Norwegian University of
Science and Technology

Corporate Governance of Virtual Projects

Cultural issues influencing projects spanning national borders

Yang Yu

Project Management
Submission date: June 2011
Supervisor: Bjørn Otto Elvenes, IØT

Norwegian University of Science and Technology
Department of Industrial Economics and Technology Management

NTNU

Corporate Governance of Virtual Projects

-Culture issues influencing projects spanning national borders

Yang Yu

Master thesis for MSc in Project Management

Department of Industrial Economics and Technology Management

Norwegian University of Science and Technology (NTNU), Norway

13. June. 2011

Supervisor: Bjørn Otto Elvenes

ACKNOWLEDGEMENTS

I would like to thank many people who have encouraged and supported me in writing this master thesis.

First, thanks to Sandra Walker, at SKEMA Business School, Paris, for inspiring me by her lecture and her enthusiasm while I was studying in Paris to look into international dimensions of organizational behavior and culture issues.

I own a considerable debt to my supervisor, Bjørn Otto Elvenes at Norwegian University of Science and Technology, who inspired me to undertake the study in the field of corporate governance with culture issues, and has continued to do so. A very special thank you for the numerous discussions and meetings with me, for the help, insights, and the patience for helping me reviewed my work again and again.

Thanks to my former colleague and good friend, James Yin at Lenovo, Shenzhen, China who has inspired me to use my own working experience at IBM/Lenovo as a case story.

I would like to thank my mom for her support during my study in Europe and also for always having been there for me. Finally, to my girlfriend, Jana Stöckle, who kept giving me motivation during the writing, who gives me hope and inspiration for the future.

ABSTRACT

There are many policies and principles of Corporate Governance in different countries around the world. Different countries have their own approaches and corporate governance models. However, the globalization of economics and the technological development made more countries capable of competing with their products and services on the international market and also enterprises built networks and leverage worldwide. Corporate Governance is applying under different rules, regulations, laws and ethics, etc. Corporate Governance in a multinational company will meet a lot of challenges while conducting their business and executing the projects across national, cultural and political boundaries. This study aims to find out these challenges, tries to discuss and find out the difference and possibilities of different Corporate Governance models between Continental European countries (Germany, Norway) and China.

Not one of these approaches is right or more right than another. In order to work with this culture difference in multinational companies, not just the employees working in a different culture need to get to know the new culture and how people in this new culture work and behave. But also, as a manager or director working in a multinational company with different culture, he or she also needs to know the culture difference, trying to understand what and how their employees going to behave, and why they are doing that, trying to respect the difference and not just trying to judge that. Both the employees and the managers need to respect the difference and try to understand each other, finding a balance or a common understanding point to create their own working culture and working relationship in the company. The understanding must permeate the whole organization, from top to bottom, from first line to support and so on.

However, working across boundaries will also create more practical issues, for example, which law and regulation to follow, how to register expenditures in accounts and so on which requires both logical and cultural flexibility to find workable solutions.

Contents

List of Figures

1. Introduction and Background

1.1 Background to Globalization of Economics and Organizational Change

Nowadays, it has been very common to work in a geographically dispersed organization, communicating with others through internet and collaborating through both ordinary software like E-mail and specialty software like groupware. Most of the researchers and practitioners call this phenomenon virtual organization or virtual team for a smaller size group of people.

Once we seek for the root cause of this organizational change, we can identify one of the driving forces as the globalization of economics. Another one is the technological development, information communication technology – ICT, who played an important role in the change. A third one is the economic development that made more countries capable of competing with their products and services on the international market. Enterprises built networks and leverage worldwide. They outsource costly tasks to low cost labor market and industry specialization requires plenty of subcontracting. The forth one was the deregulation movement which removed many barriers for international trade, and so on. Globalization would probably not have taken place or happened much more slowly if not all these factors had worked in unison. This trend directly leads to working globally, which mostly means geographical dispersion.

To cope with more and more dynamic environment around projects, traditional hierarchy structures and bureaucracy governance faces challenges that must be overcome, such as decision-making process or adaption to the fast changing environment.

In the 20^{th} century, there was significant development in serious management thought. Organization theories took the great force, but the notion of corporate governing was not an issue for research and debate, like for example productivity or strategy. The major part of theoretical and practical development focused on internal management and situational adaptation. The “art” of planning and control increased in sophistication while governance stayed in the background, not getting much attention before the end of the 20^{th} century. The board of directors of a company, in general the governing body of every corporate is ultimately responsible and accountable for that organization’s decisions, supervising and its corporation’s final performance.

Corporate governance has only relatively recently came to prominence in the business world. The term 'corporate governance' and its everyday usage in the financial press is a new phenomenon of the last twenty years or so. Corporate governance is about the exercise and execution of power over corporate organizations. (Clarke, T. 2004) It has become one of the central concerns and issues in the running and the operating of modern enterprise today. Also it has been linked to issues like corporate social responsibility, stakeholder management and several other issues focused in the same time period. However, to the realities of complex modern business, there are a lot of more issues come along with it together.

2. Objective of this study

2.1 Problem definition and Research questions

Companies find that the economic globalization forces them to rethink the way they conduct their business, including some of their projects. It has become more common to have daughter companies in different countries and collaborate with local companies through these daughter companies. This, however, highlights the challenge of corporate governance across national, cultural and political boundaries.

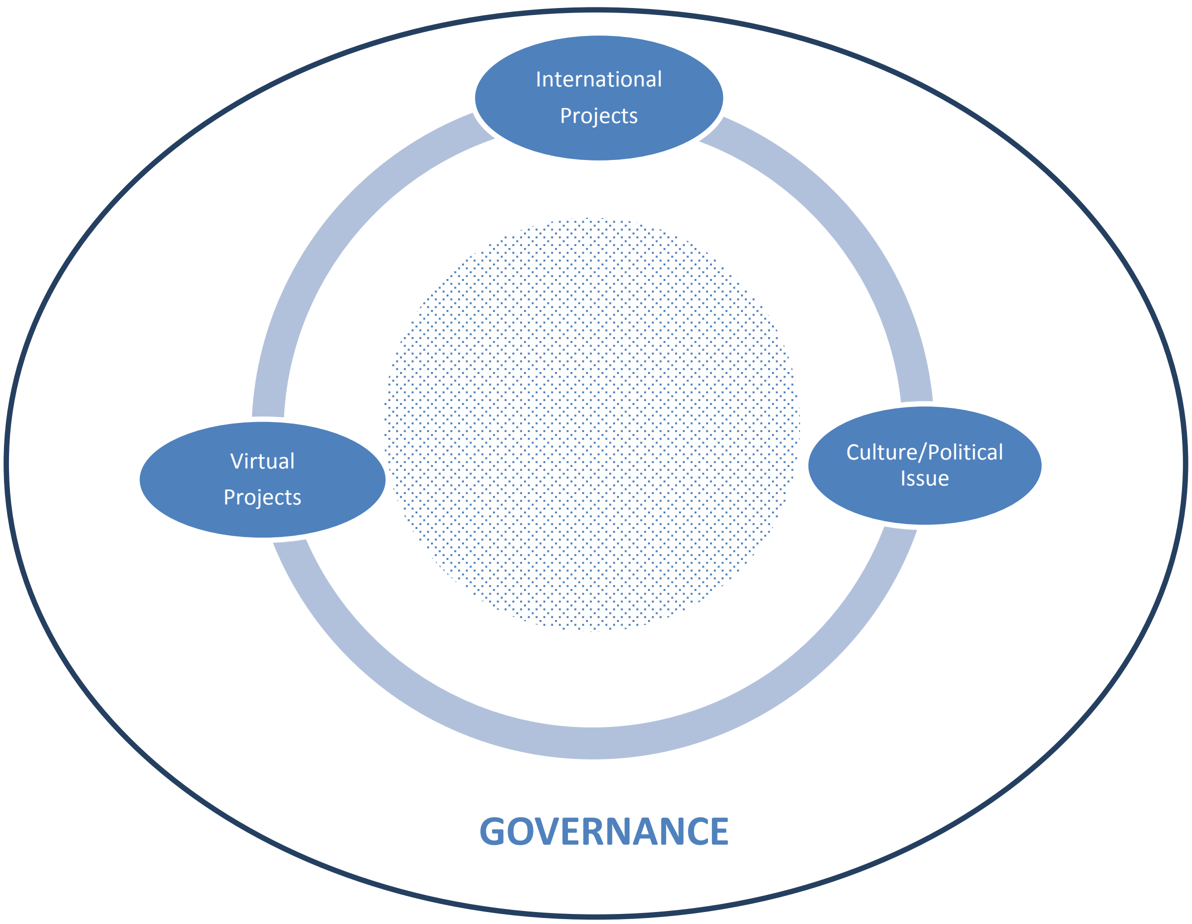


Figure 1 Corporate governance relation with virtual projects

This master thesis will investigate this challenge, both theoretically and empirically. More precise, it will try to answer the following questions:

-To what extent do European and Chinese companies have comparable objectives, strategies and practices regarding corporate governance? Such as German and Norwegian companies compared to Chinese companies.

-China VS Germany, concepts of corporate governance. For example, attitude towards contracts.

-Investigate if and to what extent culture influence how multinational companies might practice corporate governance in major collaboration projects.

-Identify important governance issues, processes and challenges that should be considered by a company doing business with or in another country. For example a Norwegian company planning to establish project oriented daughter companies in China.

-Discuss the possible challenges that the employees and managers may meet when working for the multinational corporation, for example, Chinese working in a Norwegian company and Norwegians working in a Chinese company.

The report will contain both a theoretical and an empirical investigation of these questions. The empirical study will be case based on my own working experience.

3. Literature Review

3.1 The essence of Virtual Team and Virtual Projects

3.1.1 What makes a team virtual

Traditional organization structures and bureaucracy governance meet challenges such as decision-making process or adaption to the fast changing environment. One of the answers to these challenges was the development of a flatter and more flexible team structure – virtual team.

A virtual team can be described or defined along two primary dimensions (Martins et al., 2004). First, a team that can be defined as a virtual team, the team members must use ICT (information and communication technology) as the preferred tools for collaboration. (Kirkman and Mathieu, 2005). Even a team is physically located in a face-to-face environment, sometimes they will still have to rely on different type of ICT to interact with each other and to exchange information.

Hence, ICT is more or less an enabler of virtual teams. By using ICT, organizations could be split into different sites, for example, production, and outsourcing. A virtual team is especially suitable for providing services and products because a virtual production process is more people-oriented and knowledge is the core competence. The team members' collaboration relies on shared vision, common understanding and effective communication. They work towards common goals and trust others even though they may have never had a chance to meet each other.

Second, physical dispersion of team members will require vitalized interaction among the team members, due to spatial distance and temporal asynchrony difficulties. The greater the geographic dispersion, the greater the temporal differences in team members (O'Leary and Cummings, 2007). This is often defined as two different criteria by scholars as *geographic dispersion* and *asynchronicity*. The spatial distance seems to be easily managed, but the temporal asynchrony seems to cause more challenges than ever. The spatial distance and temporal asynchrony will also refer to cultural diversity and boundary spanning in a virtual team.

If we look at physical distance alone, does it in theory matter if people are separated by one kilometer or 10 000 kilometers? However, if we look at the practical issue, and for example to persons situated in Oslo and Tromsø they might find it much easier to interact than persons situated in Oslo and Barcelona (even if the distance is roughly the same), for which is due to different languages and cultures, but also due to different technological infrastructures. The same kind of discussion can also be done about temporal distance. One thing is theory; another is practical and contextual issues.

Furthermore literature reviews show us two more criteria for defining virtuality. The boundary spanning of team members is more from an organizational point of view, that the organizational origin should not determine virtualness of the team. For example, a virtual team can also exist within the same organizational entity. In today's organizations, it is no longer about the question it is virtual or not, but how virtual it is. In a project environmental context, it often causes more management difficulties because of combining the boundary spanning with physical dispersion.

Also the cultural diversity is often described along with physical dispersion. Because of the physical dispersion, it is most likely different team members will bring in their own different cultural, national or organizational backgrounds consciously or unconsciously. However, only cultural diversity or boundary spanning alone is neither sufficient nor necessary to classify a virtual team or degree of the virtuality.

Finally, with the nature of project in concern, existing of a virtual team might be also temporary. Virtual teams are typically more fluid regarding the composition of the team, which can change readily and the entire team may form and dissolve relatively quickly (Mowshowitz, 1997).

