HUMAN RESOURCE MANAGEMENT STRATEGIES IN THE CHINESE MULTINATIONAL CORPORATIONS: IDEOLOGY, INSTITUTIONS, AND CULTURE

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Abstract:  
With the People's Republic of China (PRC) having inextricably been interconnected with the international economy and with the increasing footprints of the Chinese firms globally, management styles too needed to be evolved accordingly. The generic literature on internationalization of firms does not account for the ideological and institutional aspects specific to China and thus does not do justice to the way the Chinese Multinational Corporations (MNCs) have evolved. Unlike most Western MNCs, the Chinese MNCs keep their roots, in letter and spirit, as they expand internationally. That said, increasing global engagement means they somehow need to align and absorb globally recognized human resource management (HRM) practices. Differences in terms of industries, provincial regulations, national priorities as expressed in the communist party policies, etc., could also be observed. In this literature review, various key aspects of global human resource management that are applicable to the Chinese MNCs are presented.

Keywords: Globalization, internationalization, MNCs, HRM, culture, ideology, strategy, China.

JEL: F66; F23; E24

1. INTRODUCTION

The radical reforms in the Chinese economy that began in the 1970’s with a view to modernize industry, agriculture, defense, and the scientific-technologic enterprises also saw the expansion of the Chinese businesses into overseas territories (Huang, 2011). Since the 1980’s Chinese interests befell equally on acquiring advanced technologies and management practices from the more developed world and the way to achieve this was by means of foreign direct investments rather than by exports. After decades of struggle, with the inclusion of performance management systems, long term fixed contracts, and flexible contributions to retirement, the HR function has now acquired a greater dimension within the Chinese MNCs. The Iron Rice Bowl model that China practiced since the communists came to power ensured everyone had their basic necessities met. These policies however severely restricted innovative behavior – both of the individuals and also of the organizations and institutions (Zheng, 2013).

The Open-Door policy of 1978 was a key game changer. It opened up the doors of China for international entrants while also incentivized the Chinese businesses to seek fortunes abroad. In the first phase of internationalization, the Chinese companies were just obeying the government’s dictates to grow beyond national borders. By late 1990’s, competition at home and the consequent erosion of monopoly acted as an additional push to internationalize. In order to success in other countries, adoption of their time-tested management practices was a basic minimum requirement for these Chinese firms. This has come relatively easier for new, high tech industries; for firms in the manufacturing sector that have a history of deep entrenchment in the Chinese values, adoption of the Western management practices came as a hard bargain. Other factors that determined adoption included the percent of the Chinese financial stake in a foreign venture, the proportion of foreign-born middle-to-senior managers in the subsidiary operations, regulatory stipulations in the foreign country for compliance, and the backgrounds of HR managers themselves (Björkman, Budhwar, Smale, & Sumelius, 2008). Generally speaking, one common desire that is discernable in the internationalization motives of the Chinese companies is the thirst for control, especially at the strategic level, observes Huang (2011). According to this author, the lack of strategic level autonomy in the subsidiaries create a great deal of corporate governance issues as well.
The Chinese HR practices are relatively less codified and informal. The tacit nature of these practices makes it hard to get approval in foreign cultures that value explicit formulations. While the Chinese firms growing internationally tried to codify their management practices explicitly, they lost spirit while retaining the letter. The Country of Origin Effect in the diffusion of HR practices meant the transfer of management ethos (Zhu, Zhu, & De Cieri, 2014); but, given the uncodifiable nature of these ethos, it did not generally result in a significant competitive advantage for the Chinese firms – even when these firms entered and operated in economically underdeveloped regions, say, in Africa or the Caribbean (Alden & Davies, 2006). Armed with active governmental support, Chinese firms compensated most of their shortcomings by means of their shrewd political strategies (Cooke, 2012; Cooke, 2014) and Guanxi (Chen & Easterby-Smith, 2008). This review examines the complex ways by which the Chinese HRM augment the internationalization processes of the Chinese MNCs and simultaneously evolve as a result of these very processes.

II. THE BURDEN OF CULTURE

The Chinese culture is marked by high power distance, collectivism, high long-term orientation, moderate uncertainty avoidance, and moderate masculinity-femininity (Hofstede (1993). The obedience expectation and the need to ensure congruence in China are in stark contrast with the highly individualistic cultural values of many Western nations that regard individual initiatives. High power distance meant that employment allocations were centrally done by the national government. Actually, until the 1970’s, workers were not even allowed to cross provincial borders to find jobs. The managers of the Chinese enterprises did not determine recruitment, selection, performance management; also, the trade unions acted more like an arm of the government rather than as a representation of the employees. The HR function remained focused on ensuring employee compliance with the party-government dictates by means of instituting a punishment mechanism for deviant behavior.

