Leadership and Working life in Chinese businesses located in Denmark

A literature review and a suggestion of how to study the issue

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Abstract

Very little research – if any – has been done to find out what happens to leadership and working live when Chinese companies settle in Denmark. This paper argues that it is worth investigating this topic, as I assume that the numbers of Chinese companies locating themselves in Denmark will increase in the coming years. The aim of the paper is firstly to give an overview of the literature that deals with the development of Chinese companies going abroad, and it is shown that the direct outward investments of China is experiencing a rapid growth. Secondly I like to look at leadership and working lives in China, and the lesson learned from the literature is that leadership and working life in China is diverse and continuously evolving. But some trends may be identified like different institutional regimes and different types of companies. Thirdly I look at leadership and working life in Denmark, and I compare leadership and working life in the two countries showing that there are many differences. These differences may have an impact on the way Chinese companies handle their encounters with 'strangers' when they establish themselves abroad, but we do not know if this is happening. I conclude by outlining a way of how to empirically study the interaction between Chinese and Danish managers and employees working together in a Chinese company in Denmark.

Introduction

More and more foreign companies are moving to China and some research/reports have been conducted about what happens when foreign businesspeople meet the Chinese on their home turf (Bouée 2011; Cao & Zhao 2009). A few studies have also been conducted focusing specifically on Danish companies moving to China, and on the relationship between the Danes and Chinese in Danish companies or joint ventures in China. (Boutrup 2011; Gertsen & Søderberg, 2011; Worm 1997, 2008).

However, as China is one of the world's fastest-growing economies, we have also witnessed the reverse: Chinese companies settling abroad, especially in the US. (Alon et al. 2011; Liu, Lin & Cheng 2011; Lu, Liu & Wang 2011; Yeung et al. 2011; Yiu 2011). Very little research – if any – has been done to find out what happens when Chinese companies settle in Denmark. One reason may be that it is a rather recent phenomenon and that there are very few Chinese companies in Denmark to date. (An unauthorized list mentions a total of 36 Chinese companies in Denmark: 23 from mainland China, seven from Hong Kong, and six from Taiwan). I assume that the numbers will increase in the coming years. In the beginning of January 2012, it was made public that China would establish an office in Copenhagen to coordinate investments from China in Denmark. I also assume that leadership and working life in Denmark is different to that in China, and this paper argues that it is worth investigating what happens when Chinese and Danish managers and employees work together in Chinese companies located in Denmark.

The aim of this paper is to give an overview of the literature that deals with:

- the development of Chinese companies going abroad;
- leadership and working lives in China;
- leadership and working life in Denmark; and
- leadership and work life in foreign companies located in Denmark.

To conclude, I outline a way of how to empirically study the interaction between Chinese and Danish managers and employees working together in a Chinese company in Denmark.

Chinese companies going abroad

> 'The early years of the twenty-first century have ushered in a range of far-reaching milestones for both the Chinese and world economies. First, China's process of (re)integration with the global economy (Lardy 2002) culminated in the accession to the World Trade Organization

(WTO) in 2001. Combined with sustained economic reform and restructuring efforts in the domestic political economy sphere, China's race to the market (Story 2003) has induced a gradual, yet irreversible, convergence towards internationally accepted norms and standards of economic interaction and increasingly market-conforming business strategies. A second critical development, meanwhile, has been China's emergence as a source of foreign direct investment (FDI), alongside its continuing attractiveness as a leading destination of global FDI (Cai 1999; Deng 2004; Wu & Chen 2001). Spearheading the still comparatively small but rapidly expanding outward FDI wave are increasingly assertive Chinese enterprises with global ambitions.' (Schortgen 2008:15).

Although the level of inward foreign direct investment into China is higher than the outward foreign direct investment from China, outward investment is experiencing rapid growth. Applying the United Nations Conference on Trade and Development's World Investment Report from 2006, Schortgen (2009:20) mentions that the outward foreign investment had increased from 2,5 billion US $ in 2002 to 11,3 billion US $ in 2005. In percentage terms of gross fixed capital formation, that is an increase from 1.0% in 2002 to 1.4% in 2005. Since then the development has rapidly increased. Voss, Buckley & Cross (2008:135) illustrate this by citing a report from the Chinese Ministry of Commerce that domestic firms invested US $ 21 billion abroad in 2006, raising China's outward foreign direct investment stock to US $ 90 billion in 2007.

