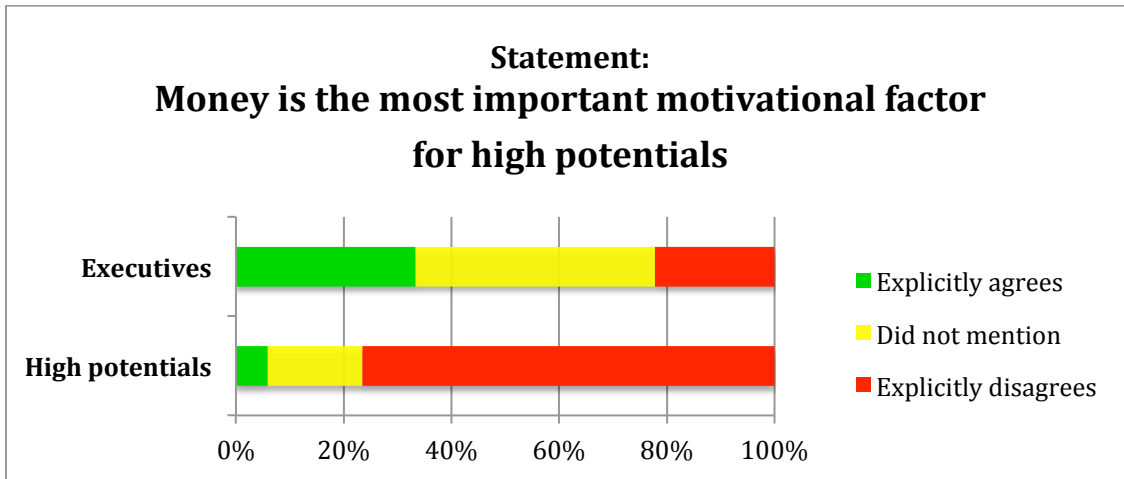


Figure 11: The interviews show that the executives have a flawed view of high potential's most important motivational factor.

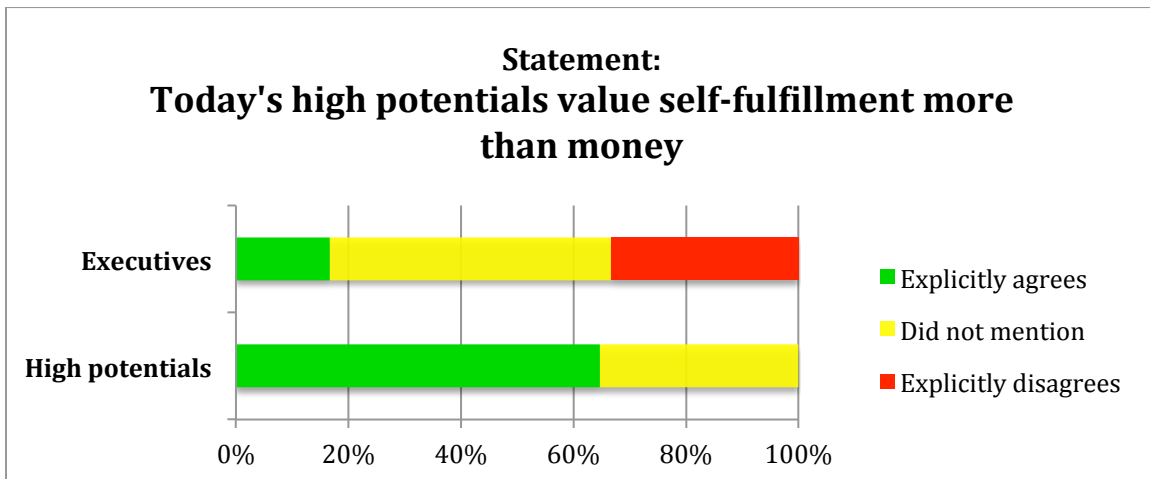


Figure 12: Few interviewed executives seem aware of the importance high potentials put on self-fulfillment.

Furthermore, about two thirds of the high potentials mention that self-fulfillment is more important to them than money, shown in Figure 12. “What is important are chances to develop yourself. This is self-development. Secondly is the working environment. If the boss trust you and give you opportunities. Thirdly is the salary.” (Mrs. Qin, Financeco). One third of the executives discards the statement that self-fulfillment is more important than money to high potentials.

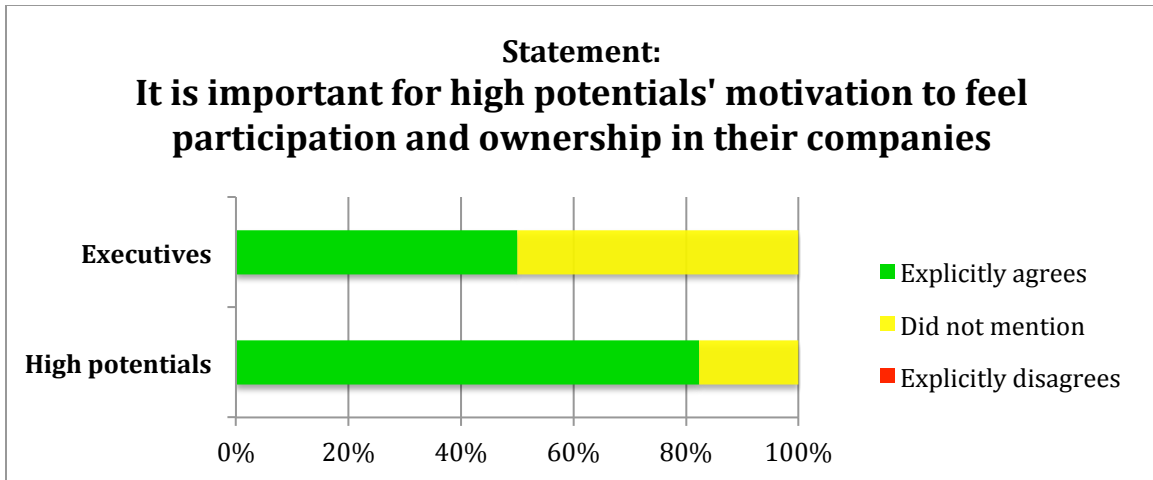


Figure 13: In order for most high potentials in the sample to be motivated, they want to feel participation and ownership.

High potentials do also value a feeling of ownership and having an emotional vision to work for more than executives think they do. The interviews show that 80 % of the high potentials feel that one of the most important motivational factors is to feel participation and ownership in work, shown in Figure 13. They want to be part of something bigger. *“My love for the industry makes me stay in the company. I want to help children, improve the quality of life for Chinese and break down barriers.”* (Mrs. Guo, Serviceco). Half of the executives mention this as an important motivational factor for high potentials. 70 % of the high potentials say that they are motivated by working towards an emotional vision, as shown in Figure 14. *“I started at this company because I wanted to be part of building something new from scratch.”* (Mrs. Zou, Retailco). Only about 20 % of the executives mention this as an important motivational factor for high potentials.

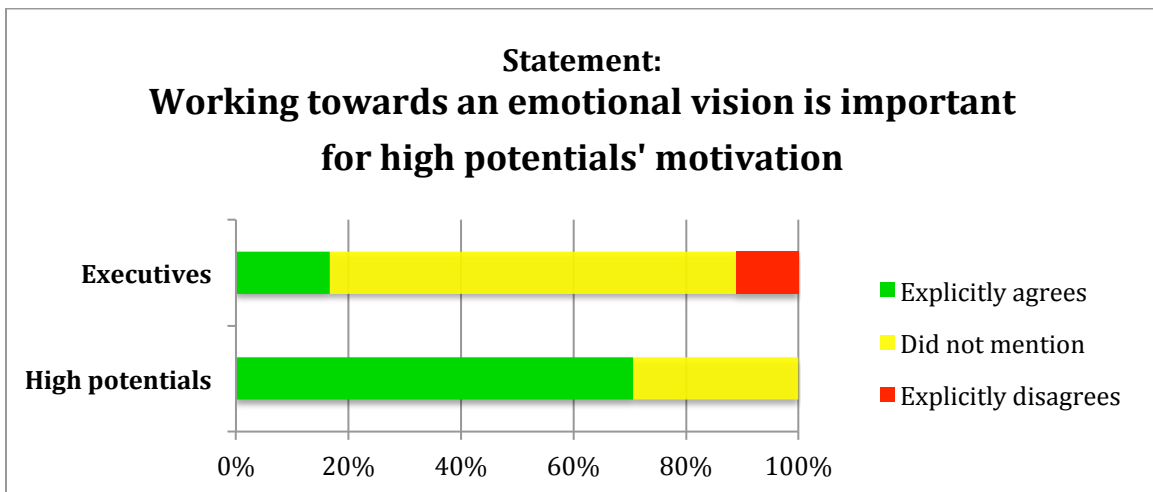


Figure 14: High potentials want to work towards an emotion vision.

Regarding work life balance, roughly half of the interviewed high potentials mention that this is an important aspect of their careers. This is in contrast to the executives'

view of the high potentials since less than one fifth of the executives mention work life balance as an important factor for high potentials. On the other hand, as shown in Figure 15, about 20 % of the high potentials disagree to the importance of work-life balance as well.

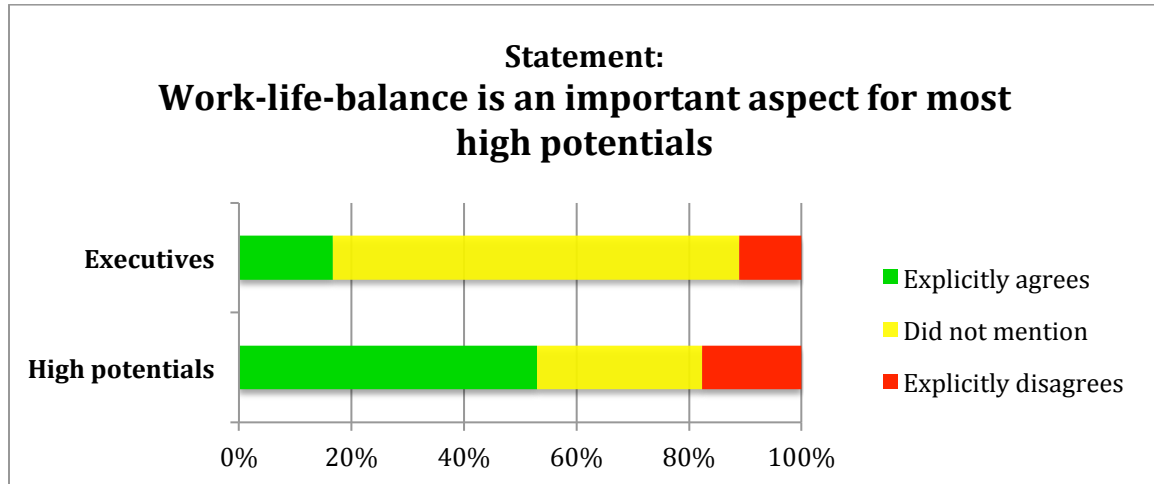


Figure 15: Work-life-balance is more important to high potentials than executives think.

Together these mentioned factors sum up to an important challenge for Swedish MNCs today, namely how to inspire the employees to make them stay in the companies and perform according to their potential, and how to keep up to date with what is valued among the high potentials in their careers.

4.2.4 Ethics and moral among the employees, a headache for many executives

A further challenge is to develop reliable and trustworthy leaders that have valid ethical values that the companies can stand behind. Slightly more than 50 % of the interviewed executives mention situations where employees have put their personal wealth ahead of morale and deceived their companies on significant amounts of money, as illustrated by Figure 16. A few potentials share this view as well, for example Mr. Zhang at Logistico: *“A competitor appointed a Chinese general manager. This guy opened a small factory nearby and told the sourcing manager to buy whatever this company produced, at a very high price. After about two years the top managers in US found out, and of course fired the manager since he had stolen so much money from the company.”*

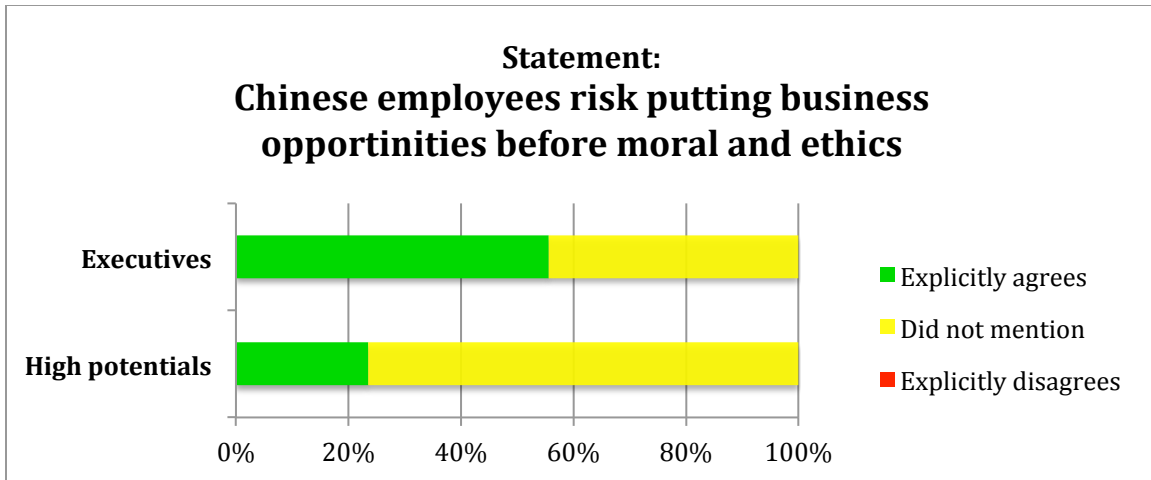


Figure 16: The interviewed executives are more concerned about moral and ethical risks than the high potentials are.

Executives also point out that it is crucial to develop leaders that understand and accept the companies' code of conduct so that they do business that are acceptable from the headquarter's point of view. They especially see corruption as a major problem when promoting Chinese leaders to high positions (see Figure 16). *"The whole country is built around corruption. It is deeply rooted in the culture. This is hard to handle as a Swedish company. We see it as a risk to have a Chinese manager at the top since many don't see corruption as something strange, rather just a way of doing business."* (Mrs. Algotsson, Retailco). Swedish companies' ethical standpoints implies that leaders sometimes have to put aside short-term gains in favor of long-term sustainability, thus firms must find a way to implement such thinking among all the employees. About one fourth of the high potentials agree to the statement that Chinese employees risk putting business opportunities before moral and ethics. Half of the executives agree to the same statement.

4.2.5 High potentials think they take responsibility, executives disagree

A challenge brought up by the executives is the perception that Chinese employees do not like to take responsibility. This issue is brought up by about 40 % of the interviewed executives, as illustrated in Figure 17. Interestingly though, this statement is objected to by the same proportion of potentials. Clearly there are two opposing views on this issue. Swedish executives often try to promote a flat hierarchy with an emphasis on delegation. In such companies, it is important to have a leadership that can encourage a sense of responsibility both among future leaders as well as among employees in general. *"We are really trying to promote our company culture to the Chinese employees. It is extraordinarily important. Here you have to show trust and be able to delegate and this is something that Chinese commonly lack. They rather follow orders than take responsibility and therefore they have to practice"* (Mr. Eurén, Financeco). This connects to the challenge of recruiting the right employees as illustrated by the following quote from Mr Lööf at Legalco: *"It is important to find the right people, the ones that are comfortable with taking responsibility. The importance of giving responsibility is emphasized by Mrs. Sun*

who answers when asked what Serviceco could do to make her more prone to stay: "Giving me more responsibilities ... giving me ownership, sending me abroad. That would keep me here."

