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**Multicultural Human Resource Management in China: A Case Study of
Common Future Way**

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Abstract

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Common Future Way (CFW) is an international training program initiated by Iveco, a subsidiary of Fiat Industrial. By examining each module of this program – recruiting, employment terms and liabilities, training process, post training positioning, compensation and career development – this paper will explain how multiple factors due to the cultural differences between Eastern and Western societies affect new Chinese employees in an Italian-Chinese joint venture in a negative way. Recommendations on how to improve new employee retention under this international context will be given at the end.

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Chapter 1: Introduction

Culture has been widely recognized to have a significant influence on organizational behavior. Although there has been plenty of research on the role of cultural diversity in global organizations, specific discussions about how Eastern employees acculturate in Western cultures are still limited. Challenges of adapting to a different organizational culture in the context of Eastern subsidiaries of a global firm headquartered in the West will be examined. This topic is extraordinarily intriguing to explore; due to the rapid rate of globalization and resource reallocation in present days, an increasing number of enterprises have launched business and operations in Asian countries to gain a competitive edge on labor costs, emerging business opportunities and profits. Nevertheless, many globalization initiatives fail because the very essence of cultural understanding and integrated identity were neglected. This paper provides a case study of Iveco's international training project in China: the *Common Future Way* (CFW) training program, which was designed to provide cultural training and integration for Eastern employees working in Iveco's subsidiaries in Asia. Features of the training program, its successes, and other lasting effects, including trainee retention will be analyzed. This research aims to provide an empirical illustration of the importance of cultural understanding in global business ventures. It is also the purpose of this thesis to investigate possible factors that limit cultural assimilation and to tentatively propose solutions.

This particular case of Common Future Way has multiple advantages for illustrating why cultural understanding is essential in global employee development and business coordination: 1) The sharp cultural contrast between the West and the East makes acculturation especially challenging and imperative. 2) Iveco, along with its parent

company, Fiat Group, serves as a good representative of a Western-based global firm, as it is one of the largest international corporations in the world. 3) Corporate training is especially illustrative of the importance of cultural understanding in international human resources development because its formats, methodologies and contents are largely determined by specific behavior, thinking, values and customs of each cultural group.

Evidence provided in this research comes from several sources: direct CFW program information from Iveco; interviews with Iveco's HR team which include a program supervisor at Iveco's Human Resources International Operation Department and the past human resources director of China, and survey interviews with Chinese CFW trainees, who include both current and former employees. Given this data, a 360-degree view on the program's objective, organization, and impact can be examined, so to understand reasons and factors that contributing to its current state. Moreover, theories and findings on management and acculturation will be incorporated to provide a robust academic foundation for this discourse.

Chapter 2: Literature Reviews

In order to truly understand the impact and influence of culture, one must first have a clear understanding of what culture really is. The definition of culture itself can be very broad. Hooker (2003) wrote, “It is the way that human beings learn to live with one another and their environment.”¹ It can be expected that culture can be grouped in many ways: by geographic terms, in which each country or region can have its own culture; by business terms, in which each company can also have its own corporate culture.

Despite the fact that culture may be interpreted in many different ways, studies have been able to categorize culture from a top level view. Lewis (1996) took national and regional cultures of the world and classified them into three groups: 1) task-oriented, highly organized planners (linear-active); 2) people-oriented, loquacious interrelators (multi-active); and 3) introvert, respect-oriented listeners (reactive).² On the other hand, Hooker (2003) simply split culture into two groups: either relationship-based or rule based.

Similar to Hooker’s grouping technique, one of the earliest and most influential ways of perceiving culture was introduced by Hall (1976), who defined culture in terms of either high or low context communication styles: “A high-context communication of message is one in which most of the information is either in the physical context or internalized in person, while very little is in the coded, explicit, transmitted part of the message. A low-context communication is just the opposite; i.e., the mass of the information is vested in the explicit codes and instructions.”³ This description is especially useful to illustrate the cultural differences that exist between far Eastern

¹ John Hooker. *Working Across Cultures*. 2003. Stanford University Press. Pp 58.

² Richard Lewis. *When Cultures Collide: Managing successfully across cultures*. Nicholas Brealey Publishing. Pp36.

³ Edward Hall. *Beyond Culture*. 1976. An Anchor Book. Pp 91

cultures such as China, Japan and Korea, and Western cultures such as the United States, Italy, and Germany. Here is a simple example on the difference between these two types of communication: while Americans and most Europeans treat meetings as a work in process and expect many decisions to be made during the meeting with discussions on specific topic. Asians on the other hand, come to the meeting with pre-agreed decisions, and meeting itself is merely ceremonial. This causes frustrations on Americans and Europeans because they feel that information seems not be delivered as expected despite the detailed instructions and logical rationales provided. This example shows that within its own respected territory, each type of communication method can be valid and efficient. However, when cross-culture functional teams are formed in global corporations, leaders need to be careful when making assumptions on how people from different cultures will behave, whether alike or differently. In Hall (1976)'s opinion, the reason is that high context cultures such as China and Japan make a greater distinction between insiders and outsiders than low-context cultures such as the United States and Italy.⁴ When people from a low-context culture try to deal in a high-context environment, it is necessary for them to make efforts to become one of the insiders and understand their high-context counterparts before information can be shared and flow freely.