It does not require a wide stretch of imagination to conclude that diffusion of the Chinese HRM to foreign soils would be problematic, even as the Chinese MNCs aspire to maintain a level of standardization in the HR policies and practices. Based on empirical evidence gathered about the socialization practices of Chinese Vs Canadian MNCs’ after their acquisitions in Kazakhstan, Minbaeva & Muratbekova-Touron (2011) observe that the Chinese MNCs’ did not perform so good as the Canadian ones, despite the former’s closer cultural proximity. They both used different kinds of formal and informal social control mechanisms, leading to different degrees of success. There were little incentives, if any, for the managers of the Chinese MNCs going beyond the norms to socialize and communicate, especially if the same meant the expression of some kind of a radically novel behavior or the utilization of a radically innovative business or technological process.

With the Chinese MNCs playing an ever-greater role in determining the direction of globalization itself, the directions in which HR practices evolve and transmit are hot topics that scholars and practitioners alike are interested. Based on the available literature on the internationalization of firms founded in the developed world, one might conclude that their best practices travel to their subsidiaries and get implemented without significant alternations. It is less clear if the Chinese firms (get to) keep their domestically evolved HR practices in their foreign subsidiaries. One would imagine that an MNC emerging from a centrally planned economy would have HR policies that might not augur well in free market economies (Du, Kang, & Ke, 2008).

III. CONVERGENCE, DIVERGENCE, OR CHINA-VERGENCE?

Ralston (2008) postulated that business practices would eventually converge to Western capitalistic models as technological pervasiveness makes the world flat. This has happened in the case of the Chinese MNCs. The Chinese MNCs depend heavily and solely on home grown technologies for business process automation and even for organizational communication; these technologies have inalienable footprints of the Chinese values. If at all anything, the Chinese MNCs tend to practice what Zhang (2012) calls the “bounded convergence”. This is evident mostly in the case of obeying rules in foreign countries. Western HR is tightly coupled with business laws and the Chinese firms think of following these laws as an unnecessary evil; they first try to use their might to flex the laws, especially while operating in a country that has a power deficit. While operating in countries with strong and independent legal systems, they follow the rules, albeit quite unwillingly. In this context, it is interesting to note that Cooke & Lin (2012) advocated the use of political economy perspectives rather than theories of competitive advantage in order to understand the internationalization practices of the Chinese MNCs.
Given an option, the Chinese firms that grow internationally would want to converge their international HR systems with those in the mainland. This is not so much because of the universalism implied by the convergence viewpoint as it is about competitive advantage. The competitive advantage for the Chinese firms is built around cost leadership, efficient production, and, in even simpler terms, cutting the corners. The business leaders want to port this to foreign subsidiaries, even as they want to learn what works better in the other countries. Unless when it is explicitly prohibited by law, a vast majority of middle and senior level executives in the foreign subsidiaries of the Chinese MNCs are Chinese nationals or Chinese born yet naturalized citizens in those foreign countries. This act as a conduit for cultural transmission and ideological control. Companies like Huawei choose to depend upon Western consultants rather than Western leaders (Warner & Nankervis, 2012); this could be interpreted as a solution for taking in advice without giving the advisor to make direct changes. Based on their study of Chinese MNCs in Thailand, AU, Bunchapattanasakda, & Wong (2010) observe that Thai employees did not seem to care about the fact that their Chinese managers did not change their ways in line with the Thai culture. This implies good working relationships are possible despite cultural differences. A question that remains unanswered here is whether the Thai employees’ attitude is related to any perception that the Chinese values are superior (because those resulted in business success).

Nevertheless, the Chinese MNCs are eager to engage with predominant technologies in the overseas communities. Given that technologies are embodied expressions of cultures, this also means an indirect contextualization of management practices. By means of this, the Chinese MNCs have found a way to leverage the benefits of host country adaptations without diluting the influences of their overarching ideological underpinnings (Zhang, 2012). Since the Chinese HRM architectures have less formalization, the leeway to do contingency adaptations while preserving the ideological core is relatively greater. Haier Group Corporation is a good example in this regard: Haier has perfected the concept of Small Business Units (SBUs) and each of these SBUs have got a certain level of flexibility to develop adaptive HR policies and practices.

