part four INTEGRATING CASE 1

Cisco Switches in China: The Year of The Manager

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As an expat, your job from the beginning is to leave. The day you arrive is the day you must start to think "What am I going to do to facilitate my leaving? Who is going to work out and who should move up?"

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Ivo Raznjevic, engineering director of the Cisco China Research and Development Center (CRDC), was enjoying an end-of-day round of Ping-Pong he was playing with the office's most competitive player. Between challenging volleys, he couldn't help but make the connection between the game and his job; that for every challenge addressed, another came right back at him. Working themselves out of a job was not that easy.

With buy-in from the top of the Cisco Systems (Cisco) San Jose-based executive team, the CRDC leadership team of which Raznjevic and Gronski were members had started the building of the fledgling organization in Shanghai. The initial development plan was to focus on technologies and products targeting service providers and consumer networking sectors. Cisco had committed to invest $32 million USD in the center. Not intending it to be an overseas R&D center for internal outsourcing Cisco projects, the CRDC leadership team had pushed for innovation and independence from corporate headquarters.

Within a year, the organization had top-notch local engineers who built relationships with U.S. engineers and provided early delivery on CRDC's first few projects. By the fall of 2007, $100 million had been received, and the CRDC team was proud of its success.

But certain personnel issues still weighed on his mind. Should one of Cisco's local female employees be transferred laterally from a test manager position to a development manager position? How should he help his newest manager through his first encounter with Cisco's ranking system? What action—if any—should he take regarding a UK-based senior engineer who sent out a controversial e-mail? He readied his paddle as his opponent paused to serve.

This case was prepared by Gerry Yemen, Senior Researcher, and Lynn A. Isabella, Associate Professor of Business Administration. *It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.*

China Opens Its Doors, and the United States Becomes a Guest

Cisco made its global footprint in China during 1994, when the firm established Cisco China in Beijing. Mainly a sales office, the company's name recognition grew rapidly through contracts to help the state-owned phone companies build nationwide networks.[1] A few years later, the "Huawei affair," a messy lawsuit with a Chinese technology company over intellectual property, that Cisco eventually dropped, left a bitter aftertaste.

In the fall of 2004, Cisco announced a plan to invest $32 million in a new R&D center in Shanghai. The company already had several R&D centers geographically dispersed in North Carolina; Massachusetts; Bangalore, India; and Tokyo, Japan. CEO John Chambers believed that the firm's long-time commitment to "ongoing research and development is the basis for Cisco's innovation."[2] The move was also intended to be symbolic of Cisco's commitment to China— despite the Huawei affair.[3] Soon after the People's Republic of China (PRC) granted the necessary licensing and approval for the center to operate as a *wholly owned foreign enterprise* (WOFE).

Cisco tapped Jan Gronski to establish the Cisco China Research and Development Center. Gronski, a Chinese-speaking PhD, who grew up in Warsaw, Poland and had worked for Cisco since 1996, ran the systems and solutions quality business unit in San Jose and knew most of the senior vice presidents of Cisco's other business units. In the fall of 2004, Gronski relocated to Shanghai, eager to start as managing director of CRDC. With start-up cash[4] and a few engineering jobs in his pocket, Gronski's first job was to assemble his leadership team.

Don't Apply Unless You Fly

To build the leadership team he wanted, Gronski put a lot of effort into recruiting. He called Daniel Puche, a French Canadian he had worked with in Montreal for awhile. Puche had a PhD in physics and spent several years doing research and working around the world. He then joined Cisco holding various jobs mainly as a development manager and software process expert. Puche recalled:

> *Jan called and asked if I'd like to help him open an engineering facility in Shanghai. I said, "No." I turned it down because Jan had an engineering team in Canada, and I was in a position that made things difficult to go. And I didn't want to be away from my family that much. China was an unknown to me.*
>
> *Jan has always been a believer in the way I teach engineering, which is quite different from any others in Cisco, and he told me I would have private run of engineers who would have no resistance to learning things differently. That was an interesting challenge and an opportunity for me to show we could do things just as well or even better than how engineering was done in San Jose. He convinced me and I went with him.*

Gronski also recruited one of his employees, Jerry Chen, to go to Shanghai with them. Chen was a software developer who had been at Cisco since graduating with a master's degree in computer science. Chen said:

> *Jan was my boss and liked me. Then he gets an assignment to open a center in China. I grew up in China and left when I was 12 years old. He was chatting with me and said, "Do you want to go back to China and do something?" "Why not?" I answered. I'd never really experienced Chinese culture, so the reason I went back was to experience the cultural differences between the U.S. and China. To me, actually, it was very exciting to get a job working in China.*

On January 2, 2005, Gronski, Puche, and Chen arrived together in Shanghai and started to set up shop. "We landed and there was no center," Chen said. "We didn't even have a place to sit, so we borrowed space at the sales facility." A few weeks later, Ted Curran, an Irishman with degrees in engineering and computer science, joined the group as a technology expert. Curran recalled:

> *I didn't know anybody. The team was from all parts of Cisco and different nationalities. I arrived at the airport and had to figure out how to get a taxi to the office. And then try to understand the complexity of building a new team. I'd been involved in team building but never to create a new one.*

Ivo Raznjevic, who arrived in February 2005, was the next recruit to complete the initial CRDC team. He grew up in Zagreb, Croatia, when it was one of the Yugoslav republics. Raznjevic earned an undergraduate degree in mathematics in 1989 and a master's degree in computer science. In 1994, he started working for Cisco in San Jose. Raznjevic smiled when he talked about his background: "Who would have thought that being from a communist country would be a job qualification?"

