

**HRM Practice and the Influence of “the Country of Origin” in  
Chinese MNC's operating in the UK**

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## **Abstract**

A number of studies have noted the influence of national differences on HRM strategic choice and practices of multinational companies (MNC's). These have mostly concerned the influence of the characteristics of a host country on management practice in the subsidiaries, that is an ethnocentric strategy or the process of forward diffusion. In particular they have focussed on the way in which the culture and institutions of the host country constrain the diffusion of home practices into subsidiaries.

Recent research on MNCs' HRM however has paid more attention to the influence of the home country on HRM strategic choice and practice in overseas subsidiaries. This is referred to as "the country of origin" effect (Ferner,1997). However, most research focuses on the differences between national models rather than on explaining the process by which the country of origin influences HRM strategic choice and practice. Further, research has been concentrated on MNC's from advanced economies and it has yet to be established how the country of origin influences strategies used by MNCs from developing countries that are operating in a developed country, and have a large cultural difference from the host country. This is especially relevant to case of subsidiaries of Chinese MNCs operating in western countries, e.g. the UK.

Those who have made comparative studies of the West and China have concluded that significant national differences create problems for the transfer of management between the two. This research has included analyses of the effect of different national characteristics on HRM strategy and transfer in the Chinese context. However, how these distinctive national differences in HRM influence Chinese companies operating in foreign countries has yet to be explored. The aim of this paper therefore is to begin to address this deficiency by describing a study of Chinese subsidiaries in the UK. It examines how national differences influence HRM strategic choice and practice in the subsidiaries and in particular the influence of changes in the Chinese business system since the 1980s, when these companies started their international expansion.

The study found that the HRM strategic choice and practice of these companies exhibits obvious characteristics of their country of origin. Firstly, HRM strategic choice is shaped by their need to compete in international markets, a requirement brought by the reform of the Chinese economic and business system. Secondly, the scope and extent of localisation reflects the characteristics of the stages of economic development of "the country of origin". Thirdly, the process of localisation also reflects some characteristics and influences of the Chinese national business system. For instance, control is typically highly centralised in the localisation of these companies: localisation activities mainly follow a "top-down" process, and managers in subsidiaries have little decision-making autonomy.

It is argued that the presence of "absorption localisation" in these Chinese MNCs supports the view that HRM in MNCs is beginning to move toward globalisation or convergence. Nonetheless, the fact that there is clear evidence of the influence of the country of origin suggests there may be limits to the internationalisation of HR strategy and practice.

## **Introduction**

A number of studies have noted the influence of national differences on HRM strategic choice and practices of multinational companies (MNC's). These have mostly concerned an ethnocentric strategy or the process of forward diffusion (Beechler and Yang, 1994; Ferner, 1997; Edwards, 1998; Tayeb, 1998), and the influence of the characteristics of a host country on management practice in the subsidiaries of MNC's. In particular they have focussed on the way in which the culture and institutions of the host country constrain the diffusion of home practices into subsidiaries.

More recent research on MNCs has drawn attention to the influence of the home country on HRM strategic choice and practice in overseas subsidiaries. This is referred to as “the country of origin” effect (Ferner, 1997). However, most research focuses on the differences between national models rather than on explaining the process by which the country of origin influences HRM strategic choice and practice. Further, research has been concentrated on MNC's from advanced economies and it has yet to be established how the country of origin influences strategies used by MNCs from developing countries that are operating in a developed country, and have a large cultural difference from the host country. This is especially relevant to the case of subsidiaries of Chinese MNCs operating in western countries such as the UK.

A number of authors have concluded that the significant national differences between western countries/UK and China affects the transfer of management between the two (e.g. Child, 1990; Branine 1994; Easterby-Smith *et. al.*, 1995; Verburg,1996; Goodall and Warner, 1997). This argument is based on:

(1) Direct comparisons between Western companies and Chinese companies to explore the influence of national cultural and institutional differences on human resource management. An

example is Easterby-Smith *et al's* (1995) comparative study of UK and Chinese HRM practices. It identified significant differences at management level, such as selection, reward, assessment, promotion and management relationships, and indicated that these differences are related to differences in national culture and institutions. They concluded that it is difficult to transfer HRM practices between the two countries.