This discussion should make one wonder whether the Western predeterminations about the Chinese culture are too simplistic: The Chinese cultural traditions are stricter, compared to, say, what we know of as the mainstream North American culture; yet, since the rules for business conduct are not standardized, the Chinese businesses feel a lot freer than their Western counterparts in carrying our nonstandard business operations. In a study comparing convergence versus divergence in HR across three newly industrialized nations, all rooted in the broad spectrum of the Chinese culture, Paik, Vance, & Stage (1996) observes this dynamic in practice. These “three national Chinese cultures” all have developed their own business practices in ways that are suitable for their ambitions and visions.

### IV. What Do Chinese MNCs Say about Their HR Practices

In this section, we will present highlights from the international HR practices of a select convenience sample of Chinese MNCs. The information is drawn based on what is available on corporate websites, public sources, and direct interviews with select mid-level company executives conducted during March 2020. Internal documents that we accessed included publicly available training manuals, financial statements, and press releases. One challenge that we faced in this process was that the available information was not always current or documented in a streamlined manner. Also, some of these needed to be translated into English. The employees that we contacted did share aspects of their companies’ global HR practices but did not wish to be named. Open ended questions related to global recruitment, talent management, performance management, employee mobility, retirement, etc., were asked. Also, most of the companies that we could get hold of were in the technology field. It is held that technology businesses, particularly those in the IT sector, by their very nature, do not know national boundaries (George & Paul, 2020; Shahriar, 2020) and hence any attempt to generalize from this investigation should be taken with a pinch of salt.

**Alibaba**

Alibaba Group Holding Limited (https://www.alibaba.com/en/global/home. NYSE: BABA), founded in 1999, is one of the latest of the Chinese multinational giants in the high-tech sector with global operations in e-commerce. In the process of internationalization, Alibaba actively explored cross-cultural human resource management and constituted a unique cross-cultural human resource management system. On its website, it states it ambition to serve 2 billion global consumers by 2036, even as it does “not pursue size or power”. Before the financial crisis in 2008, Alibaba tried to do large-scale overseas mergers and acquisitions, but did not succeed significantly. In order to take its message better, Alibaba developed different language websites; forming e-
commerce websites and Enterprise Resource Planning (ERP) systems with local characteristics has been a core part of Alibaba’s strategy. Alibaba believes that cross-cultural human resource management should start from local roots of the enterprise but then let layers of customizations. Alibaba believes in leveraging its expansive corporate culture to reduce the cultural conflicts caused by national cultural differences. Based on the differences in national cultures, companies headquartered overseas often have two ways: direct transplantation of headquarter culture and grafting cultures based on the country of operation. Alibaba treads a fine balance between these. Alibaba’s vision has some very interesting elements from the Chinese culture. Say, it says “we aspire to be a good company that will last for 102 years”. This would, albeit symbolically, make it survive during three centuries.

**Lenovo**

*Lenovo Group Limited* (https://www.lenovo.com.cn. NYSE: LNVGY), a Beijing based Chinese technology leader, became popular in the West with its acquisition of IBM’s PC business in 2005 and later with the acquisition of Motorola in 2014. From its modest start in 1984, it now has direct manufacturing or service presence in more than 60 countries and it sells its products worldwide. With the continuous expansion of Lenovo's business in the global market, human resource is identified as a key to the future survival and development of Lenovo. Their three international HR strategies are given below:

First, it is the primary task of HR to build up a strong reserve of talents through what they call talent echelon training. In this system, talent needs are identified futuristically. The rapid development of the company's business requires not only finding more suitable talents for new business, but also developing successors for important forthcoming positions. Second, Lenovo sends outstanding talents to the local markets to identify and nurture future leaders in those markets; waivers from meeting business targets are routinely offered as an incentive to compensate for their involvement in this process. Lenovo believes that one of the most important things in organizational success internationally is to find local successors in different geographical markets that they operate. Lenovo’s Chinese website narrates a case of it once sending a brilliant Chinese executive to Russia, who quickly built up his team, led them through various sales channels, and customized the products. In just five years, Lenovo became number one in Russia in the consumer electronics with a market share of 14.1%. The great thing about a successful global company is that no matter where you go, there are good people willing to join, according to Lenovo. Third, Lenovo recognizes that employees from different cultural backgrounds often have different understandings of the company culture. Only by reaching what it calls *cultural reconciliation* can they better understand the company's global strategy and management. There are often frictions and conflicts between different cultures, and even distrust in the process. To counter these, Lenovo put forward the principle of "honesty, respect and compromise" for everyone. Lenovo ensures that when employees discuss business issues, if there is a difference of opinion, they will put the business topic aside and discuss the culture first: this may be time consuming, but rewarding in the long term.