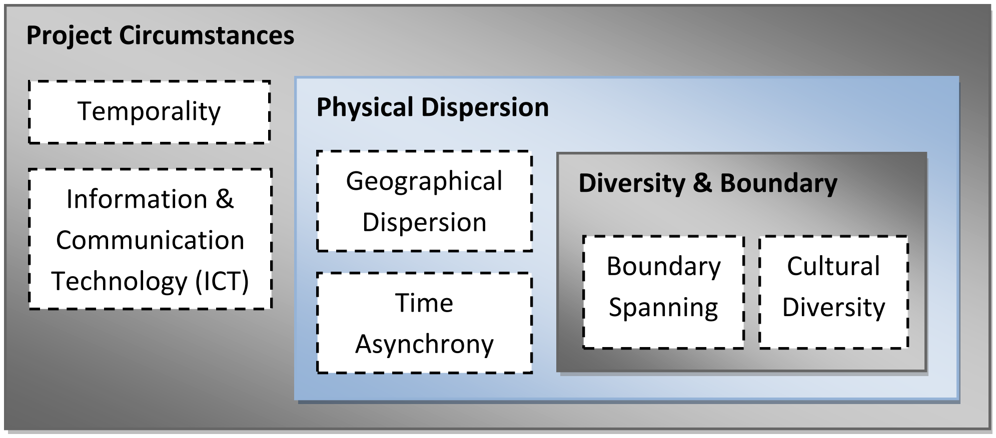


Figure 2 Criteria of virtual team within project context

However for a virtual organization, they do not need to have a formalized termination date like a project team.

3.1.2 From conventional team to virtual team

Virtual team, as a recently popular project team form, has been identified with some widely accepted criteria including enabled by ICTs, geographically dispersed, boundary spanning and asynchrony, summarized by (Schweitzer and Duxbury, 2010). Truly, these criteria expressed the most frequently observed characteristics of a team working virtually.

However, it is not a Yes or No question of "Is it a virtual team or not" but "how virtual a team is". The degree of the virtuality is difficult to measure, having said that it doesn't matter if a team or organization is 36% virtual or 37%. As the time goes by, this degree of virtuality could change, after 20 years or 30 years, It might not matter any more because virtuality becomes the norm, not the exception, just like international trade has become the norm, not the exception.

Compared to the conventional team or collocated team, a virtual team might be delegated somewhat more authority and responsibility. It might be more relieved from the traditional organizational hierarchical decision-making and the limitation of organizational information sharing structure, which leads to more flexibility.

In the context of conventional teams, information is transformed to knowledge through social cooperative and coordinated interaction processes. Although in the context of virtual teams, the task-based activities will be performed more or less in the same way, but relation-based activities can become challenges for the project leader, such as motivating, supporting team members and even managing conflicts. According to Bell and Kozlowski (Bell and Kozlowski, 2002), it will be difficult when the team leader (project manager) is not in a position to perform activities in order to interact with the team members directly. It will probably also depend on the personalities of the team members, levels of experience, trust and so on. In spite of that the difficulties for the team leader or the project manager increases. The leader of a virtual team will have to adapt to a less traditional command and control structure, while he is fulfilling the task-based role in a project context. This is a challenge according to most scholars (Hertel et al., 2005), stated as "leadership as a central challenge in virtual teams, as control is difficult when team leaders are not co-located with team members."

On the other hand, the lack of physical contact may cause social isolation (Kirkman et al., 2002) and may cause stress and effect work (Raghuram et al., 2001). On the personal level "Team members are also apart to feel they lack information about other team members, leading to uncertainty" (Tangirala and Alge, 2006). Because members of virtual teams are more loosely coupled and enjoy relatively greater autonomy, there is a significant risk of opportunism, free-riding, and antisocial behavior (Kurtzberg et al., 2005).

The emergent virtual team is mostly enabled by information and communication technologies (ICT). The precedent development of ICT in 1990s provided team members with possibilities of sharing rich information and complex collaboration in distance without physical presence. The significance of spatial distance and temporal asynchrony turns to less important.

On the other hand, the virtuality of a team is not only about what it looks like but also how it feels like. That is what we call perceptual consequences. Even if many times all team members exactly sit in a same office and meet each other every day, they only collaborate through intranet and groupware. If a team works like this, it is identified as a virtual team.

So far observed by most researchers, a virtual team is better applied in a software development project or a service team than in a physical production project. The reason is much likely to be the difference of value creation process. A software project or service provider relies more on people's wisdom and knowledge than on physical materials. Wisdom and knowledge are easier to be expressed, shared or transferred as a form of information. And information can be exchanged by means of ICT systems in a cheap and rapid way. However, if a team relies on physical materials such as developing an electronic device, experiment instruments and facilities have to be located somewhere physically. It might be also easier to prepare for production virtually than producing the physical products themselves. A product might also be developed at one site and produced at another, which today is quite common, for example that a toy or an electronic device might be designed in United States and produced in China.

3.1.3 Key issues of team effectiveness of virtual team

A team is a collective of individuals working interdependently toward a common goal(Marks et al., 2001). A virtual team can be readily formed based on skills needed in the manner of project management in order to deliver the needed outputs.

The biggest challenge is not necessarily to create a team with the right mix of formal and technical competencies, provided we have access to reliable sources of information. It might be much tougher to select people who function well in a virtual setting and especially people who are adapted to cooperating with each other virtually, contextual dependent.

Today`s information communication technologies empower and enable more complex form of collaborations. At the same time a team as a whole will have to commit and engage in core processes of coordination and cooperation.

Like the conventional team, shared knowledge structures, which enable team members to coordinate effectively, have to be developed. In the processes of developing the shared knowledge structures utilize past experiences and interaction among team members. Because of the characteristics of a virtual team, team members have no means can rely on which refers to direct observation of behaviors. However, they might have access to more indirect ways of observations, like multimedia conferences. Unfortunately, this might constitute an artificial and time limited possibility of studies, giving less reliable behavior-related information than face-to-face interaction. A recent meta-analysis found out that compared to conventional teams, virtual teams took more time to make decisions and made less effective decisions(Baltes et al., 2002).

As a result, most virtual teams turn out to be more focused on task-based activates and tasks, which again may cause stress and less work effectiveness. Virtual teams spending more time on task-based communication are more effective in coordinating their efforts at least up to a limit (Kanawattanachai and Yoo, 2007).

Since coordination and cooperation among team members are so vital and critical to team success, in the fact of virtual setting, trust in the team and leadership will easily have more influence on the work effectiveness of team members and among team members. In the end tangible means such as contracts and monitoring will be used to offset these risks. However, the downside of using tangible means and attempts to address this uncertainty and risk through behavioral controls and monitoring can undermine trust in virtual settings (Piccoli and Ives, 2003).

However, we believe that a higher mental level of judgment, which is based on observation, experience, and interactions in a conventional team context are often hindered in virtual setting. Thus, some face-to-face contact in the early stages of working relationships may be especially important to promoting trust and collaborative behavior in virtual teams (Bell and Kozlowski, 2008). As well, richer forms of communication promote trust and a willingness to cooperate(Rockmann and Northcraft, 2008).

In short shared understanding and mutual trust are vital in virtual context, and in turn they will enforce coordination and cooperation among team members, thus work effectiveness will maintain on its strongest.

The work effectiveness of a whole team is contributed by the team inputs, which are a combination of individual resources and collective capabilities of the team, a function of the individual contributions of each member and the collective processes between group members. In a virtual setting, as noted above, a virtual team can be readily formed based on the skills needed in the manner of project management in order to deliver the needed outputs. A team composed of members with needed skills will be more capable to perform the requested task.

Diversity is a two-edged sword, while diversity can lead to innovation and high-quality decision-making, social harmony, trust, and cohesion of a group, it can adversely be affected by diversity, particularly when team members differ in demographic and personality characteristics.

Thus, in order to overcome the downside of diversity, shared knowledge structures and shared understanding will be needed; which again demand on a higher mental level of judgment. In this process, decision-making and corporate governing are very important factors in order to achieve effective coordination and cooperation, which are so vital and critical to corporation's performance and success. It is an integrated implantation process where each element can affect the whole.

3.2 Corporate Governance: A Practice Whose Time Has Come

Introduction: Corporate governance is a wide topic and contains a lot principles and policies in theory. I am not going to cover all but only some part of it in the theory, in this chapter and the practices later in the whole thesis. In this small chapter, we are going to talk about what is governance and what is corporate governance first. Following with the scope of corporate governance and the relative effectiveness of corporate governance. At last, we will look into the distinction between governance and management.

3.2.1 What Is Governance? What Is Corporate Governance?

A corporate entity is formed whenever a group of members organizes a company, institution, association, organization, society or other entity to serve their purpose. Therefor, corporate entities have to be created for every corporation or any other organizations, and corporate governance is about the way these corporate entities are governed.

To start a discussion of corporate governance, we should first explore the topic of governance in general. Briefly, governance refers to the act or process of governing. By Oxford American dictionary, to govern means to conduct the policy, actions, and affairs of (a state, organization, or people); to control, influence, or regulate (a person, action, or course of events); to constitute a law, a rule, a standard, or a principle. Obviously, governance has existed since the beginning of civilization. History tells us of the never-ending evolution of changes and models of governance, with improving and differentiating of advancement and enlightenment and at sometimes, temporary darkness. Most recently, we have witnessed the widespread embracing of representative government, most commonly democracy by and for the people, which took hold in America in the late eighteenth century. (Colley, John L. Doyle, Jacqueline L. Logan, George. 2004.)

The success of capitalism created opportunities for businesses to grow larger. The main driving force of this growth was the opportunity for investors to unite their capital (money) to fund extensive projects and massive enterprises. These investors became owners of portions or shares of the businesses in which they invested, and have come to be known as shareholders.

The owners (shareholders) elect directors as their representatives to manage the affairs of the business. The directors, who as a group are referred to as the board of directors, then delegate responsibility for actual operations to the Chief Executive Officer (CEO), whom they hire. The CEO is accountable to the board of directors, which, collectively and individually, is accountable to the shareholders. In addition to its role in selecting the CEO, the board also advises on and consents to the selection of businesses and strategies of the firm as well as oversees results. In sum, this system of authoritative direction, or government, is known as corporate governance. (Colley, John L. Doyle, Jacqueline L. Logan, George. 2004.)

There have been many attempts to define corporate governance, over simple distinction between management and governance: 'management runs the business; while the board ensures that business is being well run and in the right direction.' (Clarke, T. 2004)

Corporate Governance: An International Review, an academic journal founded in 1992, defines corporate governance broadly as *'the exercise of power over corporate entities so as to increase the value provided to the organization's various stakeholders'.* (Now in its 18th year this journal is published by Blackwell Publishing, Oxford and New York and is now edited by Dr. William Judge, Old Dominion University, Norfolk, VA, USA.

By 2001, the OECD – the Organization for Economic Co-operation and Development had broadened their definition they offered earlier: *'corporate governance refers to the private and public institutions, including laws, regulations and public institutions, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs, on the one hand, and those who invest resources in corporations on the other'.*

Here in the paper, we offered the board views that: 'corporate governance is about the way corporate entities are governed' and 'corporate governance is about the exercise of power over corporate entities' (Clarke, T. 2004) with the widest focus of the understanding of corporate governance needs to involve all and every element that can affect the exercise of power over corporations.

However, for a project manager, why is corporate governance interesting and relevant seen from a virtual team's or project management's point of view? Corporate governance, why should a project manager bother with it? Shouldn't corporate governance be already embedded in management? If we see management as a tool of corporate governance, corporate governance could be embedded into day-to-day management activities. Just like quality control for example, every corporate and organization wants it, so today quality management is already part of the day-to-day management embedded in the organization. I will talk about it later in the discussion part about seeing management as a tool of corporate governance.

3.2.2 Scope of Corporate Governance

No doubt, the structure, the members, and the process of the governing body are essential to corporate governance. Besides, relations with shareholders and other sources of finance, the link with the independent external auditors, and the influence of the stock market and the financial institutions, are vital and fundamental. So are the company law, the legal institutions, and the regulatory mechanisms of the country concerned.

This might also imply that many want to influence or change existing corporate governance. If we assume that the ones, who have the final responsibility, is the board of directors, then they must decide on whom to listen to and what to change, and of course how often to change. I would assume that corporate governance, being a top-level control instrument defining the direction of the corporation, should be fairly stable over time.

The relationships between the company and stakeholders, employees, customers, suppliers, etc. are also become vital in understanding the governance of corporations. The interests of other non-contractual stakeholders, society and corporate social responsibility are becoming more and more important by the influence in corporate governance.

