Anne Tsui Receives Two Prestigious Awards

Congratulations to Professor Anne Tsui, our founding director, for receiving the 1998 Award for Scholarly Contribution by the Administrative Science Quarterly (ASQ) and the Academy of Management Journal (AMJ) Award for the Best Paper Published in 1997.

Professor Tsui’s paper “Being Different: Relational Demography and Organizational Attachment”, with T. Egan and C.A. O’Reilly won the ASQ award, because it has had the greatest influence on subsequent theory and research on organizational demography and the work force since its publication 5 years ago.

The other paper “Alternative Approaches to the Employee-Organization Relationship: Does Investment in Employees Pay Off?”, with J. Pearce, L. Porter and A. Tripoli, was chosen as the winner of this year’s AMJ award. The award commitment stated that “this paper is an exemplar of high-risk, high payoff research”. The study found that high-involvement employment relationships based on mutual investment and commitment tend to yield better results than loose, low-commitment and short-term relationships.

Expanding Our Global Reach

As part of our center’s effort to expand our global reach for research partners, our center staff Larry Farh, J.T. Li, and Anne Tsui paid visits to several major universities in mid eastern China including Fudan, Jiaotong, Nanjing, and Tongchi universities in May. During the visits, they met with the deans or vice deans of the business schools to introduce our center, to learn of their development, and to discuss potential collaborative projects. They found enthusiastic support for the upcoming research workshop scheduled in July 1999. They (along with three other department faculty members Kenneth Law, Stephen Nason, and Katherine Xin) also participated in the sponsor meeting organized by the Center for Advanced Human Resources Studies of Cornell University in Shanghai in mid May. Larry Farh and J.T. Li briefed the executive audience on the developments of the center sponsored research projects of managerial networking and Sino-foreign joint-venture management, respectively.

Hang Lung Center Research Seminar Series

On November 20, Dr. Mike Peng, of the Ohio State University, gave a presentation entitled “Managerial ties and firm performance in a transition economy: The nature of a micro-macro link” for our seminar series. His research demonstrates that managerial ties with other managers and with government officials help improve firm performance in China. Theoretically, the findings point to the importance of the social context in which managerial ties are embedded. Empirically, his study provides quantitative evidence demonstrating both the extent and limits to which managerial ties are beneficial in economic transitions.

Our First Corporate Advisory Board Meeting

The Corporate Advisory Board had its first meeting on June 25, 1998. Twelve board members attended. A lively discussion ensued on the mission of the Center, the role of the corporate advisors and our future plans. The advisors offered useful advice. They stressed that the Center needs to have a focus; it needs to address short-term business problems as well as focus on issues that have long-term significance; most importantly, the Center is not looking for quick solutions for problems. Through systematic research, we hope to generate knowledge that will have lasting value.

Center Activities
Executive Column - Localization at IBM, Greater China Group

In this new feature of the Hang Lung Center Newsletter, executives share their experience of working in China and tell us about the practices that worked for their companies. We hope that this column will help us get a sense of the “best practices” of companies operating in the Chinese context. We inaugurate this column with an interview with Mr. Henry Chow, the General Manager of IBM Greater China Group. Mr. Chow talks briefly about why he thinks IBM has been successful in the region. He discusses at length IBM’s policy of localization with particular reference to their China operation. We also ask Dr. Kenneth Law, a HLCOR research affiliate, to report on the key findings of his recent research on localization in PRC.

**Question:** Why is localization important for IBM?

It is IBM’s objective to be a local company every place in the world. We believe that the success of a global company is its ability to strategize globally and to execute locally. The only way to be successful is through localization, developing the locals and helping them to be successful. If you go to Japan, you basically see IBM Japan as a Japanese company. If you go to Germany, you will see IBM Germany as a German company. What we are trying to do in China is to have IBM China as a Chinese company. We also make sure that we retain IBM’s business conduct and professionalism across the world.