The group was diverse enough to conduct business in at least 11 different languages. "Jan was the only one fluent in Chinese," Curran said. "That made it a great adventure because most of us didn't know the language, the culture, and we didn't pretend to know the culture." Among them they had a broad array of degrees from highly respected institutions that included Oxford University, University of California Santa Barbara, University of Illinois, Université de Montréal, University of New Hampshire, the University of Warsaw, and the University of Zagreb. "We complemented each other," said Curran. "Jan was dogmatic, Daniel was passionate, and Ivo was very strategic." Curran was described as "patient and able to provide a lot of laughter." Little did they realize how much they would need all of those perspectives. Using borrowed furniture and office space, the team settled down to sort out many issues. What was their vision for this center? How would CRDC govern itself? What should it ask Cisco's India facility about best practices? What kind of projects should it take on? What was its strategy for talent management?

CRDC Governance

In May of 2005, Gronski and Raznjevic returned to Cisco headquarters in San Jose to meet with an oversight group that eventually became the CRDC Strategy Board. Gronski's significant network contacts at the company's vice president level were instrumental to the board's formation. In the end, Charles Giancarlo, Cisco chief development officer and senior vice president, agreed to head the board. His participation was key because he agreed that, to keep talent at the firm, CRDC had to be a place to engage in important work and become a center of expertise, not a place to outsource undesirable work. "Giancarlo supported growing CRDC and made sure it was part of the corporate global strategy," a CRDC business operations manager said.

The board met quarterly to formulate CRDC's strategic direction and facilitate its alignment with corporate's business initiatives. Members of the board included several other high-ranking executives from San Jose and China besides Gronski and Raznjevic.

A CRDC Core Team was also established and included VP-appointed stakeholders from various Cisco support functions (CDO, finance, HR, WPR, legal,

and CRDC). The idea was that the Core Team would provide tactical guidance and assistance to execute board-approved CRDC strategy.

In Shanghai, Gronski and senior CRDC managers were the CRDC Management Team (see Exhibit 1 for CRDC governance model). Its goal was to create an R&D center to architect, design, develop, test, and support products and solutions for delivery to Cisco customers worldwide.

Looking West for Guidance

Cisco's first foray into an R&D center outside the United States was India, so when the CRDC team needed to figure out what the structure of an R&D facility might look like, India provided clues. Attracted by the English-speaking engineering talent India offered, Cisco had opened the Global Development Centre (GDC) 10 years earlier in Bangalore. The GDC grew to employ approximately 300 people by 2005,[5] becoming a low-cost engineering resource for San Jose. Different business units in San Jose allocated work to GDC whose engineers complemented or extended engineering efforts on the product. GDC was not originating work but supporting projects controlled from other parts of Cisco. As a result, the GDC had many groups of various sizes reporting to individual business units in San

