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# Chinese multinationals' approach to international human resource management: a longitudinal study

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## ABSTRACT

This study explores how emerging market service firms, operating in developed markets, approach human resource management (HRM). Data analyzed in this article were drawn from a longitudinal case study of the Australian subsidiary of a Chinese multinational bank. We find that subsidiary HRM follows host country and global best practices. However, the way that this hybrid HRM system was implemented shows traces of Chinese origin. A key finding from this study is that although our case bank officially adopted a polycentric approach to subsidiary staffing, employing host country nationals, the subsidiary predominantly employed locals with a Chinese ethnic background. We also find the case bank's strategy in international HRM has evolved from a focus on localization to global standardization. This global standardization, however, is shaped in line with global best practices rather than home country management model. These findings highlight the need for future studies to adopt a more nuanced approach to examining international HRM strategies, especially when analyzing host country effect or localization strategy.

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China; country of origin; emerging markets; global standardization; international human resource management; multinational enterprise

## Introduction

A dominant debate in the international HRM literature is whether human resource management (HRM) in MNEs is shaped by a country-of-origin, host country or dominance effect (Pudelko & Harzing, 2007; Zhu, Zhu, & De Cieri, 2014). Research suggests that the specific configuration of the macro environment in which an MNE operates, such as the relative positions of the home and host countries in the global economic hierarchy and the levels of institutional maturity within these countries, has important implications for international HRM patterns in MNEs (Child & Marinova, 2014; Edwards & Ferner, 2002; Pudelko &

Harzing, 2007). Although an understanding of MNEs' management practices requires recognizing the specific combination of home and host country characteristics (Child & Marinova, 2014), existing studies on the interplay of country-of-origin and host country effects concentrate on MNEs from developed economies. MNEs from key emerging markets have rarely been a focus of such studies. Notable exceptions include Andreeva, Festing, Minbaeva, and Muratbekova-Touron (2014) and Zhu (2015). Andreeva et al. (2014) noted that Russian MNEs adopted different HRM strategies for subsidiaries in emerging markets and those in developed economies. This finding underscores the need for an in-depth analysis of international HRM in MNEs from emerging markets operating in developed economies.

The internationalization of Chinese firms has its own particular uniqueness. Firms in China are governed not only by the market forces of demand and supply, but also by the strong political institution of the Chinese government. Although research on Chinese multinational enterprises (MNEs) has proliferated over the last decade, firms from its service sectors have rarely been the focus of individual studies (Sun, Guo, Jack, & Huang, 2015). This represents a significant gap in the literature as the characteristics of an industry or sector influences management practices within MNEs (Child & Marinova, 2014; Tuselmann, Allen, Barrett, & McDonald, 2008). According to Child and Marinova (2014) an industry sector may moderate the relationship between home and host country constraints and firm resources, the specific configuration of which then shapes management practices in MNEs. Therefore, fundamental attributes associated with major service sectors – such as the importance of quality interactions with customers and the high level of global competitive pressure in the financial service industry – may contribute to unique features of international HRM in service MNEs.

We thus ask how emerging market service MNEs approach subsidiary HRM when they operate in developed countries. We focus on a longitudinal study of a major Chinese bank (a firm based in an emerging market undergoing economic transition with a low level of institutional maturity) and its subsidiary in Australia (a developed economy with a high level of institutional maturity).

This article makes three key contributions. First, we find that while formally adopting a localization strategy, the case bank employed predominantly local nationals with a Chinese ethnic background. This finding highlights the need for future studies to adopt a more nuanced approach to examining international HRM in MNEs, especially when analyzing host country effect or localization strategy. Second, this is the first study to provide empirical evidence on a set of HRM policies and practices in Chinese

MNEs operating in Australia. It contributes to understanding how Chinese MNEs manage their international workforce, an under-researched area in international HRM. Third, we use a longitudinal research design to unveil how HRM issues are managed in the case firm over time. By doing so, we redress the imbalance in the literature that ‘... the process view has always played a minor role in the literature on international management as compared to the static perspective ...’ (Kutschker, Bäurle, & Schmid, 1997, p. 102; Welch & Paavilainen-Mäntymäki, 2014).

The article proceeds as follows. First, we discuss the theoretical background around international HRM strategies and the debate over dominance, host country and country-of-origin effects. We then contextualize the country-of-origin effect for this study. Next we describe the research methods. Finally, we report the findings and discuss their implications for research and practice.

