China's Evolving Human Resource Management: The Impact of Global Networks

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Abstract China's increasing participation in global business networks through both inward and outward foreign direct investment is impacting upon the country's human resource management, itself a relatively recent feature of Chinese managerial control. This paper, however, will focus on how inward investment is influencing human resource management in China, in line with the country's growing emphasis on high tech manufacturing and the growing importance of the service economy. In tandem with such developments emphasis will be placed on the impact of managerial practices instituted by multinational companies as a means of organisational control and the current need for innovation demanded by the knowledge economy. The evolution of China's human resource management reflects the transition from a command to a market economy. Many previous studies have focused on the application of North American style human resource management in China; in contrast, this paper seeks to assess the impact of EU practices in Chinese enterprises. Consideration will be given to such features as employment market intelligence, appointments, assessment of employee performance and training. In summary, within the global and Chinese contexts, the paper will examine the measures taken by both Chinese policymakers and multinational foreign investors in the human resource management field and how successful such strategies have been in mitigating cultural clashes between Chinese and foreign employees in the workplace. These aspects of control and organisation necessarily reflect China's growing role in global and Asian regional networks.

Keywords Human resource management · Foreign direct investment (FDI) · EU investors

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Introduction

China's companies are increasingly involved in global, and especially, Asian, regional business networks and this is impacting upon the structure and style of Chinese management through both inward and outward foreign direct investment. While this paper's focus is the influence of foreign human resource management on employer–employee relations in China, ultimately Chinese cultural values and norms may have implications for Western manufacturers in their home territories, as China invests in ventures overseas. Thus two-way cultural interaction could emerge.

The evolution of China's human resource management must be seen within the context of attempts to create the harmonious society, a policy increasingly emphasised by President Hu Jintao and Premier Wen Jiabao since the 17th Chinese Communist Party (CCP) Congress in October 2007, at the base of which is the construction of a consumer society and culture. This emphasis on domestic consumption is driven by both foreign and domestic factors. China has come to be regarded as the workshop of the world but this still involves mainly labour intensive manufacturing, and such products are now facing export barriers in the United States and the European Union (EU) as well as competition from developing Southeast Asian countries, to which the Chinese are currently outsourcing some of their low-tech production. Accordingly, in order to progress up the high tech value added chain, the Chinese leaders are pursuing a policy of indigenous innovation (*zihu chuangxin*) to complement and perhaps ultimately supersede foreign technology transfer to China, thereby enhancing competitiveness on both domestic and global markets (Sheridan 2011).

Additionally, while Marxism–Leninism justifies the one party state, in practice the CCP leaders are staking their legitimacy on rising living standards for the population as a whole, as expressed in harmonious society policy. As personal incomes increase, a greater range of differentiated goods is required because expectations rise. Current stress on social harmony indicated its previous absence, given the growth of social divisions in China since the institution of economic reforms in 1978. In the Marxist–Leninist parlance of the CCP leaders, contradictions exist in China's society, as personal and regional inequalities have surfaced. In addition, there are new social strata like the entrepreneurs associated with the burgeoning private industrial enterprises and the multitude of technological experts at various levels of the state sector and foreign enterprises, as well as professionals like lawyers operating in an increasingly complex social setting. These changes are leading to what is known in the west as civil society, a phenomenon which the CCP leaders seek to control, reluctant to see it develop independently of government.

Through the harmonious society the CCP leaders seek to reconcile these conflicting interests by constructing a new system of social controls, with both material and spiritual dimensions, somewhat reminiscent of Confucianism, a social morality which stressed the correct ordering of human relationships. Thus, on the one hand, manufacturing productivity is to be enhanced, while on the other social progress is achieved through rising living standards (Xue et al. 2006). The latter is facilitated, as discussed later, by higher wage levels, one agenda of recent labour legislation.

The above has referred to culture in a wider social context but, as Warner and others have pointed out, Confucianism, clearly integral to harmonious culture, is being employed as a framework of values which can underpin modern management theory and practice in general and, more specifically, the control of human resources, as interpreted by the Chinese (Warner 2009).

In short, this paper will examine ongoing developments in Chinese human resource management, taking account of both indigenous cultural influences and the impact of foreign practices, specifically from EU countries. This focus contrasts with many previous studies which have examined the influence of North American style practices on Chinese enterprises. The main hypothesis of this study is that certain features of foreign human resource management are becoming *de rigueur* in labour relations in China and these, in tandem with domestic cultural values, are leading to the emergence of a number of different hybrid styles and structures.

