

# 1 *Introduction: economic transition, multinational corporations and employment practices at workplace level in China*

Since China embarked on the journey to economic reform and opened up to foreign investment, the country's industrial landscape has changed significantly. Taking incremental and experimental steps, the Chinese government has re-introduced market competition to the economy, relaxed control over business operations and allowed under-performing state-owned enterprises to go bankrupt. In the northern provinces, the home of large-scale state-owned factories, structural problems have largely restricted the development of the region. While the old factory towns have struggled to regain vitality by restructuring the state-owned enterprises (SOEs), the eastern and southern coastal areas have proven to be more successful in generating industrial output by attracting privately owned, collective-owned and foreign-invested companies. Given the locational advantages and preferential policies offered by the local government, a large number of investors have chosen the coastal regions to set up manufacturing plants. China has thus witnessed a decline of the traditional factory towns in the inner areas and the emergence of new industrial clusters alongside the coastal economic centres.

Structural transitions from a centrally planned economy to a market-oriented economy have been followed by changes in many aspects of employment relations in China as well. Public sector and enterprise reform in the 1990s entailed departure from the dominant *danwei* (or work unit) system, which used to offer employees lifetime employment, healthcare, company accommodation and child care. The government's role has changed from major employer to employment relations regulator. Companies in the non-state sector, including the foreign-invested manufacturers in the new industrial clusters, have increased in importance as employers. Employment contracts have been adopted to specify the rights and responsibilities of employers

and employees. A social insurance system, whilst as yet underdeveloped, is expected to provide employees with the social benefits that used to be covered by the *danwei*.

Market-oriented reform has also led to the birth of new employee groups taking jobs at multinational corporations (MNCs). Downsizing of the SOEs created the “40/50” group, who were laid off in their 40s or 50s with some redundancy compensation. This group of employees are trained, well disciplined and keen on finding work again in the rising urban sectors. But given their long years of employment in the SOEs, employers may find it difficult to train them to fit into a different company culture. The second new employee group is the “peasant workers”. China has a huge surplus of rural labour. While some of them work in township and village enterprises, many move to the urban areas for jobs. Fast industrialization as a consequence of the economic reform also encourages the move of labour from the agricultural to the industrial sector. With few qualifications, “peasant workers” often take up jobs with low skill requirements in the new industrial clusters. Peasant workers often migrate to cities for work and return to their rural home after a few years and they fill many short-term and temporary jobs. The last group of employees that forms the urban workforce are young students and graduates. The number of university graduates entering the labour market in 2010 was ten times more than that in 1989. The number of vocational school graduates has also increased fourfold during the same period (National Bureau of Statistics of China, 2011). Some secondary school and high school leavers also join the labour market each year. Rapid growth of vocational and higher education reflects the Chinese government’s dedication to improving the quality of the local labour force (Cooke, 2005b). However, since the expansion of education has outpaced the demand for students and graduates in urban areas, this group find it hard to secure jobs that match their qualifications and have to take on low-grade jobs. They often aim to advance their career by accumulating work experience which improves their professional skills. This diversity of experience, skills and career perspectives among employees has become an important feature of the emerging labour market in China.

Restructuring of the existing industrial base and development of new manufacturing clusters, changing industrial relations and diversity of employee groups raise questions of how firms can secure and develop the skills for specific jobs, control and direct desirable

workplace behaviours, and retain talented employees. This book aims to reveal how different employment practices emerge, become institutionalized and function at MNC subsidiaries in China's new industrial clusters. Here, employment practice is a social construct built by the actors involved in employment relations (Morgan and Kristensen, 2006). Through the stories of managers who have been at the heart of developing appropriate employment practices, the book will be able to offer an actor-centred perspective in understanding how the conflicts and contradictions reflected in managers' actions shape the development of distinctive employment practices at subsidiaries which share similar competitive market pressure, institutional context and corporate strategic orientation.

Three types of managers' actions are considered to be particularly relevant to the development of employment practices: (1) management learning (which means managers can upgrade employment practices through exploring existing knowledge bases and interacting with each other); (2) political networking (which means managers develop employment practices by deploying various bodies that have the power to direct or influence employment-related decision-making); and (3) strategy enactment (which means managers can contextualize corporate human resources (HR) strategies by translating general employment policies into specific measures to manage employees. More detailed discussion of this analytical perspective is included in the following section.