This development has been made possible due to the changing institutional arrangements in China, which were created during the last 30-35 years (Ge & Ding 2009; Voss, Buckley & Cross 2009). Before 1978, China was a closed, planning system economy with virtually no outward foreign investment. Since then the Chinese government has changed the institutional context for such investment. Voss, Buckley & Cross (2008:144/154) describe how it happened step-by-step. From 1979-91, the Chinese authorities began the open-door policy by establishing rules for outward foreign direct investment, which was encouraged. However, the impact during this early period was minimal. From 1992-2001, new investment approval institutions were created and outward foreign direct investment became part of the Chinese liberalization of economic development. Both local and provincial government authorities became involved in foreign businesses and they allowed companies to establish affiliations abroad under their supervision. By the end of that period, the Chinese government developed a contradictory policy towards foreign investment as it tried to control poorly managed projects whilst encouraging companies in the light industry to internationalize. Voss, Buckley & Cross describe how the 'Go Global' policy in 1999 provided a strong public endorsement for outward investment by companies, and how the policy reflected the perception in China 'that the country had by now become sufficiently developed to take its place in the global economy, as symbolized by the international economic strength and scope of its multinational enterprises' (151). In the third period, from 2002 and onwards, outward foreign direct investment takes off as mentioned above. The business environment changed dramatically in 2001 as China entered the World Trade Organization (WTO). 'With the adoption of these commitments, Chinese enterprises across many sectors have since faced increasingly stiff competition from foreign invested enterprises, as well as from foreign importers. Growing competition in domestic markets is likely to force many Chinese companies, especially private-owned enterprises which lack domestic political protection, to consider new markets abroad, and this is likely to provide fresh impetus to Chinese Office of Foreign Direct Investments flows' (152).

Ge and Ding (2009) analyze the effects of the institutional environment on Chinese companies and argue that three institutional levels are relevant in understanding China's development: government, industry, and business. Strong government endorsement led to the dominance of big state business groups, and mergers and acquisitions became a significant means for overseas investment. 'The government's policy orientation toward building world-class Chinese MNCs (multinational companies) has strongly motivated Chinese firms to 'go out' to obtain scarce resources, advanced technology, and other critical strategic assets' (58). The Chinese government played a significant role in shaping China's industries by providing specific financial support and taxation to specific industries (steel, automotive, telecommunications, and petroleum). Competition from abroad also forced Chinese firms to cooperate and combine resources, resulting in them supporting and strengthening those industries. However, the role of these industries has been varied: some have been passive while others have been active by pooling resources and capabilities. Business has also played an important role as Chinese companies have had to overcome many institutional barriers and have built networks to overcome these restraints. Although the institutional environment has supported outward direct foreign investment, there is still a barrier to companies moving abroad and 'Chinese companies still have to go through lengthy and multi-layered approval processes before they can proceed with any overseas project'(62).

Voss, Buckley & Cross (2008:158) argue that apart from a few private companies, China's outward foreign direct investment is still dominated by state-owned companies. However, they assume that more private companies will invest abroad due to the above-mentioned recent changes to the institutional environment in China, which facilitates rather than prevents foreign investment by private Chinese companies.

Leadership and working life in China

China is developing very rapidly and one could argue that it is not possible to identify a specific way of organizing Chinese leadership and working life. Some scholars are focusing on growth in *privately owned companies*, arguing that China is going in the direction of a liberal economy – or that China should go down that road. Others are focusing more on the positive role of the *state and the government* in nurturing the Chinese economy, and they argue that the Chinese state should continue to pick winning and losing industries. (Wang 2009). A third group of scholars are focusing on the role of *social networks* – guanxi – as a mechanism to help companies in a time where there is poor legal infrastructure and high institutional uncertainty. (Bjørn & Worm 2008; Guo & Miller 2010). Therefore, when we look at China today, we may find private companies, state companies, state interventions, and different types of networking between private and public actors. We may also find companies which are owned by employees. The private telecommunications company – Huawe – is owned by the employees with about 65,000 employees out of about 100,000 employees participating in an employee shareholder scheme. So how can we identify a pattern from these differences?

