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International human resource management strategies of Chinese multinationals operating abroad

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Strategic international human resource management (SIHRM) is crucial for the effective leveraging of human resources in organizations to achieve the desired business strategies. There is a rich collection of studies on western multinational corporations (MNCs) in China, but few studies that explore the SIHRM of Chinese MNCs operating overseas. This study utilizes cross-level, in-depth interviews to analyse SIHRM of three large Chinese multinationals. The paper contributes to literature by addressing two contextual SIHRM issues, namely the characteristics of the SIHRM for Chinese multinationals and how their SIHRM orientation facilitates their international investment and operation. The findings indicate that organizational transformation is the starting point for latecomers matching their international HRM strategies. Their SIHRM approaches, such as forming learning organizations, reliance on host-country nationals, reconciling both home and host-country effects and promoting 'best practices', facilitate their international operations.

1. Introduction

After 'go global'\textsuperscript{1} was firmly established as a national policy in 2004, more Chinese domestic firms became eager to enter and compete in the international market. The World Investment Report 2012 (UNCTAD 2012) states that foreign direct investment (FDI) from mainland China reached US$74.65 billion in 2012, representing an increase of 13.6 times than that in 2004. The figure of Chinese multinationals ranked in Fortune Top 50 list rose from 16 in 2004 to 79 in 2012 (Fortune 2012). China has now become the largest Asian source of outward FDI (UNCTAD 2012). The growing prominence of the Chinese FDI has generated a rapidly increasing research interest in their multinational corporation (MNC) strategies.

When operating overseas, many Chinese MNCs quickly embraced the idea of aligning human resource management (HRM) with corporate strategy, believing it would promote the organizational performance (Luo and Tung 2007). One area that has drawn little research attention is strategic international human resource management (SIHRM) in emerging market multinationals (Shen 2005; Thite, Wilkinson, and Shah 2012; Zheng 2013) Shen (2005) contends that previous SIHRM models were developed in western countries, lacking empirical data support from developing countries. A clear research need exists to map the patterns of generic international human resource management (IHRM) strategies of Chinese
multinationals as latecomers, especially when they are investing in developed countries. A related question is to examine how these firms utilize their human resources (HRs) to compete overseas. This study attempts to address these core questions by analysing the IHRM strategies of three large Chinese MNCs and their subsidiaries in Australia. Australia is an appropriate empirical context since it is one of the most popular destinations for Chinese outward FDI (Fan, Zhu, and Nyland 2012, MOFCOM [2011] 2012).

The paper begins with a twofold review of literature dealing with the importance of linking IHRM to the implementation of internationalization strategy and the literature concerning Chinese MNCs and their IHRM strategies. Two research questions are then developed and the research method explained. This is followed by presenting and analysing qualitative data generated by interviews with Chinese managers from headquarters and subsidiaries in both China and Australia and relevant corporate archives. Finally, implications are drawn from the findings and directions for future studies are advanced.

2 Linking IHRM to the implementation of internationalization strategy

Companies operating globally have to seek suitable internationalization strategies and IHRM. In broad terms, an internationalization strategy refers to a company’s approaches when extending its business operations to an international arena (Bnscoe, Schuler, and Claus 2009). IHRM is ‘the set of distinct activities, functions, and processes that are directed at attracting, developing, and maintaining an MNC’s human resources’ (Taylor, Beechler, and Napier 1996, 960). The explicit link between IHRM and MNC strategies has been termed SIHRM by Taylor, Beechler, and Napier (1996) in their landmark study.

SIHRM covers HRM with the strategic management and internationalization processes, emphasizing coordination among assorted HRM activities (Schuler, Dowling, and De Cieri 1993). To achieve competitive advantages, HRs of a company should be valuable, rare, non-substitutable (Wright, McMahan, and McWilliams 1994). Such an HR can contribute to continuous competitive advantages by improving competencies that are specific to the company, generating social relationships and producing firm-specific knowledge (Erwee 2007). IHRM provides tangible and intangible resources that allow a company to outdo competitors at an international level (Schuler, Budhir, and Florkowski 2002).

At the corporate-level SIHRM, whether an MNC adapts its HRM to the local context or maintains the parent company’s approach is a critical choice faced by IHRM practitioners (Grossman and Schoenfeldt 2001, Schuler, Dowling, and De Cieri 1993). Although a number of researchers have written on the subject of the tension between the extent to which policies should be globally integrated and locally responsive, few conclusions can be drawn as to what defines a globalized or a localized IHRM orientation (Shen 2005). Incorporating Bartlett and Ghoshal’s (1989/1998) typology of international business strategies (IBS), namely international, global, multi-domestic and transnational strategies, the chosen IBS must fit with organizational, industrial and environmental factors that affect the firms’ global operation (Fan, Zhu, and Nyland 2012, Luo 2001). If the market in which the company operates requires a high degree of local responsiveness, the firm should choose more localized strategies, such as multi-domestic and transnational strategies (Bartlett and Ghoshal 1989/1998). This implies little interdependency between the parent company and its affiliates. In contrast, a firm following a global strategy manages affiliate and parent as interdependent.