In order to study the actions of managers who enact employment practices at workplace level, I employ an ethnographic approach, a distinctive feature compared with others in this area who have relied mainly on short-term visits and interviews for data collection. By working in, living with, and observing at four foreign-invested manufacturing plants located in one of China's new industrial clusters, I gathered narratives from a wide spectrum of people: expatriate managers, local managers, supervisors, line managers, group leaders, shop-floor workers, inspectors, office clerks, gatekeepers, guards, drivers, cooks and wardens. These voices have not been heard before, yet they are the critical actors in China's transformation through foreign direct investment.

This introductory chapter contains four sections. The first section summarizes the general theoretical background and aims to indicate the gaps in the existing literature on MNCs in China. The second

section discusses the possible contributions and limitations of studying employment practices at workplace level (or subsidiary level) by taking an actor-centred approach. The third section considers the possible merits and limitations of using ethnographic methods to research employment practices at workplace level. The last section gives a preview of the structure of this book.

### 1.1 Employment practices of MNCs in China

There has been extensive debate on how MNCs manage employees in China (Lu and Björkman, 1997; Björkman and Lu, 1999; Björkman, 2002; Cooke, 2004; Gamble, 2003, 2006a, 2006b, 2010; Walsh and Zhu, 2007). Researchers fall into different camps. On the one hand, there are those who endorse the idea of “progressive management transfer” of modern employment/HR practices (Goodall and Warner, 1997; Björkman et al., 2008a). To these authors, MNCs’ ownership of capital, technology and managerial expertise and China’s lack of an established “local management model” allow MNCs to reproduce some established home-country practices in their Chinese subsidiaries. They argue that the widespread use of information technology in recruitment, training and performance assessment processes, the rise of HR consultant bodies and the growing number of HR professionals in China will make the transfer of standardized employment practices possible. Moreover, the Chinese government’s interest in “modernizing” and “upgrading” the country’s industry often encourages local firms to adopt established employment practices as well. The problem with this approach is that employment practices are viewed as a set of techniques that are context independent. The underlying assumption is that such techniques can be taken from the social setting where the practices originated and be reproduced in a different social setting. In reality, China’s immature labour market, non-transparent state–business relations and underdeveloped social infrastructure often challenge MNCs’ attempts to apply some sophisticated management routines and practices, making direct transfer impossible (Gamble, 2000).

Contrary to the “progressive management transfer” thesis, scholars taking an institutionalist perspective emphasize the “strength” of national institutions in shaping management practice within both national and multinational companies (Hall and Soskice, 2001). These

authors argue that different national business systems force companies to adopt employment practices that conform to the host country's institutional settings. For MNCs, organizational structures and employment relations developed in the home country's institutional settings cannot be completely transferred to the host countries, where a different national business system is beyond the control of any single MNC (Whitley, 2005). While recent writings on national business analysis have started to address the dyadic relation between management practices exercised by MNCs and national institutional changes (Morgan et al., 2003; Whitley, 2007), they tend to argue for the persistent nature of dominant patterns of management practices embedded in different institutional settings.

If the national institution argument is followed, we should be able to observe evolving commonalities in the ways employees are managed in China. However, an increasing number of empirical studies have unveiled a wide variety of different ways that employees are managed (see Zheng and Lamond, 2009, for a review). These findings continue to remind us of the difficulty of generating a single "Chinese model" of employment practices, if such a model can ever be generalized at all. It is therefore more important to analyse how and why different employment practices function in MNCs in the Chinese context.

Three theoretical perspectives have often been used by existing studies to explain the different employment practices observed in China: a contingency approach, a corporate strategic choice perspective and a political economy analysis.

The contingency argument would suggest that such environmental and organizational contingencies as industry sector, cross-country institutional differences, corporate structure and strategy, company size and international experiences, inter- and intra-corporate networks affect subsidiary employment practices in important ways. For instance, large-scale firms are more likely to adopt sophisticated employment practices compared to small ones (Björkman et al., 2008a). Wholly owned subsidiaries tend to transfer parent practices more than joint ventures (Ma, 1998). Parent practices are more systematically adopted in greenfield subsidiaries than in brownfield subsidiaries (Sharpe, 2006). MNCs that intend to develop innovative capacity in China are more likely to adopt sophisticated employment practices to attract talented locals than those MNCs relocating low-value-added production to China, where the surplus of unskilled workers allows companies

to use foolproof techniques to control production costs (see Cooke, 2004, for a brief review).