Fligstein and Zhang (2009) offer a preliminary answer to this question. The two scholars argue that although the role of the government has changed dramatically within the last 30 years, it still remains enormously influential and they reject the idea that China's economic transition is about the removal of government and state from markets. Therefore China is not moving in the direction of liberal capitalism. Second, China is not adopting Scandinavia way of organizing as Chinese labor is relatively disorganized, independent unions are illegal, and the management system is rather authoritarian or paternalistic. In addition, some Chinese workers have lost their right to lifetime employment and they can be fired with little retribution. So, if China is not moving in the direction of a liberal economy as per the Anglo-American model, and it is not moving in the direction of a more organized economy like Scandinavia's – which direction is it taking? Fligstein and Zhang suggest that we take a closer look at *French dirigisme* where the state controls and owns shares in many core businesses, labor union membership is low, and the French government is eager to arbitrate the relationship between companies and workers. They argue that the French dirigisme of capitalism is closer to what is happening in China today where government control is high, state ownership of firms remains central to the economy, workers are less organized, and a private sector is emerging albeit in the shadow of the state. There are also differences between French and

Chinese dirigisme. France is a democratic country involved in the economy supporting social welfare and redistribution and the workers can bargain with the state. In China, workers can wait for the paternalistic state to take care of their interests. Therefore, we can talk about different versions of dirigisme – and that China may be moving toward a special Chinese dirigisme.

Even though this Chinese dirigisme is developing at the state level, its development may occur heterogeneously at lower levels. Krug and Hendrischke (2008) argue that different types of economic regimes are emerging in China at the local level. They describe them as 'arm's length', 'developmental state', and 'pre-corporativist' regimes and they argue that they support businesses differently. In a rather similar way, Bouée (2011:21-24) describes four types of companies: 1) Large state-owned companies, which dominate sectors such as gas, metal, car manufacturing, chemicals, telecommunications, and banking. Top managers are politically appointed and they are obliged to follow state rules in many key management areas. Although they have some of the same attributes as managers in large private companies, the managers are not free to experiment with new management approaches and their ethos is closer to that of an administrator than a merchant. They account for only a few per cent of domestic companies, but generate 30% of assets. Graen (2008:283) mentions several characteristics of a traditional, state-owned enterprise: companies have to accept employees' families' interests; appointed committee leaders are obeyed and subordinate managers do not begin problem-solving on their own; employees obey the Party first, and the Party provides them room and board, health care, education, and an income; managers are not expected to innovate but to follow specific orders; employees are employed for life; Chinese employees do nothing without instructions; and they only get promoted when someone leaves. 2) Small or medium-sized companies, which are mostly family businesses are 'run by dictatorial patriarchs or matriarchs with limited ambitions to grow, or expand beyond their local bases…. they constitute an important part of China's manufactory base, but they are not and have no wish to be at the forefront of management or organizational development.' They account for nearly all companies in China but only generate 65% of national output. 3) Large private enterprises which are clones of Western (US) companies. They are established by Chinese entrepreneurs trained or/and educated in America within the high-tech or finance industries. The CEOs look upon their companies as leading-edge players in management and by doing so they think they are making their companies globally competitive. 4) Large private companies developing a new Chinese management style. Some of them started as clones of Western companies but changed to a more Chinese management style. Others were skeptical about the Western style from the beginning and reached out to their Chinese roots for ideas of developing their own management style, disenchanting them from the Western management style. Although they are a relatively minor segment of China's companies, Bouée argues that they are growing not only in the fourth category but in the other three categories too. Although this new Chinese management style is still emerging Bouée (2011:131-153) defines it as: dynamic, adaptive, flexible, synthetic, mutual, consensual, spiritual, disciplined, and natural.

Chen & Lee (2008) argue that current Chinese leadership is influenced by multiple Western and Chinese philosophies, perspectives, and approaches – some of which are conflicting: materialism versus relationship; need for efficiency through control versus need for innovation; a paternalistic model of treating employees as family versus treating them as a resource and a commodity; pursuing corporate profit versus corporate social responsibility; and sensitivity to the domestic and global economy versus sensibility to the one-party state of China. The authors suggest (p. 24) that Chinese leaders are inclined to adopt multiple, even conflicting perspectives in their analysis of an issue, and that they see more overlap and complementarity than their Western counterparts. And in the case of conflicts, Chinese leaders may be more inclined to make compromises than resolve the issue. It is suggested that Chinese leaders adopt a general approach of eclecticism and holism to their practice of leadership.

The lessons learned from these studies are that leadership and working life in China is diverse and continuously evolving. But some trends may be identified like different institutional regimes or different types of companies. These differences may have an impact on the way Chinese companies handle their encounters with 'strangers' when they establish themselves abroad, which may be most relevant for categories 1, 3 and 4 mentioned above by Bouée.