In a sense, culture can be more easily understood on a macro level (among countries); on a micro level (among companies), it can become very complex due to many social levels that are involved. According to Hofstede (1980), culture has immeasurable effects on organizations: firstly, it influences an organization's distribution of power; secondly, it determines the dominant coalitions that define the organization's goals and objectives, decision-making processes, structure, formal procedures and reward

⁴ Edward Hall. *Beyond Culture*. 1976. An Anchor Book. Pp 113

systems. Also, it has a profound impact on the organizational functions by determining motivation of employees for complying with corporate requirements, their zones of manageability, accuracy of communication and what regulation and control processes to apply.⁵ These underlying meanings of culture have defined the difficulties global companies have to tackle for their cross-cultural expansion. Human resources managers are faced with these particular challenges when taking the role of business partner in optimizing workforce capacity and maintaining alignment between HR strategies and business objectives. Hofstede wrote: “ For managers who have to operate in an unfamiliar culture, training based on home-country theories is of very limited use and may even do more harm than good.”⁶ Therefore, to offset this limitation, it is important to develop effective acculturation and training strategies to bridge cultural gaps.

A well-established international organization should have already developed mature systems in place to cultivate people with similar culture backgrounds. Is it feasible to duplicate its well proven workforce development model in its foreign operations? Hofstede (1981) has experimented on this question. Firstly, he pointed out that employees are culturally conditioned and it is impossible for them to deviate from national culture. In identifying the term “national culture,” he categorized 40 countries according to four dimensions: power distance, uncertainty avoidance, individualism-collectivism and masculine-feminine. Through data collection and analysis, he made the following conclusions: 1) there is a tendency for large power distance countries to be high on the individualism dimension and small power distance countries to be high on the collectivism dimension; 2) both power distance and individualism/collectivism go with national wealth, meaning wealth is a strong determinant for national culture. Italy, home

⁵ Geert Hofstede. Culture and Organizations. 1981. Int. Studies of Man. & Org. Vol. X, No. 4, pp. 15-41

⁶ Geert Hofstede. Motivation, Leadership and Organization: Do American Theories Apply Abroad?

country of Iveco, in the Hofstede model, is identified in the large power distance × individualism quadrant. The conclusion is “identical personnel policies may have very different effects in different countries – and within countries of different subgroups of employees”. Moreover, “these differences – tangible as well as intangible – may have consequences for performance, attention of quality, costs, turnover and absenteeism”.

Research done on joint ventures is relevant for understanding the challenges involved with employee acculturation. A joint venture (JV) entails establishing a firm that is jointly owned by two or more otherwise independent firms (Peng, 2008). Concerning multinational companies (MNC) in China, the Bjorkman and Lu research featured interviews with expatriates and local managers in sixty-five manufacturing Chinese - Western JVs. Major findings are as follows: 1) Among the multinational companies investigated, there is a negative correlation between a company’s Western standardization and a localization of human resources; 2) “Rather than implementing either Western or local training practices, the training of managers and professionals has been adapted to the particular needs of the Chinese-Western joint ventures. ⁷ Through extensive research, Wang, Lou and Farh (1999) particularly pointed out that the contingency theory well applies to training, meaning the training system of a firm should “fit well into the overall environment and strategy of the firm.” ⁸ 3) Although most Western parent companies lean towards the view that it is necessary for Western HR management policies to be introduced into JVs, their implementation was adapted at least to some extent to the local conditions.⁹

⁷ Bjorkman and Lu. 1999. The management of Human Resources In Chinese-Western joint ventures. *Journal of World Business*/34(3)

⁸ Wang, Lou and Farh. 1999. Human resource practices and firm performance in Chinese enterprises. *Academy of Management Proceedings ‘99 IM*: E1

⁹ Wang, Lou and Farh. 1999. Human resource practices and firm performance in Chinese enterprises. *Academy of Management Proceedings ‘99 IM*: E1

Bjorkman and Lu (1999) have provided some significant findings on Human Resources Management in Chinese-Western Joint Ventures (JV) from different perspectives. They described Chinese work culture in the following terms: respect for age and hierarchy, face and harmony, group orientation and personal relationships. Concerning the “face and harmony” issue, Kemp (2009) has shared his insights specifically to the ways disagreement and conflicts are handled by people from both low-context and high-context cultures, among which Chinese people clearly belong to the latter. Regarding high-context culture employees, Kemp concluded that “they dislike confrontation and avoid a direct ‘no’. Faced with humiliating situations, members may become evasive with the intent to keep up a friendly appearance.”¹⁰ As a product of the dominant Confucian thinking, this “face” concept is intimately associated with prevailing cross-level relationships in Chinese companies. For instance, one of the major roadblocks between Chinese managers and their subordinates often occurs in the upward flow of information: when asked to comment on their supervisor, workers are traditionally discouraged from expressing subjective ideas because they may cause the supervisor to lose respect. What is under the veil is that employees read such questions as an open invitation for feedback of their supervisors’ shortcomings, which could be a very sensitive topic. As a result, “Chinese employees are less likely to speak up to a Chinese manager than to a Western manager, and this is detrimental to the success of any organization.” Also, according to Shapero (2008)¹¹, this finding is consistent with Chinese traditional values, and adds that junior employees are usually reluctant to be promoted higher than their supervisor. Hierarchical rank is highly valued and respected in a Chinese company and titles are given accordingly. One’s abilities sometimes are

¹⁰ Kemp. 2009. Saving face, understanding conflicts in multinational organizations. *Industrial Engineer*

¹¹ Shapero. 2008. *The Evolving Mindset of The Chinese Manager*.

secondary compared to position and authority, though the recognition of abilities is becoming incrementally stronger.