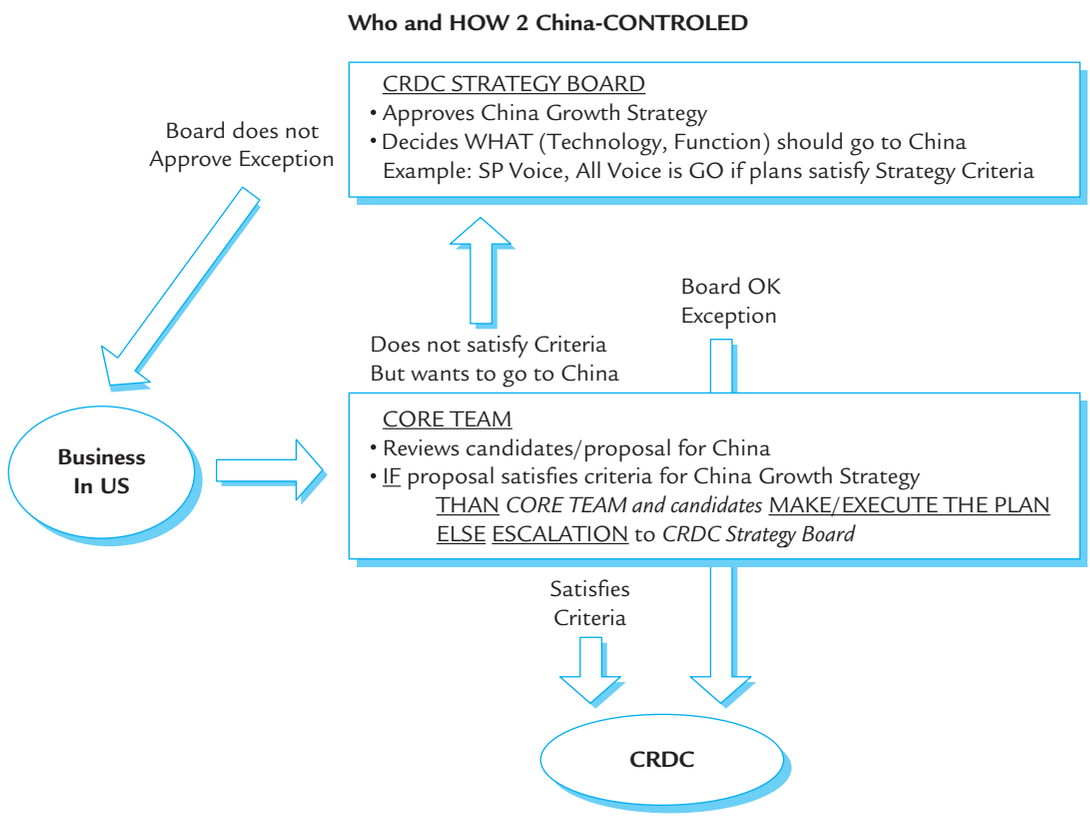
EXHIBIT 1 CRDC Governance Model

Strategy Board	**Mission**	Governs CRDC's strategic direction to ensure alignment with Cisco's business initiatives.
	Membership	Senior staff from CDO/CTO, Corp. Dev., HR (CRDC site director will attend the meetings as required)
	Meeting schedule	quarterly
Core Team	**Charter**	Provide tactical guidance and support to CRDC mgmt team, execute CRDC strategy, raise issues to Strategy Board
	Membership	Stakeholders from CDO, Finance, HR, WPR, IT, Legal, CRDC site director
	Meeting schedule	monthly
CRDC Management (in Shanghai)	**Charter**	Responsible for local operations
	Membership	CRDC site director, senior CRDC managers
	Structure	Primary report to home BUs; matrix report to site director
	Meeting schedule	weekly

Source: CRDC. Used with permission.

continued

EXHIBIT 1 Continued



Source: CRDC. Used with permission.

Jose. Attrition rates in India were high and the CRDC team suspected that the high turnover was because of how the work was structured.

Believing that engineers would be proud to own something—even if it was small—and work harder (and not leave), the team decided that the China facility needed to be different. "Right away at CRDC we negotiated with upper management in San Jose that we would bring ownership of the projects to China as we built up the capability," Puche recalled. "Our goal was to have ownership with project management, leadership, and so on."

Finding that First Project

Cisco maintained a defined process within its R&D centers. The first step at developing a project at a Cisco R&D site was to have an idea that excited the decision makers and conceptually won approval—called Concept Commit (CC). The next phase was to have resources approved and available—referred to as Execution Commit (EC). After that, engineers and scientists generally conducted original investigations on a systematic basis to gain new knowledge (research) and/or the application of research findings to create or significantly improve products or processes. This work was done

on the development side of the product and service. So at Cisco R&D centers, several software developers thought about how to create a product or process and how to implement it—take ideas from zero and create new things. Once the product or process was developed, it moved over to the test side. Testers spent a lot of time ensuring that things worked. The tester thought about whether the new design met all the necessary requirements and whether or not they could destroy the product or process—did the product deliver good quality to the customer?

The CRDC group knew that the first project would be critical. Raznjevic believed they needed a core project that would bring some money to the company but was not strategic to Cisco. "The ideal scenario would be to find something to own that was losing money in San Jose, move it to China, and make it profitable," Raznjevic said. "We couldn't start with the crown jewels (IOS). Finding a project that was in the red and then moved to China and moved back in the black, not much money nor intellectual property to risk."

Early on the CRDC team had identified a list of possible projects. Because each business unit at Cisco had its own marketing, engineering, testing, and finance people, the CRDC team had to convince business unit managers who owned that project of the value in moving it to China. Puche remembered the issue:

> *If you go to establish an R&D center in a country like the UK or Germany, they would get responsibility to do stuff. Why not the same for China? We created a model against the grain of Cisco where engineers working for a particular BU were not directly reporting to that BU but to Gronski and a dotted line to the BU with little intervention on our part except to coach them to do it.*

Not surprisingly, relinquishing ownership of the project (see Exhibit 2 for structure) was not easy for business unit managers. Raznjevic recalled:

> *How you present information, and to whom, became important. Each project had a list of people involved like the vice president, general manager (GM), senior/junior staff. So we decided which staff meeting to hit—initially this was the three BUs where we knew the GM. We talked to a lot of people to make sure we knew in advance what problem they were having with the project. And there were certain topics we learned just not to mention to general managers in the U.S. because all they wanted was to get it done the cheapest way—not necessarily concerned with our longevity.*

Space Shot

The CRDC management team wanted to provide a pleasant and secure environment for their employees, who would spend 10 or 12 hours a day at the office. Raznjevic preferred that the CRDC lab and offices be housed at a single site. Scouting for good locations and negotiating leases would be a frustrating task in any country, and China was no exception. Several questions guided the search: What was a prime location? Could employees tolerate a long commute to and from the office, or should it be close to where they lived? Should their space be near potential key customers? Perhaps somewhere with a prestigious address? Then there was the issue of how much space was enough. The average footage per employee in the United States was 175–275 square feet.[6] What was the norm in Shanghai, where people were used to living and working closer together than in the United States?