**Question:** How about localization in Taiwan and Hong Kong?

In Taiwan, it is 100% local. In Hong Kong, we only have 4-5 expatriates. Recently we appointed a local for the post of General Manager for Hong Kong. Our HK operations are essentially localized also.

**Question:** What is your goal of localization in China?

I would like 80 to 90% of all managers in China to be local Chinese. For a fast-growing market like China, I also believe in having diversity. I believe it’s only through diversity that we will be able to grow faster. An organization can only improve if it has people from varied backgrounds and different educational backgrounds, with different ways of looking at things.

In the long run, I would like to see our employees in China as well as Hong Kong and Taiwan, play a key role in IBM’s operations worldwide. We cannot achieve this goal until we are able to work across cultures and manage a diverse team.

**Question:** Does the goal of a high 80 or 90% for localizing your management team reflect a reality that you are losing your people along the way?

No, not only that. We want to make room for developmental experiences for managers from other IBM companies. Due to the potential of this market, and the importance of China to IBM in the long run, I would like to always have a number of executives or managers from the U.S. in China. In the 1960s and early 90s, we posted our best people to Japan. In the next decade, China will be an important location for developing IBM executives. This achieves a double goal: China needs more talent, and the people sent here will leave with a better understanding of China.

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**Question:** How does IBM localize in China?

We localize in China the same way we localize in other parts of the world. The only difference is the pace at which we have to do it. We are trying to prepare people for bigger responsibilities in the shortest possible time, therefore we continually stretch our people.

I believe in the three E’s in developing people. First, give them the “education”. Second is “exposure”, that is, we must expose them to many business areas in a short time. We do that by having residencies and short-term assignments at our various headquarters and by asking them to work in a number of different functional areas. The last thing you can never replace is “experience”. If you can give employees education, expose them to different areas of work, and as they gain experience, you end up with very good people.

This year is a very important milestone for us. In 1993, we appointed four local PRC employees as managers. Now, after five years, 60% of our management team of over 250 managers in China are local Chinese who we developed using the three E’s principle. Although the number might not look big, the speed at which we have been able to develop our management team is something we are proud of. In 1993, IBM China only had 350 employees and now we have 1,800 employees.
**Question: Do IBM executives want to come to China?**

China probably will never be the preferred location because of the infrastructure, the lifestyle; it would never be like Tokyo, or Hong Kong. But it would certainly offer more in terms of development for our future leaders. It is the emerging market and provides crucial experience.

**Question: Have there been any initiatives or efforts you have tried that did not work in China in terms of localization?**

I would say that so far we are progressing well. We lose certain people for various reasons. The two key reasons are: how fast we move them, and their expectation on how fast they can move. If we set too high an expectation on localization, and cannot fulfill our goals, we will not be able to keep the people. On the other hand, if we do not move fast enough and are too conservative, we won’t be able to keep them either.

At the end of the day, it all boils down to judgment. Some people say let’s wait until that person is ready but no one is ever ready. The real test is whether we are willing to take some risks to move some of these people along. In general, my experience is that we are usually more conservative, especially in the more mature markets. Sometimes we use yardsticks that we have been using in the other markets. But for markets like China, we have to be more aggressive and go for faster growth.

**Question: What do you think is the single most important factor that accounts for IBM’s success in China?**

There are a lot of companies that are successful in China, and I would say that there are a lot of companies more successful than IBM. I believe that China is such a big market that the more you work there, the more you understand how much you do not know. China is changing so fast that some of the strategies that worked 3 years ago might not work today. That makes the task of operating in China interesting and challenging. Some of the challenges that we are facing today, we never imagined we would face three years ago. As we step into the next decade, I am sure there will be other new challenges. If you ask me what is the single most important factor that has contributed to our strong performance in the last few years, I would say “commitment”. If you are really serious about the market, if you want to be successful in China, you have got to be committed. Commitment comes in several forms. Commitment does not only mean that you put in some money, it also means putting in the right leadership team. And that is what we did in last few years - we put in a really strong leadership team.