### **Theoretical background**

A central debate in the international HRM literature concerns whether HRM in MNEs is shaped by a country-of-origin, host country or dominance effect. Perlmutter (1969) categorizes management approaches in MNEs into three groups: ethnocentric, polycentric and global. According to this typology, management practices in an MNE’s overseas subsidiary can resemble those prevalent in the MNE’s home country (ethnocentric), conform to host country practices and customs (polycentric) or adopt global best practices (global). Edwards and Ferner (2002) propose that employment practices in MNEs are an outcome of the interplay between a country-of-origin effect, a host country effect, competitive pressure for MNEs to integrate international operations (which, in turn, is partly contingent on the nature of the industry) and a dominance effect. Building on this, and integrating debates around convergence versus divergence and global standardization versus local adaptation, Pudelko and Harzing (2007) suggest that MNEs’ HRM practices reflect the interplay among three effects: a localization/host country effect, a country-of-origin effect (i.e. the convergence of management practices within the MNE to the practices prevalent in the home country) and a dominance effect (i.e. the convergence of HRM management practices to perceived global best practices, which often means Anglo-Saxon HRM practices).

The debate on country-of-origin effect, host country effect and dominance effect is primarily underpinned by three theoretical perspectives (for more discussion, see Almond et al., 2005; Pudelko & Harzing, 2007; Zhu, Zhu, & De Cieri, 2014). Proponents of the globalization thesis argue that MNEs are forced by efficiency imperatives, and a global product market

competitive environment, to use best practices universally (Mueller, 1994). MNEs must do so irrespective of national context if they are to sustain their competitiveness. It is argued that management practices in MNEs' subsidiaries are shaped by a dominance effect, with subsidiary practices following the national management model of the country that sets the standards for what are perceived as global best practices (Pudelko & Harzing, 2007).

By contrast, cultural theorists and institutionalists emphasize national differences in management practices and thus provide theoretical support for the country-of-origin effect and/or host country effect arguments. Cultural theorists focus primarily on the values and attitudes prevalent in the home country and how they shape senior managers' decisions on subsidiary management practices (Hofstede, 2001). Institutional theorists emphasize the influence of national institutions on firms' practices (DiMaggio & Powell, 1983). Comparative institutionalists argue that historically evolving societal institutions generate nationally distinct ways of organizing economic activity, and thus management practices reflect the national institutions within which firms develop their practices (Whitley, 2001). Organizational institutionalists argue that foreign subsidiaries face contradictory or competing institutional pressures and need to maintain legitimacy within both the host country and the MNE (Kostova & Roth, 2002; Rosenzweig & Singh, 1991). On the one hand, foreign subsidiaries experience pressures to adopt local practices and become isomorphic within the local institutional context to gain the legitimacy required for them to survive. However, they still encounter institutional pressures from headquarters to adopt home country practices (Rosenzweig & Singh, 1991; Westney, 1993).

Previous empirical studies on country-of-origin, host country and dominance effects have concentrated on MNEs from developed economies. These studies have revealed that although a host country effect plays a significant role in shaping subsidiary HRM practices, MNEs manage to transfer those home country practices viewed as a competitive strength (Dickmann, 2003; Ferner, Quintanilla, & Varul, 2001). Moreover, MNEs from developed economies limit their export of country-of-origin practices to core competences and converge to global best practices in other areas when they operate in developed economies (Pudelko & Harzing, 2007). Andreeva et al. (2014) extend the discussion of host country, country-of-origin and dominance effects to the context of emerging market MNEs, specifically Russian MNEs. They argue that these firms allowed their subsidiaries in developed countries substantial freedom and that HRM practices in those subsidiaries encompassed a mix of global best practices and local practices.

Specific to Chinese MNEs, a number of notable empirical studies have explored their international HRM practices in developed economies (Fan, Zhang, & Zhu, 2013; Shen & Edwards, 2006; Zhang & Edwards, 2007). Shen and Edwards (2006) find that Chinese MNEs operating in the United Kingdom decentralized HRM activities such as training, performance appraisals and employee relations while centralizing recruitment and selection and reward and compensation. They argue that these MNEs adopted an integrative approach to international HRM reflecting elements of ethnocentrism, polycentrism and geocentrism. Using data from six Chinese firms operating in the United Kingdom, Zhang and Edwards (2007) observe that Chinese MNEs allowed their UK subsidiaries to localize HRM practices and that subsidiary management practices were transferred back to headquarters. Similarly, recent studies find that Chinese MNEs utilized Australian subsidiaries to learn advanced knowledge and train expatriates (Fan, Cui, Li, & Zhu, 2016; Fan et al., 2013; Zhang & Fan, 2014). This expatriate training strategy is significant for Chinese MNEs because a lack of qualified personnel, who possess skills to manage cross-cultural operations, has handicapped Chinese MNEs' global expansion (Tung, 2007; Wang, Feng, Freeman, Fan, & Zhu, 2014), and Chinese expatriate managers' inadequate understanding of host country social, legal and cultural expectations are the main sources of cross-cultural work conflicts in subsidiaries in developed countries such as Australia (Wang, Fan, Freeman, & Zhu, 2017).