EXHIBIT 2 Cisco Business Organization

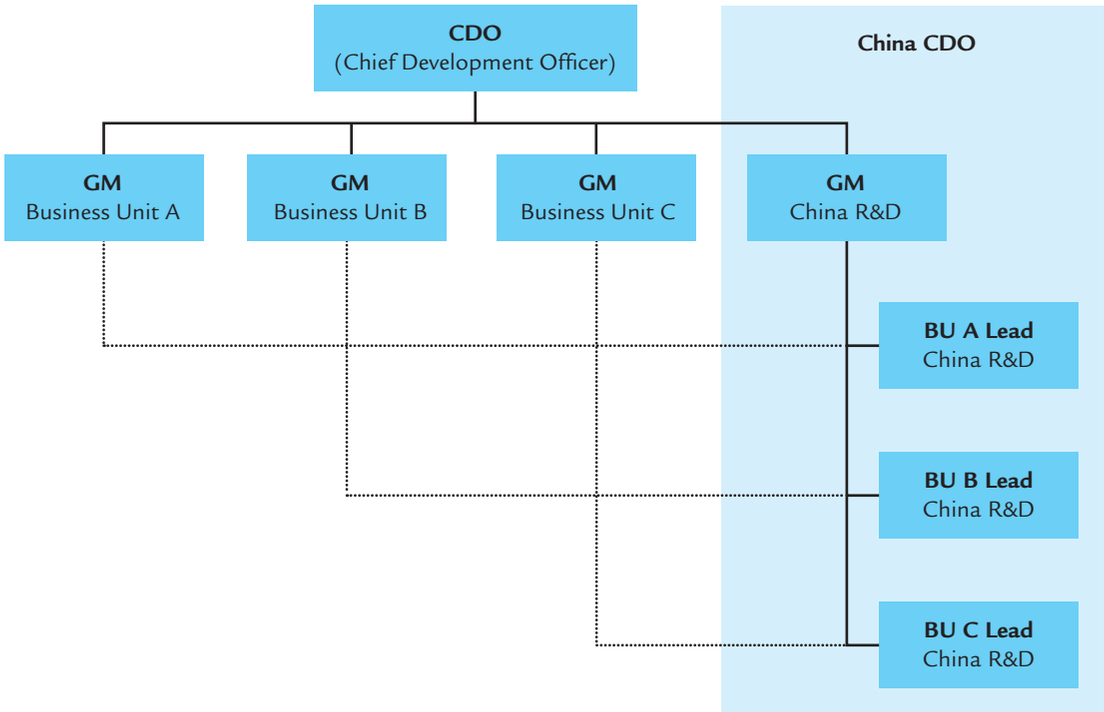
Lines of business, each comprising:

Business Unit
Engineering
Product Market
LOB Marketing

Manufacturing
Customer advocacy
Sales

CRDC within Cisco China

China R&D Reporting Structure INITIAL-CENTRALIZED



Source: CRDC. Used with permission.

The group planned to double or triple in size over the next five years. Outgrowing a chosen facility would require renting additional space, which would mean having offices all over the place with different lease-end times. On top of that, the Shanghai real-estate market was hot and demand for buildings high. How could the CRDC sign long-term leases and still accommodate growth? How much of its resources should it spend on buildings?

Despite finding a great building in a good location in Pudong Park (on the east bank of the Huangpu River) for the right price and lease arrangements that would

accommodate the expected growth, the CRDC was not allowed to move forward. Raznjevic recalled part of that search: "We had WPR, the real estate VP, come to look. They saw a fancy chandelier in the lobby of the building and then walked out—'too opulent'—they said." As Gronski recalled:

> *There were other buildings that we went through. Unfortunately there was not a single one that satisfied my requirements—convenient for employees to get to work. The "opulent" one satisfied that criterion, but had some other characteristics which made it less desirable from the corporate view point. In hindsight the "opulence" issue was a red herring. The core problem was the issue of growth. That place had very limited expansion opportunity.*

That interaction was the team's first hint that even though they were in Shanghai, San Jose was not that far away. "WPR didn't believe that we would get any bigger," Raznjevic said. "They didn't think we were serious. We ended up in a temporary office in a poor facility with our people squeezed in there. It was a short-term lease, and we wanted a long-term." A temporary office was found in the Luwan district with a lease available until January 2006 and room for approximately 46 people. "We wanted to get started right away," Gronski said. "And we knew that looking for a long-term facility would take some time." It offered the team a place to train the first group of hired engineers and time to search for a more suitable space.

By August 2005, the CRDC found a brand new building at a good price and suitable for expansion in the Shanghai's Caohejing Hi-Tech Park. The large building was part of an industrial complex outside of Shanghai with the capacity for 160 people. CRDC was able to leverage its position as an anchor tenant (indeed the first occupants) to obtain agreement from the landlord for upgrades and future expansion. They initially rented two and one-half floors. Because it was not built for R&D offices, the site required considerable attention. The floors had to be reinforced to keep the heavy computer equipment from falling through the ceiling of the floor below. There was no air conditioning—a computer necessity. Gaps in the window frames left plenty of room for an outside breeze to enter. In the restrooms, the sink was nowhere near the toilets. The elevators had no ring to signal when it arrived at a floor, no light, and no bell, and there were not enough elevators to transport passengers at peak times. All the retrofitting took time, but the site's expandability justified the extra effort.