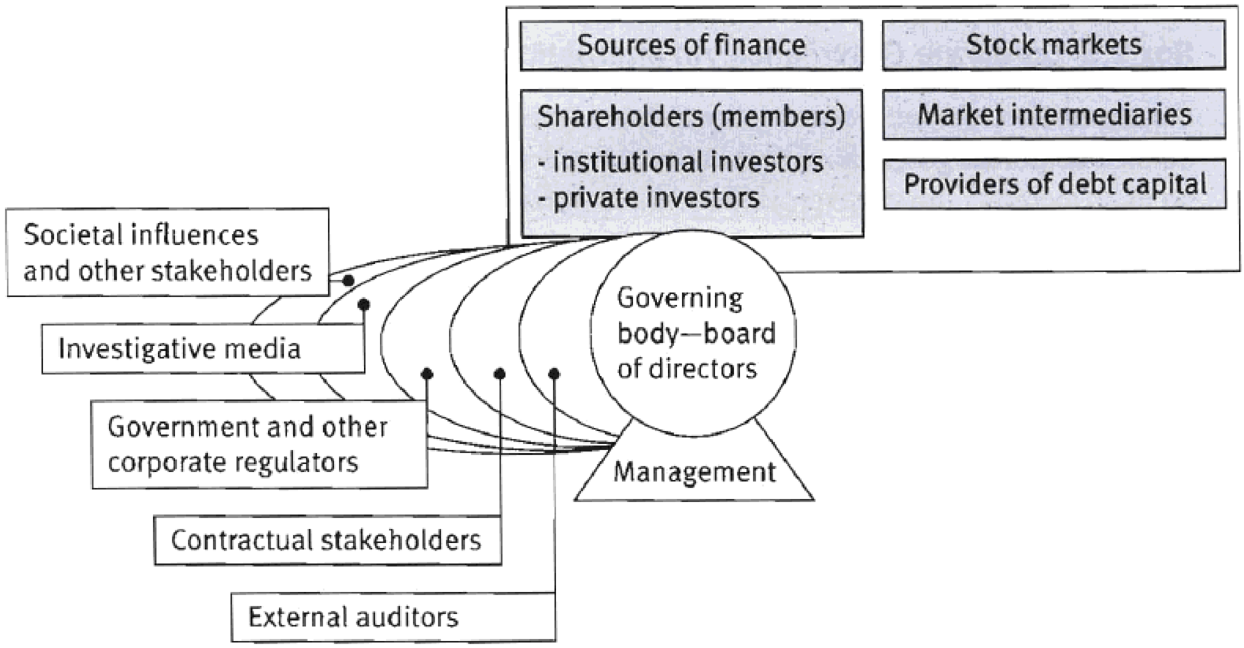


Figure 3 The scope of corporate governance

The schematic of figure 3 (Bob Tricker. 2009.) attempts to provide an overview of the scope of corporate governance. Central to the study of corporate governance are the members of the entity – shareholders in a limited company, the governing body – the board of directors in a company, and the management of the enterprise. We shall be focusing on the structures, relationships and realities of these groups of this study.

Governments are obvious acting as a crucial role to corporate governance by enacting the legislation that regulates, facilitates, and constrains all the activities of corporate entities registered. For example, the creation and updating of company acts. Companies registered in their jurisdiction and the filling and access to corporate documents is also a function of the relevant government department. The relationship between governments is one of the most important elements of corporate governance, since the government has the control of the effect that allows the corporate entity to be created and to be operated within its jurisdiction.

External stakeholders have great influences on corporate governance. However, corporate governance can also be influenced by internal stakeholders, for example management or a unit that want to expand into an area that is not in accordance with existing corporate governance values or priorities.

Obviously, to start and operate a corporation in different countries will meet different legislation and regulation issues, also cultural and political issues and challenges.

3.2.3 The Relative Effectiveness of Corporate Governance

The relative effectiveness of corporate governance has a profound effect on how well a business performs. We have observed that businesses that have prospered and remained prosperous are those that have found ways to govern their affairs effectively together with good management. Similarly, with companies that have performed poorly, it is common to track the problems to boards that have not effectively addressed the issues confronting their businesses. The governance model of a successful corporation typically includes the following characteristics (Colley, John L. Doyle, Jacqueline L. Logan, George. 2004.):

• An effective board of directors that carries out its responsibilities with integrity and competence.

• A competent CEO hired by the board and given the authority to run the business.

• A good business or businesses selected by the CEO in which to operate with the board's advice and consent. This means a business in which the firm can compete effectively and profitably in an industry that is reasonably attractive. It also implies that the company has the skills and resources necessary for competitive success.

• A valid business concept created by the CEO and his or her management team, and, again, with the board's advice and consent. A business concept encompasses the definition of the customers to be served, the goods and services to be delivered, and the means or processes by which these goods and services will be delivered. A valid business concept is one that meets the needs of the customer in a superior and often unique way that will allow the firm to become and remain profitable.

Both this bullet-point and the previous one may explain why corporate governance might influence projects as well as virtual teams. As long as they can be viewed as an important tool to achieve priorities, then they might be of interest from a governance's point of view.

Appropriate implementation of the business concept (Colley, John L. Doyle, Jacqueline L. Logan, George. 2004.), which normally requires, that…

• There are broad goals that set the direction for the organization.

• The CEO has plans and resources to achieve the organization's goals, and effectively executes the plans.

• The interests of the board and management are aligned with those of the shareholders.

• Systems to ensure that the organization's obligations to its major stakeholders—customers, employees, creditors, suppliers and distributors, the community, and owners—are met with integrity and in compliance with applicable laws and regulations.

• Complete and timely disclosure of the business and performance to its owners and to the investment community at large. A board of directors that fails to guarantee that a sound governance model is in place and executed conscientiously and effectively invites the failure of the enterprise it oversees. It is important to remember, however, that success is not just a matter of conforming to the legalities of corporate governance. Equally important to success is the creation and effective execution of a valid business concept.

If we look at the relationship between them, governance influences the choice of a business concept, and achieved results through the business concept will influence future governance.

3.2.4 The Distinction between Governance and Management

Professional management was the main focus in the business throughout the 20th century. Today, however, the way corporations are governed has become more and more important than how they are managed.

A lot of people fail to find out the distinction between governance and management.

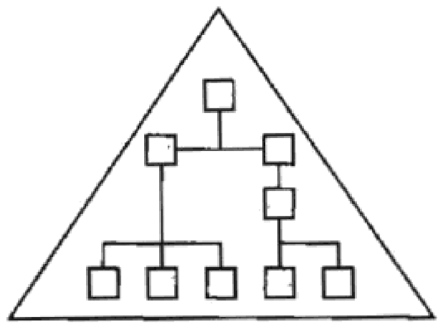


Figure Classical depiction of management

Figure 4 Classical pyramid hierarchy of management (Bob Tricker. 2009.)

We can easily understand from the classical pyramid that management operates through hierarchies. In a classical entrepreneurial organization one chief executive owns and has the overall responsibility of the top management of the organization, and the others reporting to the upper level. Hereby, everyone knows who reports to whom in the organization.

Usually such organizations do not have a board, or the board has a more advisory function to the owner and manager. The executive directors sit in both the board circle and the management pyramid, holding a managerial role in addition to their responsibilities as a member of the board of directors.

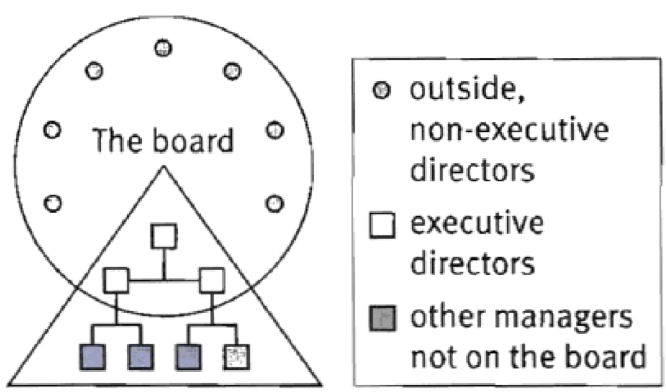


Figure The board and management

Figure 5 The board and management (Bob Tricker. 2009.)

Further more, an important distinction can be drawn between outside. Bob Tricker (Bob Tricker. 2009) has a model, which distinguishes governance between management. While governance is the work of the board of directors or other governing bodies, management is the work of the executive management team.

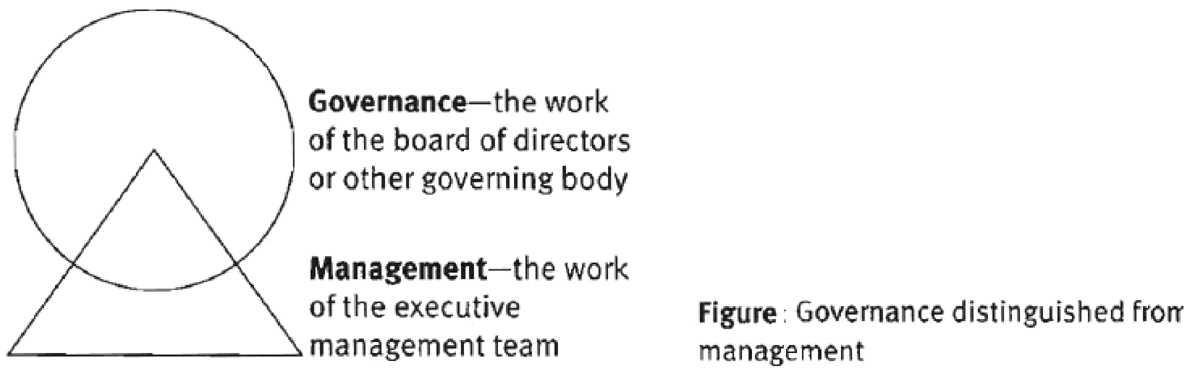


Figure 6 Governance distinguished from management (Bob Tricker. 2009.)

In other words, management runs the business and the board ensures that the business is being well run and run in the right direction.

3.2.5 Directors and Board Structures

A widely discussed issue in corporate governance is the formal structure of the board. What is the appropriate size of the board? Which structure could appropriate balance between the executive directors and the non-executive director members?

There are four types of board structures where the board is known as a unitary board. (Bob Tricker. 2009.)

These four different structures might influence both how the board perceives its role versus managements as well as influence its ability and willingness to govern management. It might also influence the board's ability to "see" what is going on in the corporation (besides getting all information through top management). It might also influence to what extent the board is in direct contact with projects and virtual teams as tools for achieving objectives stated by the board.

- **The all executive director board** – in the all executive director board, the directors are also top managers.

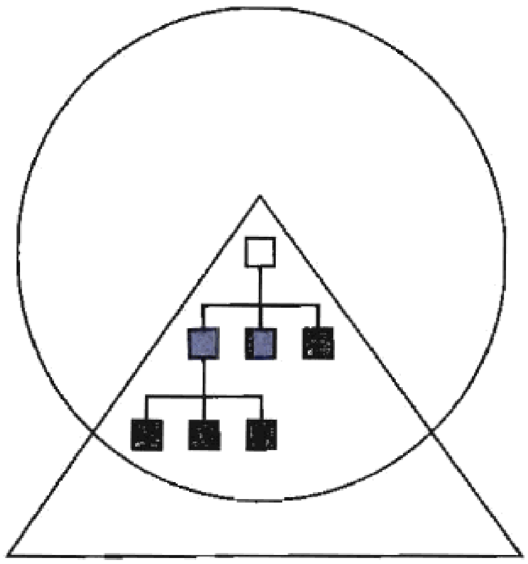


Figure The all executive director board

Figure 7 The all executive director board. (Bob Tricker. 2009.)

Today, this type of structure is found in many small companies, family businesses and the start up businesses. The directors also act as top managers in the corporation; they seldomly draw any distinctions between the roles as directors and their duties as managers. Very likely, the business or the size of the business has not reached a point or a stage where non-executive directors are needed.

- **The majority executive director board** – some non-executive directors are invited to join the board, but they are only the minority. The majority of the board is still the executive directors.

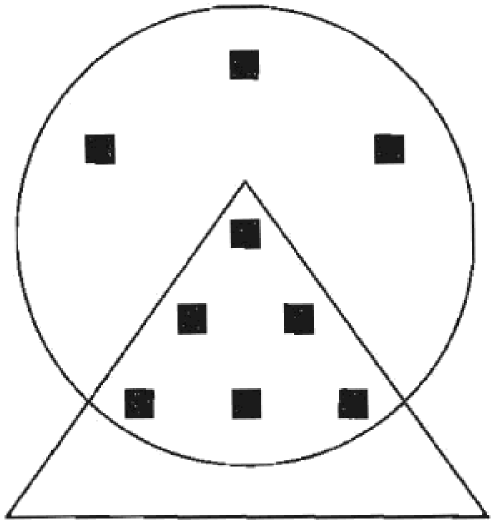


Figure The majority executive director board

Figure 8 The majority executive director board. (Bob Tricker. 2009.)