Few empirical studies have investigated how Chinese service MNEs manage their HRM practices in developed markets. Fan et al.'s (2013) study on the alignment between international HRM strategy and international business strategy in three Chinese MNEs operating in Australia, did include analysis of a major Chinese bank. They contend that international HRM in the case bank evolved from emphasizing global integration/headquarters control to local responsiveness/subsidiary autonomy. This claim is based on evidence that after 2005 the case bank changed its overseas branches into overseas subsidiaries and granted them autonomy to make local decisions, such as deciding salary levels in line with the host country market. However, Fan et al. (2013) fail to investigate what HR policies and practices were in place in the Australian subsidiary of the case bank and to explain how the bank integrated its HRM practices globally. Therefore, it is unclear whether the company standardized HRM practices in line with home country practices or global best practices.

Indeed, existing empirical studies have mainly adopted a static view of this topic, studying HRM in MNEs at a specific point of time and paying little attention to the dynamic nature of MNEs' practices. This is

particularly problematic in studies of MNEs from emerging markets because of the evolving nature of their management practices (Zhu, 2015). This is largely the consequence of their determination and capability to learn, some of their most important competitive advantages (Child & Rodrigues, 2005). We address this gap by adopting a longitudinal research design, exploring international HRM in the Australian subsidiary of a Chinese MNE over a period in which this MNE's management practices were transforming.

### **Contextualizing the country-of-origin effect: HRM in state-owned Chinese MNEs**

HRM in China is in transition as a consequence of China moving from a command economy to a market socialist one (Warner, 2008). The point of departure for this transition is the personnel management model developed within the command economy, a model that still heavily influences HRM in SOEs. This model was characterized by the iron rice bowl, or life-long employment system; egalitarian pay; a centrally administered, cradle-to-grave comprehensive welfare system; a low level of labor mobility; and state-controlled appointment and promotion of managerial staff (Walder, 1986; Warner, 2008). HRM decisions were made by government departments, and thus HRM was not a strategic concern for enterprises. Training expenses were regarded as costs and thus tightly controlled. Proactive career planning for employees was largely absent. Employee performance was evaluated against the criteria of virtue (*de*), ability (*neng*), diligence (*qing*) and actual performance (*ji*).

Since China initiated market socialism reforms, Western-style HRM practices have been increasingly adopted. A hybrid HRM system incorporating some elements of the old personnel management model and some U.S.-based high-performance work practices has emerged in many firms. This reflects China's aspiration to modernize its economy and management system by adapting Western styles of management to the Chinese context (Warner, 2008). However, the adoption of Western HRM practices varies across firms by size and ownership type. In general, adoption levels are lower in SOEs than firms with other types of ownership (Ngo, Lau, & Foley, 2008). Moreover, Western HRM practices are more common in larger firms than small and medium firms (Warner, 2008). Many SOEs are still entrenched in the old personnel management model based on iron rice bowl employment policies and the cadre system (Liang, Marler, & Cui, 2012). HRM in many SOEs may be described as a hybrid system. These firms may have adopted some short-term Western practices such as welfare and promotions, but many



still follow a traditional HRM model that focuses on managing day-to-day affairs instead actively developing employees' potential (Warner, 2008). Employment security and pay equality still characterize employment and pay practices in SOEs (Liang et al., 2012; Warner, 2008).

## Research method

The data analyzed in this study were drawn from a 5-year study of a Chinese bank operating in Australia and formed part of two research programs that focused on employment and HRM practices in Chinese MNEs. The key issues underpinning these research programs included the examination of HR structure and HRM system employed in Chinese MNEs, and the dynamics of the relationship between home country, host countries and globalizing pressures in shaping Chinese MNEs' management practices.

This 5-year period (specifically from mid-2009 to early 2015) is the timeframe for our study. It witnessed a shift in the implementation of China's 'Going Out' strategy – from an emphasis on market and resource seeking motives to urging national champions (our case study bank is a prime example) to improve their international operation capability with the aim to become globally competitive (China Policy, 2017; Chinese Government, 2011). It was during this period that HRM policies and practice in our case bank were transformed.