New to This Market Economy

According to Ted Curran, doing business in China required "understanding our many limitations," some of which were apparent from the start. Cisco would have to win the support of several people to help it navigate government structure. For example, each family in Shanghai had a government-issued *hukou*, a residency permit in the form of a booklet containing information about family members and their employers. Each city had its own policies regarding hukou. Without a hukou, a person living in Shanghai was denied access to government-paid entitlements such as medical insurance and would have to pay for health care out of pocket. Another key benefit attached to the hukou was the right to send your children to public schools. The hukou requirement thus influenced the location of the CRDC office: any employee wanting to live closer to their job needed

permission from Shanghai authorities to move, so Cisco made sure it could provide hukous for all its employees. Raznjevic said:

> *Dealing with the Shanghai government means understanding certain policies. You can't just decide to move; [you] need [a] permit for that. They don't enforce it, but if you move without hukou you don't get city benefits. That's a big factor because without hukou your child will not go to the good schools unless you pay. Beijing is very good with hukou, whoever we employ can get one. Shanghai decided not everyone could get hukou, just a few selected people we hire. It took some time to deal with that.*

To bring equipment and supplies into Shanghai from San Jose or other parts of the United States meant building relationships with government officials in the Shanghai customs office. Understanding the regulations required patience. Raznjevic explained:

> *There is a problem shipping things in China. To import equipment there is a Chinese company, which is an expert in Chinese importation. It requires a certificate that the equipment is good for importation to Shanghai. [There is] only one company [that the] government considers certified to do this work. Not the most responsive…it takes forever to get these guys. So relations with customs are crucial. You really want to know these people personally.*

And then there were cultural practices the Cisco team had to learn about. For example, buying and giving coupons for moon cakes right before the midautumn festival was an annual Chinese tradition. Companies often issued coupons to their employees and also used this as a way to build business relationships with customers or government officials. People who received the coupons could use them any way they wanted, whether that be selling them, purchasing the moon cakes, or giving the coupons to their family, friends, or colleagues as presents. Gift-giving demonstrated respect and was seen as an important symbol of relationship-building.

In many ways, being an American company put the CRDC team at a disadvantage. American law prohibited the buying of presents that could be perceived as courting favor with Chinese officials. Yet, this was a culture that was particularly inclined to gift-giving. Furthermore, "European companies have no problem with this as an unfair advantage," Raznjevic said. "They have deeper pockets and no law against gift-giving so they have all these deals going on."

Most expats at the CRDC agreed with the notion that China was simply going through what many of the market economy-based countries had experienced in previous years. "I'm sure if you went to Croatia or the U.S. when they are at the beginning of the 19th- or 20th-century stage of capitalism everything worked differently," Raznjevic said. "That's my take—it is the wild west of capitalism." So when foreigners commented on the thick pollution in the air over Shanghai, the expats reminded them of the pollution that filled the air over the northeastern harbors of New York and Boston at the beginning of the industrial age in the United States. A fairer comparison might be China now and the United States back then or even London during the 1950s or 1960s.[7]

Pay and Promotion

Establishing a salary structure for Cisco was tricky because employees responsible for different functions were paid different wages. The HR department in China insisted that the CRDC pay all employees the same; Raznjevic had to convince

HR that manufacturing paid less than sales. Then there was the difference between when Cisco typically awarded salary increases and when Chinese employees expected their raises, which was during the Chinese New Year (from the first new moon of the year to the full moon, 15 days later).

The freedom to change jobs within the company was another Cisco work procedure that presented a challenge for new employees. The company allowed people to move across business units based on the belief that if an employee was in one place too long, they became "stale," and rotation helped refresh an employee's metric and ability to understand the entire business. Therefore, anyone was able to leave a business unit and apply for jobs in other parts of the organization as a free agent after one year.

Cisco also had a relative ranking system regarding the criteria required for success in the organization. Every six months, managers evaluated employee performance against other employees to differentiate talent. Once employees were ranked, bonuses were granted to all except employees at the bottom level.

Another touchy issue was work titles. In the United States, technical workers in the IT industry were considered very valuable, reached high positions in organizations, and were generally paid extremely well. In China, this was a problem because technology experts were not viewed as a success unless they became a manager. Chinese employees working for the CRDC were frequently asked the question: "Are you a manager yet?"

Looking for Local Talent

The resource pool for engineering talent in China was immense (see Exhibit 3 for universities and research institutes) and so was the competition for them. Recruiting, interviewing, and evaluating candidates was a huge task that the CRDC team took seriously. They advertised for engineers domestically—targeting groups of people within the industry and those at universities.

The Web was used to reach larger numbers of potential candidates and pinpoint recruiting efforts. ChinaHR.com (partially owned by Monster.com) helped create a recruiting campaign using e-mail and short text messages to mobile phones. That channel allowed CRDC to target those who weren't actively looking for a job but were potential employees of interest with skills the team wanted.