Our team comprises managers from Hong Kong, Taiwan, PRC and the U.S. We put in a very strong, balanced, diverse leadership team to lead IBM in China. I believe this diversity is the strength that carried us to our success.

**Question: How do you deal with the conflicts that always arise from diversity? The more differently each person thinks, the more likely there is going to be more disagreement.**

There will always be disagreements, somebody will have to make a decision that is acceptable to everyone else and we get on with life. So I think, firstly, that the leadership team needs to be committed to the company. Secondly, this commitment is for the long term. We are not looking at results for the next one or two years, but at building an operation that will be here and still successful 10 years from now. And finally, the team needs to be willing to do things fast.

Let me illustrate the last point with an example. Over the past four to five years, we implemented the following capabilities in China: research and development, manufacturing, sales, a service network, and a distribution network. It took 15 years on average to set up these capabilities in other places, like Japan or Germany. If you are committed to the China market, you will be willing to do things faster. And you’ll be willing to do so even when your revenues are relatively small. This sort of commitment leads to success. If you are serious about it, you put in resources, you pour in people, you put in leadership, and then add a little bit of patience. Good results will probably come in time.

Then, there are also some unique things in China. The last 5 years have been very good years, as we have started to understand the importance of partnerships in China. Partnerships can come in several forms. These business partners have helped us penetrate the market to cover this big geographical area. We now have 1,800 people in China, almost the same number as the total for Hong Kong and Taiwan. But comparing our 1,800 employees with the total population of 1.2 billion people in China, it is impossible for us to cover such a vast area with so few employees. So we need plenty of friends and partners who help us. I think our partnerships will carry us a long way. I believe we will continue to benefit from some of these initial investments.

**Question: What are the objectives of IBM in China? Did the company have to change its objectives over the years? To what extent have these objectives been achieved?**

I want to make IBM China the most respected company in China. A respected company will become a leader. For IBM, this means becoming a leader that an lead the IT industry in the coming years.
To a certain extent, the leader will shape the industry and create growth that everybody can benefit from. I want us to be seen as being very professional and ethical. And I want us to have a strong management team that every other company in the industry will look up to and say “I want to have the same team”. So, that is what I want for IBM China.

You might ask why didn’t I say I want IBM China to be the biggest company in China? Well, we are already number 1 and I want us to maintain that position. But to be the most respected is not only about having good business results, but also being seen as the company with the most impact, a company that everyone talks about and respects. We want to be respected and seen as an industry leader rather than as just being big.

**Question: Do you believe that there are some universal characteristics or requirements in good management?**

There are some subtle differences, such as how hard you would expect the person to work or the balance between a personal life and work. These may vary from place to place. I believe the fundamentals of people management are universal.

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**Question: May I conclude one question about localization?**

You mentioned that IBM policy around the world is trying to be a local company, of course with a strong corporate connection. You have worked in Japan, Australia, Taiwan, Hong Kong, China, and been to the headquarters many times. In every place you have been, do you feel you are working for the same company or different companies?

That is a good question. It may be something very unique about IBM. I feel at home in any IBM location because we all ‘talk the same language’. We have the same management system, basic belief about how to handle people, how to handle business across the board. But, when you deal with individuals, there will be differences. No matter where we are, the basic way we run the company is very much the same.

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**What Makes Localization Work?**

In my own research on localization, I found the following factors critical to successful localization programs in P.R.C.

**(1) Do it, don’t just say it**
- Many firms in the PRC know that localization is an important step to boost the morale of local employees and lower operating costs, but they never have the time and effort to implement it because of the turbulent environment and strong market pressure to perform.