China's Knowledge Economy and the Influence of Multinationals

In view of the above stated need for Chinese manufacturers to move into high-tech value added industries, the purpose of this section is to provide an overall view of how foreign direct investment has been influencing China's human resource management practices. In the days of the command economy and even in the years following the post-1978 economic reforms Chinese managers had no conception of human resource deployment as understood in Western countries; labour was centrally allocated to industry and leadership was hierarchical and authoritarian. As, however, China's industries have become more knowledge intensive and increasingly part of global business networks, employees are subjected to more sophisticated means of control. They need to be given greater initiative and undergo training in response to market change. Production is then informed by quality and service rather than quantity (Xue et al. 2006; Dong and Li 2009). These trends thus necessarily affect management; as decision making is necessarily delegated and dispersed, so organizational structure becomes flatter (Liu 2009). In addition, the young entering knowledge industries are more individualist and less collectivist in attitude than their predecessors; competitive salaries and opportunities for training are increasingly sought. Moreover, as Chinese enterprises, whether foreign invested, state sector or private, compete for highly qualified graduates, incentive mechanisms will become crucially necessary to retain staff (Zeng and Su 2009; Liu 2009; Wu 2009; Wang 2009). Thus, as Chinese enterprises face fiercer competition to recruit and retain qualified staff, human resource management, though still in its infancy, is developing, with recruitment, remuneration, performance evaluation and training more and more systematized (Zeng and Su 2009).

Foreign investors will undoubtedly play a role in fostering talent. Since the 1980s the Chinese motive in encouraging investment from overseas has been the input of capital, managerial expertise and technology transfer. Certainly, in tandem with globalization and China's World Trade Organization (WTO) membership since 2001, the foreign sector has made a contribution to China's labour deployment

practices but nevertheless obstacles to successful cooperation between the host and incoming parties remain (Zeng and Su 2009). In short, China still needs to import qualified scientific and technological manpower, expatriates being employed for such functions in Sino-foreign ventures, and this impedes the process of localisation, as discussed more fully below (Wu 2009). Reliance on foreign talent can in any case only be a temporary measure; ultimately, only when, for example, indigenous marketing skills are utilized can greater Chinese brand recognition be achieved and competitiveness globally enhanced (Wang and Li 2008).

The Chinese leadership, in setting policy, must necessarily take account of the factors driving the motives of foreign investors, one of which is educational provision, and this in turn determines the extent and effectiveness of Research and Development (R&D). Official sources state the need to increase investments in education, both in terms of quality and distribution nationally, stressing that the standard and structure of human resources are key to increasing the rate of flow of FDI and its technological content. Thus, when a country's average per capita receiving higher education rises, so also does the annual increase in FDI (Yan 2009). But while the role of human resources in promoting FDI has been well documented, less research has been undertaken regarding the relationship in reverse. Nevertheless, the presence of high-tech FDI will certainly create a demand for technological expertise (Xu 2009; Yan 2009). This logic could explain the regional variation in the incidence of FDI which has been unevenly distributed in China, with the Eastern coastal region enjoying an abundance of high-tech industry. In contrast, multinational investment in the central and Western areas of China has been relatively low; small and medium-sized companies in labour intensive industries, involving mainly simple processing, have been predominant and R&D centres few (Xu 2009). Thus, although R&D investment in China has been increasing rapidly in recent years, expenditure in relation to product and sales was 1.73 % in 2003. It is nevertheless internationally recognised that an enterprise can only survive when its spending ratio reaches 2 %, with a figure of 5 % required for competitiveness. In fact, the global 500 companies currently exceed the latter figure, with computer software giants spending from 15 to 25 %. There is a lesson here for Chinese domestic companies; only a well financed R&D environment served by high quality personnel can guarantee competitiveness against multinational rivals. (Wu 2009). Needless to say, as discussed above, such human resources are key to attracting FDI.

In addressing these issues, the CCP leadership during the years of reform has pursued a scientific and educational strategy to stimulate economic growth, with the gradual universalization of higher education as a main objective. In time the success of this policy will attract high-tech FDI. But while currently R&D spending is inadequate and quality personnel too few, foreign investors are advantaged by low cost in comparison with developed and even some developing countries. For instance, the cost of employing computer software personnel in the United States is nine times China's and India's is twice the latter's (Wu 2009).

Focus on highly qualified R&D personnel underpins the increasing targeting of the domestic market by foreign investors. In the early years of the post-1978 reforms China's leaders emphasised the export of mainly labour intensive manufactured goods but the harmonious society demands domestic consumption

of high-tech products, thereby providing potentially greater opportunities for foreign investors.