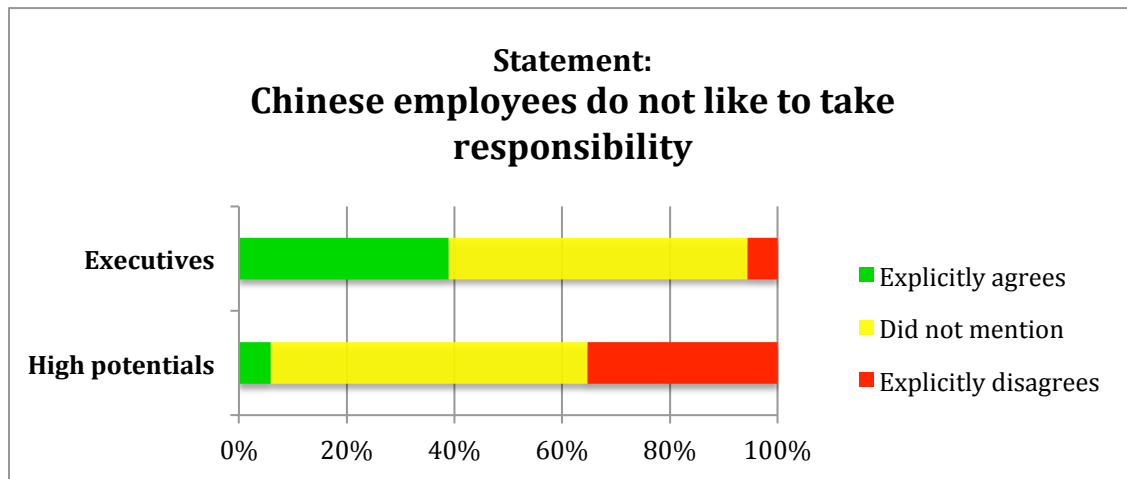


Figure 17: There is a disagreement between high potentials and executives regarding the degree of responsibility among high potentials.

4.2.6 An open culture is appreciated but hard to reach

The issue of responsibility relates to yet another challenge; how to create an atmosphere where dialogue is promoted and employees feel comfortable with mentioning their opinions and challenging the boss in a constructive way. Nearly eight out of ten executives state that it is important for their organizations to have a well-functioning dialogue between managers and subordinates as shown in Figure 18. Many feel that Chinese employees usually are very hesitant to challenge their bosses or suggest improvements outside of their direct responsibilities. "The culture in Sweden is to discuss more and say what you honestly think to your boss. In China you don't challenge your boss as much." (Mr. Gong, Construco).

Many executives also feel that Chinese employees tend to hide problems in the organizations instead of making them visible so that they can be solved, exemplified by a story from Adviceco. The company was preparing for an important customer delivery. To ensure they would deliver on time, the executive had checked several times with the employees that everything was in order and that the delivery could be made. All employees agreed that there were no problems at all. Right before the delivery though, it became apparent that it would be impossible to fulfill the customer's expectations. This was known for a long time by the employees but not brought up. The executive claimed this would never have happened in Sweden where employees in his opinion are more prone to acknowledge problems at an early stage rather than bringing it up in the very last moment.

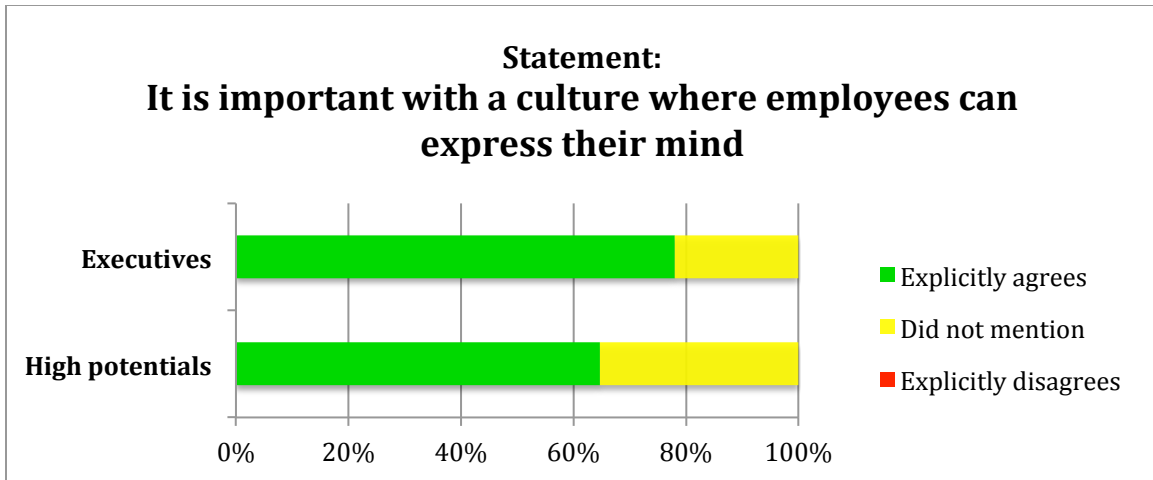


Figure 18: Both groups mention the importance of having an open culture.

A majority of the potentials, as seen in Figure 18, seem to agree with the executives that an open culture is more productive than a culture characterized by one-way communication. The challenge seems to be how to make the high potentials not only realize that this kind of behavior is appreciated, but also make them change their behavior to become more involved in constructive dialogues.

4.3 Characteristics of a good leader

Below are the findings of what characteristics a good leader should possess according to high potentials and executives. The results show that high potentials want to combine a coaching leadership style with a broad view of the business, superior knowledge compared to the subordinates and good communication skills.

4.3.1 A coaching leadership style is the key to successful talent development

Related to promoting an open culture is the challenge of developing coaching leaders. This is an area where Swedish and Chinese company cultures differ according to the interviewees. When asked about the biggest differences between Swedish and Chinese leadership style, the most commonly mentioned difference among both executives and high potentials relates to the hierarchy. They describe the Swedish leadership style as coaching, where the leader helps the subordinates to reach a solution based on the subordinate's own experiences and knowledge. The described leadership style in China is more hierarchical, where leaders are expected to provide clear commands of what the subordinates should do.

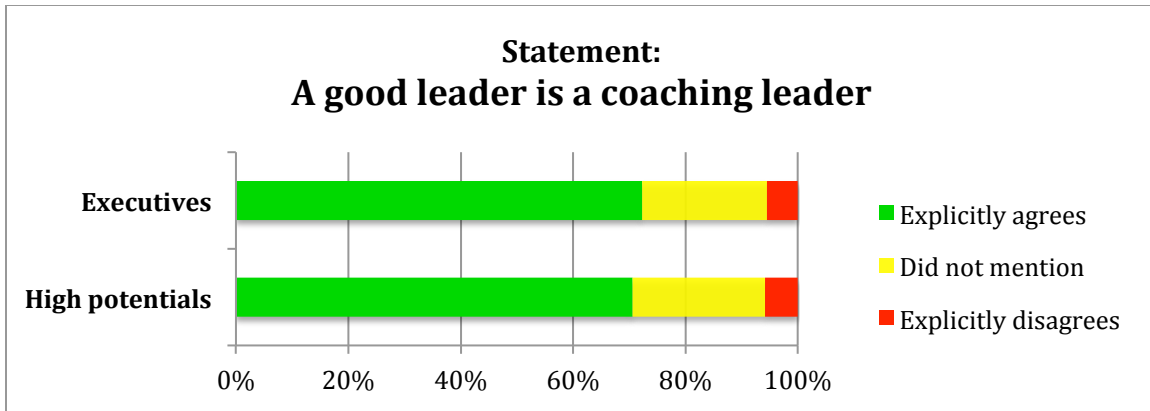


Figure 19: Both executives and high potentials agree that a coaching leadership style is good.

Some of the interviewed Swedish executives mention that their coaching styles sometimes lead to frustration and confusion, particularly among newly recruited employees, mainly because they expect clear directions from their leaders. Mr Nordén explains his view on their opinions: *“Since you are my boss you are elder and more experienced, therefore you should show me what I should do.”* The executive continues: *“We are trying to go towards coaching but Chinese don’t give respect to those who only asks questions.”* On the other hand, another executive, Mr Ekström at Communico, nuances this quote: *“A coaching leadership style certainly works among the Chinese; they even like it. It is not seen as a weak leadership style as others argue. Many western managers can have a hard time taking decisions when needed, which can be seen as weak. When you coach, you still need to support your employees in their decisions by making clear that you take the full responsibility if anything goes wrong.”*

At the same time, a majority of the high potentials mention that a coaching leadership style is preferred over a more traditional micro managing Chinese style as indicated by Figure 19. Even though the high potentials prefer a coaching leadership style, many executives mention that the potentials still need to develop within this area. This is illustrated by the following quote from the executive Mr. Nordén at Industryco when asked what Chinese leaders can improve: *“Chinese leaders are very fast at correcting someone doing wrong instead of giving constructive feedback. Since the culture is so hierarchical, Chinese leaders are not used to being questioned and the employees are not used to question. Therefore they really need to practice on the coaching way.”*

Executive Mr. Ekström at Communico explains the importance of a coaching leadership style: *“In a knowledge driven company, it is very important that the employees can find and be responsible for their own solutions. The boss usually knows least about the end customer, therefore it is crucial for our success that the employees are finding the solutions, not the bosses”.* Mrs. Qin points out one difference between Swedish and Chinese firms: *“Chinese companies usually lack the creative atmosphere that I like. Asians are more obedient; we listen to what people tell us ... you just need to execute. No creative thinking.”* She continues: *“The young generation is more similar*

to you, and want to have their own thoughts to be heard. They want to think. The open culture would therefore suit the younger generation”.

4.3.2 A leader should know the business better than the subordinates and have good communication skills

The view of how skillful a leader should be in terms of knowledge differs among the respondents. Two thirds of all high potentials answer that a leader should have better knowledge about the actual work than the subordinates, as seen in Figure 20. One potential explains: *“It is important for a leader to have strong technical skills. If you can’t answer, your employees will think you are a bad leader.”* (Mr. Li, Industryco). The executive Mr. Myrgren at Produco represents a minority of the interviewees when stating; *“Both in China and in Sweden, if you are a good leader you don’t need to have any detailed knowledge. The most important thing is to have good people working for you.”*

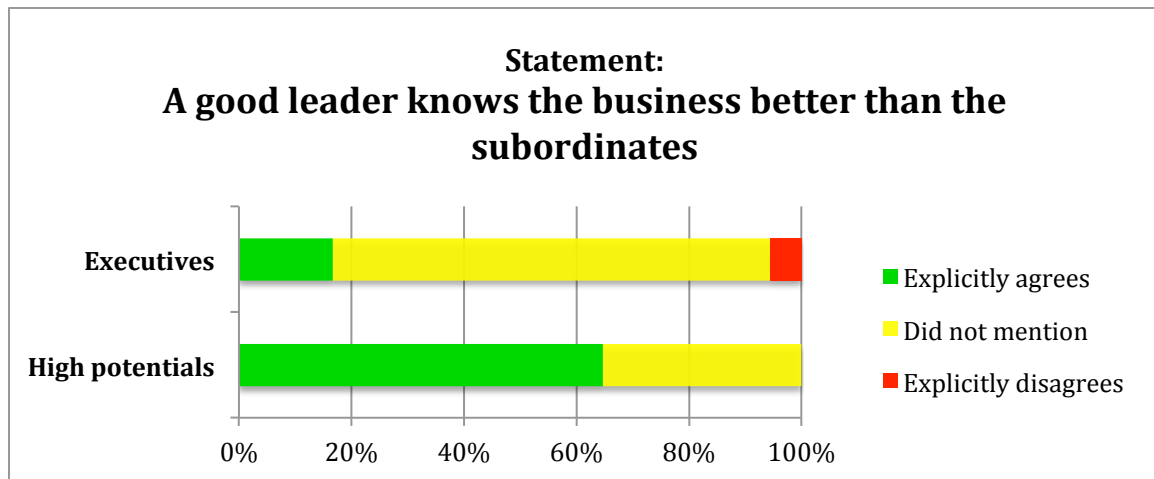


Figure 20: Knowing the business better than the subordinates is important for many high potentials.

Similar to the view of a coaching leader, both executives and high potentials are almost fully united in the opinion on the importance of having a leader with strong communication skills as about 80 % of both groups emphasize this. The skills relate to the importance of communicating with the employees and understanding their thoughts but also relates to communicating the vision and strategy of the company.

4.4 Leadership needed in the future and how to get there

Below are findings illustrating the interviewees’ opinions on how Swedish companies can manage future challenges such as cultural differences and assure the right management skills. Furthermore thoughts on how to develop leaders through challenging opportunities and international experiences are mentioned. Lastly the importance of company culture is described.

4.4.1 There is a need of leaders who understand both China and the West

“The reason for companies to be in China today is not because of low-cost labor anymore. It is because it is a huge market.” (Mr Lööf, Legalco). A majority of both the

executives and the potentials mention that for Swedish companies to be successful in China they need to know the Chinese market better, as suggested by the following two quotes from high potentials: *"We need executives that are very familiar with Chinese culture and know what the market want. Right now the sales pitches for example are not spot on for Chinese people and this is holding us back."* (Mrs. Sun, Serviceco). *"There is not any way that you can copy best practice from Sweden. You have to be a Chinese company. You can use the Swedish knowledge and the Swedish experts, but you have to become more local."* (Mr Wu, Manufaco).

At the same time, a key question also seems to be how to develop leaders that can establish a good connection with the Swedish headquarters. About three fourths of both the high potentials and executives mention the importance of having executives with deep understanding of both China and the western world. This can be accomplished in two ways; either to bring expats with great knowledge of China as mentioned by the following executive: *"If you want to work in China, develop in China, you must understand it too."* (Mr. Gong, Construco), or to develop local leaders that are very familiar with the western ways as suggested by a high potential *"For me to increase my chances of becoming a successful manager here, I would like to be more exposed to the Swedish culture."* (Mrs. Qin, Financeco). Such knowledge is applicable when having many Swedish customers and clients, but also essential to establish trust and credibility towards Swedish managers at the head quarters.

Which of these options that is preferred seems to differ among the interviewees. The potentials would like to see more Chinese leaders at the top of the organizations. This view is shared among some of the executives too – *"It is difficult for expats to work in China since they don't know the language and they don't know what the employees are really thinking. That is why our organization benefited a lot when we ceased having expat leaders"* (Mr. Lu, Paperco) – while some executives insist on the need of Swedes, or at least westerners on top: *"Chinese managers today are not cheap anymore. Due to this, I guess we might increase the number of Swedes on the top positions here again. This is mostly because it is hard to get important knowledge to spread down in the organization. The Chinese managers don't follow our core values."* (Mr. Larsson, Logistico). Some propose a middle way where there is a mix between Swedes and Chinese on the highest positions: *"I would say the ultimate solution is to have one president and one vice president where one is Chinese and one is Swedish. That way we can get the best of both sides."* (Mr. Johansson, Executive, Adviceco).