With the growth of the company and the growing business needs, they feel they may need more expertise in the board, when they are entering new markets, get involved in new technologies, or facing more complex financial or managerial issues

However, in the majority executive director board, the non-executive directors are still minority in the board, while the majority still remains in power to continue their influence and exercise in the company.

- **The majority non-executive director board** – in the majority non-executive director board, many of these non-executive directors are very likely to be independent directors.

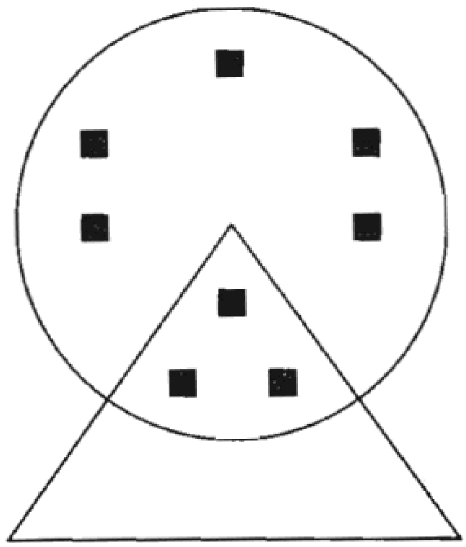


Figure The majority non-executive director board

Figure 9 The majority non-executive director board. (Bob Tricker. 2009.)

When, where non-executive directors are the majorities, the internal relationship of the board and its culture, its activities, are likely to be different from the executive director dominated board.

Both corporations and governments can have rules limiting executives' access to seats within the board. Such rules might have legal, philosophical, conceptual, governing, practical and other foundations. For example some organizations accept managing director as a non-voting member of the board while others accept the manager as a member with limited voting rights, for example the managing director might propose but not vote when choosing external auditors or selecting new members to the board.

In the United Kingdom, the United States of America, or other similar advanced economies, the typical board of a company may have only two or three executive directors, the CEO – Chief Executive Officer, the chief operating officer and the CFO – Chief Finance Officer.

- **The all non-executive director board** – in the all non-executive board structure, the board is all formed with non-executive directors.

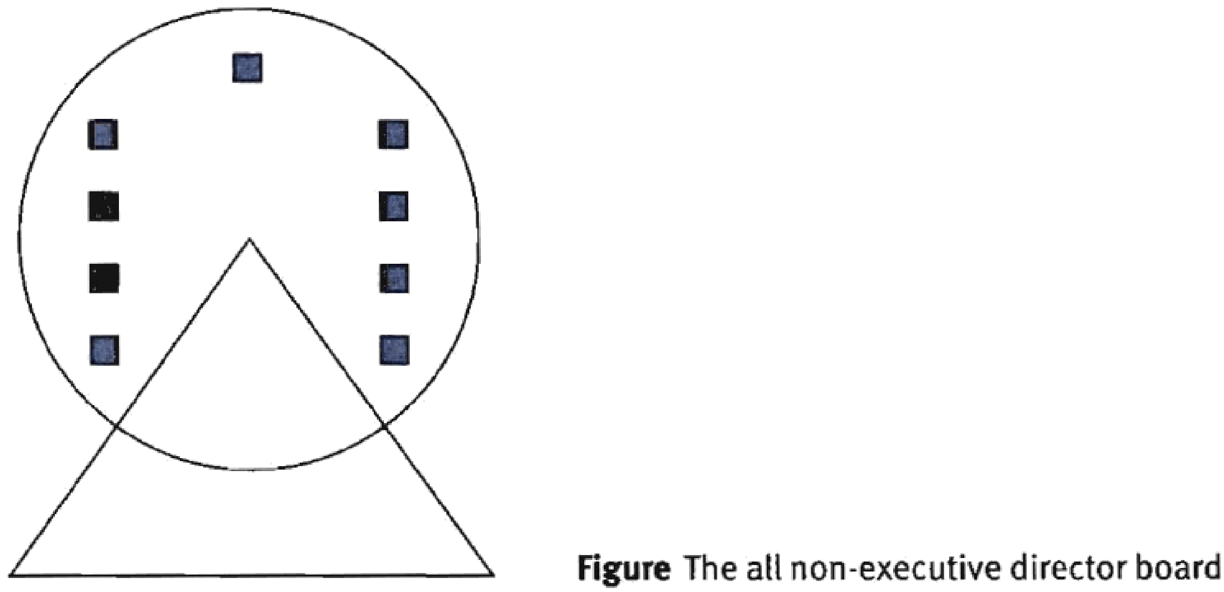


Figure 10 The all non-executive director board. (Bob Tricker. 2009.)

The all non-executive director board usually exists in the boards of non-profit organizations, such as NGO – non-government organizations, charitable organizations, arts, and sports organization, etc. This type of board structure is rarely found in the listed public companies.

Conceptually, the all non-executive director board has the same structure as the European two-tier or supervisory board structure. (Figure 11.)

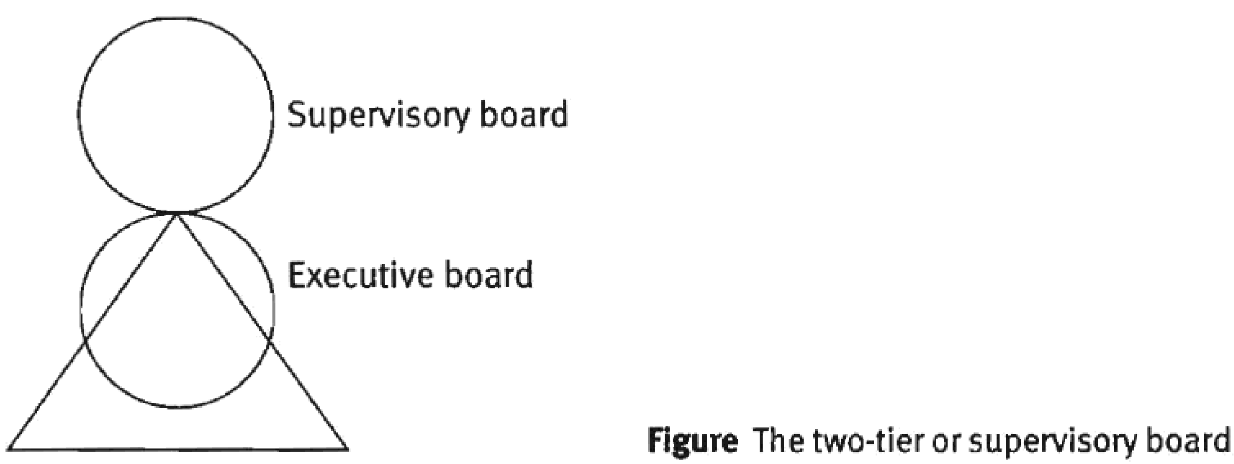


Figure 11 The two-tier or supervisory board. (Bob Tricker. 2009.)

In the German approach of corporate governance, large companies need two-tier board structure. See Figure 11, the upper is the supervisory board, which is entirely outside directors; while the lower is the management board, which consists entirely executive directors.

4. Empirical Study: Discussion and Challenges

Introduction: In this chapter, we are going to discuss the culture influence on corporate governance. We will continue the discussion of the Continental European two-tier model and corporate governance in China. At the end of this chapter, we will talk about the impact of corporate governance on corporate performance and why it is so important for the business success.

4.1 Culture Consideration: Culture influence on Corporate Governance

In the evolution of corporate governance, United States and United Kingdom became the driving forces of the unitary board countries. While the continental European countries have their two-tier board structures. Later on, aspects of corporate governance from other countries arises and develops have become apparent. Such as, the way how business is done, the legal contracts, the sources of the capital, the company law, the audit process, the power of the regulatory authorities, the legal traditions, the traditions of the country, how people behave and react, and their expectations; All of this has an influence on corporate governance.

There is no doubt that board level behavior differs from culture to culture. Around the world, board relationships vary, directors' expectations differ, and individual directors behave differently. (Bob Tricker. 2009.) So, corporate governance has a culture component.

In China, the recent development of corporate governance is remarkable. The form of China's corporate governance structure is unique. The board of directors and the board of supervisors combine the German style two-tier board model with China's traditional concepts.

I will discuss the Continental European two-tier model and corporate governance in China.

4.2 Corporate Governance in Continental Europe

4.2.1 Corporate Governance in Continental Europe: Two-tier model

In Continental European countries, company law is typically rule based. Corporate behavior is under the legal rules and further legislation.

There are several corporate governance models using in different countries, and each model has its own limitations. Today, the limitations of each model are widely recognized. The

European Union directives may have an immediate or a more long-term effect (Christine A. Mallin, 2007.) on corporate governance.

The Continental European two-tier boards, supervisory board and management board; as we explained earlier, are required in Germany and in many other European countries, such as Netherlands, Austria, Denmark, etc. (Gregory and Simmelkjaer, 2002.) This applies also for Norwegian corporations with the General assembly of shareholders (generalforsamling), Supervisory Board (representantskap) and Management Board (styret).

The business structure in Germany is detailed in Wymeersch (1998), in which he identifies the most used business types in various Continental European states.

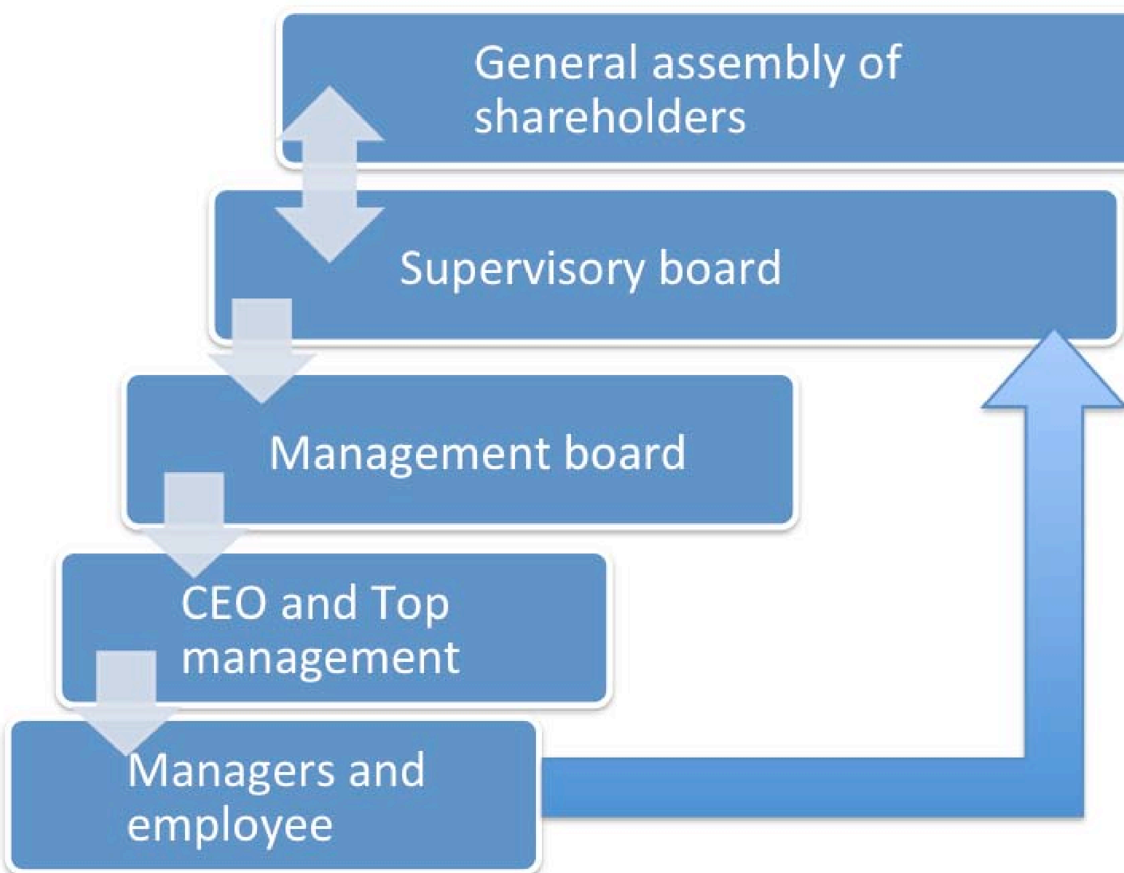


Figure 12 The two-tier board. (Continental Europe)

The management board is responsible for managing the corporate, while the supervisory board advises and supervises the management board, making important decisions and leading the corporate's vision. The chairman of the supervisory board coordinates the work of the supervisory board while the shareholders in the general meetings elect the members. In Germany employees are also represented in the supervisory board when the company has more than five hundred or two thousand employees. The representatives elected by the shareholders and representatives of the employees are equally obliged to act in the corporate's best interests.