Important as these observations are, the findings of this book reveal a different picture. Contrasting employment practices were observed in foreign-invested companies, despite the fact that these subsidiaries shared established contingencies such as size, age, ownership, international experience, location, production mode and product range, which shows that a simple “contingency-employment practice match” cannot offer sufficient explanation. In order to gain a better understanding of why and how subsidiary employment practices differ, I argue that we need to look beyond the “internal fit” within different employment/HR practices or the “external fit” between employment practices and contingent factors facing subsidiaries. Instead, we should move the research focus on to the process by which subsidiary employment practices are developed. By doing so, the research findings in this book will provide a theoretical corrective to the contingency-based and functionalist thinking reflected in some international human resource management (HRM) literature (Milliman et al., 1991; Schuler et al., 1993; Taylor et al., 1996).

The second strand of research emphasizes firm-specific motivations and choices in shaping different subsidiary employment practices. Extending the strategic choice argument, which suggests that management practices are the bounded and actively constructed choices of organizational actors (Child, 1972, 1997), subsidiary employment practices have often been explained as a planned and rational choice of headquarters in the face of the dual pressures of home-country legacy and host-country locality (Brewster et al., 2008) or the triple imperatives of standardization, differentiation and dominant “best practice” (Pudelko and Harzing, 2007a). MNCs are seen as boundary-spanning actors and hence are not simply tied to national territories. Their international capabilities give them the power to extend their competitive advantage by allocating financial, technical and managerial resources internally so as to take advantage of global-scale operations (Dunning, 2003). MNCs have adopted different international competitive strategies (Porter, 1986; Prahalad and Doz, 1987; Ghoshal and Bartlett, 1994), developed distinctive entry models (Kumar and Subramanian, 1997; Chung and Enderwisch, 2001; Nakos and Brouthers, 2002) and assigned different strategic roles to the subsidiaries (Paterson and Brock, 2002). Since MNCs would be able to achieve better performance if

employment practices were linked to their corporate strategy (Porter, 1986), subsidiary employment practices are judged to have to serve the needs of different corporate internationalization strategies, rather than simply conform to local settings.

The common ground for many studies following the strategic choice analysis is that the management of MNCs has tended to tackle subsidiary employment practice from the headquarters' perspective. For a long time, studies of MNCs tried to address their capacity to extend their existing competitive advantage by transferring technological and management expertise to overcome the barriers of operating in a foreign country, where the subsidiaries were obliged to comply with local legal codes, labour market conditions and institutions that moderate corporate competitive advantage. However, it is naïve to believe that subsidiary diversity in terms of organizational structure and management practices is merely a planned reaction to institutional differences across countries (Ghoshal and Nohria, 1989). This plays down the capacity and choice of the subsidiaries where the construction of employment practices took place and diverse employment practices evolved. The findings of this book show that the fact that companies had similar employment practices did not mean that management used these practices for the same purpose. This result indicates that the functioning of employment practices is often re-institutionalized at subsidiaries, where subsidiary managers address their needs both in the overall corporate strategies and in locally developed subsidiary-level strategies.

Taking a strategy enactment perspective, which argues that any organization is an open system in which the social construction and interaction of organized actors ratify environmental constraints (Smircich and Stubbart, 1985), this study challenges the assumption that corporate strategies decide subsidiary employment practices. We explore the contextual and historical meaning of employment practices at the workplace level because it is at the workplace level that practices are understood, enacted and institutionalized. Moving from the planning side to the enacting side of the story of how subsidiary employees are managed, this book shows that subsidiaries have developed distinctive employment practices following their parent companies' strategic reorientation in China. As parent companies redirect corporate strategies over time, subsidiary managers are able to reposition their companies within the overall corporate strategy and develop employment

practices to address the need for such new subsidiary roles. Findings in this book hence add subsidiary-level dynamics to the corporate strategy–subsidiary management debate by showing the enacted and complex, incremental and political side of subsidiary employment practice development.

The third theoretical perspective, which does take subsidiary actors into account in understanding why subsidiary employment practices differ, is the political economy approach. Unlike the corporate strategic choice perspective that sees subsidiary employment practices as planned and rational choices, the political economy approach suggests that political struggles among organizational actors moderate the market pressure and institutional constraints which shape subsidiary management practices (Quintanilla and Ferner, 2003; Edwards, Colling and Ferner, 2007; Ferner et al., 2012). This approach is very useful in capturing the complexity involved in the development of subsidiary employment practices. However, Edwards, Colling and Ferner's (2007) study was based on a single case of an American company located in the UK. They came to the conclusion that internationalization of MNCs and the institutional transition of the host country has squeezed the scope for workplace-level diversity. This conclusion needs to be tested in different country contexts, because the USA and the UK are both liberal market economies and share important institutions in terms of how firms are governed and organized. Zou and Lansbury's (2009) single case study of a Korean automobile manufacturer in China reconfirms Edwards, Colling and Ferner's conclusion that subsidiary employment practices are constructed through competition between different actors. However, because of the single case-study research design, they were not able to take the argument further in terms of the extent to which actors' choices make a difference to employment practices when the subsidiaries are facing similar environmental and organizational constraints.