4.4.2 High potentials perceive they need management skills and a broader view of the business

The results further show that 60 % of the high potentials in our sample feel that they need more management skills in order to become better leaders in the future. *"An MBA would be good for me. I would like to get some professional business training. Today my analysis of problems and solutions are not so systematical. To get more methodologies, ways of handling things and to see reasons behind things would perhaps be the result of an MBA course."* (Mr. Zhang, Logistico). Only one of the

interviewed executives mentioned he thought the high potentials needed more management trainings. Slightly more, about one third of the executives think the high potentials need to get a broader view of the business. Still, the fraction is less than for the high potentials where 80 % mention that they need to get a broader view of the business as seen is Figure 21. Mr. Wu at Manufaco explains why he thinks a broad view of the business is important: *“I want to become more international to get a broader view. Manufaco is a very complicated company. The higher up you are, the broader view you need to have, because the people under you are broader. You never know what you need to have in the future.”*

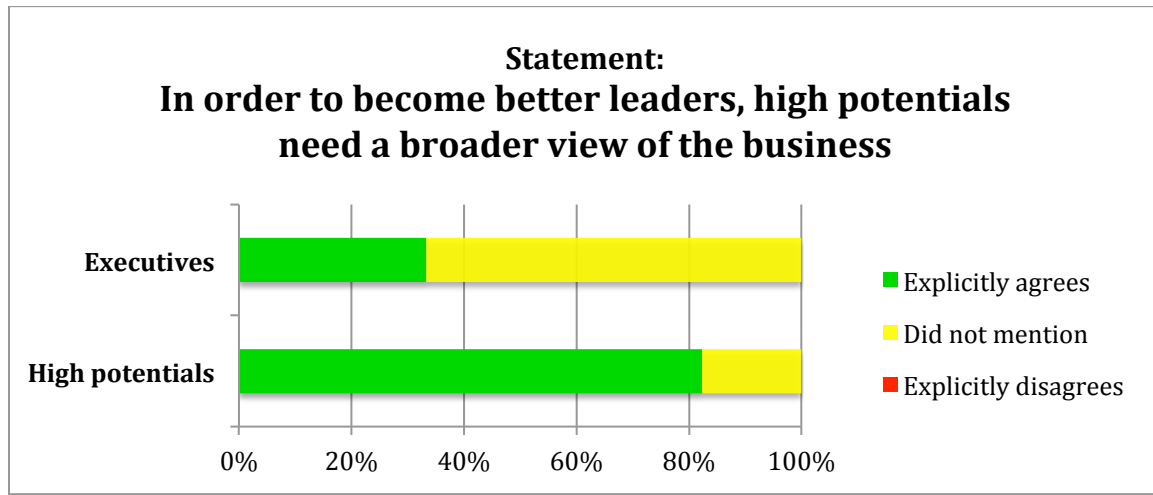


Figure 21: High potentials want to have a broader view of the business.

4.4.3 High potentials want to develop through challenges

The fact that many executives seem to believe that Chinese feel uncomfortable with taking responsibility creates a challenge for the potentials in their development as leaders. As illustrated in Figure 22, nearly 80 % of the interviewed potentials describe how taking on challenging tasks, requiring lots of responsibility taking and putting them outside of their comfort zones develops them as leaders. *“I like challenges and responsibility because it develops me. It allows me to realize my own ideas. (Mrs. Ye, Serviceco).* Therefore, part of their development as leaders depends upon trust from higher managers in order to be given challenging projects. A majority of the potentials, as shown in Figure 23, also speak of the importance of feeling invested in and believed in by the company. Without trust from the managers, this feeling will be hard to fulfill from the potentials’ point of view. *“You can make employees feel valuable to the company by giving them responsibilities, giving them challenging tasks. So they feel they are growing and always developing.” (Mr. Dong, Consulco).*

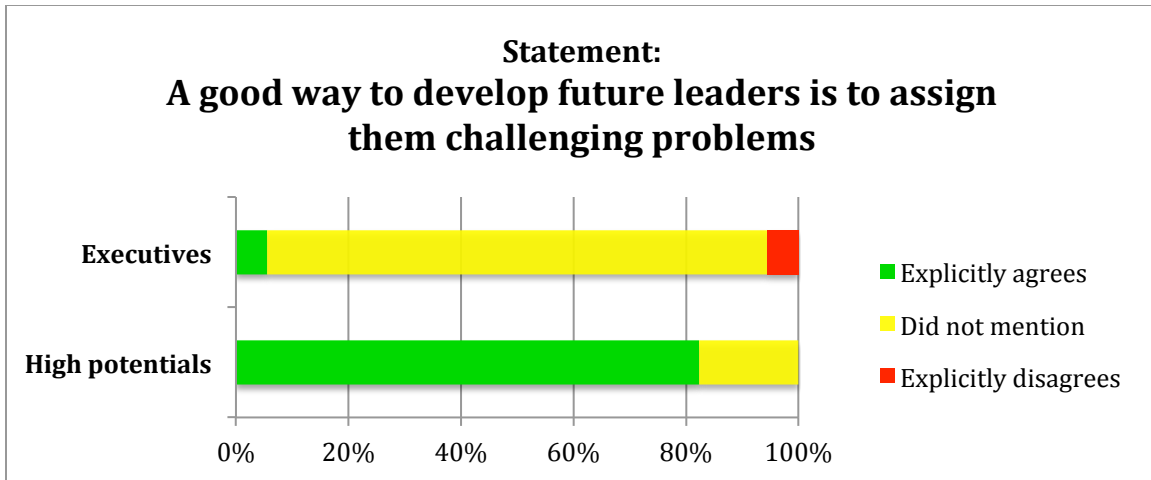


Figure 22: High potentials want to develop through challenging problems.

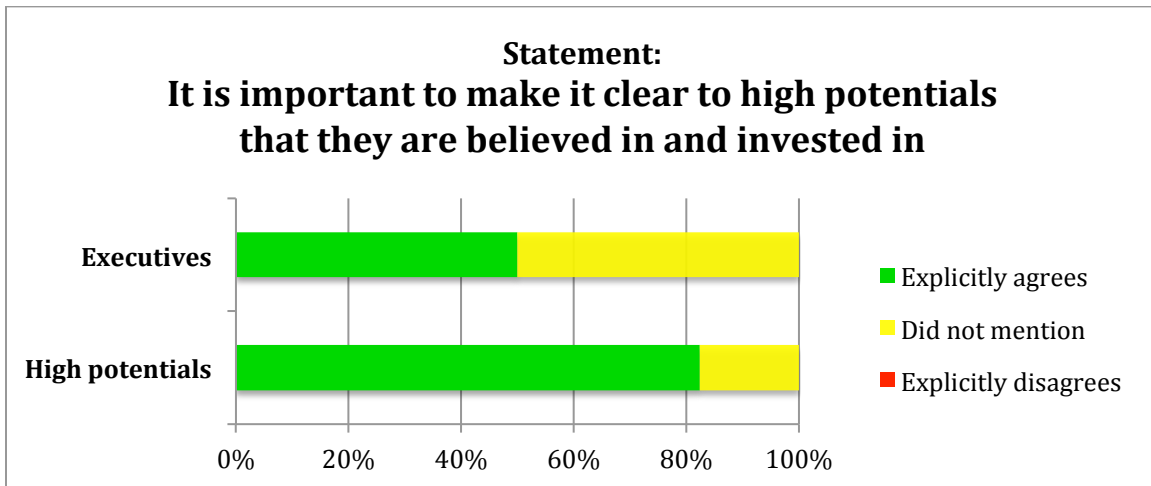


Figure 23: Almost all of the potentials mention that they want to feel important for their organizations.

4.4.4 Potentials perceive they need international experience and exposure to higher management in order to grow

About one third of the high potentials mention that internal recruitment is an important part of leadership development. Apart from this quite low figure, when asked about what is important in their careers, the high potentials still emphasize the importance of having career opportunities within their companies, getting possibilities to develop through challenging assignments and the importance of feeling that companies trust and invest in them. Among the executives, about 70 % of the executives mention that they prefer recruiting internally for vacant positions rather than recruiting externally (Figure 24). This is mentioned by the executive Mrs. Wei at Serviceco who notes: *“You need to have leaders with a broad perspective. This can come from making sure they get different positions within the company, preferably also through international exposure.”*

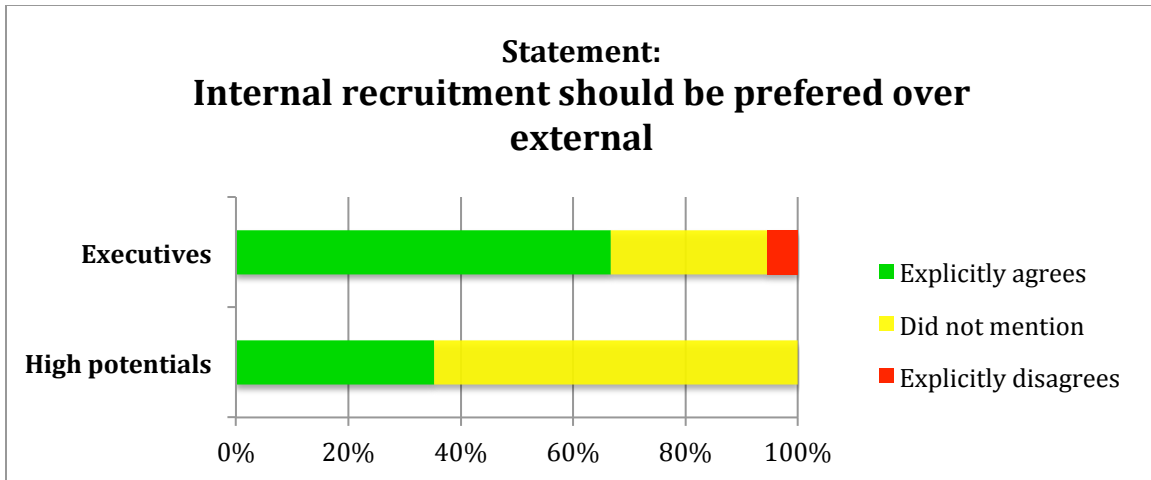


Figure 24: A majority of the executives prefer internal recruitment to external.

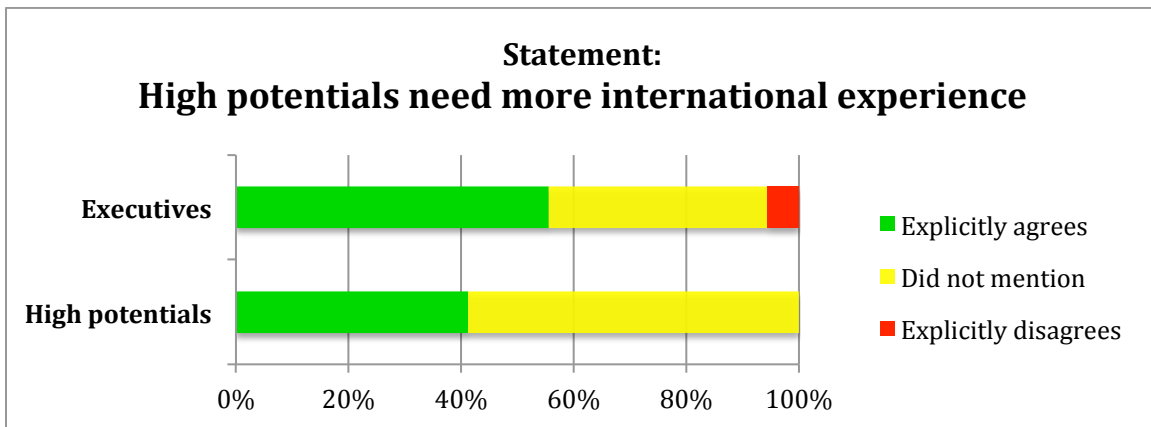


Figure 25: Half of the executives and a slightly lower proportion of the potentials think that more international experiences are needed in the potentials' development.

This leads on to the next subject. About half of the executives and high potentials mention international experience as an important factor for development of the next generation leaders, illustrated in Figure 25. For example, interviewees point out that international assignments, both long- and short-term, provide high potentials with better cultural understandings as well as increased understanding of the company as a whole. On top of that, their English skills will benefit as well. The potential Mr Wu at Manufaco brings up two sides of international assignments: *“I think it is important for employees to feel safe with the company. To feel that you have a future and that you will be taken care of. Internationalization could be one such thing that creates this feeling.”* He further continues: *“The higher up in the organization you are, the more international experience you need, because then you need to communicate more with other cultures”*. Some executives even say that high potentials that are not willing to take on international assignments sets a limit on how high positions they can reach within their companies: *“If our Chinese don’t have ambitions to go abroad for a while, they cannot reach our highest positions, they need these kinds of experiences to work as top managers here.”* (Mr. Eurén, Financeco).

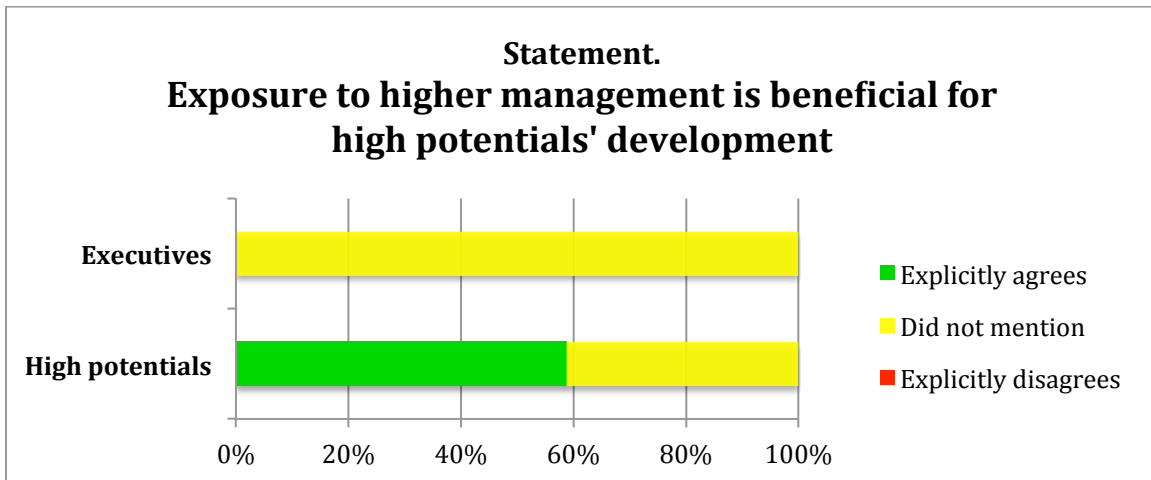


Figure 26: Exposure to higher management is developing according to a majority of the potentials.

Another thing related to investing in the employees is exposure to higher management. As seen in Figure 26, nearly 60 % of the high potentials mention that exposure to top executives is something that has developed them into better leaders. Some of the high potentials also request for more exposure to higher management. Many high potentials share the same opinion as Mrs. Ye at Serviceco: *“I think it is important with mentors that can act as role models and inspiration. The fact that our company clearly shows trust and gives support is important for young leaders’ development. Also to get exposure to high executives to see how they work and learn from them.”* None of the executives mention this as something particularly important in the potentials’ development.