Leadership and working life in Denmark

I turn our attention now to leadership and working life in Denmark, and ask if we have a specific way of doing things in Danish companies. There are of course many variations in Danish companies concerning leadership and working life, but I will look for similarities. To answer the question, I would like to go back in time and point to the fact that industrialization came relatively late to Denmark and other Scandinavian countries, which coincided with a general democratization of political systems in Western Europe. It is reasonable to assume that a consequence of the late industrialization was an avoidance of its most negative aspects, such as child labor, large slum areas, extremely low wages, and pronounced resistance among employers to the unionization of workers. (Bjørnstad 1987). However, this situation should not lead us to romanticize the beginning of industrialization in Denmark, because (as was the case in the rest of Europe) strikes and struggles for better wages and living conditions characterized the period. As a consequence of these struggles, workers were organized into unions and employers into employer's associations by the end of the 19th century. Since then, they have recognized each other as legitimate bargainers in labor market affairs.

During the 20th century, a growing number of workers in the private and the public sectors became unionized, giving Denmark the highest rate of unionization in the Western world – and ensuring that the institutionalized bargaining system between the two sides of industry occupies a strong position. In the first part of the 20th century, bargaining was primarily conducted between the top representatives of unions and employers' associations. In their understanding of where bargaining could take place, the phenomenon of 'the company' as an organizational unit was irrelevant. This understanding emerged only after World War II, at which time bargaining became increasingly decentralized, resulting in greater direct contact between managers and shop stewards. During the process, the company was constructed as a political system and questions of power and of the humanization of working life have been topics of debate in Denmark ever since. This has led to different ways of involving employees in company decisions such as shop stewards, members of autonomous work groups, skilled employees as strategic company actors, and members on the board of directors. (Westenholz 2003).

In parallel with this process, the social democratic parties held a strong position in Denmark and placed the development of the welfare state on the agenda. Particularly since World War II, social democratic politics have supported the understanding of the company as a political system in which employees should be ensured influence. We could call this a partly *'micro-democracy'* on the company level, as opposed to a macro-democracy, which embraces the entire nation. Under the social democrats, unions have (to a certain extent) enjoyed the freedom to negotiate agreements with employers' associations, but the parliamentary system has also intervened by legislation. This, among other things, happened in the early 1970s, when employees in Scandinavia were guaranteed the right to elect members for the boards of directors. Christensen & Westenholz (1999) even go as far as talking about 'citizens in the companies' as a metaphor for the identity of these employees.

To summarize, the way of organizing in Denmark may be characterized in this way:

- high rate of unionization among employees;
- collective bargaining on the societal level as well as in companies;
- informal and formal participation by employees in decision making within companies;
- government regulation of labor market conflicts in collaboration with capital and labor;
- state, capital, and labor collaborate on the economic policy.

This way of organizing in Denmark is similar to that of other Scandinavian countries, but is distinct from two other ways of organizing within capitalism: It differs when we compare it to systems operating under *liberal capitalism*, which are characterized by low labor union membership, low formal participation in decision making within companies, and low regulation of labor market conflicts – which is the situation in the US, UK, Canada, Australia, and New Zealand. And it differs when we compare it to systems operating under *capitalistic dirigisme* – where the state controls and owns shares in many core businesses, the labor union membership is low, and the government is eager to arbitrate the relationship between companies and employees. This is the situation in France.

Other countries – both industrialized and developing countries – have experimented with elements of organizational democracy, but Denmark and the other Scandinavian countries are unique in their extended way of introducing employee participation in decision making in both public and private companies.

Differences between Chinese and Danish leadership and working life

There is a growing amount of literature dealing with Chinese and Western leadership and working lives. (Bouée 2011; Chen & Lee 2008; Erez & Nouri 2010; Fligstein & Zhang 2009). By 'Western style' these studies mostly refer the American way, and (as I just mentioned) that is not comparable to the Danish way of leadership and working life. Therefore, we have to be more focused and look for studies dealing with China and Denmark/Scandinavia.

Worm (1997) made an interesting comparison between the two cultures of China and Denmark. His study is now rather dated in the context of China's development over the last 10-15 years. It may not cover everything that is and has been happening in China, but it may give some indication of the differences between the two cultures. He argues that the power structure in China is hierarchical. The subordinate must obey the boss. The participative management structure in Denmark is very different from the Chinese. In China, collectivism is highly linked to in-groups (like the extended family) and the employees' commitment to the company is only strong if it is a family business. In Denmark, people are much more individualistic and their commitment to the company is higher than in China. The Chinese have an inclination to establish personal relationships at the workplace whereas the Danes/Scandinavians are more inclined to treat each other on equal terms. Chinese people have low interpersonal trust in strangers, whereas Scandinavians have great confidence in strangers. The Chinese have greater awareness of 'saving face' than Scandinavians, who are more straightforward and not sensitive to others 'losing face'. Chinese people are more masculine in the sense that they have difficulty working with strangers, and status symbols are important to them. The Scandinavians are more feminine in the sense that they take care of the weaker people in society. It is difficult to assess Chinese uncertainty avoidance. On one side, the political conditions made cadres uncertain and passive. On the other side, the Chinese are eager to free their entrepreneurial spirit, which points in the other direction. The picture is easier to paint of the Danes as they have a relatively low degree of uncertainty avoidance. The Chinese have a long-term life orientation and it is inseparable from the culture's past. It is more difficult to characterize the Danes on the dimension of long/short-term life orientation, but they are more oriented towards the present than the Chinese. The Chinese have a polychromic attitude toward time. Deadlines are given less priority and managers participate in several meetings at once. The Scandinavian way of organizing time is monochromic, keeping time schedules and solving problems one by one. The Chinese way of thinking is associative, allowing them to see connections between events that are not necessarily founded in logic – whereas the Scandinavian are more abstract and view things separately.