Given the transitional nature of the Chinese economy and the scale and economic diversity of China, the country offers a pertinent setting to assess the scope allowed for actors to develop alternative management practices that could conform to organizational needs and compete with their rivals. By locating our multiple case studies in subsidiaries with shared contingencies, this book aims to advance the discussion of how actors' assessment, interpretation and negotiation make sense of the relevance of existing management prescriptions. To this end, the

book does not support the view that expatriate managers dispatched from the headquarters to fill management positions in subsidiaries are a homogeneous category of management labour representing the interests of their parent companies and executing parent company decisions at the subsidiary level. The research evidence and argument of this book is that expatriates are more heterogeneous in terms of their interests in the subsidiaries and relationships with the parent companies and hence the actions they take in developing subsidiary employment practices. Nor, and crucially, are local managers viewed as representing merely *local* interests. Rather, both sets of subsidiary managers – expatriates and locals – are considered as actors with competing interests and agendas within and outside a given MNC (Perkins and Shortland, 2006). These political interests and agendas are learned through and embedded in the interaction between subsidiaries, parent companies, sister plants and local business partners, a point that will be further illustrated in the following section.

## 1.2 Analysing MNCs' subsidiary management in China: an actor-centred approach

As mentioned earlier, the focus of this study is the actors, especially those at workplace level. To assess how actors succeed in developing subsidiary employment practices, three types of subsidiary-level forces are considered: those derived from the composition of the management team, those from the power relations embracing the subsidiaries, and those from the interactions and choices among different parties in the networks where the subsidiaries reside.

Subsidiary actors are important because the composition of the management team sets the physical boundary of the subsidiary knowledge base, which in turn shapes subsidiary management teams' learning capacity to take on management practices adopted elsewhere. "Management learning" is broken down into three categories in this study: cognitive learning, routine-based learning and social learning (Hong et al., 2006). Cognitive learning refers to the capacity of actors who, individually and collectively, acquire, distribute and store knowledge (Huber, 1991). Routine-based learning concerns the behaviour patterns that an organization adopts in the process of obtaining and updating knowledge (Cohen and Bacdayan, 1994). In addition, the book will also show the socialization of subsidiary actors so that

particular routines are sustained within the subsidiaries. By locating management learning in the subsidiary context in which employment practices are developed, this book will show the selective and progressive construction of employment practice at workplace level.

If the existing knowledge base is the foundation for subsidiaries to learn from internal or external bodies about how to manage employees, then power relations within the organizational networks allow managers to use their knowledge purposefully in order to achieve particular goals. As discussed earlier, the construction of employment practices at workplace level is an interactive and complex process. Construction here, as conceptualized by Child (1972, 1997), is an ongoing management process, in which structure and environment affect the process not only as external (objective) constraints that the management team deal with, but also as internal (subjective) constraints that managers can rely on to deal with the external constraints encountered. Studies of international HRM often use the headquarters–subsidiary distinction, exploring the roles of expatriates and local managers as representatives of the interests of headquarters and subsidiaries respectively. However, different expatriate managers are from different backgrounds, fulfil different roles, and have various interests and career goals. Likewise, local managers' search for autonomy, their interest in the subsidiaries and their career development strategies will affect their choice of how to develop subsidiary employment practices. Managers do not necessarily need to agree on adopting particular employment practices. Rather, subsidiary employment practices may result from conflicts among managers and be subject to change. Managers may also form alliances with different groups to make changes to or maintain existing subsidiary employment practices. Construction of subsidiary employment practices is often achieved through political networking, where managers collaborate and compete to secure individual or group interests.

Finally, the book incorporates the strategy enactment approach into the analysis. Strategic planning is important. Subsidiaries can take different steps and follow distinctive patterns in implementing corporate strategies. But it is not only the headquarters that can act strategically (Kristensen and Zeitlin, 2005). Subsidiaries have the capacity to learn from, as well as resist the influences of, the parent company and various external bodies. Diverse employment practices at workplace level are here contested processes through which headquarters' strategic