4.4.5 Company culture might be a good way to retain high potentials

A majority of the high potentials and half of the executives mention that a strong company culture is a success factor for retaining high potentials as seen in Figure 27. Mrs. Wei, executive at Serviceco suggests that their strong company culture is the main reason why they manage to keep a low employee turnover. Therefore they are also very particular with whom they recruit. If prospective employees do not match the company values they will never be recruited since cultural fit is the most important factor for Serviceco when recruiting. This statements is mentioned by Mr. Ekström at Communico as well, adding that most of his company’s success can be attributed to their deliberate investment in company culture. Among the high potentials, many agree with Mr. Zhang at Logistico who states *“I like the culture at Logistico. It promotes respect towards people. For example work-life balance is very important. If you are not happy at work, your life will be a disaster. Here I am happy and I stay here even if I can get a higher salary elsewhere”*.

Mr. Ekström at Communico further emphasizes that culture is not only a way of retaining talents, but also a powerful way of making newly recruited employees aware of how things work in the organization. By having a strong company culture,

differences in national cultures can be bridged since it allows the organization to shape its own values and ethical standpoints. According to Mr. Ekström, building a strong company culture is a way for him to reduce the risk of disloyal or unethical acts among the employees.

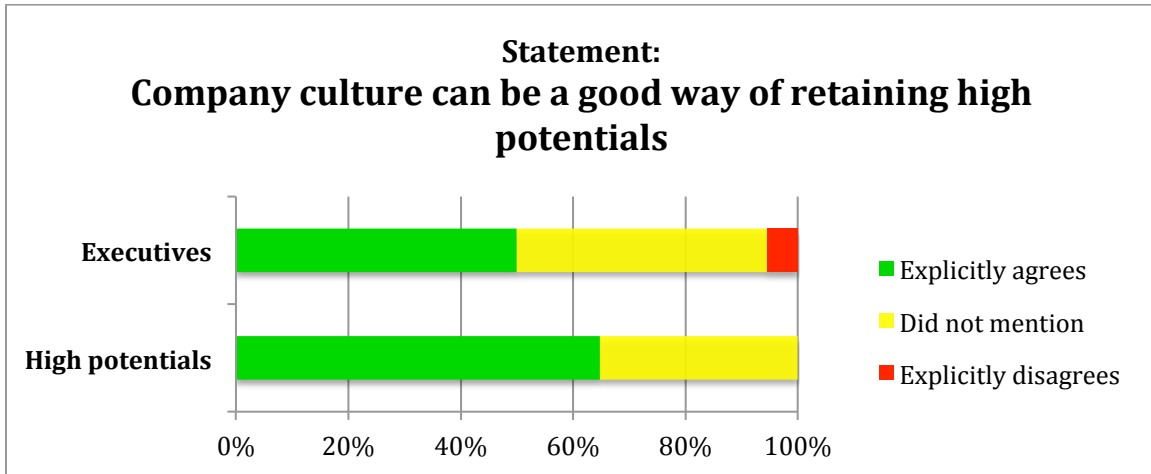


Figure 27: A majority of the high potentials and half of the executives say that company culture is a good way to retain high potentials.

5 Analysis - Challenges when developing the next generation leaders and thoughts on how to overcome them

The findings from the interviews will be analyzed in the light of the theoretical framework earlier presented. The analysis will be divided into two different areas; the mindset of the high potentials and the perceptions of how to develop future leaders, so as to discuss and provide possible answers to the study's research questions. To recapitulate, the research questions are as follows:

- *How do Chinese high potentials perceive leadership and leadership development in Swedish multinational companies in China?*
- *How does this view differ from the views of top executives in Swedish multinational companies in China?*
- *What could be possible consequences of this potential mismatch?*

Hartmann et al. (2010) find that although Chinese talent management is of high strategic importance for MNCs in China, few have yet implemented a structured approach for developing high potentials. The interviews performed in this study indicate that the views on leadership and leadership development among high potentials and executives are not fully overlapping. Therefore it can be argued that companies that manage to find a structured approach to bridge these differences could gain a competitive advantage over less structured competitors. This analysis is intended to work as a guide-light towards an improved talent management among Swedish MNCs in China by illuminating the most strategically important areas of improvement as indicated by the main differences between the high potentials, the executives and the literature. Below are the main analyzed topics:

- Executives and high potentials have different views on what drives future talent and how a good leader is defined;
- The rapid development of China is making the young generation more individualistic than the old;
- High potentials want a broader view of the business, more management skills as well as possess superior skills to their subordinates;
- High mobility among Chinese employees risks to devalue the knowledge of future leaders, and what Swedish companies can do to overcome the issue;
- Internal promotion can increase retention and company culture, as long as it contains certain elements;
- Important company culture ingredients such as challenging problems, trust, an open culture and mentorship relationships.

5.1 Executives and high potentials have different views on what drives future talent and how to define a good leader

One of the major differences found in this study relates to money as a motivational factor for high potentials (Figure 11). One third of the executives believe that money

is the most important incentive. The answers of the high potentials do on the other hand indicate that salary is more of a hygiene factor. 75 % of the interviewed potentials reject the statement that money is the single most important drive factor for them (Figure 11).

A minority of the executives do though share the same view as the high potentials, that not everyone is driven mainly by money, and states that employees driven solely by money should be avoided as it is not sustainable to compete for talent merely on salary. According to them, salary is a weak competitive advantage since money driven potentials can always be offered a higher salary elsewhere. Thus it will be unlikely for employees to stay long-term within the companies, which is also noted by scholars like Wong et al. (2002) and Hartmann et al. (2010). Many interviewed executives, for example Mr. Gong at Construco claim that their companies are somewhere in the middle or upper middle range of the salary scale. None has said to pay the highest salaries in the business. Therefore, it can be expected that the most money driven high potentials are not attracted to the interviewed companies, and thus the results could be skewed towards the opinions of the type of potentials that are attracted to the interviewed firms. This could make the results less generalizable towards a greater Chinese population, but it does still indicate a problem for Swedish companies.

Based on the answers from the interviews (Figure 11, 12, 13, 14 & 15), it seems that high potentials with an ambition to grow within these firms will mainly be given monetary incentives when they in fact value other incentives higher. Providing more than just monetary incentives is something mentioned as important both by Stahl et al. (2007) and Groysberg et al. (2004) in their research on talent management. Although Littrell (2002) argues that western best practices in this area are seldom fully transferable to a foreign context, the study indicates that Chinese high potentials are becoming more like western talents in their drives and motivational factors. It can be argued that the managers' view of money as the most important drive factor is outdated, originating from when living standards in China were poorer and people were more dependent on money. With the rapidly increasing wealth of the middle class as stated by Farrell et al. (2006), it seems natural that money is starting to lose the top position as the most important driver. Even though money seems to lose importance as an incentive when welfare increases, Stahl et al. (2007) argue that a highly competitive compensation is one of the most important retention factors in western firms. This implies that monetary incentives will continue to be of high importance in China as well.

At the same time as money seems to be decreasing in importance for the high potentials, the importance of titles and career development stays high (Figure 10). This is something executives seem well aware of. There is however a difference in the views between high potentials and executives regarding what career development should include. The results show that the young generation is more appealed to soft factors such as self-fulfillment, feeling participation and ownership, working towards an emotional vision and having work-life balance compared to

what the executives believe (Figure 12, 13, 14 & 15). The answers of the high potentials are in line with Lagerdahl et al. (2012) who also finds that soft factors are increasing in importance. Relating to Hofstede's (1983) cultural dimensions, a decreased importance of money implies a move towards more feminine values. Though, a feminine society would also have a reduced focus upon titles, advancement and recognition, not seen in China today. On the other hand, how these incentive factors will change in the future is hard to tell.

5.1.1 A generation leaving the collectivistic past for an individualistic future

Yet another dimension on how to manage high potentials' development is added by looking at the answers on how today's high potentials differ compared to the older generations. As illustrated in Chapter 4.2.3, the high potentials describe themselves as more individualistic, more short-sighted and also more open-minded compared to the executives descriptions.

One opinion among the interviewees is that the increasing individualism is derived from China's weak social security system as the notion of putting oneself and the family first becomes more important when there are few security nets. The children of the one-child policy have responsibility of supporting not only themselves and their parents, but also their grandparents, which creates a heavy financial burden and increases the financial focus among the young Chinese. Zimmer and Kwong (2003) argue that this dependency makes the extended family more of a burden than before, which increases the individualism. Luo and Lagerdahl (2011) provides another view, stating that the so-called generation Y is more individualistic just because they have been brought up as the only child, getting their parents' full attention and love, which has made them used to be in the center of the attention. Luo and Lagerdahl continues however adding that many parents have high expectations on their child, which creates a high pressure on the potentials. Perhaps both interpretations are true as there are large differences within the same generation (Luo & Lagerdahl, 2011). How to handle these changes and what they will mean for companies will nevertheless be an important issue for companies to manage.

The negative side of individualism could both imply an increased risk of shortsighted business thinking as well as an increased risk of corruption. Certainly, corruption depends on more things than individualism, where cultural norms as well as a lack of social security have an effect (Eklund, 2011). Guanxi is also such an influencing part. Even though China has become more individual, collectivistic areas such as guanxi seem to have stayed as important as before (Hedberg, 2013). Hedberg argues that guanxi can be seen as a defense against corruption, as strong closed relationships increases trust within, even though it can also be used to promote corruption. Increased corruption is worrying for many companies as seen in Figure 16 and stated by Fernandez et al. (2012). An increased risk is therefore bad enough, even if it doesn't necessarily mean increased corruption. On the positive side, if increased individualism together with an increasing open-mindedness means that Chinese employees will be more inclined to speak their own

opinion rather than just follow orders, this could be a positive trend for Swedish companies. Perhaps the scars from the Cultural Revolution, which severely reduced the openness and willingness to take initiative among the Chinese people (Littrell, 2002), are starting to heal. This is a good tendency, in particular since the majority of both executives and high potentials emphasize the importance of a culture where subordinates and executives have constructive dialogues and where subordinates dare to break the traditional hierarchical barriers as brought up both in Chapter 4.2.6 and by Lin (2008) and Dorfman et al. (1997).

Hofstede (2007) examine the drift from a collectivistic mindset into a more individualistic such and argues that countries that are becoming richer can also expect to become more individualistic. If true, the change towards increasing individualism among the Chinese can be assumed to continue as long as China is experiencing the same financial development (Credit Suisse, 2011; Farrell & Grant, 2005; World Databank, 2013). As previously argued, the importance of guanxi does not seem to be reduced (Hedberg, 2013), even though China has increased its welfare the past decades. This indicates that Hofstede's (2007) suggested correlation between a country's economical status and its relationship to individualism/collectivism is not fully intertwined.

5.1.2 High potentials want to have broader views of the business, more management skills and superior skills compared to their subordinates

A majority of the high potentials request a broader view of the business to be prepared for more demanding leadership roles in the future (Figure 21). It is notable that only about one third of the executives mention the same thing as important. Particularly since the few executives that do mention the importance of a broad view say that lack of a broad view among the high potentials is one of the very top reasons why they are reluctant to promote Chinese talents to top positions: *"They have got to understand that everything is part of a larger system. When they realize this, then they have good potential to become future top leaders. People that want to work at a high position really need to understand the big picture, otherwise it won't work. Unfortunately, I feel that the high potentials' impatience to always take the next step is being prioritized higher than long term planning and reaching a holistic view"* (Mr. Myrgren, Produco). Providing talents with a wider view is also one of the key success factors mentioned by Stahl et al. (2007) related to talent management.

Almost three times as many high potentials as executives state that a good leader should know the business better than the subordinates, as shown in Figure 20. This means that a good leader according to the high potentials should not only have a broad view, but also be more skilled within their field than their subordinates. Perhaps the disparity in opinions among executives and potentials is traceable to differences in background and culture. Mayer (1960) as well as Fernandez (2004) write that a traditional Chinese leader should be a "superior man", more knowledgeable and acting as a role model to the subordinates. The difference could

assumedly also be connected to the high potentials' current positions as low- and middle managers. A deep technical knowledge can be argued as more important in these hierarchical levels than it is in the top management positions. Perhaps the potentials also include the role of management in their definition of leadership. As suggested by Kent (2005), managers do things right and rely on authority while leaders do the right things and rely more on influence. Both of these roles seem to fit into the high potentials' view on leadership. It could be discussed whether this view is feasible or if the high potentials have too high expectations on what characteristics a good leader can and should possess. Striving to fulfill both roles might risk the high potentials of getting stuck in the middle, not excelling at any of the two.

It is noticeable that ten times more high potentials than executives mentioned that high potentials need more management skills, as brought up in Chapter 4.4.2. Perhaps it can be attributed to the above reasoning about cultural differences and leadership styles, perhaps it can also be explained by the reasoning of the following executive: *"In China we have to provide a bit more training and scaffolding for our talents than we do in the western markets. To be honest, I actually don't think the talents need it; they are smart enough to solve their tasks anyway. The only reason why we do it is to make them feel a little bit more secure and comfortable in their work. My experience is that Chinese talents demand more scaffolding than western talents do."* (Mr. Zachrisson, Serviceco). This quote indicates that this executive trusts the high potentials more than they do themselves, which is quite in contrast to the general impression of the conducted executive interviews. At the same time, the majority of the high potentials mentioned the importance of feeling trusted in (Figure 23). The high potentials in the above cited company also seemed more content compared to most other interviewed potentials in other companies, possibly because they felt more trusted. For example, Mrs. Sun at Serviceco stated: *"I feel supported by the company when I have ideas and projects I want to do. Top managers accept ideas from newly employed and this was surprising to me"*. The results indicate that high potentials want to feel valuable in their organizations. Sending high potentials to courses and management trainings could be one factor that makes them feel acknowledged by their organizations. Being assigned challenging problems slightly outside of their comfort zones could be another one as discussed below in Chapter 5.2.1.

As described in Chapter 4.4.1, having coaching skills and cultural understanding of both China and the West is the most commonly mentioned important features for future top leaders among the executives. This could indicate a greater people focus among the executives compared to a stronger skill focus among the high potentials. The people focus among the executives implies that the corresponding leadership styles (Goleman, 2000) of today's executives are the democratic or the coaching ones. These styles are highly appreciated by the potentials as well; coaching, delegation and communication are commonly mentioned as important skills (Figure 19 and Chapter 4.3.3). A coaching leadership without micromanaging is also key when striving towards an open culture where everyone is free to express his or her

mind (Figure 18). However, Dorfman et al. (1997) points out difficulties with coaching leadership in Chinese culture. This together with indications from the interviews and the high potentials' strong focus on knowing the business better than their subordinates, as discussed earlier, indicates a risk that the high potentials' corresponding leadership styles would lean more towards the pace-setting or the coercive. Examples of quotes illustrating these indications are: *"potentials have to learn how to give constructive feedback"* (Mrs. Wei, Serviceco) or *"Chinese leaders are very fast correcting someone doing wrong instead of giving constructive feedback. Since the culture is not questioning, leaders are not used to being questioned and employees are not used to question."* (Mr. Nordén, Industryco). If true, these styles could have a potential negative impact on the firms effectiveness and transformational leadership as discussed by Spreitzer et al. (2005).