(2) Comparative study of foreign companies investing in China with local Chinese companies to explore the influence of national cultural characteristics on HRM practices. For example, Goodall and Warner's (1997) comparative study of HRM policies found that the traditional Chinese "iron-rice bowl" policy in state-owned companies in China is less applied in joint-venture companies with foreign investors.

(3) Analysing problems with HRM practices encountered by foreign companies operating in China (Child 1990, 1991; Verburg, 1996; Ding *et al* 1997; Lu and Bjorkman, 1997, Selmer ed. 1998). In this comparative research, the influences of national cultural differences on organisational and HR management in China were explored. These researchers have concluded that the large cultural difference between China and the western countries significantly constrains the application of western HRM practices in China.

These studies have analysed the effect of different national characteristics on HRM strategy and transfer in the Chinese context. However, how these distinctive national differences in HRM influence Chinese companies operating in foreign countries has yet to be explored. At a more general level, this situation reflects a deficiency in most cross cultural management research which continues to be written from an American rather than an international perspective (Adler, 1991; Brewster *et al.*, 1996). Brewster *et al.* (1996) have identified a need for more research on organisations from Japan, Australia, the Pacific Rim, and other areas. This imbalance is significant, and one aim of this paper therefore is to begin to address

this deficiency by describing a study of Chinese subsidiaries in the UK. It examines how national differences influence HRM strategic choice and practice in the subsidiaries, and in particular the influence of changes in the Chinese business system since the 1980s when these companies started their international expansion.

## **The characteristics of Chinese HRM**

MNC's HRM strategy and practice are shaped, but also constrained, by national differences, in particular national cultural and institutional characteristics. It is generally assumed that localisation is mainly constrained by differences in the national business system of the country of origin. According to this point of view, it is necessary to compare the characteristics of Chinese HRM systems with those in the UK and to assess how far differences in HRM reflect the influences of national cultural and institutional characteristics. These analyses provide a background for understanding which, if any, UK management practices are likely to be adopted by Chinese MNCs, and for identifying the influence of national differences on their practice of HRM.

As we have seen above, differences in national management culture have been shown to impede the transfer of western HRM into China. Various attempts have been made to analyse these differences and to understand how they influence HRM transfer. For example, in Hofstede's model of BIM (1980,1991, 1997), Chinese culture has been categorised as high in power distance, low in individualism, moderate in uncertainty avoidance and masculinity, and high in long-term orientation. Consistent with the first two of Hofstede's dimensions, some authors further emphasise the importance of the following attributes of Chinese management culture: respect for hierarchy; orientation towards groups; preservation of face, importance of relationships in the decision-making process as characterised by the avoidance of conflict and delegation of all authority to the appointed leader; decisions are rarely debated, and leaders

never challenged publicly ( Hofstede and Bond, 1988; Zhao, 1991,1995; Bond, 1996; Yueng and Tung, 1996; Verburg *et al.*, 1999). Moreover, being equal and average, avoiding competition or conflicts, and emphasising relations, are popularly accepted work values in China (Hui and Graen, 1997; Wang and Mobley, 1999).

In recent years, however, China has been moving from complete collectivism and high power distance to a mix of collectivism with individualism and lower power distance. The Chinese are beginning to adopt a more individual-led management culture and give employees more responsibilities and rights (Branine, 1997; Goodall and Warner, 1997; Wang and Mobley, 1999). Individualism and competitiveness are stressed but conforming to the organisation is still the rule. Moreover, collectivism will continue to predominate as an integral part of the socialist political system. As Branine (1997) points out, socio-cultural values are reinforced by the tacit socialist norm of solidarity, equality, mutual assistance, honesty, friendship, and obedience to the law. Such norms and values have their roots in the country's history and ideology and have continued to influence aspects of work behaviour and employment relationships.