The initial search generated over 4,000 resumes. As a first step in identifying the best candidates, applicants were invited to take a multiple-choice test. The CRDC team was careful to change the test questions frequently. The hiring process produced some surprises, according to Raznjevic:

> *Cheating on interviews is pretty amazing. Some people tend to send their friends to take tests so you really have to check if they have identification. A background check takes months and is pretty useless since we get government-controlled information. Lying on resumes is standard; I'd guess many can't be relied on at all. No lying about graduation or degrees, but work history—what did they do and who is referring them. So for example I got a referral and called, "So how long have you known this person?" "We worked together at Cisco." "Really, when did you work at Cisco together?" Her friend had called her to tell her she was applying at Cisco, and she got confused and thought she was supposed to say they had worked together at Cisco.*

The written exam vetted the group of 4,000 to identify the 200 top-performing candidates, who were then invited to face-to-face interviews to check their English

EXHIBIT 3 Universities and Research Centers in Beijing and Shanghai

Universities—Beijing Region

Universities	Research Institutions
Tsinghua University	Telecommunication Academy
	Data Communication National Emphasis Lab
Beijing University	Micro-Electronics Research Academy
	Word Processing National Emphasis Lab
Bupt	Telecommunication Research
	Telecommunication and Electronics Academy
	JV With Nortel—Technical Research Center
	Telecommunication Academy
Beijing Aeronautics University	Micro-Electronics Academy
Beijing University of Science and Technology	Optical and Electronic Academy
	Wireless and Electronics Academy
	Integrated Circuit Academy
	Data Communication National Emphasis Lab
	Machinery Engineering & Control Lab
	Signal Gathering & Processing Lab
Tianjin University	Electronic Information
	Telecommunication
	Optical and Electronic Lab
Nankai University (Tianjin)	Telecommunication Academy

Universities—Shanghai Region

Universities	Research Institutions
Shanghai Jiaotong University	Audio and Communication Processing Academy
	Communications Storage Research Center
	Telecommunication Lab
	Micro-Electronics and System Lab
Fudan University (Sh)	Micro-Electronics Academy
	Data Processing Intelligence Communication Open Lab
	Electronic Communication and System Academy
	JV With Alcatel
	Integrate Circuit and System Academy
Tongji University (Sh)	
Nanjing University	Telecommunication Engineering Research Center
Nanjing Telecom. Univ.	Telecommunication Academy
Zhejiang University	Telecommunication Academy
	Computer Science and Technology Academy
	Optical and Electronic Academy
China University of Science and Technology (Hefei)	CAS Quanta Communication Emphasis Lab
	Huawei Communication Technology Academy
	Telecommunication Academy
	Signal Stat. Disposal Center
	Communication Disposal Center
	Communication and Decision-Making Academy
	Intelligence Communication Academy
Tianjin University	Electronic
	Telecommunication
	Optical and Electronic Lab
Nankai University (Tianjin)	Communication Technology Academy

Source: CRDC. Used with permission.

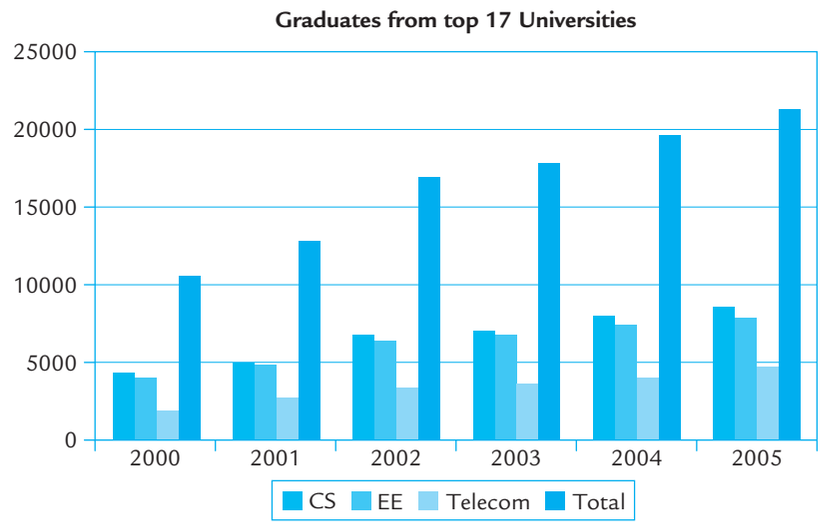
language skills, among other things. "We wanted candidates to be able to explain engineering notions in English," said Jan Gronski.

Many of the top American companies with a presence in China targeted the same well-educated engineers as Cisco (see Exhibit 4 for university graduation data), so the CRDC had to develop a strategy to attract talented new graduates. Senior leadership went to campuses and gave career talks. Cisco academic clubs were established at four universities to engage students early during their first or second year of classes.

Besides its name being good for resumes, there were several other reasons why working for Cisco was attractive to many Chinese engineers. In its role as an American multinational company, Cisco provided and paid for good training, offered an opportunity to travel abroad, supplied atypical health insurance and benefits, and used a distinctively different management style. As one Cisco manager explained:

> *The Cisco brand name is very successful in attracting experienced industry people. People come from top management companies: Lucent, Alcatel, domestic brands like*

EXHIBIT 4 University Graduation Data and Competitors



Networking and Telecom Companies in Shanghai region

Company	R&D Staff
Ericsson	500
Alcatel	2000
Lucent	300
HP	200
Intel	200
Autodesk	65
Trends Micro	100
Microsoft	80

Source: CRDC. Used with permission.