In spite, however, of the great advantages like low, even though rising, labour costs and administrative guidance by Chinese authorities in such advanced areas as Pudong, Shanghai, foreign ventures face a number of challenges to their competitiveness (Wang and Liang 2000).

In 1999 the Fiducia Consultancy Company conducted research into European enterprises investing in China, concluding that there were key factors in successfully penetrating the market. In addition to such elements as strategic commitment from company headquarters, concomitant full preparation, seconded expatriate personnel and good relations with Chinese local authorities, the report focused on the ability of local staff, adaptation of a brand to a local market, quality control, advanced technology and effective distribution: all factors which involve cultural integration within an enterprise and, ultimately, localisation (Wang and Liang 2000).

A premium is therefore placed on the loyalty and technical competence of local Chinese employees, especially in industries where the value added content is high, given the increasing presence of foreign multinationals in fields like pharmaceuticals, instruments and chemical engineering as well as the service sector, all areas which require personal initiative and innovation (Xu 2009).

Especially under the command economy, employer–employee relations were informed by personal relationships rather than legal enactment, and promotion, for instance, was based on political criteria and length of service rather than technical competence per se. In contrast, foreign investors generally come from advanced countries with developed legal systems governed by concomitant arrangements; business management systems are thus formalized. Nowhere, for example, is the legal imperative more apparent than in attitudes towards intellectual property, where in China enforcement is weak, and ex-employees have taken trade secrets to competitors. (Wang and Lin 2009; Wu 2009). Some aspects of state enterprise culture, however, like employee identification with the company as community and welfare agent, may be harnessed and blended with western-style scientific management features in order to achieve cultural integration through a corporate culture, a *sine qua non* of successful localisation (Jin 2009; Wang and Lin 2009).

In general, there are two discernible stages in the localisation of human resources by multinational enterprises in China. In the 1980s and 1990s basic employment training in such firms was provided for Chinese workers in labour intensive industries involved in processing and services, while technological personnel and higher management were seconded from the home country. During the second stage, from the year 2000 onwards, senior management ranks have been filled locally, being recruited from master's and doctoral degree graduates who have studied in famous universities and scientific institutes in China as well as from Chinese trained overseas. Thus, in many multinational companies, a high proportion of top management has been locally sourced (Wu 2009).

Apart from cost advantages where, for instance, local managers are paid less in terms of salaries and benefits, localisation confers certain other advantages, especially in marketing areas. Local staff understand Chinese cultural variables and market trends and can better target consumer tastes, particularly when they have

been trained in-house in marketing techniques or in some cases through secondment to the multinational's home country (Wu 2009; Wang and Liang 2000). There is also linkage here to branding; by 2008 China had more than a thousand R&D centres run by multinationals, mainly concentrated in the computer, electronics, cars and pharmaceutical industries (Wang and Li 2008).

This section has examined the human resource demands of the knowledge economy and the role played by multinationals. Educational reforms were seen as crucial in attracting FDI and furthering localisation of functions in order to target the growing Chinese consumer market. The localisation issue was highlighted. The next section examines the impact of EU investment on China's human resource management.

EU Human Resource Management in China

This section examines the adaptation of styles of EU human resource management to the Chinese context.

In contrast with their Japanese counterparts who originally targeted export markets from their Chinese operations, EU investors have generally focused on China's domestic market, a trend now in line with Hu Jintao's idea of the harmonious society. There has also been less processing trade between EU companies and China. EU manufacturers have also met the Chinese requirements for capital and technology transfer; this is attested to by the quality and size of investment projects which have on average been longer in time than those from Japan (Pei 1999). The key to success is to follow Chinese priorities for national development, as concessions in the form of tax incentives for inward investment are phased out. The focus now is on competitiveness, whether against foreign competitors or increasingly Chinese domestic rivals (Dong and Li 2009). Thus while in the 1980s and 1990s EU investors brought new products and technology to open up the Chinese market, in the twenty-first century they have moved towards innovation. When, for example, France's Peugeot Automobile Company entered into partnership with the Guangzhou Car Company in the 1990s, they only brought in car models which were outdated in France but when, after 7 years, the French side joined a new partner, the Dongfeng Car Group, they begun to manufacture a new model (Dong and Li 2009).