There has been a tendency to utilize multiple theoretical perspectives to predict and explain relations between corporate strategies and IHRM (e.g. De Cieri and Dowling...
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1999; Schuler, Dowling, and De Cieri 1993; Taylor, Beechler, and Napier 1996) in the field of SIHRM. A number of scholars have developed integrative SIHRM models such as the ‘two logic’ approach (Evans and Lorange 1989), the ‘two-dimension’ model that includes the product, market, technology dimension and the social, cultural and legal dimension (Pauwe and Dewe 1995), and various versions of the integrative SIHRM framework developed by Schuler, Dowling, and De Cieri (1993), Taylor, Beechler, and Shah (2012), which embraces a numbers of Napier (1996) and Thite, Wilkinson, and Shah (2012), which embraces an industrial settings, internal and external influencing factors, and country contexts.

Although these models are valuable for demonstrating the links between IHMR and internationalization strategies, they have been criticized for limitations of describing an integrative view of SIHRM, rather than developing an IHMR strategy. For instance, Briscoe and Schuler (2004, 60) debate that SIHRM ‘[…] needs to develop its own strategies to hire, manage, and retain the best employees throughout the organization’s international business (IB) activities, as well as contribute to the firm’s overall strategic planning’. It has limitations when applied to MNCs from emerging economies, which are characterized by both the speed and the massive scope of change (Napier, 1996; Zhee, 2013).

3. Chinese MNCs and their IHMR strategies

Scientific analysis of academic debate on, Chinese FDI and its characteristics has started, with a growing number of publications in recent years (Fan Zhu, and Nyland 2012). There remains, however, a paucity of research in specific areas such as the impact of FDI from the biggest emerging country on IHMR (Cooke 2012; Cooke and Lin 2012; Zhu, Thomson, and De Cieri 2008). Moreover, scholars (cf. Mabey, Salaman, and Storey 1998; Warner 2003, 2012; Warner and Nankervis 2012) observe that a further advance in research around the concept of IHMR ‘with Chinese characteristics’ is evident, but there is less evidence of research about ‘strategic HRM’ as defined in western terms.

Recent reviews, such as those of Zhu, Thomson, and De Cieri (2008), Cooke (2009) and Zheng (2013), report the growth of SIHRM studies in China-based HRM literature, and Zheng (2013), report the growth of SIHRM studies in China-based HRM literature. However, Shen’s (2005) and Zheng’s (2013) models draw heavily on the previous integrative SIHRM models (cf. Schuler, Dowling, and De Cieri 1993; Taylor, Beechler, and Napier 1996), and their concern is with intervening factors affecting the way that IHMR practices can transfer, mix or adapt local HRM practices. Further, Cooke (2009, 25) argues that there is a need to ‘internationalize’ the research of HRM in China. By internationalization, we should look at what the common issues are facing the HRM world globally. We need to situate the research of HRM in China in a global context through the connection of common HR issues and challenges in people management.

Given this research call, this study can be distinguished by its focus on identifying some characteristics of the SIHRM of Chinese multinationals. Therefore, the first research question (RQ) is proposed in this study:

RQ1: What are the characteristics of the SIHRM for Chinese MNCs?

McDonnell, Stanton, and Burgess (2011) call further empirical research on emerging country’s MNC behaviour in advanced economies, such as Australia, as it still remains neglected. It is reported that Chinese MNCs have been experiencing local fear, or dislike, of Chinese investment in some popular Chinese outward FDI destinations, including
Australia (e.g., Fan 2010). Such negative responses can counteract the efforts made by Chinese firms in their internationalization process. The literature (cf. Schuler, Budhwar, and Florkowski 2002) suggests that IHRM policies and practices play a crucial role in building local responsiveness capability for MNCs. However, what has not been explained is how Chinese multinationals interpret the local responses with a balance of their global integration needs, and how they are forming IHRM strategies and building their capability in host countries. Furthermore, Dunning (2006) argues for research to include people management as a new trajectory for MNC research and contends that it is important to understand the impact of IHRM on MNCs in the wealth creation process. On the basis of the research needs, the second research question is raised:

RQ2: How do Chinese MNCs’ IHRM strategies facilitate their investment and operation overseas?

4. Methodology

4.1. The method of multiple case studies

A quantitative approach is difficult to apply to Chinese multinationals since the robust theoretical understanding to underpin quantitative analysis does not exist given their short history of internationalization. This study is exploratory and non-hypothesis driven. The research questions focus on the what, how and why factors that affect SIHRM in Chinese MNCs. Moreover, this research is context-specific as the subject is the IHRM strategies of Chinese multinationals. A number of international researchers (e.g., Boyagigiller and Adler 1991; Kim, Wright, and Su 2010; Tsui 2007) claim that contextualization is an important way to develop high-impact research, and ‘deep contextualization is necessary for both theory development and for the meaningful application of existing theory to novel contexts’ (Tsui 2007, 1357).