**TCL**

*TCL Corporation* (https://www.tcl.com. NYSE: TCL), originally named as Telephone Communication Limited, was founded in 1981. It is still controlled largely by the Chinese government entities; yet, nearly half of its revenues come from overseas operations. Its R&D centers, manufacturing, and service divisions are now of global proportions. The corporate slogan “Creative Life” spreads to its HR policies and strategies as well. TCL has made noteworthy efforts to achieve business diversification, product customization, and large-scale production in its overseas subsidiaries. TCL has made bold attempts and actively explored, investing in Germany, Vietnam, and Indonesia to build factories, and successfully acquired Schneider electric company, an old German enterprise, and merged with Thomson group to become one of the largest color TV enterprises in the world. In terms of talent recruitment, TCL policy says the local leaders may decide to recruit local personnel according to the country’s manpower quality availability and expectations. The overseas branches decide the content and method of implementation according to their own specific situations. TCL advises its subsidiaries to pay attention to their country’s work habits, performance evaluation, and retention practices.

**China Telecom**

services. Even as China Telecom’s primary market still remains in China, it does not shy away from strategic partnerships to introduce innovations within China. For instance, in 2011, it partnered with SAP to develop and deploy an *ERP System in the Clouds*, for the benefit of the Chinese SMEs. China Telecom Global Limited (CTG), based in Hong Kong, leads the development of its current phase of internationalization. Currently, China Telecom operates in the Americas, Africa & Middle East, Europe, and Asia pacific. Unlike in the mainland China, the company does not have retail cellular services in most of these regions. The provision of dedicated global communication networks and technology implementation services for Chinese-funded businesses in these regions is their major revenue stream. China Telecom supports financial, logistics, retail, energy, media, and healthcare industries.

According to the company’s internal documents, the HR must be localized because only that would help the company gain the best local employees and customize offerings to the subtle nuances of each locale. An added benefit of co-opting them is that local employees understand the legal systems better. The company, however, keeps almost all of its financial management centralized in China. The HR division and hiring managers at the headquarters are encouraged to think seriously through the costs and benefits of appointing Chinese versus local nationals in key overseas positions.

Serious exploration begins with learning the local culture, says China Telecom’s training manual. It adds, learning the local culture begins with understanding the language because, behind each language, there is a profound cultural accumulation. The human resource manager must communicate working requirements and tasks, but these are not enough; they must understand the cultural consequences of their words and deeds. The company warns its overseas employees in English speaking countries that there would be consequences for not choosing words and expressions in accordance with local cultural thinking. It is primarily the responsibility of the Chinese employees stationed in overseas subsidiaries to help local employees there understand the company's management thinking and intentions. English language learning for middle level managers is listed as a top priority in the China Telecom HR guidebooks. It advocates for “cultural fusion”, a process in which international employees of the China Telecom participate in cultural exchange activities in somewhat of a buddy system with their peers in China and organically adapt to the company culture.

**CNPC**

China National Petroleum Corporation (http://www.cnpc.com.cn/en. NYSE: PTR), founded in 1988 has by now become one of the largest integrated energy corporations in the world. The first stride of its internationalization began in 1993, in Peru. It got publicly listed as PetroChina in 1999, as a result of major restructuring, and then in 1997 in Sudan. The CNPC Exploration & Development Company (CNODC), with 50% ownership by PetroChina, is specifically tasked with the development of overseas assets by means of joint ventures. Although still functioning as a government department, in 2014, it opened some of its business units for private investment. One meaningful way to make sense of its HR internationalization is to look it at operational, tactical, and strategic levels. According to 2017 Fortune 500, CNPC is ranked as the fourth largest corporation in the world by revenue.

For entry level managers, reducing workload, especially reducing transactional processing, and improving management efficiency have become the main requirements in the work. Including the recruitment, training, attendance, management, salary and so on of employees are the transactional work in the personnel management, while the introduction of ERP system in human resource management mainly solves the transactional processing of various businesses of the personnel department at the operational level.

At the tactical level, one might observe a further optimization of human resource management and a greater focus on and commitment to inter-departmental business convergence. Human resource division has many semi-autonomous sub-divisions and these are in an interactive relationship. Therefore, in the human resource management system that CNPC has developed, information and data sharing must be regarded as one of the main tasks to ensure the effective flow of information among these sub-divisions.