GE China and Huawei. Recruiting for the IP communications BU, we were able to attract two managers from Lucent and one from Alcatel who had been there 10 years.

Still, not all Chinese engineers agreed that working at an American multinational was a good thing. Some thought that the work often was not challenging and that opportunities to move up the corporate ladder were less likely than at a Chinese corporation. Jerry Lu, a software development manager, explained:

A lot of my friends work for a China company. I have a classmate who has 1,000 direct reports, and he believes we can only get a higher position when we work in a local China company. For example, Cisco has a very high-end router, and even though the application based on that platform needs to be examined, that technology can't be done here in China. This means we are here, we are good, yet it is difficult for us to get that project. If we don't get good projects, we can't grow and move up. At a China company if you are competent you can always get a more difficult project. Not here.

Looking for Local Managers

Finding qualified engineers was one thing but finding managerial talent was even more difficult, especially because the team was adamant about using local rather than expatriate managerial talent. Chris Dong, CRDC business operations manager, was the first local managerial hire. He grew up in Beijing and went to college at Tsinghua University. Following graduation, Dong moved to the United States and earned two master's degrees in computer science and applied statistics. Microsoft recruited him as a developer for their Redman, Washington facility, and he climbed the corporate ladder to become a senior manager. In 2001, China's booming economy persuaded many of his friends to move back. Dong returned to Beijing, this time as an entrepreneur, and two years later he rejoined Microsoft China. "Cisco was behind Microsoft in the game, but I knew their R&D was aggressive and would be the next thing to happen when they approached me," Dong said. "It took me a few months to think about it before I moved my family and myself to Shanghai."

Hiring local senior engineers with managerial potential for the CRDC, however, was more difficult than hiring engineers with technical expertise. Although there were highly skilled and capable managers who were Chinese, their managerial approach was authoritative, whereas Cisco was a collaborative environment. "We interviewed some of them, but we knew right away that they wouldn't pass on the culture that we wanted," Raznjevic said.

Building Local Management

During the buildup period, Jerry Lu, software development manager, was the first local technical hire promoted to the management team at CRDC. Lu earned his PhD in electrical engineering at Nanjing University and worked for Lucent for six years. After a year and a half as a software engineer doing bench research, Lu was promoted to manager. Lu's technical skills earned him deep respect from other engineers at the site, and his promotion was well regarded.

"We have extensive training and coaching for managers," Lu said, "And during that training there is a lot of questions about your style." As an engineer, he did his work and then went home. When first promoted, Lu would check the product schedule and follow up with his reports about whether they were doing what they needed to do for the product. The rest of his time was spent in meetings with other managers, his team, and his boss. Lu disliked attending so many meetings.

In time, he discovered the importance of having collaborative relationships with others to ensure the success of his team's projects. As his management skills developed, Lu learned to let his 17 direct reports think through problems themselves. The importance of meaningful work was something Lu clearly understood would be key to CRDC success.

Working for the Man

Problems started at 7:00 a.m. and ended at 9:00 p.m. every day, seven days a week. China's greatest challenge was not its productivity or its engineers' skill sets but its situation as a society in transition. Daniel Puche elaborated:

> *I don't want to the use the term* cultural difference *because there is no culture difference. It is just that China is like the rest of the world of the 1950s or '60s, where everything is great. You are the first generation to have a great job, but you don't really know how to behave in a large corporate environment yet. You don't know that you have to be outspoken and take the initiative. Instead you are used to family rules and not making decisions. That's probably the biggest challenge we had. Our engineers had very good ideas and were very smart. They hesitated to be outspoken.*

The Chinese tendency to think hierarchically affected the manner in which employees worked and interacted with their boss. In China, specific work hours were defined and when the clock struck quitting time, most engineers felt compelled to promptly leave. "In China, my boss is waiting for me to leave," Jerry Chen said explaining the difference. "In San Jose, you work to get things done, so I need to stay until I finish regardless of the boss." And unlike the United States where people would jump at an opportunity to spend some time with a boss three or four positions above them, CRDC employees felt uncomfortable being around Ivo Raznjevic and the rest of the senior management team. When Raznjevic first tried to sit with employees in the cafeteria, they disappeared! On another occasion, Raznjevic got an e-mail from an engineer who was unhappy. Raznjevic sent one back: "Why don't you come to my office?" The dissatisfied employee was surprised and answered, "Well, you have more important things to do."

Attempting to bridge those differences, CRDC executives came up with various ways of interacting with employees in a non-work-related manner. Jan Gronski began organizing breakfasts with several employees each day. As the workforce size increased, he moved to lunches and then birthday lunches. Raznjevic felt less comfortable with the dining experience and chose sports as a way to engage employees. On each floor of the CHJ building was a common recreational area where Raznjevic started playing Ping-Pong:

> *At first they would be playing and see me coming along and stop. "You go ahead and play, we can play later." "No, I can wait," I'd say. And of course I would lose all the time! But Ping-Pong is extremely popular, and they still don't really trust you, but it only took about nine months to reach a comfort level.*

The CRDC group started weekly meetings with its engineers that involved design review discussions. Those sessions were eventually nicknamed the Kindergarten Class. Part of its purpose was to cultivate leaders by increasing their decision-making responsibilities. That approach took some time. For example, one of the senior engineers would say little in the meeting and then approach his manager afterwards to say, "This is wrong, it will not work, and this is what we should be doing." And although the engineer was right, he would not say it in the

meeting. Raznjevic believed that behavior could be changed if Chinese employees were put in a position to make decisions about engineering and the employees reporting to them. This way they would develop as managers and learn to express stronger opinions. Puche believed that a lot of businesses in China failed because of the American presence there checking on what employees were doing instead of coaching them on how to lead.