A qualitative approach is appropriate because it enhances researchers’ capacity to examine organizations and societies ‘on their own terms’ (Boyagigiller and Adler 1991, 281). A multiple case study design is chosen as it is suited to the complexity of the internationalization process. This approach enables researchers to contain the problem of representation and renders the evidence more persuasive and the analytical results more robust (Jing and McDermott 2012). It also permits the researcher to conduct multiple experiments applying ‘replication’ logic (Yin 2009).

4.2. Data collection

Authors (cf. Cooke and Lin 2012; Cooke and Saini 2010) argue that an organization’s business strategy can be influenced by its institutional context, which has further impact on HRM policies and practices within the organization. To minimize the influence of various forms of institutional environment on firms’ SIHRM, three Chinese multinationals with the same type of ownership operating in Australia are examined in this study. Therefore, both the impact of home and host countries’ institutional context and their policies towards Chinese state-owned MNCs are generally consistent. From 2005 to 2009, Australia ranked as the most popular destination for Chinese outward FDI (MOFCOM [2011] 2012). By December 2012, 592 Chinese multinational enterprises (MNEs) had established corporate or representative offices in Australia (MOFCOM [2011] 2012). Three well-known Chinese firms were chosen; all of them are state-owned MNCs, which reflects the ownership norm for Chinese multinationals (Zhang, Zhou, and Ebbers 2011). They are also large and influential corporations for Chinese national economy, listed among the Fortune Global 500.
<table>
<thead>
<tr>
<th>Case Chinese MNC</th>
<th>Ownership</th>
<th>Major product/service</th>
<th>Going global(^a)</th>
<th>Location in Australia</th>
<th>Entry mode</th>
<th>Establishment method</th>
<th>Sector</th>
<th>Revenue in 2012 ($Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BankCo</td>
<td>State-owned</td>
<td>Commercial banking, investment and insurance</td>
<td>1920s</td>
<td>NSW, Vic, WA</td>
<td>WOS</td>
<td>Greenfield</td>
<td>Banking and financial service</td>
<td>80,230</td>
</tr>
<tr>
<td>MinCo</td>
<td>State-owned</td>
<td>Alumina and primary aluminium production</td>
<td>2000s</td>
<td>Qld</td>
<td>WOS</td>
<td>Greenfield</td>
<td>Industrial metals and mining</td>
<td>35,839</td>
</tr>
</tbody>
</table>

Note: No specific year is given due to research ethics to protect anonymity. WOS: wholly owned subsidiary, M&A: merger and acquisition and JV: joint venture. Location: identified by State in Australia, Vic ~ Victoria, NSW ~ New South Wales, Qld ~ Queensland, WA ~ Western Australia. \(^a\) Date/period when the firm internationalized its operations.
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Biggest Corporations (Fortune 2012). A profile of the case MNCs is presented in Table 1. The three companies represent the majority of industry sectors in which Chinese MNCs operate in Australia, namely resources, service and manufacturing. The data collection approach is designed to generate insights regarding how industry type, ownership and international strategies such as entry modes shape Chinese MNCs’ SIHRM consideration. To protect anonymity, the three MNCs are coded as BankCo, ChemCo and MinCo.

To ensure validity, we collected two sources of data. The primary data were collected at both the headquarters in China and Australian subsidiaries during two periods: June–September 2008 and June–July 2012. Collecting the second wave of qualitative data in the three companies aimed to: (1) recheck the consistency of IHRM policies and practices and IBS and (2) ensure qualitative data triangulation over a four-year period. Informed by the literature review, a set of open-ended questions were developed, focusing on the firms’ international strategies, host-country institutional environments and IHRM strategies. For each firm, the interviewees at headquarters level comprised senior executives, who held positions ranging from chairman, chief executive officer (CEOs), vice general manager, HR/personnel management directors (HRDs/PMDs), to international project director or executive member of the board of directors. All of the interviewees were identified as executives who played important roles in strategic decision-making. At the subsidiary level, all interviewees held one of the following positions: CEO, general manager or HRDs/PMDs (see Table 2).

All participants were interviewed either face-to-face or through prearranged telephone. Each interview was about 1–1.5 hr in length. Some senior executives were interviewed twice or had follow-up phone calls. Where the participants agreed, interviews were digitally recorded; otherwise notes were taken. Extensive notes and researcher observations/impressions were written up without delay. A majority of interviews were conducted in Mandarin. Transcripts were sent to interviewees for comments and feedback, which were then incorporated into the transcripts. The latter were then translated into English and analysis was undertaken utilizing the English transcripts.

The case study method emphasizes triangulation to check and validate the information received from various sources and examines it from different angles (Yin 2009). Interviews were therefore supplemented with other sources of data, including observation, field notes, company documentation (e.g. meeting minutes and annual reports) and intranet as well as internet data to increase the reliability and accuracy of the analysis.