In contrast to China, management values in the UK have been described as high on individualism, moderately low on both uncertainty avoidance and power distance, and moderately high on masculinity/femininity (Hofstede, 1991). Given such cultural values, the HRM environment would be characterised by individual autonomy and achievement; uncertainty, dissent, and risk taking seen as acceptable; influence of hierarchy is minimised and equality emphasised; sexual roles are clearly defined, and male values of assertiveness, money, and possessions are admired. Since the 1980s, individualism has grown in the UK and collectivism in industrial relations diminished. Some authors have argued that the traditional employment relationship is moving from an adversarial to a partnership model (Storey, 1992;

Warner, 1993). However, there is little empirical evidence to support this contention (Easterby-Smith *et al.*, 1995).

In sum, in the UK context power distance has reduced, hierarchical structures are flatter, and the trend is towards more individualism, although a degree of adversarial industrial relations remain. Chinese management cultural values are moving from a strong emphasis on high power distance and collectivism towards a lower power distance and acknowledgement of individualism. However, there is still a strong emphasis on collectivism is still a primary cultural value and power distance continues to be greater than in the UK. Conforming to the organisation and obedience to the supervisor, and harmonious relationships in industrial relations are still encouraged. These significant differences have been used by many researchers to explain why some western HRM practices can not be transferred to China. For example, Chinese resistance to performance-related pay systems in is explained in terms of terms of their “egalitarian” cultural values (Easterby-Smith 1995). What then are the implications of these issues for Chinese subsidiaries in the UK, and how do these national cultural differences affect their absorption of local practice? This will be the focus of the following discussion.

We start with a description of the management and business context in China and the changes that prompted the expansion of overseas subsidiaries. With a centrally-planned economy prior to the 1980s, Chinese national business systems were highly centralised and hierarchical, with formalised authority and governance (see, Child, 1991; Warner, 1993; Ding and Warner, 1998; Benson and Zhu, 1999). The enterprises, in particular state-owned enterprises (SOEs), were set production targets and assigned staff directly by government agencies (Benson and Zhu, 1999). There was no accountability or independent decision making by corporate managers (Child, 1991, Warner, 1993). Internally, authority was centralised but decision making subject to dual lines: the party committee looks after the interests of the party and

masses, while the working committee ensured the viability of the enterprise. Decision-making took a long time under this system and had dual objectives of worker welfare and organisational efficiency. Mostly, the production function followed political and social demands. With such a corporate governance and authority structure, the criteria for evaluating corporate management focused on harmonious relations and political loyalty rather than performance and efficiency. As a result, there was more concern with how a manager operated (moral behaviour, good relationships with others, etc.) - rather than what was achieved. Posts were filled on the basis of political orientation and nepotism, rather than on merit. (Easterby-Smith *et al.*, 1995). Under such a system, Chinese managers were unwilling to take individual responsibility in decision-making, and were more likely to follow the direction of supervisors (Child, 1991; Selmer *et al.*, 1998).

The trend away from a centrally planned to a market-orientated system since the 1980s has also seen reform of corporate management systems. One of the reforms over the last two decades is a gradual relaxation of state control over economic planning, including the planning of human resource deployment. The concept of competition and market is acknowledged, and more autonomy is delegated to the corporate level. In this context, the enterprise puts more emphasis on business and profits rather than on social and administrative functions. In the internal structure, the party's central-control role has been moved to a support position (Ding *et al.*, 1997; Wang and Mobley, 1999). The authority structure has moved towards a “Director Responsibility System” (Wang and Mobley, 1999) or ‘modern enterprise’ (Warner, 1996, 1998). Corporate managers have started to take responsibility for both business and labour resources. HR now has some planning and strategic roles rather than merely an administrative function. Managerial competence is now an objective with greater emphasis on career management and development. Managers are encouraged to acquire professional qualifications and market experience, especially in Western expertise and practice (Benson and Zhu, 1999). However, these continuing Chinese reforms in management institutions are



still slow, particularly in state-owned enterprises. Within the general context of a market economy with socialist characteristics, the state-owned companies are still required to take on both production and social responsibilities. The government as owner still tightly controls the financial resources of state-owned companies. The dual authority system and collective accountability still remain in these organisations. Moreover, a free labour market has not been completely established in China. Particularly, with severe problems of surplus labour and difficulties in recruiting and retaining quality staff, freedom in personnel selection remains limited. Benson and Zhu (1999), in a case study on the HRM reform of six state-owned enterprises, found companies are still struggling with these historical issues rather than considering using HRM as a source of competitive advantage.