As an extension to Bjorkman and Lu's discussion on Chinese culture, Shapero (2008) explained that in China, local culture has always prioritized humility and modesty so that even honest compliments from others must be denied occasionally. Although according to Harel and Tzafrir (2004), it is necessary to highlight the importance of praise for a job well done in strengthening a company's internal trust relations, which is proven to be in positive correlation with organizational value (Wang, Wang and Shieh, 2008).¹²

Regarding to headquarter-subsidary relationships, it has been found by Dossi and Patelli (2008) that Italian firms such as Fiat and Iveco are on the other end of the spectrum. Through surveying Italian subsidiaries of MNCs, and measuring the extent to which the headquarters influences the subsidiaries' decisions, it was shown a higher cultural distance between headquarters and the subsidiary decreases this influence significantly.¹³

Due to the managerial complexity based on cultural differences, conflicts in JVs are inevitable. Hui, Tjosvold and Law (2007) have listed multiple sources of conflict in international ventures: a strong sense of reciprocity and duty in China vs. self-actualized self and individualism in the West; Chinese' long-term business strategy vs. Westerners' emphasis on short-term profits; and socialist state's anti-imperialism cultural values. A dedicated research was already conducted by Zemit and Bowarnik (1986) to explore the challenges faced by foreign companies in China. The concentration of this study was

¹² Fu-Jin Wang, I-Ming Wang And Chieh-Jen Shieh.2006. Effect of Human Capital Investment on Organizational Performance. *Social Behavior And Personality*, 2008, 36(8), 1011-1022

¹³ Dossi, A., & Patelli, L. (2008). The decision-influencing use of performance measurement systems in relationships between headquarters and subsidiaries. *Management Accounting Research*, 19, 126–148.

employee relations in JVs, and it analyzed an all-round comparison on values, work and lifestyle between Chinese and Western expatriates. However, all supporting data and evidence were from three decades ago when China was not as open to Westerners and their international business functioning style. In addition, current Chinese work style and values have changed to various extents; Zemit and Bowarnik's conclusions are less useful today.

Regarding workforce development in JVs, Erlicher and Massone (2005) emphasized that collaborative people relationship and innovation are pragmatic principles that are "crucial to ensure a successful outcome"¹⁴ of a complex management system in manufacturing business. When discussing work standards and modular strategy, the case of Fiat Auto was exemplified to further illustrating effective internal governance of manufacturing firms. Among various Human Resources management tools, the core importance of performance appraisals have been especially emphasized by scholars and HR leaders. As Townley and Doyle (2007) noted, performance measures should be designed to increase transparency, learning, incentives for improvement and as a stimulus for strategic behavior. Also, he implied the two basic preconditions for sustainable performance measures as identifiable parameters and high continuity.¹⁵

The effectiveness of cross-cultural training program is highly associated with personality of trainees. Emotional stability is ultimately important because international trainees with higher emotional stability or ability to handle stress are more likely to make efforts to better interact with other cultures.¹⁶ Furthermore, according to the Cross-

¹⁴ Erlicher and Massone. 2005. Human Factors in Manufacturing: New Patterns of Cooperation for Company Governance and the Management of Change. *Human Factors and Ergonomics in Manufacturing*, Vol. 15 (4) 403–419 (2005)

¹⁵ Townley, Barbara and Rosemary Doyle. "Performance Measurement." *Blackwell Encyclopedia of Sociology*. Ritzer, George (ed). Blackwell Publishing, 2007. Blackwell Reference Online. 17 July 2010

¹⁶ Burke, Watkins and Guzman. 2009. Performing in a multi-cultural context: The role of personality. *International Journal of Intercultural Relations* 33 (2009) 475–485

Cultural Absorptive Capacity (CCAC) theory (Caligiuri and Tarique, 2009), language skill and prior experience of living in a different country are just as important. The CCAC theory implies that, “Individual’s learning of new cultural knowledge can vary with the magnitude of the individual’s prior accumulated cultural knowledge, that is, the larger the individual’s prior accumulated cultural knowledge, the greater the learning of new cultural knowledge.”¹⁷ These perspectives should have offered today’s human resources managers a richer insight on selection criteria for cross-cultural trainees. However, according to Caligiuri and Tarique (2005), due to a limited budget, “the HR role in international assignment management has been relegated to administrative and tactical activities – rather than strategic ones.”¹⁸ Therefore, most of the criteria are not sufficiently considered during the hiring practice and the most qualified job candidates are not hired.

There are a few more ideas to consider in cross-cultural training, in order to achieve more efficient results. Caligiuri (2006) suggested four categories of training assignments as technical/executive, functional/tactical, developmental/high potential and strategic/executive. Regardless of the category, “an expatriate’s interaction with people from the local culture facilitates his/her transfer of learned capabilities; then, it is important for organizations to realize that its support of an expatriate will extend past the boundaries of the work environment”¹⁹ (e.g. Caligiuri, 2000b; Caligiuri & Tarique, 2006). In another study, Selmer (2005) analyzed the effectiveness of cross-cultural training, through questionnaires targeting managers in JVs in China. The research

¹⁷ Caligiuri and Tarique. 2009. The role of cross-cultural absorptive capacity in the effectiveness of in-country cross-cultural training. *International Journal of Training and Development* 13:3. ISSN 1360-3736

¹⁸ Caligiuri and Tarique. 2005. International Assignee Selection and Cross-Cultural Training and Development. Chapter to appear in I. Björkman and G. Stahl (Eds.), *Handbook of Research in IHRM*.

¹⁹ Caligiuri, P. (2000b), ‘Selecting expatriates for personality characteristics: a moderating effect of personality on the relationship between host national contact and cross-cultural adjustment’

showed that the effectiveness of cross-cultural training on business expatriates may be contingent on the specific circumstances of the foreign assignment. This helps confirm the tentative finding that business expatriates who are experiencing a stressful organizational environment may have benefited more from a cross-cultural training than foreign executives in less challenging organizational contexts. To be more specific, the cultural dimensions play a crucial role in determining training processes such as trainer selections, course design and choice of training methods (Yang, Wang and Drewry, 2009).²⁰ Characteristics of people in five Hofstede cultural dimensions have been analyzed in terms of training motivations, valence, tactics and methods. As to practical implications, it is particularly important for Human Resources professionals to measure the magnitude of cultural difference between the parent and host countries and make appropriate selections of trainees; design of training courses also should be based on cultures of both parent and host countries. Moreover, proper training methodologies should be chosen to optimize trainees' valence.