However, the idea of employee representation on boards is not always seen as a good thing. When the employee representatives on the supervisory board may hold back the decisions being made that are in the best interests of the company as a whole or strategically, but not necessarily in the best interests of the employees as a group. For example, a company wants to close a factory for strategic reasons, but the employee representatives on the supervisory board might hold back the decision on labor relations. Another example about other members of the board, an investor, for example, might want huge dividends paid this year, even if this hurts the long-term future of the corporation. That is why the law says that each board member should act in the interest of the company, not in the interest for themselves or the groups they represent. To enforce such regulations, however, might be difficult.

4.3 Corporate Governance in Mainland China

4.3.1 Corporate Governance in Mainland China

China is the world's largest developing country. Over the last twenty years, China has achieved remarkable economic growth, becoming the largest and fastest growing emerging country and economy in the world.

Beginning from the early or mid 1990s, the state of China no longer wanted to play solo in the public state-owned companies, and be responsible for all the profits and loses. The policy of economic reforms was shifting and consequently the number of state owed enterprises was declined. The market economy was developed with a very unique form.

"We don't ride in anyone else's car. "

------ Deng Xiaoping (1904-1997), a Chinese politician, statesman, theorist, military leader, and diplomat.

However, the state still has a hand on the private companies, and for a lot of them the state maintains a significant ownership share and influence.

China has created a unique form of corporate governance model structure. (Bob Tricker. 2009.),

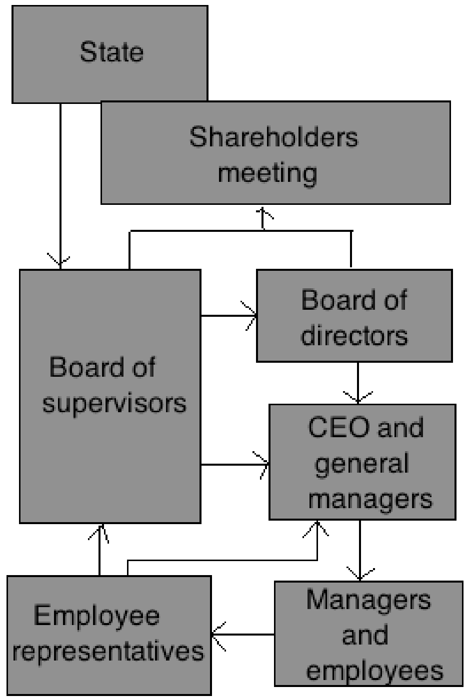


Figure 13. Corporate governance model in China

This corporate structure model (Bob Tricker. 2009.) has a management board of directors with some independent outside directors, and a board of supervisors, with both employees and other members.

However, unlike the German Two-tier board model (Continental Europe), whereas the supervisory board sits between the shareholders and the management board, the Chinese model of the supervisory board has no responsibility on the shareholders behalf for return on investment. Also the supervisory board in China has no power to hire or fire directors as in the Continental Europe Two-tier model. Consequently the supervisory power of the Chinese supervisory board is relatively soft and seeks to act through influence.

Over the past decades, Chinese authorities have undertaken many efforts to establish and complete the regulatory framework of corporate governance in China. However, the legal system, the regulation, although it has ancient traditions, is somewhat lacking in transparency and predictability compared to international legal forces.

Although the establishment of efficient corporate governance regulations has not yet been completed in China, and some of the current governance regulations are not compatible with those in the rest of world, but that is how it works in China. They are required by Chinese authorities in order to adapt to China's current transitional economy.

One thing is the deficiencies in the formal rules and regulations. Another thing is how they are interpreted, used, bent and broken in reality, as well as the consequences of not complying with them. The real challenge for a foreign company in China is like a manager from IKEA once said:

"The dichotomy of what 's written in the laws and what's practiced in reality is really a much bigger challenge than I anticipated."

- Michael Sagan, area manager, IKEA, Central China

4.4 Does Good Corporate Governance Lead to Better Corporate Performance?

Many scholars tried to demonstrate that there are some linkages between various attributes of corporate governance and corporate performance, such as different board structures, board size, etc. The evidence is weak, or they have a hard time to find or prove strong connections. In fact, some scholars find there are positive relationship between good corporate governance and better corporate performance in same cases. Some other scholars draw different or contrary conclusions.

However, a significant study by the Association of British Insurers (ABI) was published in 2008, (Selvaggi and Upton, 2008.), in the study, they suggest that there is a robust causal relationship between good corporate governance and superior corporation performance. ABI represents the interest of insurance companies in the UK, who tends to invest long terms to reflect their need to meet long-term obligations.

The study shows, that companies with poor governance show a strong negative impact on company performance. The clear connection is between good corporate governance and both good corporate performance and share price levels. The study discovers, that it is good corporate governance that leads to better corporate performance, but not the other way around.

Another finding in this study is, that the impact of governance on performance is long term. Poor governance that leads to bad performance could lag two or three years until found. Especially when we assume that governance is directly affecting the strategy of a firm, something that might take years to implement and measure the success of.

5. Questioning and Discussing (Case based story)

We have been talked about corporate governance and projects in virtual teams; also we have talked about culture influencing corporate governance and that leads to different corporate governance models in different countries, such as the two-tier model in continental Europe and the corporate governance model in China.

We have found out that corporate governance has a culture component. However, how much or how deep is the cultural influence on a company or an organization? To what extent are decision-makers really aware of the cultural influence, or are they more or less blind to the culture's influence on their individual and collective behavior? How great is the difference among managers working in different organizations? For today, because of the globalization of economics, we will focus more on multinational corporations or global organizations. Furthermore, when these corporations and organizations are becoming more multinational and more global, will the difference between organizations still be that big and obvious? Are organizations and their organizations culture becoming more similar to the others?

Well, I do not have a clear answer for that now. However, one thing is quite obvious; that the differences of managers working within the same multinational organizations are much greater than the managers working for the corporations in their own native countries and cultures. This might become even more relevant for international projects spanning several companies, governance structures and national contexts. How should these projects be governed and managed, especially under partially incompatible systems?

Before trying to answer these questions, I would like to introduce a small case first, based on my own personal experience.

Example: Lenovo International (Lenovo Group Limited) – after the acquisition of IBM's Personal Computing Division

lenovo 联想 **Acquired** IBM **PCD**

Background story

I joined IBM/Lenovo as a development engineer, more accurate a testing engineer, in one of its research center located in Shenzhen, China (CDL – China Development Lab) when Lenovo and IBM announced an agreement by which Lenovo will acquire IBM's Personal Computing Division, its global PC (desktop and notebook computer) business. At that time Lenovo was the PC market share leader and largest seller in China, but not as well known worldwide as it is today.

Today, Lenovo Group Limited is a Chinese multinational computer technology corporation that develops, manufactures and markets desktops and notebook personal computers, workstations, servers, storage drives, IT management software, and related services. (From Wikipedia)

In 2005, Lenovo completed the acquisition of IBM's Personal Computing Division, making it a new international IT competitor and a top-tier, the third-largest personal computer company in the world. Lenovo moved its executive headquarters from Beijing, China to Research Triangle Park, North Carolina, United States.

At that time, I was nothing but just a lab engineer, an un-experienced graduate just outside from university holding a Bachelor of Science degree in computer science and technology. I might not have understood the detailed actions we made, and the different steps we took back to that time. But, during the transition, the change from Lenovo China to Lenovo International, I was there, seeing it and experiencing it. I saw the changes we made, the change of location, the change of company strategy, the change of marketing, of the sales strategy, of the organizational and culture. The changes were big, huge, together with a lot of challenges, but at the end, successful.

The changes did not stop just after the acquisition and the transition, instead, it continued for quite a long time, approximately three years or so until the two independent companies completely merged into one. Three out of four years of my total career period at Lenovo International, it was changing, never stopped. Different departments with related functions were merged and changed to different locations, such as supply chain, procurement, sales, logistics, engineers, HR, and manufactory workers. People were laid off at some areas and countries; new employees were recruited in new offices and new organizations to meet the new company's strategy and the new goals.

Many job positions were cut off from United States and Europe, and moved to China, not only because it is a Chinese multinational company now, and we have many very talented engineers, but also because of the obvious reason, cheap labor. In today's China, there is never a lack of well educated and talented engineers, but the labor cost is much less compared to United States and Europe. I was one of these Chinese engineers who got a good opportunity to try something new, which position was previously in the United States, working with worldwide engineers, sales and marketing teams.

Another reason for the people, position and location change was to reduce the communication gap and cost, because of the culture, language and time zone differences. Besides, the main resources and manufactories were in in China, so the development and manufacturing was more integrated than before, to allocate the people to use these resources more efficiently.

ITC – Imaging Technology Center

Later on, I was moved to a position as an ITC engineer, an imaging specialist in ITC China – Imaging Technology Center, where Lenovo provides custom imaging service of ThinkPad and ThinkCentre ('Think' is a famous computer brand for business created by IBM, ThinkPad is a laptop and ThinkCentre is a desktop) to the customers.

Let me explain a bit what does ITC do and why.

Most companies require custom-built images to meet specific business needs, consisting of various hardware, operating systems, languages, network drivers and business applications. Each unique image must be developed, tested, managed, maintained, backed up, and documented, by their own IT specialist - all of which takes time and money.

So, most large companies require a Lenovo build image while they are purchasing their new computers or upgrades, so all the imaging work is already done in Lenovo's lab and manufactory before shipping to the end customers.

When the customers get their new Lenovo computers, open the boxes, turn on the computers, it will log right to the customers network, all the customer's applications, network settings, printer drivers are already installed, it is ready to work. That is what ITC does and what I was doing back there.

At that time, Lenovo had three main ITC teams worldwide: ITC North America (NA) located in Raleigh, North Carolina, United States; ITC China located in Shenzhen, China; and ITC Europe located in Greenock, Scotland, UK. They were built to fulfill the customers' requests from different continents because of the geography location and time zone differences, accordingly the ITC NA team provides service to North America, ITC China team provides service to whole Asia and Pacific, and ITC Europe team provides the service to the whole Europe. Besides all the three main teams, we have also a team located in Yamato, Japan, ITC Japan to provide Japanese customers and their special needs.

Transition change and crisis occurred

The company, made a decision to move the ITC Europe team from Greenock, Scotland to Bratislava, Slovakia. That means the team in Scotland had to be shut down and a new team in Slovakia needed to be established.

During this transition, new engineers and project managers in Slovakia needed to be recruited, moreover they needed to be trained. This could take some time or months until people were well trained and familiar with their jobs. And for the whole new team, it might take even longer to be mature enough and confident enough to take their own responsibilities.

It would be no problem or challenge if both the two teams were working and running at the same time; the Scotland team was still running while the Slovakia team was establishing and being trained, until the new team was fully established. However, things were not that simple. Not long after the announcement and the decisions were made, people in the Scotland team, both engineers and project managers were starting to leave the company. Although they were provided with new positions and opportunities inside the company, still quite many of them chose to leave the company.

Problem, challenge, crisis, or whatever we called it. Projects, hundreds of projects, customer requests raised and needed to be done, despite of the crisis for the whole ITC team. While the other two ITC teams, ITC NA and ITC China already had their full workload, working to close their own projects and customer requests. Well, what were we going to do? We could not tell our customers, that we could not handle their requests now because the team in Slovakia was just starting. We could not tell them to wait a couple of months until the new team was ready to work for them. If we did tell our customers this, the customers probably would cancel their purchase order and went on to order from our competitors, such as Dell, HP, etc. And very likely, they would keep their relation with our competitors and never come back to us; even when we were ready and back to business. These were the big customers we could not afford to lose and this was could not be possibly accepted by the company.

What did we do then? We divided those projects and customer requests into the other two main teams, ITC NA and ITC China. We recruited some new engineers and temporarily relocated some engineers from other related departments. Training and real projects were running parallel at the same time.

This was a “stop-gap” solution after the problem had occurred. This might be a good time to think that a movement project on reality encompass and to what extent the company had a realistic or complete understanding of what such projects might create of challenges and problems.