But while EU and Chinese partners officially share a commitment to innovation, there exist still cultural barriers that impede necessary experimentation and risk taking (Dong and Li 2009). Brief reference has already been made to the entrepreneurial mindset demanded by the knowledge economy, as opposed to the initiative lacking authority system of China's former command economy. In addition, it was suggested earlier that there were certain commonalities linking the Chinese and Japanese cultures. There is, however, a wide gulf between EU and Chinese social traditions. In general, EU business management and labour relations are contractual, being held within a legal framework, and the development of innate talent among both managers and workers is encouraged. The right to challenge the decisions of higher ranks is accepted, even though it may not be without risk. Focus

is on career development and training; a spirit of scientific experiment adjusts to markets. The caveat must nevertheless be added that there are variations in business cultures between European countries; the German system, for instance, tends to be more communitarian than its Anglo-American counterpart, with worker representatives, for instance, present on directors' boards. Thus, in its sense of the enterprise as community, the German system may have some commonalities with Chinese tradition. Chinese sources have commented on the failure of Sino-European joint ventures to achieve cultural coordination; EU standards have been excessively emphasised without regard to the Chinese environment in which they are operating. The secret is to create a common culture blending different European and Chinese elements. Chinese workers and managers appreciate western work habits where they further market competitiveness; they are therefore likely to be converted to practices which guarantee effectiveness (Dong and Li 2009). This is borne out by conversations the author has had with British investors in the Chinese market. Through a programme of training and demonstration of results, such as a renowned brand profile and increased market share, an innovative and entrepreneurial mindset may be created (Dong and Li 2009).

In this context the automobile industry is significant, given that in 2009 the Chinese market overtook that of the United States, with ten million vehicles sold (Hutton 2010). The extent of cultural integration, briefly introduced above, is shown in the following case studies. The first is the joint venture, Shanghai Volkswagen, the car manufacturer, where management have sought to create a corporate culture by blending the political control developed by the CCP and the human resource management practices imported by the foreign partner. Since the Second World War German industry has been known for worker representatives on company boards of directors, as mentioned above, and democratic management is seen as enhancing motivation at Shanghai Volkswagen. This so-called Common Management Culture, including trade union representation, is said to play a role in a number of areas discussed below: appointments, remuneration setting, performance assessment, training, labour dispute resolution and welfare.

At Shanghai Volkswagen the trade union seeks to ensure the protection of worker rights through assisting in the negotiation of collective and individual contracts with management as well as ensuring against infringement. Fundamental to motivation is competitive remuneration, and at its inception Shanghai Volkswagen's management set up a work unit evaluation committee, with representation from the human resources department, the organization department and the trade union, with responsibility for setting criteria of assessment of workers and managers, on which performance related pay and training would be based. A feature of the wage grading system, designed to create incentives, is emphasis on personal competence, thus moving away from former reliance on position, academic qualifications and length of service in pay setting. This system takes into account the demands of the work unit as well as internal training, in order to set the wage range. Moreover, a penalty for those who do not meet the demands of the work unit is redeployment.

In addition to the provision of such incentives, the input of worker opinion in decision making is intended to prevent the incidence of labour disputes. Ostensibly to this end, trade union representatives attend the enterprise directors' board

meeting as non-voting delegates and act as a transmission belt for worker views. Similarly, at a fixed time every season trade union representatives and enterprise administrators hold a consultative meeting to resolve issues relating to the workforce.

In short, it is the task of the trade union representatives to ensure that the legal rights of the workforce are not infringed. Furthermore, where infringement has taken place, trade unions and staff and worker representatives participate in labour conflict resolution committee meetings. Finally, importance has been accorded to the welfare functions. In line with Volkswagen tradition a general affairs section has been set up in the human resource department, its purpose being to further motivation on the job as well as resolve personal issues relating to the family, reflecting the increasing concern with work-life balance (Tang 1996). The above indicates a level of cultural adaptation and a step towards localisation.

That process is also furthered by focus on adjustment to the Chinese domestic market through innovation and marketing strategies on the part of EU companies in general, subjects of a research project conducted by Professor David Bennett of Aston University and two Chinese colleagues, Wang Xingming and Liang Yugu from the Business School of China's Renmin University in Beijing. The research involved a survey covering wholly owned companies from the EU and Sino-European joint ventures in China, concluding that the key to success lay in the development of products specifically aimed at the needs to Chinese consumers and the establishment of a highly effective marketing system. An example is the mobile phone company, Nokia, which in 1988 established an R&D centre in China in order to target up to date software products at the Chinese market, adjusting them to local demands, for instance, through the provision of Chinese language information services. In addition, Nokia has set up retailers and designated repair centres. The company's innovation centres throughout the world have facilitated rapid response to technological change and the demands of competitiveness, although its original research in China has been slower to develop than its adaptation of products to local needs. In the year 2000 a third of its staff and workers were involved in R&D and in 1998 the latter represented 8.6 % of total sales but in the company's operations in China in the former year only a relatively small number of personnel were engaged in research. Moreover, in general, it could be said that such companies have been slower to engage in research in China to open up new frontiers.