One can see why it might be difficult to set up a Western style training program such as CFW in an Eastern culture environment. People from both cultures behave differently, and in many cases, they are like the polar opposite of each other. Western culture prefers specific and direct instructions without much elaboration. Eastern culture prefers relationship building first, while collaboration would come later. Western culture favors individualism while Eastern culture values group work. Western culture promotes free speech and does not place much emphasis on hierarchy. Eastern culture is very much aware of hierarchy structure and "saving face" is a serious matter. Therefore, it is important that when a joint venture between two cultures is formed, corporate culture

²⁰ Baiyin Yang , Yingchun Wang, Anne Wang Drewry .2009. Does it matter where to conduct training? Accounting for cultural factors. *Human Resource Management Review* 19 (2009) 324–333

needs to be established in a way so that people from both sides can have a good understanding of each other in order to adapt to others' style. Only if such a corporate environment exists, information can then flow freely without delay between parties. To achieve this, an international training program for any Western-Eastern joint venture serves as a crucial gateway to bridge both cultures.

Chapter 3: Common Future Way – Background Facts

With the announcement of a merger plan between Fiat and Chrysler in January 2009, a new company called Chrysler Group LLC was established. With this new deal, Fiat essentially owned 20% of Chrysler Group LLC, with a potential increase of up to 39%. The deal was appealing and promising to both parties. Chrysler's survival from recent financial struggles could be secured through this alliance and Fiat, which is based in Turin Italy, would be able to set its feet back onto the North America continent for the first time since 1983. Prior to partnering with Chrysler, Fiat had made relentless efforts in constructing partnerships and ventures around the world. Such an aggressive move has well defined it as a global corporation. Today, Fiat's business operations span across Europe, Asia-Pacific, South Africa, South America and North America. Despite the wide scope of business expansion, the process has not been entirely smooth. One compelling example was the joint-venture (JV) between its commercial vehicle subsidiary, Iveco S.p.A and Chinese Nanjing Automotive Group (NAG) in March 1996. The newly formed JV was called Naveco, with each party holding 50% of the stock shares. The registered capital for the JV is RMB 2.527 billion (USD 370 millions in 1996), and initial employee headcounts amounted to 3000 across seven plants and ten departments.

In 2006, to improve business outlook and growth, and secure itself with advantageous position in the partnership, Iveco initiated a management training program called the Common Future Way (CFW). As part of Iveco's long-term global integration strategy, CFW's birth and continuity was positioned as the company's human resources objective. To Iveco, this program was to tap "the potential of young graduates as key players in the Iveco worldwide growth strategy". Among all the countries on its global blueprint, China played a major role due to its rapidly expanding automotive market and

increasingly agreeable international business environment. When CFW officially started, Iveco had already established three JVs in different cities based upon shared long-term business vision and “underpinned by the consistency of management styles as well as clear and agreed governance principles.”

The CFW program comprised of recruiting, training and mentoring phases. Upon completion, trainees were sent back to the JV of their respective country and coached by both local work supervisors and Italian mentors: a dual tutorship system that the company established. CFW carried strategic significance to both partners in the JVs: 1) To enforce knowledge and skill exchange between Iveco and its foreign partners, 2) To teach local JV employees cross-cultural insights that help deepen understanding of business initiatives, 3) to keep alignment between headquarters and local work culture, 4) to strengthen bonds and partnership, and 5) to secure dominance over collaboration. In most of its international JVs, Iveco provided major technology input to the organization, and a successful transmission of this advanced technology is the key to JVs’ survival and growth.

Lastly, a brief introduction of the HR management framework in the JV partnership is needed to better understand the scenario. At Naveco both the Italian and the Chinese have solid HR departments of their own without one reporting to the other. Job responsibilities were strictly divided. By sheer number, most HR staffs at the Naveco plants are from the local Nanjing Automotive Group (NAG), while Iveco’s Human Resource team is only responsible for tasks and assignments within the Italian side of representative office (RO), except for joint HR programs. In this program-based dimension of inter-departmental communication, cross-cultural understanding is most essential when headquarters and RO Human Resource teams want to work with NAG on joint projects such as Common Future Way. Another dimension of the Human Resource

job concerns daily collaboration between IVECO's headquarter and ROs in China. In this case, cultural familiarity played an important role of keeping responsibilities, interests and objectives of both sides in line. In contrast with two different cultures trying to deal with each other inside Naveco human resources department, conflicts were rarely seen between Italian headquarter and ROs at the surface level as each employee's apparently similar Western background made ROs very responsive in job execution with high degree of obedience. However, deep inside the collaboration, cultural difference still seems inerasable and plays a vital role in jeopardizing the firm's cross-cultural initiatives in China – for example, CFW. In the following chapters, each phase of CFW will be examined to measure the impact of culture on such initiatives.

RECRUITING PROCESS

The CFW recruiting phase took three months to complete. On-campus hiring sessions were held at some of China's top academic universities. A total of 120 candidates were selected after a critical analysis of each candidate's personality and career inclination based on preliminary screenings and initial psychological assessments. Then, Iveco's China HR gave first round behavioral interviews, with English language skills being one of the focuses. Only 63 candidates were notified for the second round interview. For this round, China HRs involved expatriates from Italy for closer insight into candidates' professional qualification and integrity. The candidates were relentlessly tested by Western interviewers on their self-confidence, critical and analytical thinking skills, writing skill, open-mindedness, and how they strived to make an impression. Eventually, twenty-one of the nation's most outstanding candidates were offered the job along with a competitive annual reward package.