Table 2. Chinese MNCs in Australia: the interviewees and archives.

<table>
<thead>
<tr>
<th>Chinese MNCs</th>
<th>Analytical code</th>
<th>Company level</th>
<th>Interviewee code</th>
<th>Archival code</th>
</tr>
</thead>
<tbody>
<tr>
<td>BankCo</td>
<td>MNC1</td>
<td>HQ Australian Subsidiaries</td>
<td>HQ1, HQ2, HQ3 AS1, AS2</td>
<td>MNC1-DOC-2; MNC1-DOC-8; MNC1-DOC-11; MNC1-DOC-17; MNC1-DOC-18</td>
</tr>
<tr>
<td>ChemCo</td>
<td>MNC2</td>
<td>HQ Australian Subsidiaries</td>
<td>HQ4, HQ5 AS3, AS4, AS5</td>
<td>MNC2-DOC-2; MNC2-DOC-6; MNC2-DOC-9; MNC2-DOC-11; MNC2-OB-R-1</td>
</tr>
<tr>
<td>MinCo</td>
<td>MNC3</td>
<td>HQ Australian Subsidiaries</td>
<td>HQ6, HQ7, HQ8 AS6, AS7, AS8</td>
<td>MNC3-DOC-2; MNC3-DOC-3; MNC3-OB-R-1; MNC3-OB-R-2</td>
</tr>
</tbody>
</table>

Note: Both the case firms and the interviewees are coded to guarantee anonymity. HQ: headquarters. AS: Australian subsidiary. ‘DOC’ refers documents that were used for analysis; while ‘OB-R’ means the researchers’ observations. aThe interviews were conducted in English as the interviewees are native English speakers.
5. Case studies of Chinese multinationals

5.1. BankCo – the role of organizational transformation in SIHRM

BankCo is a Chinese commercial bank that re-entered into Australia around 25 years ago. Currently, BankCo has six subsidiaries in Sydney, Melbourne and Perth (MNC1-DOC-8). In their overseas operations, senior BankCo managers have an express preference for a transnational strategy to promote both global integration and local responsiveness. For instance, HQ1 claimed:

I think our current international business strategy is pretty much transnational. In terms of conducting international business in the banking industry, we also want to be ‘The World’s Local Bank’, like HSBC [Hong Kong and Shanghai Banking Corporation], which is not only our strategic orientation, but also an ideal way to balance global integration and local responsiveness. (Lines 62–64)

In pursuing this particular strategic orientation of their international operations, the company has experienced a significant organizational transformation so as to compete effectively. Senior executive HQ2 revealed that there is a constant interplay between organizational dynamics, for example structural context, institutional conditionality and even control flexibility, and the company’s international strategies:

Before 2005, we adopted a branch banking system. Each branch was a part of the head office, acting as an agency of the head office, not a sub-bank or a subsidiary. The relationship between head office and branches is not like that between headquarters and subsidiaries in a commercial sense. Under the branch banking system, the capital of local branch came from the head office, the local benefits and operating risks belonged to the head office.

In 2005, the head office launched to establish localized subsidiaries worldwide. Initially, as a trial, we set up a subsidiary in Hong Kong (HK) and listed it on the HK stock market. From a capital management perspective, once our headquarters invested in the HK company, the subsidiary would take their own risk and losses. If the subsidiary performs badly, then, like an ulcer, we will cut it off. Under the branch banking system, if the overseas branch had a problem, the head office always took responsibility.

HQ2 emphasized that, in legal terms, the branch versus subsidiary distinction was fundamental for IHRM. The significance of organizational transformation was echoed by a director of an Australian subsidiary, who explained:

For instance, under the branch banking system, all required capital for our foreign branches came from the head office, which could enforce our integrated capabilities. Under the current system, subsidiaries’ capabilities in terms of the required capital are more limited, so they are not able to break some limitations (e.g. the minimum amount of cash reserve) set by the host countries. Any local decision in the host country will be made by the subsidiary managers. For example, assuming I am a senior executive in an Australian subsidiary under the old branch banking system, I should be authorized to manage the company; but now I worked as a director on the board and have no direct power to intervene in the subsidiary business. So how to reconcile the need to be globally integrated and locally responsive has become an issue. Under the branch system, we had always emphasized integration, while under the headquarter-subsidiary mechanism, we can be more locally responsive. (AS2, lines 4–32)

BankCo is among the top 20 banks in the world and provides comprehensive financial services to customers across 31 countries (MNC1-DOC-11). However, according to HQ3, AS1 and AS2, one major challenge under the old system for the company’s overseas operation is how to attract the best local bankers in the face of its outdated performance management and reward systems. For example, AS1 indicated:

The headquarters-subsidiary mechanism is more flexible. We can quickly make judgements regarding the change of local market conditions. The mechanism can help foreign subsidiaries
overcome some limitations, such as relatively poor remuneration. Under the old branch banking system, we had to adopt a unified salary standard, which meant the salary level was comparatively lower than that of our foreign competitors. We couldn’t recruit and retain the best bankers, or even administrative staff in overseas markets. Our expatriates received low level of wages as Chinese diplomats based on the home country standard. If I find a similar job in local large companies, my salary would be much higher. Now overseas subsidiaries can decide their own salary levels in accord with the host-country market, and attract and hire qualified people. This has enhanced local competitiveness and responsiveness. (Lines 49–61, 65)

The case of BankCo illustrates how the organizational transformation, for example structural mechanism and control flexibility, has impacted on the firms’ overseas operations through motivating current staff and attracting new employees to build up human capital. Tichy, Fombrun, and Devanna (1982) propose a matching model, which highlights the resource aspect of HRM strategies and emphasizes a bidirectional fit between organizational strategy, structure and HRM system. The BankCo case has not only indicated the implications of the influential matching model in the Chinese MNCs’ SIHRM consideration, but also revealed the important role of organizational transformation for SIHRM. For Chinese state-owned companies, they do not lack strategic goals, energy and courage of conducting personnel reform, but they do lack HRM mechanisms to fully develop employees’ potential. Without building an IHRM strategy, it is difficult to overcome their weakness (e.g. lack of international experience). For competing with giant global bank groups, the BankCo’s SIHRM should be considered to match their four main benchmarks, namely the organizational structure, business plans, performance evaluation and resource allocation (MNC1-DOC-18).

5.2. ChemCo – reliance on learning and host-country nationals (HCNs)

ChemCo, a large state-owned company headquartered in Beijing, currently operates in six sectors of the chemical industry (MNC2-DOC-2). In 2006, ChemCo successfully merged with ‘the cornerstone of Australia’s plastics industry’, which owns 70% of the Australian plastics market. Financially, ChemCo’s Australian project is successful because its initial investment was fully returned within two years and the economic value of its Australian subsidiary increased six times after the merger (MNC2-OB-R-1; also MNC2-DOC-6, HQ4).

All ChemCo executives interviewed (e.g. HQ4, HQ5 and AS3) considered that a multi-domestic strategy best describes the corporation’s current strategic orientation. Through the successful acquisition of a monopoly in Australia’s plastic manufacturing industry, ChemCo has built a strong local presence. In contrast to BankCo and MinCo, the ChemCo HQ empowered local managers, decentralized managerial roles and offered Australian managers flexibility to the greatest extent. The managerial belief held by senior HQ executives was a ‘wu wei (active non-action)’ (HQ4 and MNC2-DOC-9). Australian executive AS3’s explanation amplifies this point:

Our international business strategy is multi-domestic. The Beijing office sticks to their promise that an Australian company managed by Australians. When I had business trips in Beijing, I was often invited by the Chairman and other managers in their family dinners or parties, I felt trust from them. Actually it is a smart way since we know best about our local trade connections and the market as well. (Lines 127–132)

An internal evaluation report regarding the merger with the Australian company states that ChemCo can “indirectly and dexterously utilize Australia’s upstream oil and gas supporting resources” (MNC2-DOC-11). If ChemCo wants to construct a domestic ethylene project in China, the company needs to have at least 5 million tons of refined oil and 150 million tons of naphtha. Given the higher investment costs of matching raw
material, a similar project would not easily get approved by the Chinese government (MNC2-DOC-6). This analysis illustrates how ChemCo identified and exploited local opportunities. This strategy is consistent with Bartlett and Ghoshal’s (1989/1998) description of the role of overseas operations in adoption of a multi-domestic strategy. The essence of this IBS is mainly to facilitate local responsiveness and localize its operations in host countries at the expense of global integration.

Apart from IBS consideration, the top management belief has reflected on their SIHRM in foreign operation. For example, senior executive HQ5 pointed out:

Two of our managerial philosophies are particularly relevant to your topic [SIHRM]. They are ‘cooperative and collective management’ and ‘wu wei (active non-action)’. We emphasize many companies in the last 10 years. We told acquiree managers that the most important thing is not to think who the boss is. We must cooperate closely then all stakeholders can share the benefit. Once we cooperate (with foreign managers in acquired subsidiaries), we become a strong enterprise. Lao Tzu’s wu wei principle is also part of our corporation culture. The point is we let managers in overseas subsidiaries decide how they can achieve the best results. We offer autonomy to the subsidiary CEOs. (Lines 51–63)

These managerial beliefs can be found in written evidence from the official strategic document in ChemCo (e.g. MNC2-DOC-9). The interview data illustrate the company’s emphasis on linking IHRM with the implementation of internationalization strategy, as explained by HQ4:

To implement our internationalization strategy, firstly we need to take care of overseas employees, especially these executives’ feelings and emotions about the acquisition. We do our best to retain all local senior managers. We don’t change human resource policy in our subsidiaries; rather, we attempt to become a learning organization. We send some expatriates to the acquired business, but ask them to learn from foreign colleagues’ experience, rather than to teach local managers how to operate business. We give our foreign managers enough time to demonstrate their performance, although not once in the past two years has their performance disappointed us. (Lines 71–80)