How to develop the high potentials to widen their array of leadership styles is a challenge for many firms today. One style that seems to fit well for the current mindset of the Chinese potentials is the style Goleman (2000) calls authoritative. This style sets a clear vision and gives plenty of freedom for the subordinates to figure out how to achieve the vision. This would correlate well with the potentials' desire to work towards an emotional vision, feel participation and ownership, and learn through developing challenges (Figure 13, 14 & 22). This leadership style was successfully used at Serviceco according to both high potentials and executives within the company. The challenge for most companies though is first to find the vision to work towards and secondly to dare delegate enough authority to the subordinates. This could be a problem since many executives seem to doubt the loyalty of the high potentials as well as their ability to handle responsibilities as illustrated by Figure 16 and 17.

5.1.3 High mobility among the employees might devalue the knowledge of future leaders

As shown in Figure 10, career development is important for high potentials. Lagerdahl et al. (2012) and Fernandez et al. (2012) also indicate that high potentials have large expectations regarding their careers. The high expectations could create challenges for the companies since the high potentials also seem to expect increasingly more work-life balance as predicted by Hofstede (2007) and indicated by Figure 15. Quick career development and hard work often go hand in hand, but some of the high potentials only seem to want the former of the two. If the high potentials have unrealistic expectations on their career development they could easily feel unsatisfied if not given enough opportunities to grow within the company, or if they perceive they have to work too hard to get the desired results. This will put high pressure on current and future leaders' communication skills, since high potentials' expectations must be aligned with what the companies can provide. Communication skills are also something both executives and high potentials point out as one of the most important traits of a good leader as pointed out in Chapter 4.3.3.

If a good leader should know the business better than the subordinates, as brought up in the previous chapter (5.1.2), the large number of opportunities in China might inhibit the development of such leaders. This is because few employees stay in a company long enough to develop sufficient knowledge within their fields and companies. Mr. Nordén at Industryco describes that this issue is particularly negative for companies with long product cycles since they are dependent on experienced employees that have been with the company for at least one full product cycle. Particularly since much of the important knowledge is hard to attain and transfer. This is also in line with the reasoning of Groysberg et al. (2004) who brings up the difficulties of transferring knowledge from one organization to another. With the current job-hopping culture in China, few stay long enough to attain the needed skills to become respected leaders with better business knowledge than the subordinates. Since the job-hopping is a strategic choice made by the high potentials to increase the pace of their careers, it creates an interesting paradox as they instead decrease their opportunities to become good leaders.

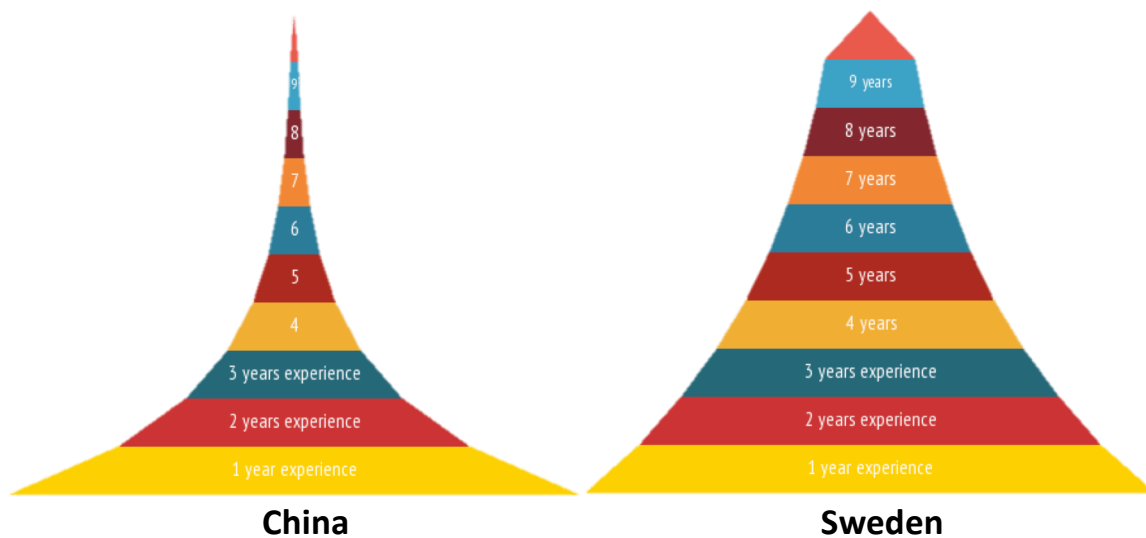


Figure 28: Ratio of employees in Chinese and Swedish publicist businesses with 1-10 years of working experience within the same company, influenced by Björkstén and Hägglund (2010)

As today's market growth is so fast, many opportunities are created implying that it will be inevitable to lose some talents, which is also stated by one third of the executives. The ones who do stay long enough in the companies to accumulate significant experience and knowledge will become very valuable and rare as brought up by Björkstén and Hägglund (2010) and illustrated by Figure 28. In a growing company with 20 % employee turnover there would be only one person with ten years working experience for every 100th newly employed, compared to the Swedish situation where the corresponding ratio would be 1/6. This illustrates the challenge of training newly employed and also the challenge of maintaining a homogeneous and strong company culture. Skilled leaders with deep company experience and knowledge will undoubtedly be both valuable, rare, inimitable and

non-substitutable, highly correlating with the prerequisites for competitive advantage as argued by Barney (1991) and Collins and Montgomery (1995). Thus, understanding high potentials and providing them with the right incentives to stay is of high importance for companies' future success in the Chinese market. As two thirds of both executives and high potentials state that recruiting is a problem (Figure 7), followed by almost half of both groups speaking about retention as a problem (Figure 8), a wrongly adjusted incentive structure could be part of an explanation to those problems.

5.2 Leadership needed in the future and how to get there

The results in Chapter 4.1.1 show that executives and high potentials are united in the opinion that future leaders must possess a deep understanding of China as well as having a global perspective. This is both connected to Hofstede (1983) who emphasizes that country culture invariably must influence the companies who operates within the country, as well as with Caligiuri (2006) who stresses the importance of having leaders of MNCs that are capable of working in a global environment. On the local market, future top executives need to skillfully lead an increasingly individualistic and short-sighted workforce with progressively more demands for work-life balance and self-fulfillment, which makes an understanding of the employees important. Moreover, related to the macroeconomic development, China is transforming from a low-cost production site for export into a market with increasing domestic buying power (Credit Suisse, 2011; Farrell et al., 2006; World Databank, 2013), which makes it important both for present and for future leaders to be able to utilize the full knowledge and creativity of their Chinese employees. One solution to this, as suggested by the high potentials, is to find the employees' individual passion for work and to formulate appealing core values that can guide and motivate the people within the organizations (Chapter 4.2.3).

5.2.1 Develop future leaders through challenging problems

As presented in the results, 80 % of the high potentials mention a need for challenging problems in their development as future leaders, while quite unexpectedly only one single executive mentioned the same (Figure 22). Development through challenging problems is described as an efficient leadership development by for example Colvin (2009). Perhaps the difference in views of high potentials' ability to take responsibility (Figure 17) can be part of explaining why executives don't mention challenges as a way to develop talents. The findings indicate completely opposite views on high potential's ability to take responsibility. Admittedly, about two thirds of the respondents on both the executive side and among the high potentials did not mention anything about responsibility, but the thirds among the executives and potentials who did had completely contrasting views. This makes it a noticeable indication of a difference in the views on high potentials. If executives argue that high potentials are unable and unwilling to take responsibility, they will also probably hand them less challenging tasks. This could lead to a vicious circle with less motivated employees, a lower degree of development among the future leaders and a further decrease of the trust among the executives. Hence, something needs to be done to increase the executives' trust

in the high potentials before they can give high potentials more challenging and developing tasks.

Sometimes a quick market growth can be a factor working in the favor of providing high potentials with more challenging tasks. As indicated by some interviewees, for example by Mrs. Feng at Paperco in Chapter 4.2.1, rapid market growth together with a policy to prefer internal promotion can force managers to promote potentials before they are deemed fully prepared to handle larger responsibilities. This can be viewed as an opportunity to grow future leaders in line with Colvin (2009) who promotes challenging assignments as a good way to foster future leaders.

5.2.2 International experience help high potentials to develop into future leaders

As seen in Figure 25, about half of both executives and high potentials see international assignments as a good way of developing future leaders. This is also the opinion of Stahl et al. (2004) and Hartmann et al. (2010) who claim that international experiences provide a wider cultural understanding and a broader perspective on the firm. Filou (2006) mentions that one of the top reasons why Chinese talents fail in their first jobs is because of too little international experience. Caligiuri (2006) also say that cross-cultural understanding and language skills is something needed for top leaders in MNCs and that international experiences are important ways of training these skills. This should be known by both companies and aspiring future top leaders, thus it is surprising that only half of the interviewees mentioned international experiences as something particularly valuable with regard to leadership development. The results do though correlate with Hartmann et al. (2010) who find that only a few MNCs work with regular international assignments. Clearly this could be an area of improvement for many companies.

5.2.3 Promote internally to the greatest possible extent

Internal recruitment is one of the best practices mentioned by Stahl et al. (2007) regarding talent development. During the interviews, twice as many executives as high potentials mentioned internal recruitment as a tool to keep and develop talents as seen in Figure 24. However, despite not speaking about internal recruitment explicitly, the potentials did emphasize the importance of having possibilities within their companies (Figure 23), that they want to develop through challenging assignments and responsibilities (Figure 22) and that they want to feel that they are developing continuously (Chapter 4.4.3). This probably means that they value a policy of internal recruitment. Focusing on internal recruitment is arguably a valuable suggestion for most Swedish MNCs in China. Part of this recommendation heeds to the conclusion of Groyberg et al. (2004), that hiring external high performing stars seldom turn out as well as initially thought and part takes into consideration the results indicating that visible career opportunities within the companies is one of the top considerations among high potentials.

Recruiting internally to the greatest possible extent would send unambiguous signals to talents that they have a possible future within the company. It would also

provide companies with excellent opportunities to test potentials' abilities and develop them through challenging assignments as mentioned above, and suggested by Colvin (2009). Given the executives concerns about Chinese employees' honesty and trustworthiness (Figure 16), it would probably also be more reassuring to promote internal, well-known employees rather than recruiting external less known talents. The interviews also show that due to cultural differences, most Swedish MNCs have to work hard to make the majority of Chinese employees comfortable with things such as having an open, constructive dialogue with the boss, or delegating responsibilities (Figure 18). With this in mind, it only makes sense to do whatever possible to keep the ones already trained rather than recruiting new people to train.

Internal recruitment also correlates well with the strategy mentioned by half of the executives, namely to recruit young highly talented people and training them rather than recruiting more experienced people, shaped by other organizations. On the other hand, Caligiuri (2006) recommends companies to be very deliberate in their choice of employees, especially regarding their cultural fit and personalities since these are hard attributes to change. If Caligiuri's reasoning is true, it would imply that companies might not be able to change peoples' behavior as much as they think, at least not without great effort. Therefore, as long as the companies are selective regarding internal, cultural and strategic fit of the prospective employees, as suggested by Stahl et al. (2007), it could open up to recruiting more experienced people as well. Then the issue might relate more to cost than behavior. Considering the "war for talent", mentioned by for example by Fernandez et al. (2012), it could be assumed cheaper to recruit young people and retaining them through other factors than salary rather than trying to buy over talented people that already have proven their value. This is also the top reason mentioned by the executives why they prefer to recruit young people.

Internal recruitment sounds easy in theory but might be harder to do in reality. In particular when growing fast. Some of the interviewed executives said that their market expansion was too quick to be able to grow all required staff internally, which forced them to hire external leaders. As illustrated in Figure 28, the ratio between experienced and inexperienced employees tend to be heavily skewed towards the latter in many Chinese organizations. The need to recruit externally makes it even more important to find people with strategic and cultural fit, as mentioned by Stahl et al. (2007) and Caligiuri (2006). Naturally the quick growth of China and the many opportunities created for Chinese high potentials will limit the available recruits, which is a challenge connected to recruitment as shown in Figure 7. If companies fail to recruit people with good company fit, the company culture, which this study identifies as a key success factor for successful leadership development, risk becoming heterogeneous and diluted.

5.2.4 Culture is a way to foster good leaders and bridge cultural differences

Figure 27 shows that a majority of the high potentials together with half of the executives mention that a strong and appealing company culture is something that

can improve the retention rates among the employees. This opinion is also shared by scholars such as Björkman and Lu (1999) and O'Reilly (1989) who argue that company culture is not only a way of creating more commitment among the employees but is also a powerful way of providing organizational control and implementing strategy. Two of the interviewed executives were particularly deliberate (and according to themselves quite successful) in actively establishing a strong company culture as a way both to recruit and retain the employees and to teach newly employed how to act. *"50 % of our success here in China can be attributed to our strong focus on company culture. The remaining 50 % comes from our strong knowledge about our customers, which is also a direct consequence of our company culture"* (Mr. Ekström, Communico). Although it is hard to objectively measure whether these two companies were successful or not and whether company culture was the reason, the general impression from visiting the companies was that this is the case. This impression was also agreed to by the high potentials in these companies.

According to the above mentioned executives, a strong company culture helps Chinese talents to understand, accept and implement behaviors such as a more coaching leadership style, constructive dialogues and whistleblowing towards fraudulent or corrupt acts among the employees. A visible company culture can be a way to bridge the cultural gaps identified by Hofstede (1983) and Pheng and Yuquan (2002). In other words, the culture is a key component in new employees' transition towards the desired mindset by the companies showed in Figure 16, 17, 18 and 19.

The above mentioned companies were also very particular with whom to employ, in order to feel that the newly recruits would fit the company culture more or less from the start, fully adhering to Stahl et al. (2007) and Caligiuri's (2006) recommendations. This can be illustrated by the quote from Mrs. Wei, executive at Serviceco: *"If a prospective talent is not judged to fit into our company values, we will never recruit him/her"*. None of these companies mentioned that their employees could not take responsibility, in fact one of the executives were the only one to explicitly object to this statement. Therefore, it could be assumed that having a strong company culture might be a key to making executives more comfortable with delegating more responsibilities to high potentials. This would be positive not only for retention but also for the high potentials' development as leaders as discussed previously.

One part of leadership development, requested by several high potentials, is to establish closer connections between executives and assumed future leaders (Figure 26). This could both be connected back to trust, as mentioned before, as well as back to the importance of guanxi and relationships in China. One way to achieve such connections is to create mentorship programs, something that Stahl et al. (2007) points out as one of the success factors regarding training and development of high potentials. Still Hartmann et al. (2010) found that only a minority of MNCs in China have well functioning mentorships programs. The main inhibitor according to

Hartmann et al. seemed to be cultural differences. Cultural differences could on the other hand be argued to be one of the top reasons why a mentorship program should be part of MNCs' leadership development programs. Assuming a mentorship relationship is established between a western executive and a Chinese high potential, both sides could learn from each other's cultures (Chapter 4.4.1), which would be mutually beneficial. The high potentials could get better understanding of what it means to be a top leader and they could also get a much wanted broader view of the business (Figure 21). At the same time, the executives could get deeper insights into how high potentials act and think today. As shown in Figure 9, 11, 12, 13, 14 and 15, this study indicates that executives do not seem to fully comprehend the importance high potentials put on softer factors such as self-fulfillment, working for an emotional vision or work-life-balance.