However, to the trainees' surprise, only a title of "Management Trainee" and an overseas training stipend of 1200 Euro per month were declared on their employment contracts. No job positions or compensation packages were disclosed. As the trainees had already turned down offers from other firms, they had no choice but to stay with Iveco. According to one manager in Iveco's Chinese HR office, although future job roles and compensation were discussed during interviews, no decision could be made at the time when the contracts were signed because it hinged upon future business needs. Nevertheless, with key information of job roles unknown, Iveco's China HR still advertised that job locations would be in large metropolitan areas such as Shanghai, Nanjing and Chongqing. Furthermore, along with the promise of great career opportunities and a fast paced city lifestyle in the future. There were also two particularly tempting conditions of the job offer. One was that a new hires' annual income would be four to five times of the average salary for any new Chinese college graduate, who at the time was making an annual salary of only RMB 33,444 (USD 4,904).²¹ The other reason was that trainees would sign labor contracts directly with Fiat Group in Italy and as such, they would directly fall into the category of European expatriates when returning to China, a fact supported by the compensation packages and job security it advertised.

The JV program cost over 1.25 million Euros with a seemingly promising future ahead. To secure commitments from recruits, all trainees signed an agreement which stated as part of their obligations: a binding contract period of 3 years (excluding training time). A severe penalty of approximately ten thousand USD would incur in the case of early, voluntary termination by any trainee, unless malpractice exists in the recruiting procedures or in the case of company bankruptcy. The concept of voluntary termination

²¹ China Education Yearbook 2008

is supported by China's labor laws, and in the end, all Chinese trainees signed the agreement. It is worth noting that similar agreements were not imposed upon trainees from Europe, Australia and South America, indicating that the global headquarter did have a certain degree of recognition for different legal systems and work culture in various countries. Unfortunately, what the Italians failed to realize was that having laws in China did not necessarily mean they could be enforced. Although a few trainees quit Naveco and were sued for early termination, nothing resulted from the lawsuits. The failure by Chinese HR officials to inform this legal context to the Italian headquarter essentially created employment terms and liabilities which gave all trainees a green light to quit at any time at their will.

TRAINING

The CFW training program consisted of two periods: a 21 day period of kick-off training in China followed by 11 months of in-depth language, culture and professional training in Italy. The kick-off training in China was completely outsourced to UJoy, a top-ranking HR consulting firm in southern China. Courses were jointly designed by Ujoy and China HR and were condensed into 177 credit hours. The highly intensive courses covered multiple fields: English, Italian, company culture and history, Western culture, industry knowledge, business communication skills, commercial etiquette, creative thinking, etc. The entire class session was informally divided into four main categories: language capability, managerial concepts, team consciousness and "others" (exams, Question & Answer sessions, etc.) with the proportion of time dedication roughly as 5: 1: 1: 1 respectively. English language skill was especially highlighted because it was assumed by the Chinese to be the official working language in Italy due to its widespread popularity.

In contrast to the intensity presented by the domestic training in China, overseas training surprised most trainees with its loose schedule and scarcity of content. In Italy, trainees were placed into different assistant roles at various departments, and they were expected to seek out work tasks on their own. Trainees were encouraged to take initiatives without being given clear instructions. With such a significant contrast from the traditional Chinese way of employee training, CFW trainees were reported often to be confused about what tasks were expected to be accomplished. To compound the issue, trainees' involvement in projects within their desired areas was limited. One trainee with a Masters Degree in Computer Science was assigned to work in the supply chain department against his will. Such an arrangement, according to this trainee, was in direct conflict with Iveco's hiring HR's commitment on career development path, which was to "generously honor individual talent and passion."

POST-TRAINING POSITIONING, COMPENSATION AND CAREER DEVELOPMENT

Job placements were sent out once trainees completed training in Italy. Initially, trainees were under the impression that their career paths had been planned through the combined efforts of human resources professionals from both the Italy headquarter and Chinese RO to align with their backgrounds. The reality, however, was that some were placed into jobs that were entirely different from their expectations: jobs that were neither what they've applied for at the recruiting stage nor closely related to what they've learned in training.

To make matters worse, the JV management realized the compensation management system was still in its primitive stage and far from the robustness of the same system implemented in Italy. This system was intended to safeguard the sensitive compensation information for each trainee from the public, as awareness of privacy was

rarely a concern by Chinese management due to local working culture. Therefore, even the significantly lowered compensation packages received by these trainees were still exhibiting extraordinary privileges compared to the annual compensation received by local staff at the same level. By having this information become public to local employees, it fueled a bitter sentiment against trainees on a company-wide scale. Such variance stirred up dissatisfaction against trainees and Iveco, making it difficult for trainees to blend into the local workplace after being given job assignments. It became evident that most trainees reported having great difficulties obtaining collaboration from local employees. Many of them were forced to take on greater responsibilities and workloads as they were labeled “well paid”.

Another detrimental norm in Naveco’s culture was to overlook work accomplishments and instead emphasized nepotism. This led to a performance management system where excellence was not properly rewarded in the company. To illustrate this, the company adopted a flexible performance management methodology. Each employee set his task lists every month and his manager evaluated his completion rate. Only a few of the performance indicators were quantifiable, meaning that there was much room for subjectivity and therefore, evaluation results did not accurately reflect actual performance. However, a much more advanced performance evaluation system is maintained at Iveco. Employee key performance indicators (KPI) are set periodically after an agreement is reached by both managers and employees. Employees are evaluated on monthly, quarterly and semi-annually bases depending on their level. To provide a balanced score card, tools are utilized to guarantee full alignment between the firm’s vision on the top and employees’ performance at the bottom.