Australian subsidiary-level executive ASS explained well the importance of reliance on HCNs:

We are still pretty much an Australian company in terms of people and markets [The firm was wholly acquired by ChemCo several years ago]. Since our local employees can respond efficiently to domestic customers, we provide promotion opportunities to local employees, and reward them. Our HRM policies, in my view, have not changed much after the acquisition. Take myself as an example, I took managerial roles for many foreign companies, but at ChemCo, I feel I am managing this company. (Lines 112–114, 110–126)

This case indicates ChemCo’s approach to managing international HRs, including promoting autonomy, building a trust relationship with foreign executives, valuing HRs, enhancing knowledge transfer back from foreign affiliates to domestic subsidiaries and facilitating cultural integration. This approach has become a model by many Chinese MNCs. The core idea of this SIHRM model is to learn by participating while relying on local executives operating the businesses.

5.3. 

MinCo - reconciling both home and host-country effects and promoting ‘best practice’

MinCo was established as a joint stock limited company and listed on the New York Stock and Hong Kong Stock exchanges in the early 2000s. It is a leading metals and mining companies in China. MinCo owns 49 subsidiaries with Standard & Poor’s ‘BBB + ’ rating
(MNC3-DOC-2). It has passed the accreditation of ISO 9000, ISO 14000 and OHSAS 18001 Standard Implementation, suggesting the company lays stress on quality control and standardization (MNC3-OB-R-1). MinCo entered the Australian market through a wholly owned subsidiary (MNC3-DOC-3). The current project in northern Australia involves a mine and a refinery plant, and the firm is seeking other investment opportunities in Australia (MNC3-OB-R-2).

MinCo’s motivation to expand their business overseas is an explicit resource-seeking strategy as explained by HQ6:

MinCo wants to ensure the long-term supply of mineral resources from Australia. There is a serious shortage of supply from our domestic market. Many processing companies in China do not have sufficient raw materials to process. The market demand for the resources in China will be huge for a long-term. (Lines 15–17)

This HQ-level international business strategy is in line with Bartlett and Ghoshal’s (1989/1998) international strategy – ‘low global integration and low local responsiveness’. The reason for investing in Australia was partly because of the similarity of mine ores in Australia and in China, and the advanced refinery technology owned by MinCo to process this type of ore. Thus, MinCo’s Australian affiliate can adapt and leverage the parent company’s competencies, such as the processing technology. The international strategy – to exploit the parent company’s knowledge and capabilities through worldwide diffusion (c.f., Bartlett and Ghoshal 1989/1998) – is reflected in the Australian subsidiary’s operations.

The Australian subsidiary executives view IHRM as a major challenge to their investment goals. This is reflected in the explanation from AS7:

IHRM is a major challenge for our Australian operations. MinCo has expertise in technologies and has no problems in terms of finance and equipment. The key for success is not technology or finance but people. HRM policies and practices in our Australian subsidiaries should fit with the Australian environment which is very different from China, and should fit with MinCo’s strategic needs. (Lines 31–35)

In addition, Australian CEO AS6 argued that cultural distance and conflicts are major issues for Chinese expatriates working with Australian colleagues:

... the culture gap is a big issue for Chinese companies to become an Australian entity or enter into the Australian market because they don’t understand such a gap yet. (Lines 248–250)

In order to deal with IHRM difficulties, the IHRM strategic consideration has become important. When asking MinCo’s SHRM consideration, centralization appears to be the current strategy in selecting managers. As HQ7 (the HRD at headquarter level) explained:

The senior level positions are usually appointed through the policy of ‘promoting within’ and the HQ usually consults the executive about deputies. The HQs of MinCo control the appointment of senior positions in the Australian subsidiaries. But, decentralization is more likely in future. At this stage, our company is searching for the appropriate HRM policies. We expect to develop our own managerial skills by sending our expatriates although we use many local residents to fill in senior positions. (Lines 95–102)

However, it is clear that company HQ has a commitment to integration as HQ7 further stated:

At employee level, we want Australian subsidiary to adopt a HRM system that is the same as Australian companies or other MNCs operating in Australia. In fact we would like our subsidiaries to adopt local ‘best practice’ HRM. (Lines 47–49, 82–87, 120–126)
When discussing specific IHRM policies that MinCo plans to implement in overseas subsidiaries, it can be found that two features, such as ‘reconciling both home and host country effects’ and ‘promoting best practice’, are embedded in their SIHRM mindset. For example, HQ8 argued that

We do pursue good employee practices to secure both workers’ efficiency and employee loyalty. We hope these good values can be transferred to our overseas subsidiaries (Lines 201–203)

HQ7 echoed

We do not want people to believe Chinese labour standards are lower than those of Western countries. We want to adopt an HRM system that has at least the following characteristics: high productivity, harmonious labour relations, abiding by host country regulations, respecting local cultures, having positive effects on the local community, learning from local firms and host managers, and transferring knowledge back to headquarters (Lines 51–62)