At the strategic management level, CNPC promoted a comprehensive talent strategy, especially in developing core technical talents. However, there are still some shortcoming, given the scarcity of technically trained employees to carry out cutting edge explorations in the field. The ERP system that CNPC uses has a strategy level module for talent planning and management and informational inputs for the same are sourced from various subsidiary businesses. Data mining and analytical techniques are built into the system. Subsidiaries could also offer cross-functional training opportunities on the system. The strategic layer also embraces an open system approach to talent management, according to CNPC’s corporate sources.
According to one of the employees that we contacted, CNPC has policies to ensure workplace diversity by means of local hiring and promotion schemes. CNPC has training centers in most international locales and these training centers offer locale specific technical training and professional development programs. Even Chinese employees working domestically within China are deputed to these programs for them to gain the much-needed cross-cultural competence. In her words, “we aspire to be global while remaining Chinese at our core”. She also added that CNPC has a dedicated office in its headquarters to ensure that the company harmonizes both the Chinese government laws and also the laws of the host countries. All these said, CNPC also promises to adhere to certain global values related to personnel management, regardless of where it operates. On the company website, evidences of this policy are available as follows:

“We promote the employment policies of equality and non-discrimination, and provide equal opportunities and fair treatment to all employees regardless of nationality, race, gender, religion or cultural background; resolutely prohibit child labor and forced labor; and always aim to promote the employment of women and ethnic minorities. Specifically, we strictly implement the regulations on pregnancy, maternity and parental leave for female employees, and guarantee that the female employees enjoy equal compensation and benefits and career development opportunities.”


V. CONCLUSION

International business by its very nature very entrepreneurial and it is beyond exception that successful players need to adapt (Tukamushaba, Orobia, & George, 2011). Even as China has been opening up to accommodating the differences in the HR policies of MNCs coming from the developed countries of Europe and North America to its soil (Walsh & Zhu, 2007), the Chinese born MNCs operating in these same foreign countries were expected to follow their labor practices without fail (Farley, Hoenig, & Yang, 2004). The foreign MNCs operating in China however do not take advantage of this openness in full: rather, they generally limit their headquarters influence only in the matters of employee selection, remuneration, worker representation and leave organizational development solely in the hands of the subsidiary managers. The best-case scenario is indirect reporting relationships with geographical regional heads of the MNCs rather than with the headquarters (Walsh & Zhu, 2007). This kind of loose coupling may actually be beneficial in isolating the influences and impacts of China operations from the rest of the company. Also, sometimes this was the only feasible way to jump over the “fences” of institutional and cultural barriers. Cross-cultural issues in employee management are often too nuanced that there rarely is a perfect solution (Jayasundera & George, 2017).

Beyond the regulatory requirements and cultural barriers, Chinese firms seem to be recognizing the superiority of management styles practiced in some of the developed countries and are absorbing key elements from them as a matter of gaining competitive advantage. This was true for other communist countries aiming at market friendly transitions as well (Miller, Henthorne, & George, 2008; Henthorne & George, 2009). Companies like Huawei and Haier have a policy that first line managers should be available to go and serve in any part of the world. In Huawei, during the employee selection process, every applicant should fill out a form to express their willingness to move anywhere the company chooses, even if it is in the toughest place overseas; otherwise, according to the position advertisements, no matter how good an employee is, they would not be hired. This experience is a key pathway for technicians to transition to the managerial career within the company. In fact, most mid-level and senior positions within Huawei are filled internally.

The employees gaining global experience are expected to port back the best practices that they mastered in the foreign soils (George & Rogers, 2018; Zhang & Edwards, 2007). While this may be found sound and fair, the additional burden of getting foreign practices accepted in the home turfs fell upon these firms (Tantawy & George, 2016). Organizational transformation by being a learning organization receptive of external information is the starting point for developing a successful transnational management model (Fan, Zhang, & Zhu, 2013). To make this a bit complicated, the Chinese culture and the institutional actors were relatively less supportive of this reverse diffusion of innovation, while practiced by the Chinese firms.

Based on their analysis of the international expansion of Huawei, Lenovo, and Haier, Warner & Nankervis (2012) observe the above challenge. These companies have transformed themselves into formidable determinants of the contemporary phase of globalization by embracing innovative management and charismatic leadership styles. Yet, the management philosophy guiding their China operations did not change drastically. At least within China, their perspectives give an upper hand to organizations over individuals – even when a clear case could be made that
rewarding employees would lead to organizational excellence. Globalization or internationalization does not necessarily imply globalness, which is a measure of a firm’s commitment to human resource management in its host countries (Li, Qian, Liao, & Chu, 2008). In this regard, even the highly regarded global Chinese MNCs do not score very high.

VI. References