**(2) Set a specific target**
- Our observation experience is that firms with a specified target in localization, e.g., full localization in 3 years, would have a higher chance of getting it done at the end. This is, in fact, related to the first point above. With a specified target, preferably written, managers will implement localization plans seriously even under pressure and with high performance targets.
Does Investment in Employees Pay off?
Implications of the Award winning research for Hong Kong managers

Hong Kong is experiencing the economic pressure that hit the U.S. in the 1980s and early 1990s. During those years, economic downturn forced many U.S. corporations to engage in massive layoffs. What this meant to employees was that they could no longer expect to have secure employment while being expected to contribute much more than before. My collaborators, Prof. Jone Pearce and Lyman Porter, and I were struck by this corporate phenomenon and wondered about the long-term effect such developments would have on the firm. The short-term effect was clear. The companies’ cost of doing business was reduced, a key objective to achieve at the time. The decline in employee morale is another inevitable outcome in the short-term. What, if any, effect would such cost-motivated layoffs have on the long-term viability of the firm? We could not look into the future. Therefore, we decided to use several indicators of employee reactions that may have longer-term performance implications for the firm. We studied their willingness to do more than their basic jobs and their psychological commitment to the firm. We studied ten companies in five competitive industries (e.g., computer, electronics, telecommunications, food and apparel), involving 976 employees (in 85 different jobs) and 205 managers (the supervisors of these 976 employees).

We found firms that invested in employees in terms of some guarantee of long-term employment and investment in their future careers within the company enjoyed higher levels of employee performance and commitment to the firm. Employees contributed much more than their basic jobs in these firms. Thus, it appears that investment in employees paid off. Employees reciprocated employer’s investment in them by both extraordinary work and loyalty to the firm. There is probably a lesson in this research for Hong Kong managers. Hong Kong companies are facing tremendous pressure to reduce cost. Workforce reduction is certainly a quick and easy solution. But, it sends a signal to employees that they are not valued, and that they are a commodity that could be disposed of at the manager’s will. However, based on the research reported above, this may have negative effects on the company in the long-term. Reduction in short-term cost could be gained at the expense of employee commitment and willingness to contribute above and beyond the basic call of duty. In the long-term, the firm may have more to lose than to gain by reducing their investment – psychological or materially- in their human resources.

Anne S. Tsui
Four major research projects proposed by the HLCOR affiliated researchers were recently funded by the Competitive Earmarked Grants of the Research Grants Council of Hong Kong. A brief description of the projects is as follows.

**The Nature, Antecedents, and Consequences of Loyalty to Supervisor in PRC**
*by Dr. Zhenxiong Chen (principal investigator) and Prof. Jing-Lih Larry Farh*

In a relation-centered society such as PRC, loyalty to supervisor is a central concept for understanding leadership and followership in organizations. The purpose of the project is to develop an indigenous measure for loyalty to supervisor in PRC and then identify its key antecedents and its major consequences in various types of organizations in PRC. The project will help understand the dynamics in the supervisor-subordinate relationship in Chinese organizations.

**The Nature and Outcome of Psychological Contracts: A Longitudinal Study in Chinese Context**
*by Dr. Chun Hui (principal investigator) and his colleagues*

This project proposes that psychological contracts can be an extremely useful construct. Psychological contracts are individuals’ beliefs or expectations regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party. The Chinese utilize psychological contracts more than legal contracts in management. This study has the potential to greatly enhance our understanding of how Chinese manage organizations.

**International Joint Venture Leadership Teams in China**
*by Dr. J.T. Li (principal investigator) and Prof. Anne Tsui*

Developing effective leadership teams for international joint ventures (IJVs) is critical to the success of these enterprises. This project identifies the characteristics of high performing IJV leadership teams, and evaluates the relationship between leadership team effectiveness and IJV performance. The results of this project will provide a greater understanding of the key factors contributing to the leadership team effectiveness and IJV performance.

**The Strategic Management of Social Capital: Professional Services Firms in Hong Kong and China**
*by Dr. Douglas Y. Park*

Connections and relationships in the East Asian business context being very important, three relevant issues deserve more research attention: First, what strategies do professional services firms use to build and maintain relationship? Second, what are the dynamics of these relationships? Third, how does a firm’s social capital interact with its status to affect its performance? The insights on strategic management practices and how changing webs of relationships affect firm performance are discussed.

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