Chapter 4: Research Methodology

To fully conduct this Common Future Way (CFW) case study and understand the overall context of the issue, the following research methods have been chosen: interviews were held with Iveco's HR professionals who were deeply involved in CFW's setup, scope, contents, timing, and trainees' career path mapping. They took the initiative to plan out the strategic rationales behind the entire training program and the current status-quo of it. Therefore, much of the background information on CFW could be obtained from this source. These interviews were unstructured and questions were asked differently from person to person based on their positions in the organization.

The main data requiring detailed analysis is the survey questionnaires that were given to former trainees for their opinions on the CFW training program itself. Questions were designed to help zoom into key factors that contributed to each trainee's decision either to remain with the company or to leave or other career opportunities. All 21 former trainees were contacted for survey participation and their results were collected. Given that the ratio of former trainees who are still with the company and those who have left the company is very close to 50/50 (10 vs. 11), the data sampled is relatively balanced and minimum bias is expected.

The trainee survey contains questions to obtain information on trainees' background and their opinions on different modules of the program – including recruiting, domestic training, overseas training, post-training job placement and development. One of the purposes for this survey was to discover what caused the failure of CFW from the trainees' perspectives. The survey questions were structured into sections according to the training program modules. In this method, one can identify the effects from each module on a specific issue. The goal of this survey was to answer the

following core questions: 1) How far is the gap between trainees' expectations and their experience? 2) Do these expectations match the program's objectives? 3) Does the firm have a clear projection of the trainees' career future within the company and their future strategic roles as planned? If no, which part of the firm is generating the negative impact – Chinese, Italians or both?

Furthermore, both the Chinese and Italian JV partners (Nanjing Automotive Group and Fiat Group) provided HR-related documents, which have been carefully scanned through. The documents include the firm's labor contract, employee handbook and HR management policy. Special attention has been given to those concentrated on the CFW training program and other JV integration initiatives, including the CFW's training proposal and training agreement. All of this information helped to identify potential policy and culture differences between the two companies.

Chapter 5: Key Findings

How does one rate a training program successful? One key indicator that can be used to evaluate a training program is the retention rate of trainees after completing the training. For CFW, out of twenty one trainees who completed training in Italy and returned to China in 2007, three quit immediately and were sued by Naveco for violation of their training agreement. In addition, six trainees left the company in 2008 and one more in 2009. The overall retention rate of the program is barely over 50% in less than 2 years, which was far lower than the industry standard. Results from the trainee survey are described below. Next, each HR module of survey questions will be examined. This includes the recruiting process, employment terms and liabilities, training and compensation and development, in order to determine the factors that contribute to this low retention rate.

THE SURVEY RESULTS

In regards to recruiting process, the survey showed 76% (16/21) of the candidates had overseas study and work experience previously. They were perceived to be able to successfully transition from a high-context culture, where information is mostly internalized, to a low-context environment, where it is freely shared. Assessments indicated a great potential for these candidates to be functional culture linkages in the European company. As introduced in Chapter 3, the firm adopted a recruiting process that provided a comprehensive view of each candidate in terms of his technical skills, personality and soft-skills. It is important to note that such a recruiting methodology was introduced by the Italian corporation and has been most widely adopted in Western countries, where collectivism is more emphasized. To the contrary, many Chinese firms tend to overweigh test scores during their hiring process and severely overlook a

candidate's soft-skills such as critical thinking ability. This confirmed the theory from Kemp (2009) that the Chinese culture does not encourage bottom-up idea conflicts. As for CFW hiring, decisions were made based on Western standards and the chosen candidates represented those most fit according to Western value. As our survey result shows, 29% (6/21) of trainees considered the primary reason for their selection was open-mindedness and 43% (9/21) voted for critical-thinking. As presented in the Hofstede's culture theory, both of these qualities deviate from the Chinese traditional work merits but they are emphasized in the Western work culture. Meanwhile, our survey result also shows that 24% (5/21) of trainees considered the international work culture the most important factor in their decision to join Iveco, while 33% (7/21) of trainees were attracted by competitive compensation and positions that the company offered. All these seem to be well in line with Iveco's demands. Therefore, at the recruiting stage, there were plenty of reasons to believe the firm had found candidates who would best fit the Western work culture to collaborate with local Chinese JV partners.

However, the labor contract sign-off part of the recruiting process gave rise to the very first major conflicts and trust crisis between trainees and Iveco, as trainees discovered none of their future job roles and compensations was legally safeguarded. As a matter of fact, when asked about their future roles and responsibilities in Naveco, 71% (15/21) of trainees answered that they had no idea from the start. Iveco HR later provided a description on their career future -- including attractive work location, competitive compensation, and the direct labor relationship with Fiat S.p.A. Although this sounded very promising to the trainees, many of these facts, however, were misrepresented and even falsely advertised by the Chinese HR office, resulting from an insufficient preparation from the JV itself. More will be discussed about this issue in later sections. Our survey shows that such misrepresentation had set a gloomy tone for the entire

program. Out of the 11 resigned trainees, 8 trainees declared that they already considered resignation during the contract sign-off days as they no longer trusted Naveco. Inconsistency in cultural and behavioral styles was found between the Italian and Chinese HR offices, yet it is no less reflected in the forgone lawsuit when trainees easily breached the binding-contract. Italians, as rule makers, failed to recognize the importance of understanding Chinese labor regulation contexts and set out principles that were poorly maintained by the Chinese. This further contributed to ineffective governance on the Chinese subsidiary, and become an incrementally critical issue during the following phases of CFW and is to a large extent considered the fundamental reason for CFW's failure.