In contrast, the corporate management system in the UK is set within a mature market economy. Single line decision making and individual responsibility is characteristic of the UK corporate system. Prior to the 1980s, corporate governance used to be a plural structure in that “government, managers and trade unions” influenced management decision making. In recent years however, the organisational authority structure has shifted from pluralism to managerial-centred structures (Warner, 1993). In the UK, managers, by comparison, formulate their business plans, including human resource plans, without any government intervention. A management hierarchy comprising of the owners and/or their representatives and professional administrators is usually established to manage the organisation. The authority to make decisions flows from the top and there is usually a unity of command and individual accountability. However, the UK is changing from formal centrally control systems towards more profit-led and flexible “customers-facing” flatter structures in response to intensive market competition (Ferner and Varul, 1999). In such a corporate management system, managers take more responsibility for profit making and business planning and development. Because of the nature of administrative authority, UK organisations show great concern for efficiency. Within this corporate management system, management career progression tends to

depend on ‘hard’ performance criteria, and there is much more emphasis on the demonstration of business results and on the breadth of personal track records (Easterby-Smith *et al.*, 1995).

In short, the corporate management system in China is moving from a centrally planned and hierarchical one to a more market-orientated and decentralised structure. A market economy is established and enterprises have started to have more autonomy in production and human resource management. However, some traditional characteristics remain. State intervention from government and government departments and a less-well-developed labour market limit Chinese organisations’ scope to adopt Western HRM practices in their management (Benson and Zhu, 1999). On the other hand, the UK has a mature labour market and are relatively free of the hand of government in corporate management. The UK corporate is moving into more independent economic financial units, and customers-led structures; managers have more autonomy and responsibility to make business decisions with less external government intervention. They also have the benefit of a developed labour market and a regulated business system. In contrast Chinese enterprises are struggling in a complicated and historical “guanxi” network and are still subjected to direct government intervention. These institutional differences suggest that Chinese subsidiaries in the UK would strive to free themselves from these political, cultural and institutional constraints and absorb and adopt UK HRM practices. However, tighter financial control and collective accountability in these Chinese organisations as well as the dual criteria for management career development may still inhibit the motivation and ability of these companies to absorb UK HRM, and thus their effectiveness in operating in an intensively competitive market environment .

## HRM in Chinese Enterprises

With the culture of collectivism, high power distance and a centrally planned economy, HRM in China was mainly represented by a centrally planned job allocation system before the end of the 1970s (Goodall and Warner, 1997). The demands of social equality rather than the needs of corporate production and business determined human resource arrangements. Thus, human resource management was not a corporate responsibility and there was no link with corporate business planning. Under a centrally planned job allocation system, there were no grounds for the existence of a labour market. The Party represented the interests of the employees and made decisions about an employee's job and remuneration. In the corporate sector, the directors had no autonomy to decide staff recruitment, selections and reward policies, and all decisions have to be approved by the government. Trade unions were controlled by the Party, and assisted the Party in resolving employee welfare and family problems rather than acting as an employee representative in collective bargaining, as is the case in the UK. In consequence, the personnel department was in charge of administration, conformity, discipline, punishment and personal files (*rent dungeon*) rather than in charge of HRM planning and pay negotiation with trade unions (Ding *et al.*, 1997).

Yet, since the 1980s, with the transformation of the economy, labour management has started to shift away from a centrally planned system to a labour market. Enterprises have some autonomy to decide employment issues, particularly in relation to staff. But there is still strong influence from central government. Thus, market-led HRM has not been completely implemented in Chinese organisations. According to studies by Wang and Mobley (1999) Benson and Zhu (1999), Chinese companies, in particular, state-owned companies, are still struggling to deal with the problem of surplus labour, and focus on "cost reduction " rather than a long-term business planning and employment development. Thus, HRM in China has not yet become part of a corporate competitive strategy (Benson and Zhu, 1999).