Although the economic behavior has changed dramatically in China over the last 15 years, these cultural differences may still play an important role when Chinese and Danes meet in the workplace. Gertsen and Søderberg (2011) have studied such an interaction in a Danish company located in China (Shanghai). They focus on the relationship between a Danish expatriate manager and his Chinese CEO in the Danish-owned company. Applying a narrative approach, they show how the two people assign dissimilar roles to themselves and to each other. The Chinese CEO identifies easily with his role as the Dane's mentor, which goes well with his perception of the workplace as a sort of family where he as the CEO and elderly person is in a paternal position. This fits well with a Confucian way of an unequal relationship between the superior and the subordinate. The Dane does not identify himself as a mentee, but talks about the relationship between the two more as a partnership where they have both to learn from each other. The Dane never uses the family metaphor, which is frequently used by the Chinese CEO. The Dane indirectly challenges the Chinese CEO. However he does not do it publicly in the organization, only to the researchers. In spite of the variations in their stories, they both gave the impression that they have solved many of their problems and work well together to adapt the Danish headquarters' strategies to the Chinese business context.

Studying leadership and working lives in Chinese subsidiaries in Denmark

I don't know of any study of leadership and working life in Chinese companies located in Denmark. However, Minbaeva and Navrbjerg (2011) made a survey of employment practices in multinational companies in Denmark, which may tell us something about how foreign companies are handling being settled in an institutional context as the Danish. The total population of foreign multinational companies in Denmark is 304, and 88 of them participated in the study. Most of them have headquarters in other European countries, and around half of them come from other Scandinavian countries. 16% come from the US and only around 10% come from non-Western economies. The implication is that many of the companies come from countries rather similar to the institutional context in Denmark. The analyses show that the foreign subsidiaries located in Denmark have a high discretion to the extent to which the subsidiaries have autonomy over policies of communication, employee involvement, and employee representation. The analyses also show that unions are recognized or accepted by a majority of the foreign multinational companies, and about half of the companies leave the decisions up to local managers. 'This indicates that cooperation with unions is a highly context-sensitive area that local managers are considered best suited to handle' (p.110). However, in the area of pay the subsidiaries have a below-average level of discretion. Companies originating from the US generally give less discretion to their subsidiaries compared to the population in general, and subsidiaries from Sweden have an above-average level of discretion. This indicates that similarities and differences in institutional contexts play an important role in how companies handle their transition to a Danish institutional context.

In this paper, I am calling upon research on leadership and working life when Chinese companies settle in Denmark. I would like to argue that when Chinese and Danish managers and employees interact in concrete work situations, they not only work together, but they may also become engaged in *institutional work* dealing with the inconsistencies between the *institutional orders* of organizing leadership and working life in Denmark and China. Institutional orders are more than strategies of logics of actions as they are sources of legitimacy and provide a sense of ontological security (Thornton & Ocasio 2008). Institutional work refers to the more or less purposive action of individual and organizations aiming at creating, maintaining and disrupting institutional orders. (Lawrence & Suddaby 2006; Lawrence, Suddaby & Leca 2008). The result may be: *resistance* to bring in another contradictory institutional order, *replacement* of an institutional order with another, *coexistence* of both institutional orders in the organization, *competition* between them, or developing a *hybridized way of organizing.* We don't know which of these possible outcomes are going to happen as it depends on the institutional work done by Danish and Chinese institutional actors. And this is where we need a lot more research on Chinese subsidiaries located in Denmark. I suggest that this is done by:

1. carrying out an explorative study at a few Chinese subsidiaries in Denmark;
2. looking for perceived critical and surprising events in social practices in which the Chinese and Danes work together;
3. applying a narrative approach to clarify how managers and employees make sense of and learn from perceived critical and surprising events in their collaborations.

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