I remember that time when I just got my PMP Credential (Project Management Professional) from the US. I was promoted to a project owner position in the team ITC China. Being responsible for the customer image verification projects, both the overall management and the process of that type of projects. The image verification projects are projects that the customers build their own custom images by the IT specialists and request a Lenovo image specialist to test and validate it. In fact, this was the most common and practical image solution worldwide, which is also the biggest project type in all ITC teams. Because every large company has its own IT department and experienced IT specialists, and they know their environments, networks, security or confidential setting well, much better than the outsiders, which makes sense. ITC engineers work closely with these IT specialists and the Lenovo technical pre-sales in that region will make sure, that the customer gets the image on the computers exactly as they wanted them. While ITC project managers also need to work with the sales and the customer representative to sign the detailed image technical contracts and close the deal, also try to communicate and negotiate with the customer for an agreed solution when an issue was raised.

I was in that position back to that time. Today if you asked me about that time, I would say it was hard and challenging, not because of the high workload or pressure; not because of the language, geographical location and time zone difference. It was hard because of people from different countries and cultures, the way they behaved and reacted, the way they worked, the communication gap, the behavior differences, the value differences and the things behind the deal.

I remember, while we were handling these European customer projects, there was this German customer requesting a large order of PCs together with custom imaging service. They are a very big international company based in Germany. They wanted their image customized to suit their corporate needs. Not to my surprise as an image verification project owner, they had their own image built by their company IT specialists. They sent the image to us, in this case to me, and requested their image to be fully tested and validated by our image specialists on the new Lenovo computers they ordered.

This was not new to us; however, they sent me an e-mail and copied to my manager and all the related sales, customer representatives with more detailed technical requests, and claimed they will accept zero tolerance to any issues, otherwise they would cancel the service or even the whole order. After we reviewed the e-mail, we had a meeting including our engineers, managers, project managers and owners, sales and customer representative in Europe on a conference call to discuss about this project. I remember one of our engineers joking, said: “We have to be very cautious of this project. They are the serious Germans and we should be serious, too.“ We all laughed. However, he did have his point that we did not know much about Germans and we have never worked with them before.

To the security and confidential reasons, I cannot explain the very details here, but I could explain it roughly. They wanted their old customized image to be perfectly working on the new computers, the most important request was when they would boot up the computers for the first time it would NOT directly log into the Windows system, but log on right to their company networks and start their company’s own security check, and then the imaging process from their servers there.

From a technical point of view, this was not a very complicated project which our experienced engineers and image specialists could provide a solution to fulfill that. However, the problem of this case was the working environment, the servers and networks. Which is impossible to achieve without access to the mentioned system or a replica of it. For example, even if you have access to the same software, it might be interconnected through scripts, internally modifies software and so on. On the other hand, getting de facto access to the customer's computers, might, by itself, be a difficult issue. Since we did not have the same working environment and networks that the customer had, no matter how hard we tried to adapt or simulate the situation, we could not be 100% sure the image was fully tested and validated.

And by this German customer's 0% issue tolerance, what did that really mean? Did they have some other meanings behind the words literally? Was it similar to a situation when a Chinese customer said this because they wanted to enforce how important this project is or because they wanted us to be more serious and pay full attention to it? Did this 0% mean just a number, a probability? He could have bad experiences with previous Chinese suppliers, or he might have heard rumors about Chinese companies understanding and behavior towards contracts. Or, he might be trying to project force in a contractual relation, for example through expecting no deviations but lacking a test regime for verifying this. Would they really drop the request or the order if any issue occurred? No one of us really knew the answer. However, what we did know was that we could not afford the loss.

Normally, for a typical image verification project, and a project like this, we would develop an agreement or a contract with the customer together with a detailed technical test plan. The test plan could be initiated either by the customer or us, the imaging team, and according to this plan we would only test and validate the items listed on it. We could not be responsible to the issues that were not on the test plan. In this case, the customer did not have any test plan so our team initiated it.

Together with the image solution, we provided this customer with a sample PC from our sales in Europe. So they could use it to test and verify in their own environment to make sure it would fulfill all the detail requirements and without any issues, before the massive production. In the testing report sent to this customer, the image engineer recorded all the detail data and checklist for all the test items. In one of the test items, our test engineer found there might be a potential in the original image that could lead to a severe issue, so he worked really hard and fixed it. However, the customer did not appreciate it, instead, they claimed they will not accept this because we were not allowed to change it since it was not in our agreement. I still remember our engineer's word:" Seriously? They didn't say thank you and appreciate my hard work on it?"

Unfortunately, in this case the answer was 'No'. If this would have been a typical Chinese customer, they probably would not only have appreciated it, but also might have sent us an e-mail saying 'Thank You! '. And at the same time copying the managers by letting them know their engineers did a good job. Again, in this case it was a German customer, and an agreement was an agreement, no matter who would benefit from the change.

Discuss:

Today, after I have been living in Europe for almost two years, if I look back on this case, I would see this case might also have a culture component involved.

We could assume that employees or managers working in their own domestic companies behave more similar to each other because they have the same culture. (For example, Germans working for German companies, Chinese working for Chinese companies; and Norwegians working for Norwegian companies.) What about the employees and managers working for the same multinational corporation? Would they behave more similarly than their domestically employed colleagues?

A research found out, that the managers employed by the multinational company even strengthen their cultural differences. (Laurent, André. 2007) The cultural differences were significantly greater among managers working within the same multinational corporation than they were among managers working for companies in their own native countries. When working for multinational companies, Germans seemingly became more German, Chinese more Chinese, Americans more American, Swedes more Swedish, and so on. People remain their own identity. Look for example at immigrants. Some adapt to the new culture and some do not. Among those who do not the second generation might even turn into a caricature of their origin, being even more conservative and following their original customs more rigidly than their parents.

This cultural difference will reflect on every individual in the multinational company. Individuals express their culture through the values they hold about life and the world around them. The values in turn affect their attitudes about their behavior considered most appropriate and effective in the given situation.

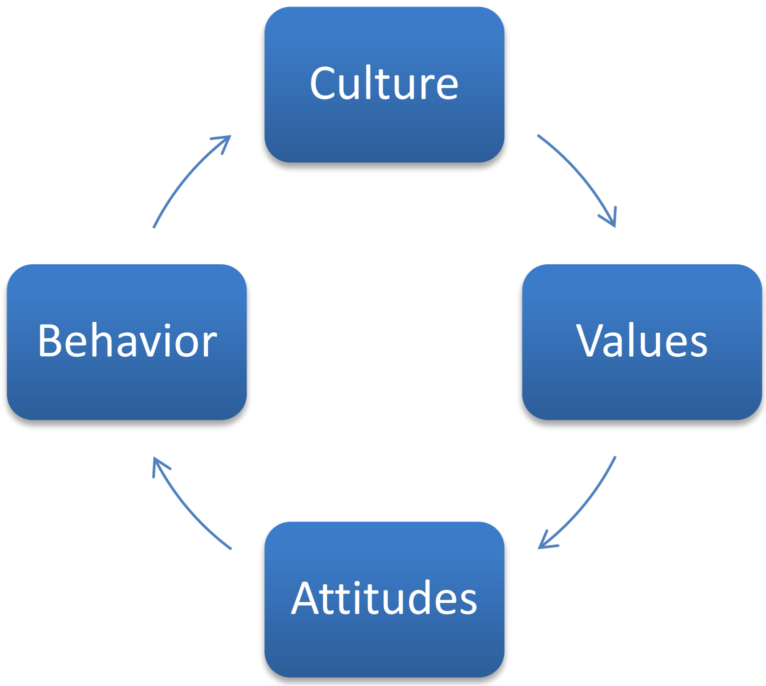


Figure 14 Influence of Culture on Behavior and Behavior on Culture (Hofstede, Geert. 1998.)

And all these changes on the individuals of the company will eventually influence the corporate or the organizational culture. Just as Hofstede said, the continually changing patterns of individual and group behavior eventually influence the culture, and the cycle begins.

The work behavior varies across the cultures in the multinational companies. This difference not only exists in the employee level, but also will influence the managers' and directors' behavior. This behavior will eventually affect the company's management and governance style.

André Laurent, a highly acclaimed professor at INSEAD, (a leading international management school located in France), found distinctly different patterns and styles for managers and directors in each of the countries.

In response to the statement, “The main reason for a hierarchical structure is so that everybody knows who has authority over whom,” for example, managers and directors from some countries strongly agreed, while some managers from other countries strongly disagreed.

More Task Oriented *More Relationship Oriented*

Agreement Rate Across Countries										
United States	Germany	Sweden	Nether-lands	Great Britain	Spain	Italy	France	Japan	China	Indonesia
17%	26%	30%	31%	34%	34%	42%	43%	50%	70%	83%

Figure 15. “The Main Reason for a Hierarchical Structure Is So That Everybody Knows Who Has Authority Over Whom.” (Laurent, 2007.)

Coming from an extremely task-oriented culture, many American managers and directors strongly disagreed with this statement. As they believe that a flat organization with few hierarchical levels can function more effectively.

By the contrary, many managers and directors from more relationship-oriented cultures, such as most Asian, Middle Easterners, Latin Americans, and Southern Europeans, strongly agree with the statement. Quite many of them did not believe that even a small organization could exist, let alone succeed, without a formal hierarchy.

In response to another statement, “In order to have efficient work relationships it is often necessary to bypass the hierarchical line,”

More Task Oriented *More Relationship Oriented*

Disagreement Rate Across Countries									
Sweden	United States	Great Britain	France	Nether-lands	Germany	Indonesia	Italy	China	Spain
26%	32%	35%	43%	44%	45%	51%	56%	59%	74%

Figure 16. “In Order to Have Efficient Work Relationships, It is Often Necessary to Bypass the Hierarchical Line.” (Laurent, 2007.)

On the one hand, Swedish managers and directors see the least problem with bypassing. They are task oriented and value getting the job done; to Swedes, solving problems means going directly to the person most likely to have the needed information and expertise, and not necessarily to their boss. Most Swedish managers and directors believe that a perfect hierarchy in which their boss would know everything is impossible. Therefor, they view bypassing as natural, logical and appropriate way for employees to work efficiently in the complex and rapidly changing organizations.

On the other hand, most Spanish and Italians, being more relationship oriented than Swedes, consider bypassing the boss as an act of insubordination. Most Spanish managers, directors and Italian managers and directors believe that frequent bypassing indicates a poorly designed organization.

Seen from this figure, China is in between Italy and Spain, which is also a country that is more relationship oriented than Sweden. As a Chinese, I strongly agree and believe in this result. And regarding the country I am living in now – Norway, what about Norway?

As Norway is the neighbor country of Sweden, with a similar Scandinavian culture, I analogically assumed, it would be more similar to Sweden. That means Norwegians are also more task-oriented and have no problem with bypassing.

Speaking from my own experiences of living in Norway, Norwegians will go directly to the person who can fix the problem or get the job done, and not necessarily go to their boss for help. Since in Norway people tend to have a very flat hierarchy, the working relations from the boss and the employees are not like the command and follow type. A boss in Norway and other Scandinavian countries is not behaving as bossy as one in China, France and other larger power distance countries.

What if Norwegian employees would begin to work in a typical Chinese organization? The Norwegian employees will attempt to accomplish their work goals and job responsibility by continually bypassing hierarchical lines and going directly to the people in the organization who they believe have the needed information and expertise. While the Norwegians do not first consult their new Chinese boss, the Chinese boss will assume that the Norwegians are insubordinate and might be a threat to both the project and the organization. And in the most extreme situation in the Chinese culture, the Chinese boss may consider this as losing face, which would be the worst case.

In the contrary situation, Chinese employees, who start working in a Norwegian company. The Chinese employees will keep asking their boss for opinions and permission, the Norwegian boss will rapidly become frustrated with the Chinese employees' endless requests for information and permission. Not for long, the Norwegian boss will assume the Chinese employees lack initiative, not willing to use their personal judgment or not willing to take their own risks. A Norwegian boss would like the employees to have their own opinion, solution or suggestion. If we look back to the case and the probable misunderstanding between the German customer and the Chinese supplier, a typically Scandinavian or German response would have been to contact the customer, either directly or though a contract review meeting, to clarify all such issues.

Is either side right? Or is one side better than the other? No, I do not think so. They are just different and no one is better than the other.

And is a manager primarily an expert or a problem solver? Again, there is no simple right answer since companies and organizations from different cultures may have different beliefs.

In figure 15, to the statement "It is important for managers to have at hand precise answers to most questions their subordinates may raise about their work." Laurent (Laurent. 2007.)