In the UK, labour arrangement is mainly a corporate responsibility, and labour resources are organised in response to business demands and labour market conditions. The government does not interfere directly with labour arrangements although employees in the UK are protected by government regulation, and in some cases trade unions. Personnel departments generally take the main responsibility for recruitment and selection, compliance with employment law, and negotiating with trade unions. Even with intensifying market competition and deregulation of the labour market, enterprises in the UK have more autonomy in HRM management, and a key issue for the enterprises is how to use labour resources to gain a competitive advantage. In response to this, several HRM strategies are developed, two major approaches have been identified in research of UK HRM (see Guest, 1992; Storey, 1995). One is a short-term “hard” HRM strategy, which is focused on labour numerical flexibility and labour cost reduction. The other one is a long-term “soft” strategy, which sees human resources as an asset and seems to establish long term commitment to employees of the company. Some researchers have argued that the short-term flexible HRM option is most frequently used in practice. In response to these changes, Personnel departments in most UK companies have changed their names to HRM suggesting that they play a more strategic role in corporate management (Storey, 1995).

Within the centrally planned HRM system in China, there were two policies relating to recruitment and reward: one entitled employees to a “job for life” and the other an “egalitarianism in pay system”, which are known as the ‘two irons’: namely the ‘iron rice-bowl’ and ‘iron wages’. Under this system, employees had guaranteed job security, but no right to choose a job freely or move among different units. Similarly, there was an egalitarian pay system, together with cradle-to-grave welfare benefits (Child, 1991; Warner, 1993; Zhao, 1994). Differences in pay between professions or between the different levels of responsibility were minimised. The welfare benefits system tended to emphasise economic equality and was

based more on seniority (Gondola and Warner, 1997). Labour market and activities such as recruitment and selection, employment contracts, redundancy and performance-related pay system did not exist in China before the 1980s.

Since the 1980s, the “iron rice-bowl” policy has been replaced by employment contracts, and recruitment and selection processes have been applied in most Chinese organisations (Warner, 1997). Lifetime employment with welfare has been abandoned and an internalised variations in reward has been noted by several researchers (see e.g. Zhu and Benson, 1999). Flexible payment systems including performance-related pay are emerging (Yuan and Tung, 1996; Ding and Warner, 1998). However, while lifetime employment has been diminishing, the nature of employee contracts varies; a big gap in the reward between those at the top and those at the bottom is still a sensitive issue; performance-related rewards are questioned, and although responsibility for social welfare has moved from companies to individuals, a state social security system has not been well-established (Ding and Warner, 1998). For example, Sun (2000) found that pay differentials are still more likely to reflect different skills and positions rather than performance. Labour markets are still dominated by the government which continues to advocate social equality. Workers’ expectations were different to those elsewhere and Chinese management was more concerned with bureaucratic rules (Benson and Zhu, 1999). These suggest that while China is abandoning the traditional “job for life” and “egalitarianism”, it has used western labour market practices only to a limited extent so far.

In the UK, labour management is mainly a corporate responsibility and follows labour market requirement. Therefore, recruitment and remuneration are organised to response to business demands and labour market conditions. There are complex processes and policies involved in labour management in the UK in order to conform to government legislation on such matters as recruitment, the employment contract, redundancy and remuneration. Individual contracts of employment and different individual rates of pay are common in the UK. In recent years,

different HRM strategies have developed, labour recruitment and remuneration more closely reflects the demand of business and labour market. For example, various performance-related pay schemes in the UK have developed, while a long-term employee some companies as a retention strategy in the UK have used development. These examples of “hard” and “soft” strategies reflect a greater diversity in the practice, but both put greater emphasis on individuals than in the past.