Furthermore, a mentorship program could be an excellent way of promoting the company culture to ambitious and open-minded Chinese talents. Yet another benefit of a well- functioning mentorship program would be to make it more visible to high potentials that they are invested in by the company, indicated in the results as an important retention factor (Figure 23). On the negative side, there could be a risk that strong mentorship relations would alter the positive image the interviewed firms have among the potentials. Chapter 4.2.2 show that Swedish MNCs are perceived to be fair in the promotion policies because they promote based on skills rather than relationships. People not part of the mentorship program might see it as unfair that only a few selected employees get increased exposure to top management and that they themselves are not part of the mentorship program. On the other hand, Hedberg (2013) claim that guanxi is as important as ever in China, which could mean that mentorship programs would be appreciated by the talents embraced by the programs. How to set up a successful mentorship program, taking into account the difficulties mentioned by Hartmann et al. (2010) is beyond the scope of this report, but may well be an exciting area for future research.

6 Conclusions

The macroeconomic development of China has been fast during the past decades, reshaping the mindset of the people, the welfare and the country's role in the world. This study contains interviews with executives and high potentials in Swedish multinational companies in China, analyzing them with the basis in three research questions:

- *How do Chinese high potentials perceive leadership and leadership development in Swedish multinational companies in China?*
- *How does this view differ from the views of top executives in Swedish multinational companies in China?*
- *What could be possible consequences of this potential mismatch?*

The findings of this study indicate that Chinese high potentials are more driven by soft factors such as self-development, emotional vision and an ability to make a difference compared to both older generations as well as the believes of executives. The findings show a difference in the perceived importance of money between the executives and the high potentials. Executives believe that high potentials are more driven by money than what the high potentials state themselves. Given this finding, this study recommends Swedish MNCs to refocus their incentive structures more towards soft factors rather than monetary values.

The mindset of the high potentials is also strongly affected by the culture and history of China. Since China is changing so rapidly, this study argues that the Chinese values can be expected to change as well. An increased welfare increases the individualistic mindset of the Chinese and the one-child policy has already showed effects of making the young generations more self-centered and individualistic than before. On the other hand, some areas such as guanxi still seem to stay important within the culture.

Furthermore, this study argues that the current job-hopping culture in China has a negative effect on the knowledge of future leaders. In contrast to the executives, the high potentials define a leader as having better knowledge of the business than the subordinates. This can perhaps be connected to their positions as low- and middle managers, but can still create problems for themselves and for future high potentials as few stay long enough in one company to gain any deeper knowledge within their professional roles. Since scholars add that competences are hard to transfer between companies, the job-hopping culture is a major issue for Swedish companies in China today.

There are also indications that executives have little cultural understanding of the high potentials and their mindset, creating a lack of trust between the two groups. This lack of trust can inhibit the leadership development in Swedish companies, as

executives become less eager to provide high potentials with challenging problems. Due to the large number of opportunities in China, any high potential feeling unsatisfied with the challenges provided will be given opportunities elsewhere, thus risk leaving the company.

Finally, given the low retention rates among Chinese employees, the ratio of mentors to disciples is low since very few gain long enough experience to teach others. However, the study argues that a strong company culture, emphasizing on self-development, challenging opportunities and trust, can improve the chances of retaining high potentials, creating better prerequisites for effective long-term leadership development. A mentorship program is also an area of interest as it increases the visibility of opportunities within the company, while at the same time increases cultural understanding.

6.1 Recommendations for future studies

Due to the explorative focus of this study, differences in views upon leadership and mindsets between executives and high potentials are still not covered to its full extent. This study can be used as a pre-study for additional research, as several interesting topics have been identified. Examples of such topics are listed below.

1. Differences between industries and regions are likely to be seen. Both academics and companies can be expected to have an interest in clarifying how these findings can be used for maximum value creation in a narrower context.
2. This study argues that a tight cultural fit during the recruiting process increases the retention of employees and the probability of success for Swedish companies in China. Since the growth of these companies as well as the growth of the market they act within is at such high rate, the balance between cultural fit and the rapid growth must be managed. The knowledge of how to do so can create additional value for companies acting in China.
3. The importance of culturally adapted mentorship programs as discussed in chapter 5.2.4 is argued to be high but how to implement such programs is still intricate. Mentorship programs are already discussed by several scholars but the cultural aspect of such programs creates problems not yet overcome.
4. The behavior and values among the young Chinese have changed rapidly during the last decades, as discussed in this report. If this change continues, additional research is needed to keep up with future changes.

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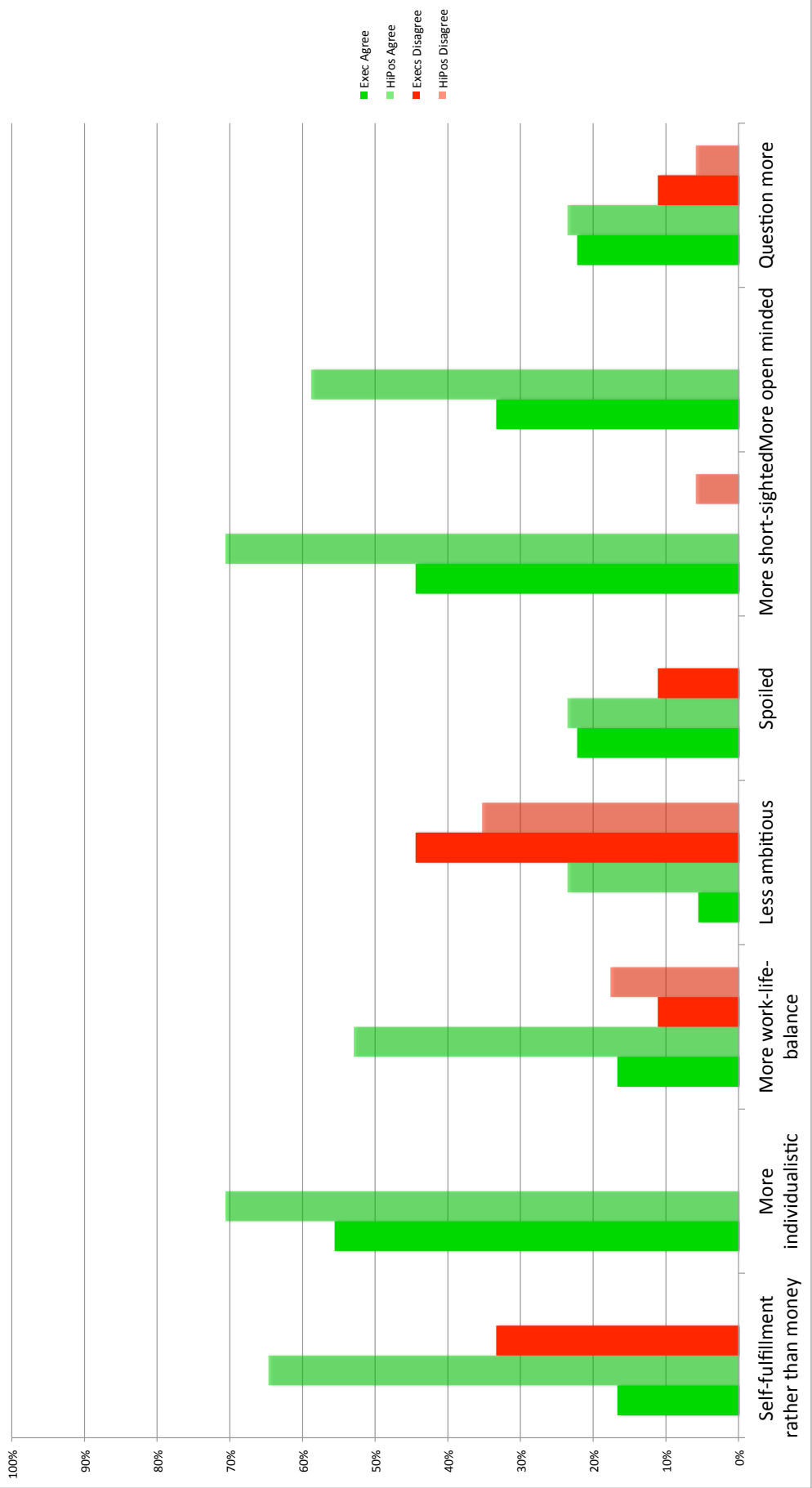
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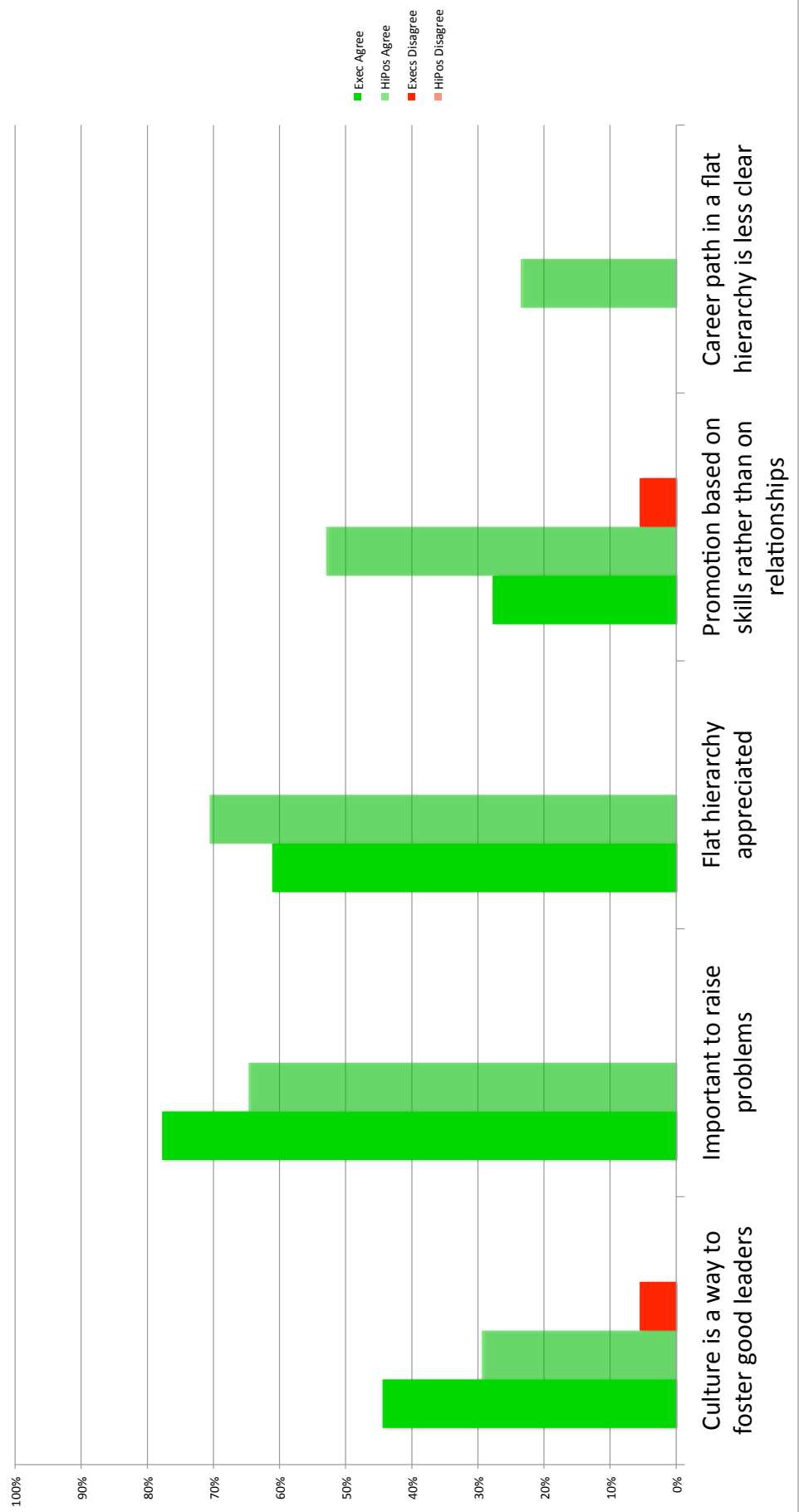
8 Appendix