As to evaluate the training process, the overall evaluation on the domestic training was generally negative. About 57 % (12/21) of trainees found the training not helpful to their later career path in Naveco. Similarly with the recruiting process, the training setup reflected a considerable gap of understanding and actions between the Italians and Chinese. Despite the fact that all training courses were delicately designed and given by the highest ranked trainers from countries, the values and standards from both cultures were clearly different. The domestic training program represented a mismatch between Western and Chinese value. Although the Italians particularly emphasized intercultural understanding and soft skills, the training methodology was ultra-dogmatic and heavily influenced by Chinese educational culture. Most courses were given as lectures, which resembled what one would expect from attending any normal class in Chinese colleges. It is also important to mention that strict disciplines were enforced throughout domestic training. This clearly indicates the emphasis on order and discipline compliance, which is usually in direct contrast with Western value of critical, creative and independent

thinking abilities. Needless to say, none of the trainees were exposed to the Western style of training at this stage which is reflected in the data presented.

It is worth noting that during interviews, although English was assumed by the Chinese to be the official working language in Italy due to its widespread popularity, it was not discovered until much later that English fluency of trainees' future Italian co-workers and managers varied to a large degree. Although both the coach and trainee were fluent in general English communication, they were not familiar with the English versions of technical terminologies that were needed at the core of daily work. However, despite the firm's particular highlight on language requirements, no one proactively acted on the real problem. Language barrier left an impression on trainees that the CFW did not possess careful planning and reality differed greatly from expectation. These issues within the domestic training period can be attributed to insufficient communication between Italians and Chinese about the training arrangements and trainees' expectations and needs. Additionally, the Italians were unable to understand the short-comings in the training design, and unable to address and avoid these issues by making moderate improvements. These issues exacerbated the cultural gap, and effectively proved damaging not just between trainees and HR, but also between trainees and their Italian counterparts, which was counter to the intent of building a robust JV partnership. The survey data supports that the lack of communication and language barriers were the two sources of difficulty, both receiving 43% (9/21) of the vote from trainees. By the time training was completed, trainees were uncertain about the type of corporate culture they would experience after returning to China. Also, morale was low among trainees due to a severe mismatch between their core competencies and their training. Only 29% (6/21) of trainees felt knowledge learned in Italy was useful when working in China.

It is interesting to point out that during trainee interviews, all of them proclaimed that they were not involved in the decision-making process for job placement, while China HR insisted that both Italian headquarters and trainees understood and agreed on their future roles before making an official decision. Such disparity was further reinforced by the inconsistent total reward package promised before and after the training. It was believed that the initial annual compensation package proposal was not approved by Italian headquarters. This miscommunication resulted in a restructured package less than fifty percent of what was initially promised. About 81% (17/21) of trainees expressed their disappointment on this decision to change the compensation package.

Adding to their disappointment over a less attractive compensation, their career development opportunities at Naveco were also limited due to the deeply rooted nepotistic culture in the firm. This is by all means in strong disagreement with trainees' perception of a fair and systematic Western performance evaluation system. As the survey data shows, 86% (18/21) of trainees expressed that their performances were not properly acknowledged. Beyond the inefficiencies in HR mechanisms and lack of mutual understanding, there were also challenges that trainees needed to tackle at the cultural level. For instance, the conservative and hierarchical corporate culture at Naveco deprived trainees of free expression of ideas. Respect took the form of absolute obedience of orders with no questioning.

Trainees really struggled with differences between what was expected from an international firm and what was expected from a formerly Chinese state-owned enterprise. This is mainly due to the failure to synchronize two different companies on multiple HR aspects: performance management, compensation management, career development path and ultimately people management value. Nepotism, clueless career

direction, suppressive culture and the lack of compensation transparency confused and frustrated trainees. This eventually sabotaged CFW. Apparently, the partnership failed to transform the culture and failed to formulate cultural congruity to lay the foundation for any cross-cultural initiatives.

In the end, it was ironic that the strong determination made by the Italians to secure business dominance resulted in a complete wreck. The new trainees valued by the Italians could not be properly promoted. Such misjudgment uncovered very limited understanding by Italians on their Chinese partner with regard to their culture, systems and future projections. The Italians' ignorance on the situation naturally drew attention to on how this could have been avoided if they had a functioning Chinese subsidiary which worked closely with the Chinese JV partner and spoke the same language. According to an American business development director at Iveco China, certain cultural barrier exists beyond the reach of language, and that is why many important messages failed to be delivered to the overseas party despite many attempts made in cross-cultural collaborations.

Based on the survey results above, one can conclude the following factors that contributed CFW's failure. Italians did not understand employment policies and laws in China and therefore could not receive full commitment from all trainees. Any dissatisfaction received by the trainees could result in employee turnover. Some of these dissatisfactions came from the inconsistencies between Italian and Chinese portions of the training, these inconsistencies caused much confusion on how trainees perceive JV's corporate culture. Some of other dissatisfactions came from the eventual job placement, as trainees did not feel that their education backgrounds were aligned with job descriptions.

THE REALITY CHECK

There is one more important factor that could not be obtained from just trainees' survey, and that is management point of view on CFW from both Italian and Chinese sides. In today's China, large international corporations have been significantly favored by local young graduates over local private firms or state owned enterprises for a number of reasons: a more attractive compensation package, a better career development path projection, a more flexible work schedule, more foreign language learning opportunities and a greater international business exposure. The irresistible desire for prominence is the main driver. However, what faces these trainees at Naveco was a much different reality. Graduates from top-tier universities were assigned the same work with workers who had high school education backgrounds. The poor educational backgrounds of their coworkers and supervisors made work communication extremely difficult. Additionally, opinions on work issues could not be aligned, and there was the "face" problem that hinders coworkers and supervisors from evaluating trainees' talents objectively. All these deprived trainees from earning good recognition in the firm, as one of the former trainee stated during an interview, "It seems like information was just not getting through, we could not get anything done right first time."