Related to the culture of collectivism and harmonious relations, and a labour management system based on “a job for life” and “egalitarianism” in reward, work organisation in China used to rely on moral exhortation, the collective achievement of the group and group rewards. As Kao *et al.*'s (1990) study of Chinese MNCs in Hong Kong found, a culture of co-operation, sharing and authoritarian harmony work relationships are characterised by between mutual reciprocity and mutual obligations and superior-subordinate communication be informal. There is a strategic importance placed on implicit trust and respect for leaders who are exhorted in return to display generosity and support for their subordinates. Personalised obligations and loyalty leading to the subordinate's willingness to comply and conform to the wishes of the ‘surrogate’ parents in their leadership roles is part of the culture of company loyalty. Moreover, company loyalty and collective identity are inculcated as the expense of the recognition of individual achievements. In this context, there are some formal work processes. But no explicit performance targets. The organisation of work is determined by individual managers, even in larger organisations with formal procedures. Motivation strategies tend to integrate personal and social goals through the collective achievement of groups. Thus, group work and flexibility in work organisation is typically found in Chinese organisations (Kao *et al.*, 1990; Child, 1991). As to work assessment, in China, there was an emphasis on self-evaluation and ‘ democratic’ soundings of opinions. Three key differences between the two countries are the use of, respectively: hierarchical judgements in the UK versus peer and subordinate views in China; a UK focus on performance and targets versus the use of broader

criteria in China; and the development and maintenance of harmonious relations in China compared with a more essential tradition in the UK. These differences are apparent in the differential use of performance appraisal (Easterby-Smith *et. al.*, 1995). In China, harmonious peer and subordinate relationships and the significance of the losing 'face' mean that the direct confrontation of a formal interview is avoided (p53).

Research on performance appraisal in Chinese state-owned organisations has found that it is currently used primarily for determining bonuses and wages, but is expected to be utilised more for communication and development in the future. It is also being employed by many Chinese enterprises to weaken the old practice of egalitarianism and to facilitate the abolition of the 'iron rice bowl' (Selmer, 1998). However, these authors also acknowledged that work organisation reform, increasing use of such techniques as performance appraisal and performance-related pay, are being implemented slowly. Zhu and Dowling's (1998) survey shows for example, that performance appraisal has not been conducted systematically in China.

In contrast with China, as a consequence of the influence of scientific management, work organisation in the UK is a relatively structured and impersonal (formal) bureaucracy; and by adopting more formal control and supervisory structure, it has also institutionalised a stable system of career progression that conformed closely to individual aspirations (Kao *et al.* 1993). The style of management communication tends to be more formal and management is inclined to follow the explicit standards and procedures lay down by the companies. Social interactions between supervisions and their subordinates tend to be more impersonal. The individuals' identification of membership in UK companies rests more on the anchor of individual achievement rather than collectivism. More recently however, there has been a change in the UK work organisation. For example, more integrated strategies towards the development of human resources, the close involvement of line managers, teamwork,

performance-related assessment systems, high levels of mutual commitment between the employer and employees, and agreements on flexible working arrangements in the UK (Guest, 1992; Storey, 1994). The role of trade unions in China has been to support the Party's policies in contrast to an advisory relationship between management and trade unions in the UK. The central control of the Party in labour management in China is very different from the pluralist control of government, management and trade unions in the UK (Guest and Hoque, 1995). In the UK companies, a more structured and institutionalised form and the adversarial state of labour and capital have been in the past, typical of culture of trade unionism. On the other hand, open conflict and bargaining is hardly known in Chinese companies that depend, instead, upon unspecified trust and face-saving strategies in the context of interpersonal relationships and interactions. Trade unions still tend to play a corporate role with management in China (Warner, 1996). While in the UK, there are reductions in the significance of the role of trade unions (Easterby-Smith, *et al.* 1995). Nevertheless, "traditional" HRM practices, such as collective bargaining, are still working in some sectors.

These recent comparative analyses show that, with the transformation of the economic, social and business system in China, HRM in China is shifting to a market-led system, and some Western HRM practices are being and have been transferred into Chinese organisations. Differences in HRM from Western countries, compared to twenty years ago, is getting much smaller. However, these analyses also suggest that some sharp differences in HRM still exist between the two countries. The pattern of development of HRM has been uneven and the precise configuration of HR practices in China has been influenced by a variety of factors including past practices, rapid economic change, diversity of ownership and the nature of management. All of which suggest that there are some constraints to Chinese organisations absorbing Western practices. As some authors have indicated, the entry of China into world markets does not mean that Chinese economic life will come to resemble that of any other



industrialised country. A fully market economy in China would still be different from western capitalist forms. (Warner, 1997; Gray, 1998).