The pursuit of original research has, after all, been a motive of the CCP leaders in encouraging foreign investment. It is only recently that successful multinational companies in China have focused on the country's long term development by expanding their R&D organs and cooperating with famous universities in related fields (Wang and Liang 2000).

If innovation is a major element in the localisation process, so also is the chain of command. As a general practice, EU companies have seconded Chinese technological and managerial personnel to the mother country for training, with the ultimate objective of localising most functions; the majority of the shop floor workforce are already recruited locally through the internet. Thus in EU companies over 90 % of staff and workers are Chinese, while general managers and finance directors are from outside China. Gradually, departmental managerial posts are

being localised. There remains, however, an obstacle to finding suitable Chinese high level personnel like marketing managers and finance directors; some sources refer to the theoretical nature of MBA courses, where both teachers and students have insufficient acquaintance with the practical work of multinational companies. Consequently, graduates may not be competent to discharge managerial duties. Case study work and placement in firms during MBA courses should, however, help to fulfil these needs, even though in the short term multinational companies may have to rely on seconded expatriates to fill higher managerial posts. But increasingly Chinese MBA graduates returning from study in the EU and the United States are providing a source of recruitment (Wang and Liang 2000). The evidence suggests that, given that they were sooner to globalise, EU multinationals, like their United States counterparts, have more rapidly engaged in localisation in China than Japanese companies (Wang and Li 2008).

This section has examined cultural integration in the context of EU invested firms in China. Shanghai Volkswagen and Nokia were taken as case studies. In the Volkswagen example such human resource issues as appointments, wage setting, labour dispute resolution and the role of trade unions were discussed. Innovation and marketing strategies formed the focus of the Nokia case study. The problems faced by EU companies as a whole in the recruitment of technologists and top managers, crucial for localisation, were also highlighted. The implications of EU investment for China's future human resource strategies will be projected in the concluding section.

Summary, Conclusions and Implications

Since the economic reforms of the 1980s Chinese manufacturers have been playing an increasing role in global business networks through both inward and outward foreign investment. China's current leaders have inaugurated the construction of the harmonious society which demands an increase in domestic consumption and is driven by both internal and external factors: on the one hand the need to reduce income and regional inequalities at home and a necessity to curb the labour intensive exports which have prompted the threat of trade barriers overseas. China may be considered the workshop of the world but, given the need to remain competitive, diversification of exports demands that domestic innovation supersedes technology transfer. In addition, in order to heal social divisions and satisfy rising expectations, the CCP leaders have passed labour legislation to raise wage levels so that a wider range of domestic goods becomes more affordable. These laws are intended to help provide a framework of values conducive to social stability and they necessarily impact upon human resource management at enterprise level, the subject of this paper.

Before the CCP leaders' reforms of the 1980s the western interpretation of human resource management was unknown in China but the growing knowledge economy demands more sophisticated means of control which are being introduced by multinational investors. In turn, in order to succeed in the Chinese domestic market, foreign investors are seeking to localise both R&D and management. The

main hypothesis of this study was that certain features of foreign human resource management are impacting on labour-management relations in China, producing a number of different hybrid styles and structures. This hypothesis was tested by reference to the case studies of EU manufacturers. In contrast, many previous studies have been concerned with the impact of North American style human resource management in China.

Human resource management, as practiced by two EU companies, Shanghai Volkswagen and Nokia, was then compared to the Japanese experience. EU manufacturers, like the Japanese, have sought to satisfy the Chinese requirements for capital, technology transfer and managerial expertise, although the former's companies have more readily focused on the Chinese domestic market. The Volkswagen case looks at such features as labour contracts, the trade union role, performance related pay, training and conflict resolution. The main focus of the Nokia example is innovation which has helped the company to adapt its products to Chinese needs, even though the company has been slower to conduct original research in China, with only a small number of staff engaged in R&D. It was concluded that EU investors have localised their management more than Japanese companies. Finally, the hypothesis that foreign human resource practices are being adopted in China and consequently hybrid styles and structures are emerging is proven through analysis of EU case studies. The evolving human resource strategies discussed above have undoubted implications for the competitiveness of Chinese domestic enterprises and foreign invested ventures in China alike, especially on China's own market.

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