On the surface, it is easy to place the blame on a lack of preparation and communication between the Italians and the Chinese. For examples, employment benefits could have been finalized by both sides ahead of the hiring process; the Chinese could have relayed each and every trainee's educational background information to Italian HQ so that he or she could be placed into a more relevant department; the Italians HR staffs could have talked to their Chinese HR counterparts in advance to understand the best way to combine both Western and Chinese training methods. If this was indeed the case, then the solution to the problem would have been much simpler. However, on a more

profound level, all of these facts revealed a more fundamental issue that derailed CFW from the beginning: there was a lack of trust from both management sides in this JV, and CFW trainees were merely the pawns that felt the pinches in the power struggle.

There are many angles to examine issues of trust, but the cultural complexity of a JV plays a vital role. Negative byproducts of a business alliance exist in various fields such as daily-work communication, business decisions, management styles, and even profit-sharing. Insufficient cross-cultural understanding of both sides of the partnership usually adds to the managerial complexity. In the case of CFW, according to one of the Italian managers, through developing their “own” people, strengthening the sense of belonging to their Italian employer and elevating their roles in JVs, Iveco’s ultimate mission was to beat its JV partners over managerial dominance and possibly maximize its final business gain in the long run. Prior to CFW, Iveco was very excited to use this JV to enter a massive Chinese market and many of their actions were very goal oriented with specific objectives. For Iveco, it was crucial at that moment to prevail over the partnership through transplanting advanced technologies and promoting talents possessing Iveco’s identity and sense of belonging. Under such context, CFW presented one solution for both objectives. Since the focus has been put so much on how to make CFW successful, Italians neglected the fact that this JV was still at its initial stage, and that a steady relationship was needed to be built with the local Chinese management to execute the plan. Unfortunately, Iveco did not put much emphasis on relationship building, symptomatic of the behavior of low context Western culture described by Hall (1976). The result was that every action by Iveco was being questioned by the Chinese counterparts. To the local Chinese management, transferring technology through new recruits instead of exiting JV staffs did not make sense and served no good for their own long-term role in the partnership. During the interview, a couple of Chinese managers

viewed this JV as a transitional stage designed by Italians so that the entire local Chinese management team would be eventually replaced by new recruits. They also mentioned that the general consensus within the Chinese management was like any other JV at the time. Western corporations were only seeking cheap labor and market shares in China. They had no need of Chinese local management in their long term plan. The Italians failed to dispel these thoughts. It was not surprising that the Chinese management held this assumption when entering the JV and the sentiment was of suspicious at best. The creation of CFW and the recruits it targeted seemed to confirm Chinese managements concerns. Ultimately, the level of trust Chinese management felt towards their Italian counterparts was not enough to lead to collaboration in the initiatives necessary to make CFW successful. Given that the Italians were operating in unknown territory without the supports from local management, failure was almost inevitable.

Chapter 6: Conclusion and Recommendations

CFW has presented itself as one of the many signs of failure for the merger between Iveco and Nanjing Automotive. Overall, based on the survey results and interviews conducted, these four reasons have caused CFW's low retention rate: 1) The lack of understanding on Chinese policies and laws during the recruiting process led to a non-binding contract under employment terms and liabilities, and subsequently, new recruits were thinking about quitting as soon as they experienced difficulties such as compensation package loss, 2) The inconsistencies between Italian and Chinese culture and value reflected in both Italian and Chinese portions of the training caused confusion to trainees when they were deciding on the correct thinking process and applying it to real work scenarios, 3) There was poor governance by the Italian headquarters over the Chinese subsidiary and also inefficient communication that caused a severe mismatch between trainees' educational background and job placement, and 4) The lack of trust between partners impeded information sharing, thus generating negativities in the JV corporate culture that caused a well intentioned training program to become a very difficult situation.

However, there are a number of ways to smooth out such a transition. First and foremost, the Italian side needed to spend time and resources to build a good relationship with their JV partners, specifically the Chinese middle management level. It is essential for these people to feel and believe that they are part of JV's long term future. If the two parties had reached an agreement before CFW was officially introduced, both could have collaborated to design a better training scheme that would more effectively retain talents. By building trust with the Chinese side, more initiatives from local management could be taken such as informing the Italian headquarter about the local policies and rules,

potentially eliminating many issues caused by miscommunication. As a gesture to gain such trust, the Italians could have considered designing the CFW where the candidate pool was a combination of promotion from within the current organization and newly hired employees. This would motivate local resources to contribute to the program. On a more significant level, it may help eliminating the “me versus them” mindset from local employees.

Secondly, it is crucial to have a consistent corporate culture within a JV. Note the key word here is consistency. It does not matter which way both sides agree on, it could be all European, or could be all Chinese, or even an assimilation of both, as long as there is consistency on displaying and executing these policies, then there would be less confusion propagating downstream to working levels. This was affirmed by many former trainees that while top management was very Western in the case of Naveco (less hierarchy), middle management (state-owned enterprise employees) styles were still very local (more hierarchy), resulting in uncertainty on how to approach the management and execute the tasks. Iveco should have fully investigated Chinese working culture to learn how to effectively manage and communicate with its Chinese branch to avoid this distorted management situation. Without this effort JV cannot guarantee a full alignment between Italian and Chinese business visions. It may not be difficult to set up a foreign subsidiary, but it is a challenge to establish a consistent working culture to align both top and middle management goals. Upon this foundation, the firm can then set up a monitor and control system that specifically target different geographical and cultural contexts.

And lastly, uncertainties were inevitable at the initial setup stage of a JV compared to established corporations. It did not show in the data that high university reputation translated into better employment loyalty as the graduates were easily disappointed. For new startup hiring, one recommendation is that it may be wise to target

more second tier university students who are considered to be a more emotionally stable group described by Burke, Watkins and Guzman (2009), as they are likely to have lower expectations. This concludes the case study.

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