From these analyses, it is apparent that there is some evidence that while differences between Chinese and UK HRM may be reducing, they are nevertheless substantial. Thus, for Chinese MNCs, the internationalisation process imposes demands for greater change in management practices than is required of MNCs from western countries. Most research on MNCs has been conducted on MNCs with a less social economic or organisational difference from the host country. Thus in many respects Chinese MNCs represent an “extreme” case from which to study the influence of the country of origin on their application of UK practice. Furthermore, the constraining nature of the domestic environment, most notably the tradition of government control, and great differences in culture and institution from western countries, raises the question of the extent to which Chinese MNCs are able to adopt and absorb local practice when they operate abroad. The remainder of this paper reports on the process of actual strategic choice and implementation in six Chinese companies operating in the UK in order to test these propositions. Before doing this, a proper method should first be identified.

### **The Method of Investigation**

Since HRM strategy and practice of Chinese MNCs operating in the UK. had not been studied previously, a case study approach was adopted. There are several studies on Chinese MNC's strategy (Zhang and van Den Bulcke, 1994; Young *et al.*, 1996). However, none has examined in sufficient depth the nature of HRM strategy in Chinese MNCs, particularly the implementation of a HRM strategy in a subsidiary. Thus the aim was to use a range of sources of information in order to discover the nature of the HRM strategy adopted by these UK subsidiaries in their internationalisation process. This study is preliminary research in this sense, and not seeking to test existing theories or positions but to remain open to the subtleties that surround such a strategy.

Between December, 1997 and July 1999, in-depth case studies were conducted in six Chinese companies. These six organisations have the following features.

1. They are subsidiaries of China's leading and the largest state-owned enterprises and they play an important role in China's trade and economic development. Of the six companies, four are from the financial sector and two from international trade. International trade companies owned by the government ministries took the lead in setting up MNCs by using their long-term experience in international markets and with foreign clientele. Other leading Chinese MNCs are run by financial institutions such as the Bank of China or large and medium-size industrial establishments (Duan, 1995). Thus, the cases are representative of the main companies involved in Chinese MNC's internationalisation process.

2. These six subsidiaries are wholly owned by Chinese state-owned companies and are the typical of the national business system in terms of their organisation and management. Thus, their HRM strategy is more likely to represent an extreme case from which to study in the influence of the national business system of their "country of origin" on HRM strategy.

3. The six companies are all located in the London area which as an international financial and trading centre could provide both the opportunity for and pressure on these Chinese companies to use and absorb local advanced management practice.

4. Employee numbers in these companies range from 30 to 200 and all have formal HR policies set out by the parent companies. Staff in the six organisations are a mixture of Chinese and locals. (In four of the organisations, over one half of staff employed were from the UK).

5. The six companies have different organisational structural characteristics, in particular integration of market and business and methods of growth. For example, two companies operate in local markets; two at international level and other two have close business relations with Chinese domestic markets. Two subsidiaries have a longer history of international business while the other three were established at the beginning of China's "open-door" policy in the 1980s and one is a new firm with only two years' operating in the UK. The six organisations were established and expanded through different methods. Some were established by acquiring and merging with local organisations, and some others are total new establishments; some expanding from a small size and some were larger companies at the outset.

The research started with interviews in all six companies. Initially open-ended interviews were used because of the complexity of the phenomenon under study and the relative scarcity of previous work in this area. Then semi-structured interviews were conducted with the majority of senior managers and middle managers, and a cross section of key employees, a total of 181 overall. Reports and information on company performance, workforce data, and other business documents were also collected.

## **Findings**

The study found that the HRM strategic choice and practice of these companies are moving to adopt and absorb UK practices. However, the motivation, process and extent to which UK practices have been absorbed exhibit obvious the influences and characteristics of their country of origin.

Firstly, the HRM strategic choice was shaped by their need to compete in international markets, a requirement brought by the reform of the Chinese economic and business system.

This reform created both opportunities to and pressures on the MNCs to move away from the traditional Chinese centrally planned economic system, to absorb market-led management practices and to internationalise. As a result, these UK subsidiaries use localisation strategy (i.e. adopting UK management practice) as a way to speed up their internationalisation process. We term it “absorption localisation” (See Edwards and Zhang (2002) for the details of this concept). Six companies not only use UK practice in their management, but also have significant cross-organisational learning activities. Through these activities, UK practices have been diffused back to home firms and other overseas subsidiaries.