Manager AS8 concurred that MinCO intended to have a long-term operation in Australia

A long-term operation needs harmonious relations with local communities and consistent supply of qualified employees. Accordingly, HRM needs to be of high standard, particularly in remuneration and training. MinCo will not only use, but also develop, local employees. Given the short supply of skilled workers in this sector, we have to be competitive in HRM policies to attract workers. The home HRM policies and practices that are regarded as being effective, such as cost-based performance appraisal will influence the HRM policies of our Australian subsidiary (Lines 162–177)

The MinCo case provides an example of a Chinese MNC making an effort to transfer effective HRM practices used at home to their host-country subsidiaries, though some practices are also common ones in the host country. These include (a) ensuring high efficiency, monitoring and management training and development, (b) employee corporate citizenship and understanding of organizational culture and (c) equal opportunities in recruitment and selection of talented people

6. Discussion
6.1 Case summaries

This study aims to address the characteristics of the SIHRM of Chinese MNCs, and how Chinese MNCs’ IHRM strategies facilitate their investment and operation overseas. It is evident that Chinese MNEs link their people management to their international business strategy mindsets, that is on how the firm reconciles the need to be both globally integrated and locally responsive. Anchoring SIHRM in the strategic components of Chinese MNCs (e.g., their IBS consideration and international operations), strategic aspects of Chinese MNCs’ IHRM are explored. The three case studies altogether demonstrate the four exogenous factors identified by Schuler, Dowling, and De Cieri (1995) in their SIHRM framework, namely the structure issue of an MNC, the MNC’s internationalization orientation, its competitive strategy being adopted, and the MNC’s international experience in managing international operations. A brief summary of key findings is presented below (see Table 3)

Although each Chinese MNC has its unique internationalization process, and different approaches to recruit and manage international HRs, it was found that some patterns of Chinese MNCs’ SIHRM can be grounded from the three case firms within the consistent institutional environment (e.g., the same type of ownership, the same type of entry mode and identical home and host countries for each case MNC). For example, BankCo’s SIHRM is to reform its organization structure and HRM mechanisms so that they can
Table 3. A brief summary of key findings.

<table>
<thead>
<tr>
<th>Chinese MNCs</th>
<th>Ownership</th>
<th>Host country</th>
<th>IBS</th>
<th>SIHRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>BankCo.</td>
<td>State-owned</td>
<td>Australia</td>
<td>Transnational</td>
<td>Organizational transformation (e.g. structural mechanism and control flexibility)</td>
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<td></td>
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<tr>
<td>ChemCo.</td>
<td>Multi-domestic</td>
<td></td>
<td></td>
<td>Lao Tzu's Wu Wei principle (active non-action):</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>MinCo.</td>
<td>International</td>
<td></td>
<td></td>
<td>Reconciling both home and host country effects;</td>
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</table>

attract capable bankers in host countries. Child and Smith (1987, 570) argue that when the need to act under some emerging 'objective conditions' appears, organizational transformation is then triggered. When Chinese firms expand their businesses to overseas, their previous organizational controlling mechanism is a constraint. The findings from BankCo are in line with the findings of Yiu, Lau, and Bruton (2007), who argue that the organization transformation process is necessary to turn MNCs of emerging economies into competitive players in the global market. Jing and McDermott (2012) call for more studies to detail the transformation process of Chinese state-owned enterprises (SOEs), because the organization transformation is one of the most significant phenomena in the Chinese modern management world along with Chinese economic reforms in the past 30 years.

Lao Tzu's *wu wei* (active non-action) thought is captured in ChemCo. Tsui et al. (2004, 17) term the *wu wei* thought as the 'invisible leadership'. They argue that the invisible leader might 'be more desirable or appropriate' in 'professional organizations with a highly educated workforce involving strong professional norms', because these types of leaders would be able to delegate and empower rather than direct and control. ChemCo adopts this Chinese traditional managerial philosophy and heavily relies on HCNs, and transfer the company into a learning organization. This SIHRM approach facilitates their multi-domestic strategy to enhance the degree of local responsiveness. This strategy also echoes Gong's (2003) empirical finding – MNCs’ longer presence in a host country requires the development of trust relationships with HCNs, and thus a reduced need to deploy parent-country nationals (PCNs). Although the choice between HCNs and PCNs are depending on a number of factors, such as the cultural distance between the home and host countries, industrial setting and subsidiary characteristics (Harzing 2001), the findings from Chem Co. reveal the Chinese multinationals’ current constraints, that is, international human resource deficiency. China lacks personnel who possess international management skills, sufficient knowledge about market conditions of host countries and a good understanding of the intricacies of international business (Forbes and Butt-Philip 2011). The ChemCo case demonstrates how Chinese MNCs can overcome their HR constraints through 'invisible leadership'.