8.1 Graphs of results

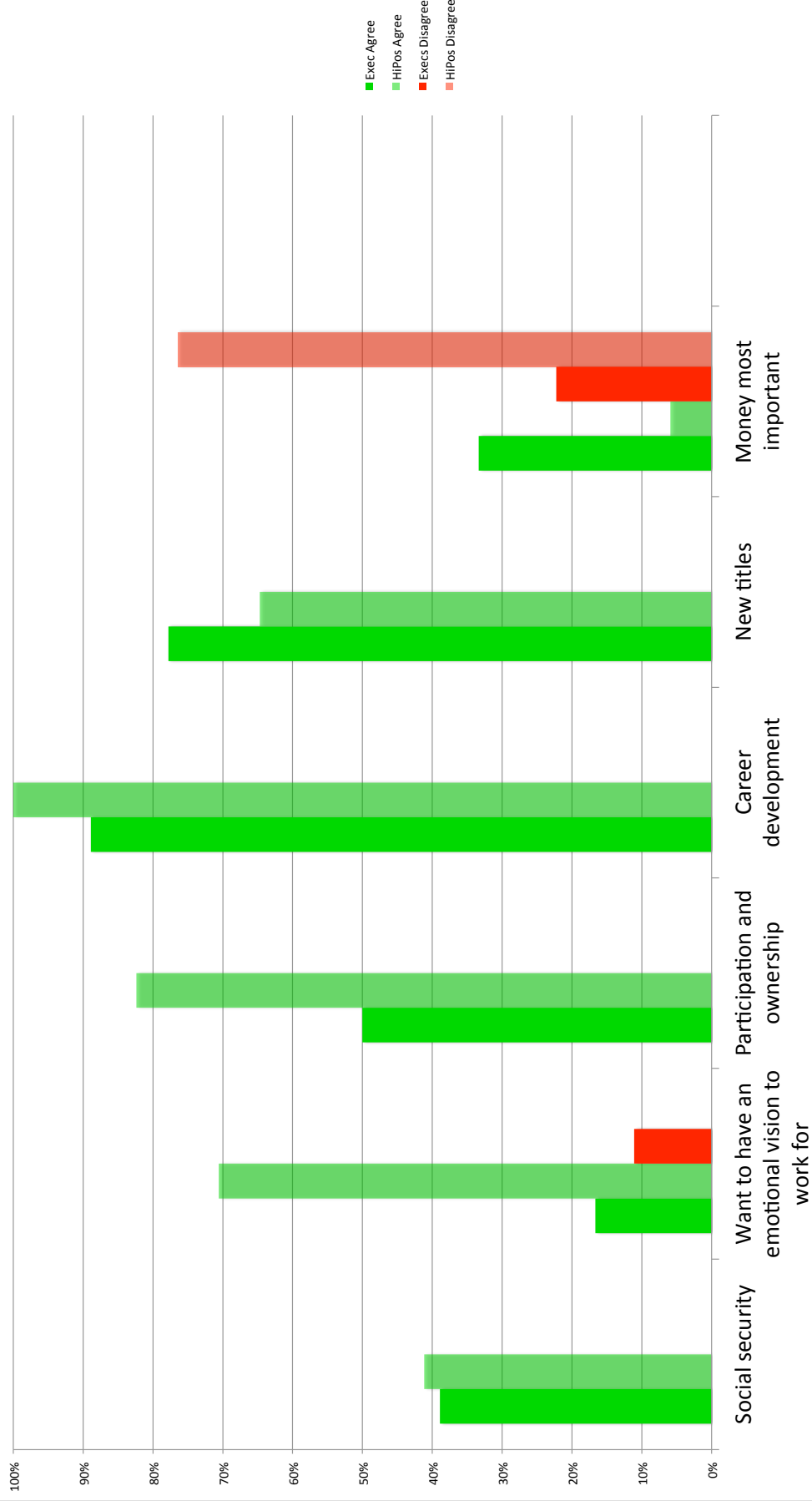
Differences towards older generation



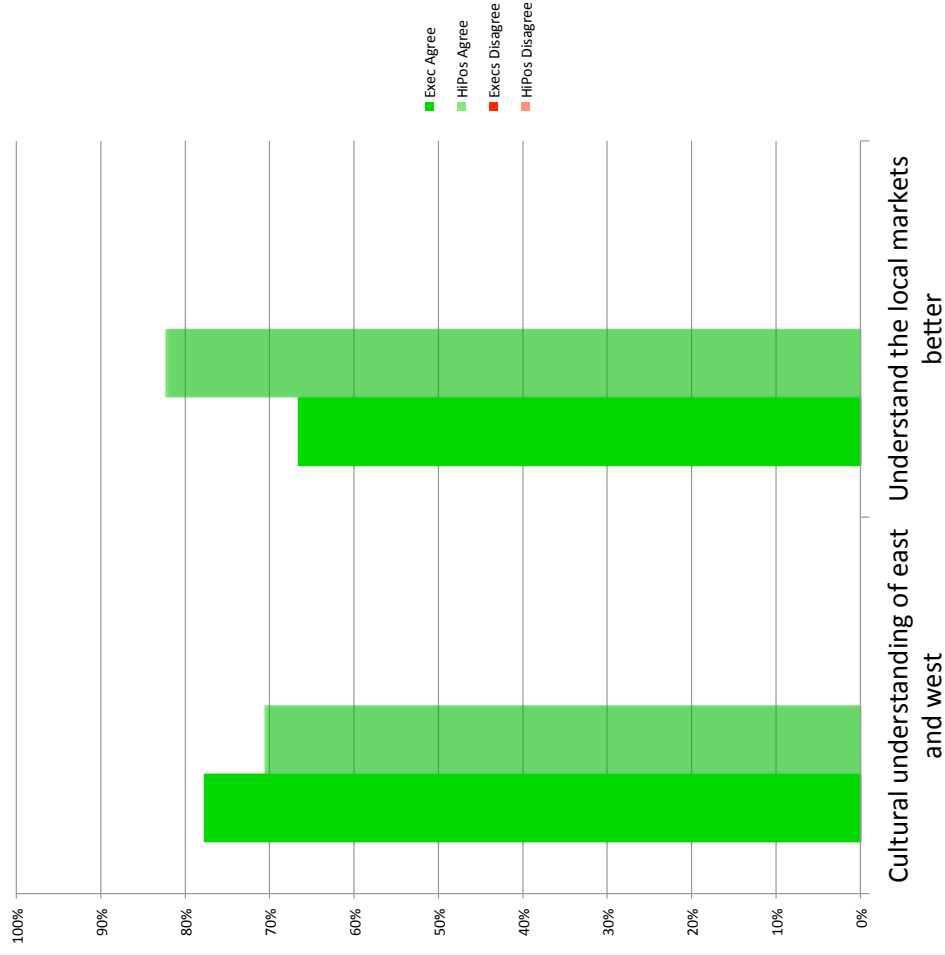
How is the Swedish culture perceived?