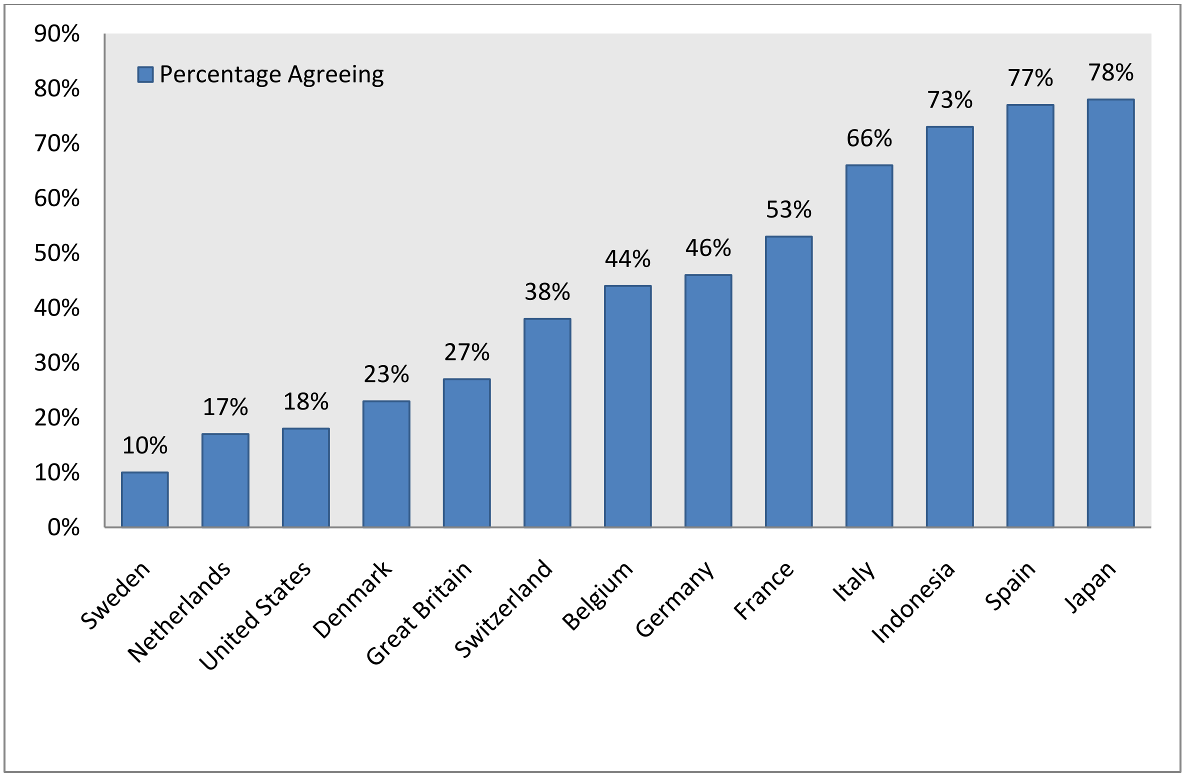


Figure 17. “It is important for managers to have at hand precise answers to most questions their subordinates may raise about their work.” (Laurent, 2007.)

Most French and Japanese generally see the manager as an expert. They believe that people should not hold managerial positions unless they can give precise answers to most work related questions. But the Swedes and the Dutch may not see it the same way.

And back to our previous discussion of the Chinese working in a Norwegian company, when the Chinese employees went to ask their Norwegian boss for help and the Norwegian boss told them: “I don’t know the answer, but maybe if you could talk to Bjørn Otto he might know.” The Chinese employees do not assume that they have received the appropriate solution but rather assume their Norwegian boss is incompetent. And on the contrary, Norwegians working in a Chinese company, when the Norwegians employees received the ‘wrong’ answer from their Chinese boss. They may consider their boss egotistical and why could not he or she tell us that Bjørn Otto is the expert and the right person to solve this problem?

Again, there is no one side is right, and no one is better than the other. They are just different. The important thing is not if one of these approaches are right or more right than another. The important issue is that we expect (unconsciously) that our approach is right, and therefore the other must be wrong. Adding to this might be (still unconsciously) a feeling of superiority compared to the other stakeholder (contractual, political, cultural, knowledge wise and so on). This does not foster understanding and the possibility to work out a common understanding of realities (the world around us). In order to work with this cultural difference in multinational companies, my opinion is, not just the employees working in a different culture need to get to know the new culture and how people in this new culture work and behave. But also, as a manager or director working in a multinational company with different cultures, he or she also needs to know the cultural difference, trying to understand what and how their employees are going to behave, and why they are doing that, trying to respect the difference and not just judging that. Both the employees and the managers need to respect the difference and try to understand each other, finding a balance or a common understanding point to create their own working culture and working relationship in the company. The understanding must permeate the whole organization, from top to bottom, from first line to support and so on. However, working across boundaries will also create more practical issues, for example, which law and regulation to follow, how to register expenditures in accounts and so on which requires both logical and cultural flexibility to find workable solutions.

Lenovo Case continued to a higher-level legal agreement issue

The German customer had some further requests. They would not go to use the standard Microsoft Windows image, and most of the PCs were using their own customized image – Linux. We found a solution by customizing the BIOS settings so when they turned on the computer, it would not boot from the hard disk but from the customer’s network to load their Linux operating system. Furthermore, they raised this request asking us shipping them our computers without Windows operating system, and that meant without Windows licenses either.

However, the problem was, as the agreement with Microsoft, we as a PC manufacture will ship every PC with Windows operating system preloaded. According to this agreement Lenovo was not allowed to sell a PC to the customers without purchasing a Windows operating system license.

In Europe, it was the law and the customer's right to choose free or have alternative options. It was all right when the Internet Explorer was bundled together with Windows, but also needed to provide other options, like Firefox, Opera, etc. Or like in Norway for example, for this case a customer purchased a bundled Windows operating system and when they do not need it, they could have this part of money refunded.

In this case as the customer requested, it was not something that our engineers, project managers and middle level managers could control or decide. It was the legal issue and together up to a higher level, it was the strategic reason and decision by the board of the company.

The final solution for this case was we sold the customer with the minimum function Windows license, which was the cheapest Windows operating system. So the customer could do what they want with the image to customize afterwards and fulfill their corporate needs.

By the year of 2010, Lenovo had achieved its highest ever world wide market share and had become the world's fastest growing major PC manufacturer. (*Company history from Lenovo official website, http://www.lenovo.com/lenovo/us/en/history.html*)

Further Discussion of Corporate Governance

We have found proof in the study by the Association of British Insurers (ABI) that demonstrates there is a robust causal relationship between good corporate governance and superior corporation performance.

In brief, corporate governance is critical. It is important for the board directors to better govern the company, and for company managers to better manager their projects and the organization, for both top-level managers and middle-level managers.

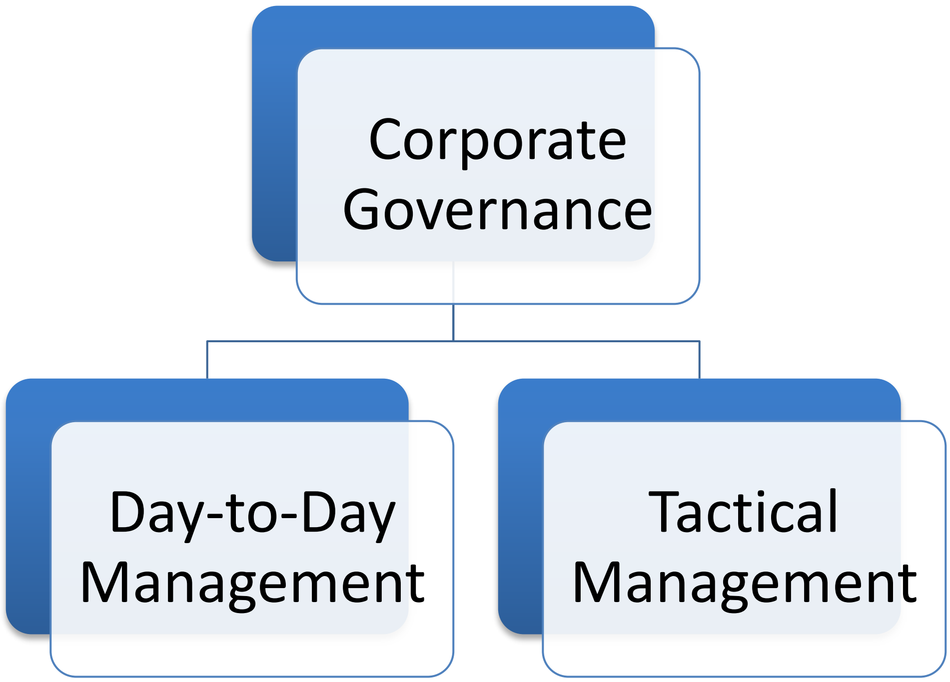


Figure 18. Management as a Tool of Corporate Governance

We can see management as a tool of corporate governance, both the management of day-to-day activities and the tactical management.

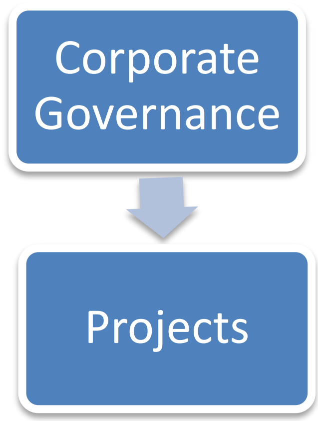
The tactical part of the management will eventually get back to the corporate government, the accumulated data and the critical information will influence the board to make the decisions and new strategies for the company. While the new decision and the strategy, will influence the day-to-day management activities.

We could try to break down the management activities by different levels, the management activities from top management to middle level management, and finally to the project management level.

Figure 19. Management activities break down

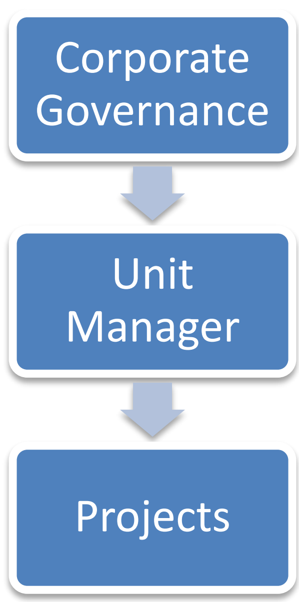
Through the break down level structure, corporate governance could easily govern the corporate body and all the projects by making each level’s managers accountable. For instance, the top management is accountable to the board and directors, and middle level management is accountable to the top management, and project mangers are accountable to middle level management for all the projects thought the company.

To extend the corporate governance of projects, including virtual projects, there could be some different models and approaches.



Model A. Corporate Governance -> Projects

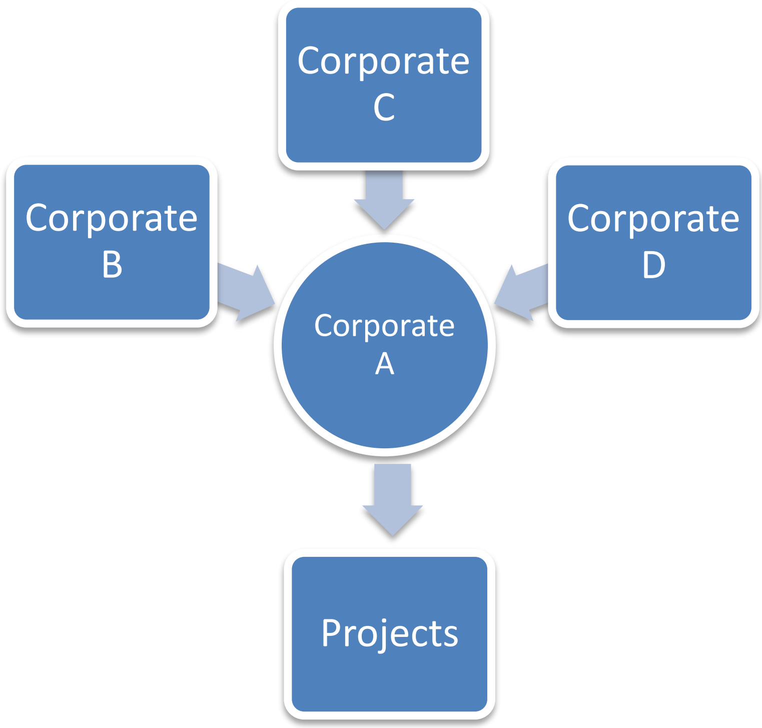
In Model A, Corporate Governance could directly influence some important projects. For example, milestone projects which would be critical to the company's strategic goals. The success or failure of these projects could lead to a completely different situation and strategic direction of the whole organization.