Secondly, the scope and extent of localisation reflects the characteristics of the stages of economic development of “the country of origin”. Participating in world economic activities and engaging in the internationalisation process at a relatively late stage, these companies have focused mainly on learning UK general management expertise and practice under market economy conditions rather than international HRM practices. Moreover, some Chinese management practices continue to be applied in areas of HRM, especially those concerning relations with senior management and “soft” areas, such as the decision-making system, expatriates’ remuneration and assessment, managerial styles and work relations.

Thirdly, the process of localisation also reflects some characteristics and influences of the Chinese national business system. For instance, control is typically highly centralised in the localisation of these companies. Localisation activities mainly follow a “top-down” process, and managers in subsidiaries do not have much autonomy.

Finally, the influences of the country of origin are facilitated by three factors. The fact that these companies are owned by a Chinese state-owned company is the most important factor. As these companies are owned by the government, they not only have strong financial support but also autonomy in doing international business, which greatly promote both localisation and

diffusion activities in these subsidiaries. The companies could engage in totally new international business areas and pay a high price for local labour resources, in order to advance their internationalisation process. Moreover, well-established central control systems in these companies makes cross-learning activities and reverse diffusion easier. However, on the other hand, central control limited the abilities of these subsidiaries to absorb local practice, particularly at the higher levels of the organisation and in “soft” HRM areas.

The second factor is the characteristics of product market and business, which affect the extent and nature of “country of origin” influence in these companies. The more they are local market led, the more localisation is achieved; and the greater the similarities and integration in business between the subsidiary and HQ or other subsidiaries, the more diffusion activities were found. Considering these six companies as a whole, the business is just beginning to shift from the domestic market to international market, and full global integration has yet to take place. In this context, the HRM international process in all six is focused on learning and using the local practices.

In addition, it is found that the growth characteristics including methods, maturity, and size have some influence on the process, extent and nature of localisation. Growth through acquisition and small size are more beneficial to adaptation and utilisation localisation while diffusion localisation is found in the more mature and larger organisations.

Managerial competency was found to have more influence than structural factors on promoting or retarding localisation and diffusion. As state-owned companies working with a strong, state-owned, centrally controlled management system, the relationship with the parent company is one of the most important factors for a subsidiary’s managers. In particular, the ability to handle the balance between following the directives of the parent company and the demands of the business is crucial. Lack of international management experience among the

expatriates at the heads of the subsidiaries clearly inhibits learning and using local practice. It was also clear that more companies which were successful they had more bargaining power with their parent company. In addition, attitudes to localisation of both expatriates and local managers make a difference in localisation and diffusion.

Furthermore, these different managerial factors exert different influences on the localisation process. The relationship with the parent company affects the autonomy of the subsidiaries and senior management. The attitudes of local managers have more impact in the area of performance and work organisation. However, the characteristics of top expatriates, in particular their international management experience and abilities, are the main factors which limit the absorption of local practice to a high degree and promote Chinese management practice in these subsidiaries.

In short, the strong financial support of government ownership provides support for the adoption of localisation. However, the low level of integration of the parent companies and subsidiaries, and the lack of development of international markets effectively constrain the ability of managers in the subsidiaries to engage in localisation to a high degree, although the extent varies in different companies. Moreover, the influence of government ownership is mediated by the competencies of top managers to manage their relationship with the parent company, and their abilities and enthusiasm for adopting local practice.

## **Conclusion**

This study demonstrates far greater complexity in HRM strategic choice and practice in MNCs from developing countries operating in developed countries than previous analyses have suggested. The presence of “absorption localisation” in these Chinese MNCs supports the view that HRM in MNCs is beginning to move toward globalisation or convergence.

Nonetheless, the fact that there is clear evidence of the influence of the country of origin remains, suggests there may be limits to the internationalisation of HR strategy and practice. These findings imply that there are barriers to the standardisation of “good” HR practice in the management of workforces across national boundaries.

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