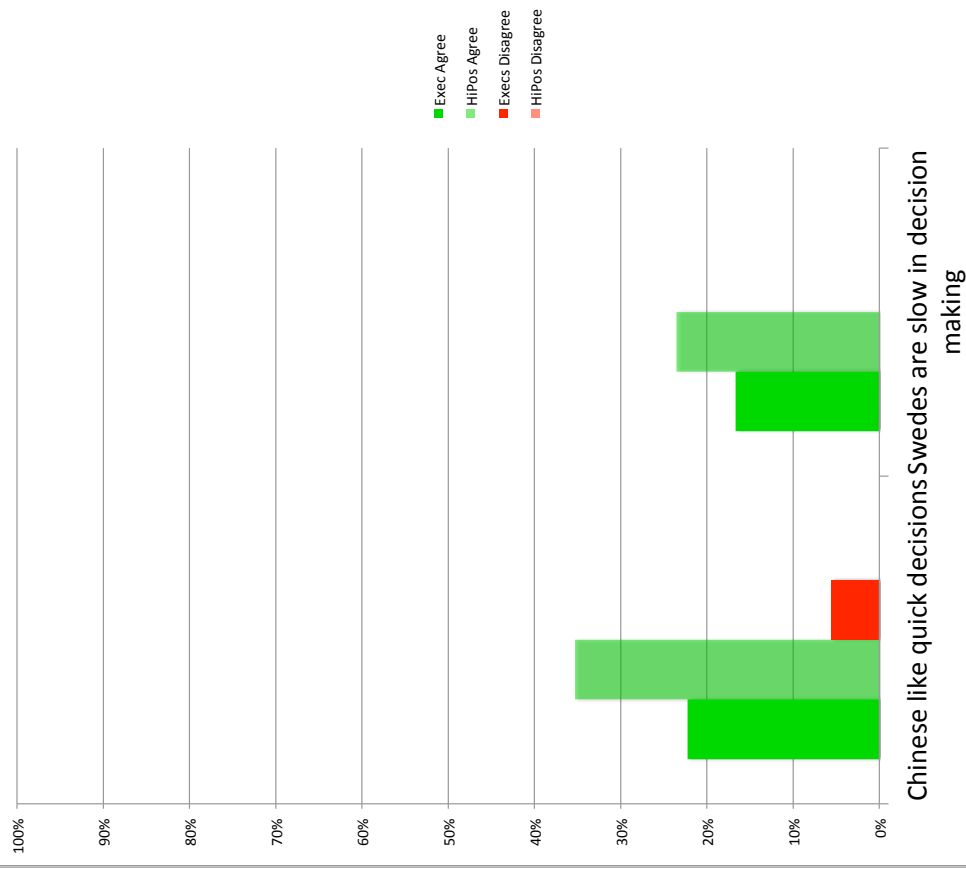
Drive factors and ambitions



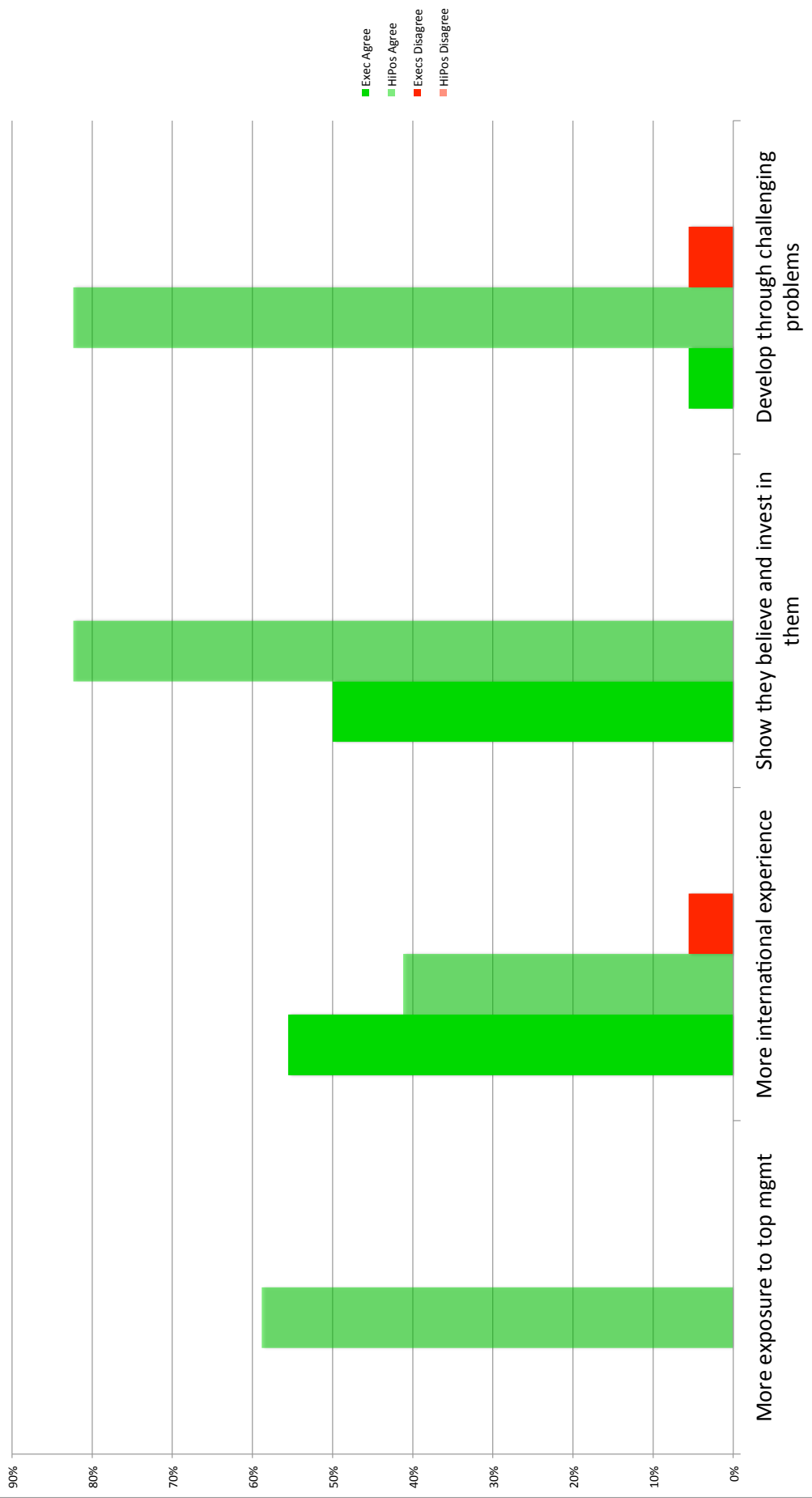
Globalization and localization



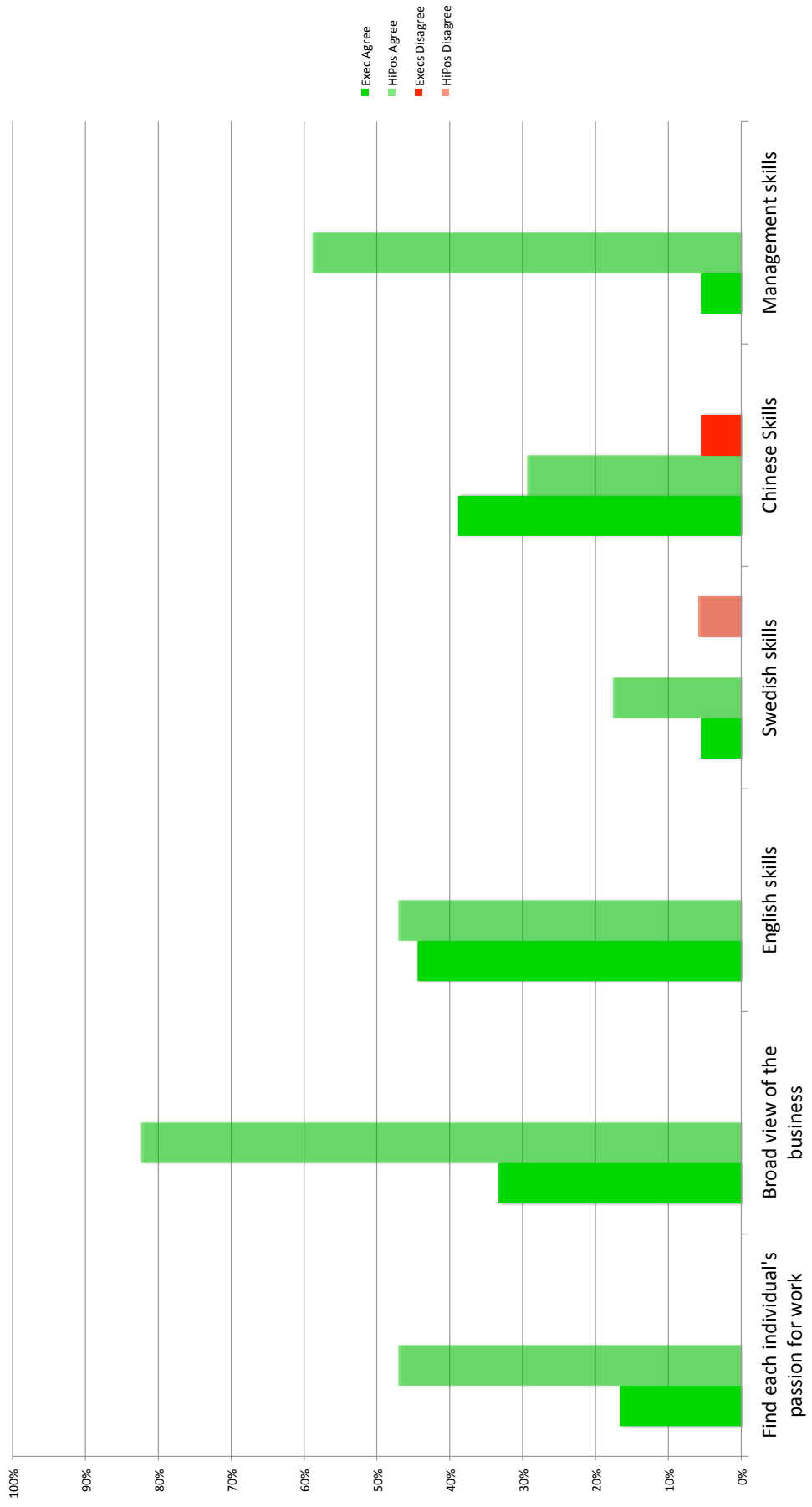
Leadership styles between countries



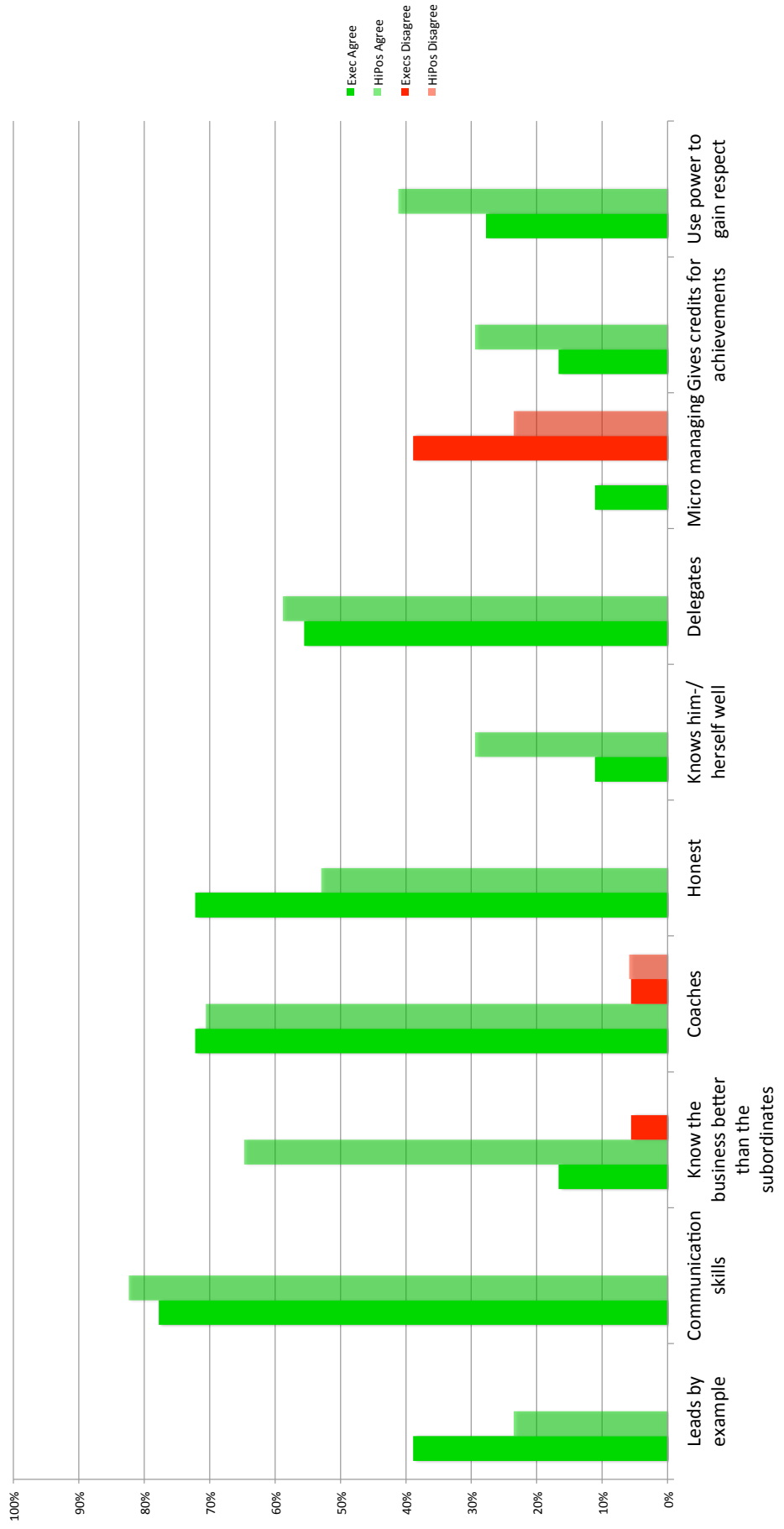
How to develop the leaders



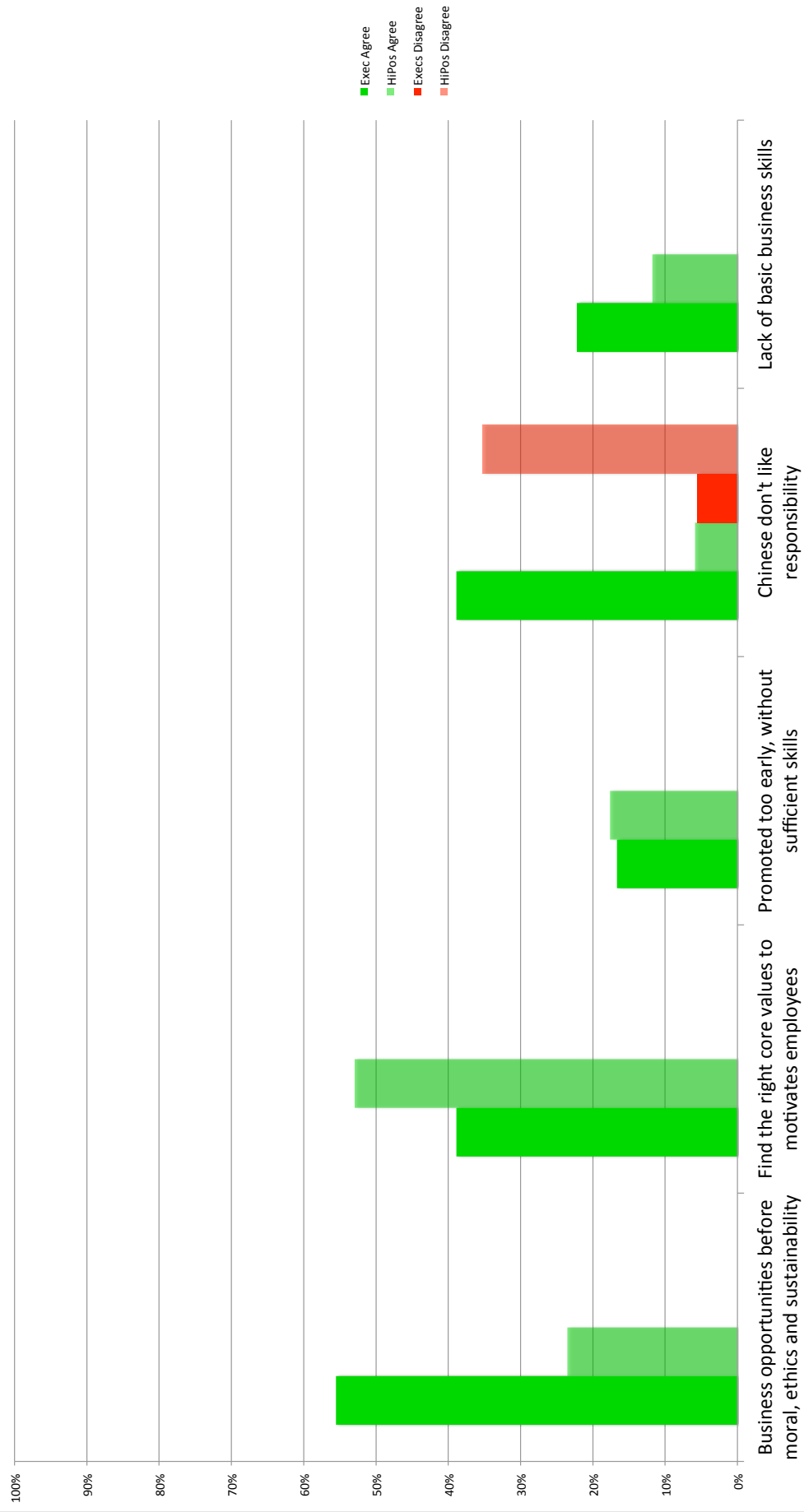
Skills a future leader must have



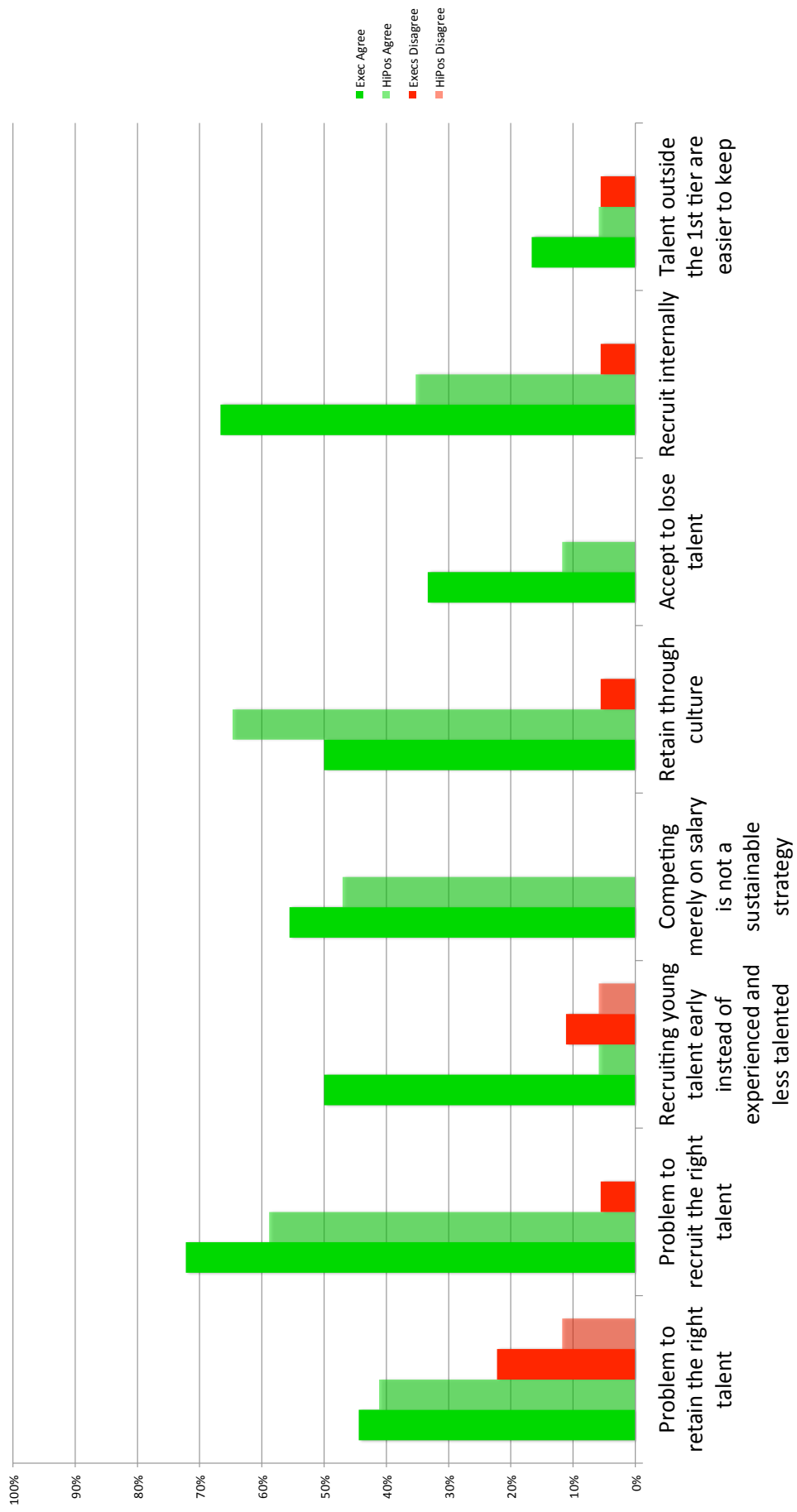
What characterizes a good leader



Challenges



Retention of talents



8.2 Interview guides

8.2.1 High potentials

Introduction

Brief background

Anonymity

Agenda of the interview

Background and Driving Forces

- What is your role at XXX?
- What attracts you at XXX?
- How did you end up where you are today? What is your background?
- What do you think are the good and bad things about being a leader?
- If you stay in a leadership role at XXX, which strengths can you build on to continue developing as a leader?
- Do you have someone other than your direct superior that gives you advice for how to act in different kinds of situations?
 - What does he/she do/help you with?
 - Who initiated that relationship?
- If you look back at the last five years- can you describe some situations or experiences that helped you develop as a leader?
 - Which of those things were connected to your position in the organization?
 - Were there things that you experienced that were not connected with your formal role (extra assignments, extraordinary situations)
- What we have learnt is that many young leaders have taken on projects/ special assignments that they have experienced as being of a stretch character? To what extent is this true for you? Who took the initiative?

Cultural Differences and the Future

- How is XXX and its culture perceived in China?
 - How valid does XXX's values seem to you in this part of the world?
- What major challenges is XXX facing at the moment?

- What is important when it comes to leadership in China? In what sense do you think it differs to exercise leadership in China compared to the rest of the world?
- If you look 10 years ahead - what do you foresee as XXX's three toughest challenges?
- If you once again look 10 years ahead with the challenges that you can foresee-what qualities do you think are important for the persons that will head the XXX group in 10 years? What are the differences from today? What experiences do you think those leaders must have obtained?

Your Development Forth

- What would you need to do to prepare for being a leader in XXX in 10 years?
 - What do you need from the organization to get there?
- What do you see as the three most important things that have helped you to develop your leadership skills?
- What would make you want to go to the next step in your career?
 - What are the strongest incentives?
 - Why is money important to you?
- What does XXX do well in terms of leadership development? What can be improved?

8.2.2 Executives

Introduction

- Brief background of us and the study
- Agenda of the interview
- Anonymity

Background

- How did you end up where you are today? What is your background?
- What's your role at XXX?

Cultural Differences and the Future

- How is XXX's culture and how is it perceived in China?
- What are the differences/similarities in Sweden compared to the organization in China?
 - How can you increase the understanding of these corporate cultural differences?
- What is important when it comes to leadership in Asia? In what sense do you think it differs to exercise leadership in Asia compared to the rest of the world?
 - Probe for how he or she would tackle the differences that occur.
 - Loyalty
 - Competitiveness
 - Higher level of micro management
 - Individualists create low team feeling
 - Hierarchy in Age, titles and education
 - Ability to see the overall picture
- What motivates the high potentials in your organization?
- If you look 10 years ahead - what do you foresee as XXX three toughest challenges?
- If you once again look 10 years ahead with the challenges that you can foresee-what qualities do you think are important for the persons that will

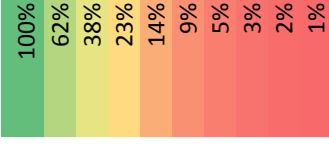
head the XXX group in 10 years? What are the differences from today? What experiences do you think those leaders must have obtained?

High Potential's development

- What would you think high potentials need to do to prepare for being a leader in XXX in 10 years?
 - What do they need from the organization to get there?
- What do you see as the three most important things that can help them develop their leadership skills?
- What do XXX do well in terms of leadership development today? What can be improved?

Appendix 8.3: Calculation of retention

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
China										
Growth in Publicist market		30%								
Growth of Chinese GDP		10%								
Employee turnover		10%								
	100	100	211	337	489	677	913	1213	1598	2094
				169	220	286	371	483	627	816
				104	135	176	228	297	386	502
				64	83	108	141	183	238	309
					51	67	87	112	146	190
					41	55	72	90	117	152
					26	34	44	58	72	94
					21	27	35	44	55	68
					17	22	28	35	44	55
					13	17	22	28	35	44
Total	100	100	211	337	489	677	913	1213	1598	2094



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Sweden										
Growth in Publicist market		7%								
Growth of Swedish GDP		3%								
Employee turnover		10%								
	100	100	194	283	369	452	534	614	695	776
				114	123	131	140	150	161	172
				93	100	107	114	122	131	140
				76	81	87	93	99	106	114
					66	70	75	81	86	92
					57	61	66	70	75	80
					43	46	50	53	57	61
					38	40	43	46	50	53
					29	33	38	40	43	46
Total	100	194	283	369	452	534	614	695	776	859