MinCo is an example of how to reconcile the home country effects and host country effects to promote HRM best practice in Australian affiliates. Gooderham and Nordhaug (2003) argue that best practices are those with which the MNC is most familiar, or those that appear to generate higher performance, regardless of the subsidiaries’ location.
Similarly, Brewster and Mayrhofer (2011, 53) contend that ‘in most companies and in most circumstances, it appears that best practice is the one used in the headquarters country’. The MinCo’s finding illustrates that these arguments may not be valid for MNCs from emerging markets operating in advanced economies. The top management team (TMT) of MinCo did not transpose their proven ‘effective’ home-country HRM practices to their Australian subsidiary; rather, they have attempted to integrate local nationals into the mainstream of management in the foreign subsidiaries. It is possible that this management strategy is a result of MinCo’s limited international experience and its learning status as an emerging market MNC.

6.2. Implications for theory and practice

MNCs from emerging economies have been catching the attention of the business world as well as the academic community. There is, however, little research on the SHIRM of Chinese MNCs to unveil how Chinese MNCs link their people management to their IBS, and how this has influenced the firms’ overseas behaviour (cf. Cooke 2009; Warner and Nankervis 2012; Zhu, Thomson, and De Cieri 2008). This study is an effort to address these research gaps.

This research has significant theoretical implications. First, it is one of the pioneer studies to examine Chinese MNCs from the perspective of SHIRM and answers two future research questions in Zhu, Thomson, and De Cieri (2008, 144) – ‘How does outward FDI affect the integration of strategic HRM into Chinese MNCs?’ and ‘What is the role of HRM and strategic HRM in outward FDI in Chinese firms?’ Second, through providing new empirical data, this research reveals how Chinese companies treat outward investment as a learning process to gain and maintain competitive and as an opportunity to reform their outdated mechanisms, which also responds Cooke’s (2009) call for future research on Chinese MNC managing their subsidiaries as learning channels. This furthers our theoretical and empirical understanding of the behaviours of Chinese companies. Third, this study has made an advance on the methodology associated with China-based SHIRM research. Kim, Wright, and Su (2010) recommend that further SHIRM research should improve its methodological rigour, noting that most China-based SHIRM studies collected HR systems information through a single respondent. Accordingly, this study targeted senior managers for their strategic know-how, and introduced the ‘cross-level’ unit of analysis, including both the HQs and MNC subsidiaries, and valid findings at the two data collection waves over a four-year period. The cross-level interviews with referring to multi-source data (e.g. archive and observation) enhance the validation of the findings and also test the extent to which subsidiary-level executives understand the mindset of the senior managers at the company’s headquarters.

The findings have significant implications for Chinese MNCs and HRM practitioners. To successfully implement its international business strategy, the HR manager of an MNC must understand the competing concepts of global integration and local responsiveness in its expansion plans. In addition, the HR manager of HQs should liaise with expatriates and the management team in their subsidiaries to ensure that the international expansion programmes are implemented as desired by the TMT. In simple terms, a strategic international HR manager should run all errands regarding the transfer of resources and labour from the home country to the host country, or vice versa (De Cieri and Dowling 1999). By means of ensuring a smooth transition of leadership and the distribution of the HRs in all subsidiaries allotted to the MNC, HR managers are responsible for maintaining HR ‘best practice’ within the organization, hiring new employees while still promoting good working conditions for all the employees working for the MNC in their different business units.
6.3. Limitations

It should be noted that this three-case qualitative research does not aim to generalize findings, but to obtain a better understanding of the IHRM strategy of Chinese MNCs. The extent to which these findings are generalizable and the extent to which these SIHRM approaches can improve Chinese MNCs’ operating performance overseas are subject to validation from further research by using larger samples of Chinese MNCs or emerging market MNCs.

The main limitations of this contextualizing study are the unitary of entry mode strategy and ownership among the three Chinese MNCs. All subsidiaries in the study are WOS and all case Chinese MNCs are large sized and state owned, though the overwhelming majority of Chinese MNCs are SOEs. Although this particular research design was to minimize the impact of various forms of institutional environment, future research can explore the SIHRM in private-owned MNEs and joint-venture enterprises. In addition, this study lacks subsidiary-level performance analysis, which is important to indicate how MNCs’ IHRM strategies effectively lead to positive outcomes. Future study could investigate the linkage between Chinese MNCs’ SIHRM and their organizational performance.

7. Conclusions

As a major source of outward investment among emerging economies, Chinese MNCs provide an ideal opportunity to study the patterns of their behaviour, whether their behaviours are different from those of their counterparts of developed countries. Such studies have significant theoretical and practical implications for international business. Since the research on Chinese MNCs is still in its early stages, much work is required to obtain a better understanding of Chinese MNCs and their SIHRM with ‘Chinese characteristics’.

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Note

1. This policy was released at the 16th Chinese Communist Party (CCP) National Delegate Congress – the fourth meeting in Beijing during 16–19 September 2004.
References