Model B. Corporate Governance -> Unit Manager -> Projects

In Model B, corporate governance will govern the company through unit managers, which is the management tool. This model could be used as normal projects, day-to-day activities. This should be the company's main business activity. If one project fails it would not lead to a critical issue for the whole company. However, these activities could also be very important but not very urgent. All these activities need to be under good governance.

If we draw back to our previous case, of the repositioning project in Europe, it is a very important project and also involved the day-to-day business. It is the problem of moving a “production facility” without disrupting the production. This is almost impossible to achieve without operating two or more overlapping production facilities. However, the company did not have the opportunity to run productions in parallel due to people seeking employment elsewhere. They probably did not perceive this as the movement of things with an interruption lasting only as long as it took to move the things, or they probably did not understand that they were moving knowledge structures, consisting of knowledge repositories (people) that were not owned by the company and therefore they decided themselves if they wanted to be moved or not. Here, the knowledge management plays an important role together with the other management activities. The brain-drain issue, if the knowledge of these people has not been turned into organizational knowledge, then this knowledge is lost. To the corporate governance, it may be an example of saving costs in the short run but it would lead to loose revenues in the long run.



Model C. Corporate -> Corporate Contracts -> Projects

In Model C, Corporate could govern their projects through other corporates by signing different contracts. By detailed contracts with different corporates for different projects, a corporate could have more influence and balance the restrain between different corporates. For example, corporate A has the project with corporate B and corporate C, but the other two corporates are not going towards the same direction, so the corporate governance will try to use the contracts to balance them into going to the same direction.

Questioning:

We could break down the management activities into different levels in order to manage more efficiently. But, how about Corporate Governance? Could we break down corporate governance, too? That might be an interesting question to think about.

6. Limitation and future study

The main limitation of this study is that it only chooses to discuss a part of corporate governance in theory, a lot of topics and aspects like shareholders and stakeholders' impact, etc. are not covered in this study.

Another limitation of this study is, during the numerous discussions with my supervisor, we brought up more questions than we could answer. However, it brings us or other students more interest and more questions for future's study and research. I would like to end up this thesis with an open discussion together with a model we made – the rubber band model.

If we think about the earlier case, about the legal regulation and the agreement, what should the corporate governance do about it? What should the board do? Should they just insist on the agreement and do nothing? Or should the board consider taking a less profitable solution for now, but a strategic decision that could be of benefit for the long run?

Laws and Regulations

In general of corporate governance, when there are regulations and laws, is it absolutely a law? And everything against these regulations and the law should be strictly forbidden? Or is it more flexible? Could it be more like a guidance? And could it be adjusted if necessary?

To make the top easier to discuss, we draw this model below.

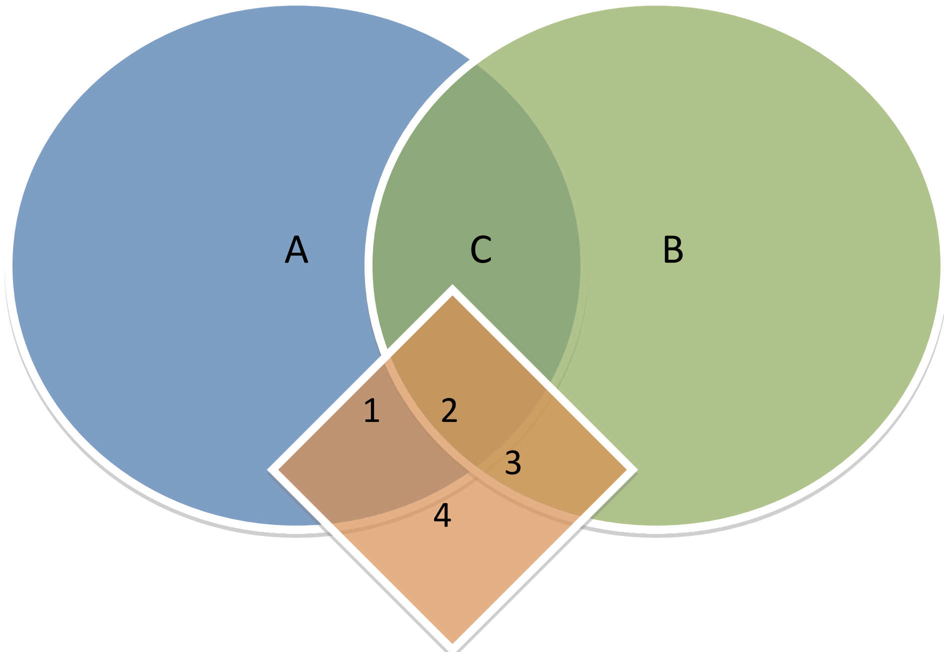


Figure 20. The rubber band model discussion

In this figure, A and B are two corporations, circle A and circle B are the range of the regulations and laws, the square is a project or several projects. We named this model – The rubber band.

The area C is the common area of circle A and circle B, which in this model stands for the common regulations and laws of both A and B.

It is very easy to understand, if a project or projects are totally within all these regulations and laws of both corporate A and corporate B, which is area 2 in this model, which would be the perfect or ideal situation. There will be an absolute 'YES' or 'GO' for staring and running this project or projects.

However, this ideal situation is not always the case. Corporates always found projects, which are in fringe of the regulations and laws, some are partially beyond these regulations and laws, and some are totally out of the range (area 4). What should they do for corporate governance then? A lot of companies just choose to quit for these kinds of projects, so there would be less troubles and lower risks. However, for these projects, is there absolutely no way to do it?

When a project or projects draw into area 1, it means this project is within all the regulations and laws of corporate A, but totally out of corporate B. In this case, corporate A finds no problem for their projects and business, but for corporate B it is a totally opposite situation. It means corporate B has a risk to infringe all the regulations and laws which could not only cause them to fail their projects, losing their business, but also could cause them serious trouble for no longer continuing their business any more. What if corporate A and corporate B are trying to cooperate and are doing this project or projects together? Then corporate A is also in some sort of trouble even if they could have done it alone within all the regulations, but the cost might be higher, or it would take more time, etc. Area 3 has a similar situation for discussion, just for different aspects of corporations or organizations.

This situation is quite common for corporations from different countries and cultures doing business together. They have different country laws and regulations. Very often the two corporates choose to use a third country law to be fair to both of them. For example, when a Norwegian company does business with a Chinese company, and the Norwegians want to use the Norwegian law and the Chinese want to use the Chinese law, so to be fair they choose a third country law, such as the Swedish law or the Dutch law to do the business. So all the projects are under the Dutch law and regulations. Another way to cooperate the business could be like one corporate claims to give the other some credits if the other corporate agreed to use their laws and regulations.

However, this may be not that simple to do business in some countries. For example, in Azerbaijan, Russia, or Libya, when doing business while also being ethical is so hard without corruption or bribery. What if in a case it is impossible to do business without corruption? Will the company still do it under the hidden regulations there? Back to our rubber band model, should the circle A and circle B be more like a rubber band? Which means they could stretch a little to adapt to the situation.

Norway for example, where corruption is strictly forbidden. Governance should ensure that the business is run in a legal and ethical defendable way. If, for example, an employee commits fraud, the board might be held responsible if they have not instructed management to put necessary preventive measures in place and controlled that they are in place and functioning properly. Having a malfunctioning mechanism does not free the board from its responsibilities.

Different companies might have different approaches or solutions.

"Whether a cat is black or white makes no difference. As long as it catches mice, it is a good cat." Deng Xiaoping (1904-1997), a Chinese politician, statesman, theorist, military leader, and diplomat.

7. Reference

Martins, L. L., L. L. Gilson, and M. T. Maynard, 2004, Virtual teams: What do we know and where do we go from here?: Journal of Management, v. 30, no. 6, p. 805.

Kirkman, B. L., and J. E. Mathieu, 2005, The dimensions and antecedents of team virtuality: Journal of Management, v. 31, no. 5, p. 700.

O'Leary, M. B., and J. N. Cummings, 2007, The spatial, temporal, and configurational characteristics of geographic dispersion in teams: Mis Quarterly, v. 31, no. 3, p. 433-452.

Mowshowitz, A., 1997, On the theory of virtual organization: Systems Research and Behavioral Science, v. 14, no. 6, p. 373-384.

Schweitzer, L., and L. Duxbury, 2010, Conceptualizing and measuring the virtuality of teams: Information Systems Journal, v. 20, no. 3, p. 267-295.

Bell, B. S., and S. W. J. Kozlowski, 2002, A typology of virtual teams: Group & Organization Management, v. 27, no. 1, p. 14.

Hertel, G., S. Geister, and U. Konradt, 2005, Managing virtual teams: A review of current empirical research: Human Resource Management Review, v. 15, no. 1, p. 69-95.

Kirkman, B. L., B. Rosen, C. B. Gibson, P. E. Tesluk, and S. O. McPherson, 2002, Five challenges to virtual team success: lessons from Sabre, Inc: The Academy of Management Executive (1993-2005), v. 16, no. 3, p. 67-79.

Raghuram, S., R. Garud, B. Wiesenfeld, and V. Gupta, 2001, Factors contributing to virtual work adjustment: Journal of Management, v. 27, no. 3, p. 383.

Tangirala, S., and B. J. Alge, 2006, Reactions to unfair events in computer-mediated groups: A test of uncertainty management theory: Organizational behavior and human decision processes, v. 100, no. 1, p. 1-20.

Kurtzberg, T. R., C. E. Naquin, and L. Y. Belkin, 2005, Electronic performance appraisals: The effects of e-mail communication on peer ratings in actual and simulated environments: Organizational Behavior and Human Decision Processes, v. 98, no. 2, p. 216-226.

Marks, M. A., J. E. Mathieu, and S. J. Zaccaro, 2001, A temporally based framework and taxonomy of team processes: Academy of Management Review, p. 356-376.

Baltes, B. B., M. W. Dickson, M. P. Sherman, C. C. Bauer, and J. S. LaGanke, 2002, Computer-Mediated Communication and Group Decision Making: A Meta-Analysis* 1: Organizational Behavior and Human Decision Processes, v. 87, no. 1, p. 156-179.

Kanawattanachai, P., and Y. Yoo, 2007, The impact of knowledge coordination on virtual team performance over time: Mis Quarterly, v. 31, no. 4, p. 783-808.

Piccoli, G., and B. Ives, 2003, Trust and the unintended effects of behavior control in virtual teams: MIS quarterly, v. 27, no. 3, p. 365-395.

Bell, B. S., and S. W. J. Kozlowski, 2008, Active learning: Effects of core training design elements on self-regulatory processes, learning, and adaptability: Journal of Applied Psychology, v. 93, no. 2, p. 296-316.

Rockmann, K. W., and G. B. Northcraft, 2008, To be or not to be trusted: The influence of media richness on defection and deception: Organizational Behavior and Human Decision Processes, v. 107, no. 2, p. 106-122.

Colley, John L. Doyle, Jacqueline L. Logan, George. 2004. What Is Corporate Governance? Blacklick, OH, USA: McGraw-Hill Professional Publishing, 2004. P. 2.

Colley, John L. Doyle, Jacqueline L. Logan, George. 2004 What Is Corporate Governance? Blacklick, OH, USA: McGraw-Hill Professional Publishing, 2004. P. 3.

Clarke, T. 2004. Theroies of Corporate Governance. London and New York: Routledge.

Clarke, T. 2007. International Corporate Governance: A comparative Apporach. London and New York: Routledge.

Bob Tricker, 2009. Corporate Governance: Principles, Policies, and Practices. Oxford New York. P. 39, P. 40.

Bob Tricker, 2009. Corporate Governance: Principles, Policies, and Practices. Oxford New York. P. 35, P. 36.

Bob Tricker, 2009. Corporate Governance: Principles, Policies, and Practices. Oxford New York. P. 61-64.

Christine A. Mallin, 2007. Corporate Governance, Second Edition. Oxford University Press Inc., New York. P. 160.

Bob Tricker, 2009. Corporate Governance: Principles, Policies, and Practices. Oxford New York. P. 183.

Gregory and Simmelkjaer, 2002. European Communities 2002, Internal Market Directorate General.

Selvaggi, Mariano and James Upton, 2008. Corporate and Performance in Corporate Britain, ABI research paper no.7, February, Association of British Insurers, London.

Laurent, André. 2007. “The Cultural Diversity of Western Conceptions of Management,” Internaional Studies of Management and Organizatin, vol. 13, no. 1-2 (1983), pp. 75-96.