Patience and Persistence

Back at the Ping-Pong table, Raznjevic was unable to return the smash his opponent had just launched. Hopefully, he would be better at responding to the issues he was confronting.

Should Jasmine Zhou run the SW development team?

Once timid and deferential, Zhou had developed into a strong test manager with advancement potential, and they were proud of her development; however, she was being considered for a lateral move to a managerial position on the development side—a potential move that was arousing controversy. First, there was a natural rivalry between the test and development side of research and development. Although both developers and testers generally had similar educational backgrounds and were highly skilled and trained, there was tension between them. There was a perception in China that testers were not as qualified as developers. Developers often thought testers were failed developers, while testers, who spent a lot of time ensuring that the product worked, frequently felt their quality assurance was crucial but unappreciated.

Zhou who held a master's degree in computer science and had started her career as a developer for Nortel Canada in southern China, quickly had transferred to another department as a tester. She worked on wireless technology at Nortel for a year and a half before joining Cisco as a test engineer in January 2005. Moving her from testing to development management would likely pose a potential problem. The situation was further complicated by a development engineer who wanted—and felt he deserved—the position. If Raznjevic and his team selected Zhou, they would have to exercise great tact when informing the other engineer.

How should he advise Ehud Oentung?

Oentung, an American of Chinese origin raised in Indonesia, earned his electrical engineering degree at the University of Maryland and worked for Verizon, Bell Atlantic, and Cisco in Herndon, Virginia. From there, he transferred to the CRDC and became a software manager on the development side. Cisco's ranking system for measuring success in the organization used a set of criteria that made Oentung uncomfortable: Every six months, managers evaluated employee performance against other employees to differentiate talent. "Even if you are the bottom it doesn't mean you haven't been doing good work," Oentung said. "Every six months we have to pick someone to do better." During the most recent performance review cycle, Oentung had one engineer who ranked the lowest, which meant that this individual would not get a bonus. Razjnevic recalled Oentung saying, "I didn't want to do it." How should he coach Oentung to deliver his employee a difficult message?

How should he handle a recent e-mail situation?

The Chinese concept of losing face in the eyes of others was something the non-Chinese managers thought they knew about, but a particular e-mail incident suggested to Raznjevic that intellectual understanding only went so far. One of the senior CRDC engineers sent out an e-mail with an idea, a practice that Raznjevic encouraged, and immediately one of the United Kingdom-based managers replied, copying everyone, and said, "You are completely incorrect and false in this area." Within minutes of the e-mail coming out there was an audible silence that Raznjevic could detect from his office. He watched as people looked around the cubicles trying to understand why this happened. All the junior engineers that worked with the CRDC engineer felt he had lost face.

Knowing he needed a few moments to collect himself and think, Raznjevic had headed for the Ping-Pong table. Now, he continued to volley.

CASE DISCUSSION QUESTIONS

1. Discuss some of the challenges Raznjevic faced as an expatriate when he decided to move to Shanghai. How did he convince others to join him on this foreign assignment?
2. What are some implications of the move for the office in San Jose? Would this move be viewed positively by the home office given that some R&D work was being transferred to Shanghai?
3. What are some of the major HRM challenges facing CISCO as they open offices in Shanghai? Be specific about the various HRM functions such as recruitment, compensation and management etc.
4. What can CISCO do to manage the challenges discussed in question 2? What lessons do you learn about HRM practices in China?

CASE NOTES

[1]Peter Burrows, Manjeet Kripalani, and Bruce Einhorn, "Cisco: Sold on India," *Businessweek*, November 28, 2005, http://www.businessweek.com/magazine/content/05_48/b3961055.htm (accessed September 17, 2008).

[2]2006 Cisco annual report.

[3]Bruce Einhorn, "Selling Cisco to China's Tech Talent Pool," *Businessweek*, September 17, 2007, http://www.businessweek.com/globalbiz/content/sep2007/gb20070913_971883.htm (accessed September 17, 2008).

[4]Gronski said it was hard to tell how much money he had. He knew that Cisco had committed $32 million over a three-year period and that he could go ahead and hire.

[5]"Cisco invests US$50 million for new campus in Bangalore," EMS-Now, October 25, 2005, http://www.emsnow.com/newsarchives/archivedetails.cfm?ID=10684.

[6]Lee Anne Obringer, "How Finding Office Space Works," HowStuffWorks, http://money.howstuffworks.com/office-space3.htm.

[7]King's College London, "Air Pollution in London," http://www.londonair.org.uk/london/asp/information.asp?view=howbad, (accessed August 10, 2009).