This study employed a single case study research design because such a design is appropriate for a longitudinal research (Yin, 2009). Moreover, single case studies are important for studying patterns and practices that are undocumented or under – investigated such as the issues under our study (Almond et al., 2005). Finally, such a design allows researchers to concentrate resources on a particular firm, obtaining rich data, extending the depth of analysis and establishing a persuasive case for theory building (Almond et al., 2005; Eisenhardt & Graebner, 2007).

The case bank we chose can be regarded as a critical case that provides interesting conditions in which to explore the phenomenon under our study (Almond et al., 2005, p. 284). It is a state-owned bank with around 80 years of experience operating overseas. The firm's core business is commercial banking, including corporate banking, personal banking and financial market services. It has more than 800 overseas operations in 41 countries. All overseas banking operations are greenfield establishments wholly owned by the case company. It holds a leading position in the financial industry in China and is one of the most internationalized banks in China in terms of its history of overseas operation and the scale of its overseas expansion. It serves as a model for many Chinese banks



and is arguably a good proxy for the future trajectory of many Chinese banks' internationalization.

In this study, we chose to focus on the Australian subsidiary of the case company. This subsidiary has been operating in Australia since 1986. It is one of the top three performing overseas subsidiaries of the case bank. It has nearly doubled in size in the last 5 years, currently employing around 300 people. When the headquarters initiated global standardization, Australian subsidiary had already established a comprehensive HRM system. This makes it an ideal research context for our study.

When selecting our case, we also considered other factors, specifically accessibility and eligibility (Yin, 2009). First, we had comprehensive access, not only to the subsidiary itself but also to key personnel at its headquarters in Beijing, which enabled us to collect rich data. Second, we aimed to study HRM practices and their evolution in an overseas operation of the case firm. Unlike the case bank's small and recently established subsidiaries in other countries, the Australian subsidiary had a relatively comprehensive HRM system. Furthermore, the Australian subsidiary has been in operation for a relatively long time, around 30 years, and the local HR head/director, one of our key informants, had worked in the subsidiary HR department for around 10 years. This enabled us to capture the evolution of international HRM in the subsidiary.

We used multiple data collection methods. Data were primarily collected using semi-structured in-depth interviews supplemented with document analysis and observation. Because this study used a longitudinal study design, we investigated the same phenomenon (see explanation of fieldwork focus below) at time 1 (2009–2010) and time 2, 5 years later, in order to capture the evolution of HR and the dynamics of the relationship between home country, host country and dominance effects in the case. During this 5-year period, we made four formal field study trips to collect data in the case firm: two visits to the headquarters in Beijing in June 2009 and November 2014 and two visits to the Australian subsidiary in January 2010 and January 2015. In addition, two or three informal meetings with the subsidiary HR professionals were held every year to catch up with updates (Pettigrew, 1990).

The fieldwork focused on investigating key issues related to HR structure; headquarters control; major HR activities, such as staffing and recruitment, training and development and employee retention. This focus was reflected in the same set of interview questions used for interviews conducted respectively in 2009–2010 and 2014–2015. Additional probing questions were added to interviews undertaken in 2014–2015,

**Table 1.** Information on interviews and interviewees.

Date	Interviews at Headquarters	Years employed with the company at the time of each interview
10/04/2009	Senior Human Resource Manager	15 years
10/04/2009	Expatriate Management Officer	3 years
21/11/2014	Senior Human Resource Manager	20 years
	Interviews at Australian Subsidiary	
14/01/2010	Human Resource Head	6 years
28/01/2015	Human Resource Head	11 years
28/01/2015	Human Resource Manager	8 years

asking interviewees to identify changes in areas under study. Interviews involved information-rich key informants (Pettigrew, 1990). Table 1 displays the key details of the interview process.

Six semi-structured face-to-face interviews were conducted at interviewees' office buildings during formal field visit trips: two with the senior HR manager and one with the HR officer responsible for expatriate management at headquarters in Beijing; and two with the HR director/head and one with the HR manager at the Australian subsidiary. On average, each interview lasted between 60–90 minutes. Follow-up questions were asked via phone when clarification or explanation was required. Archival data, including company websites and business publications and observation data were collected on visits to the case firm.

Data were analyzed manually using content analysis. Chunks of text in interview transcripts and documents were coded manually as no global policy, high level of subsidiary autonomy, expatriation of parent country nationals to the subsidiary, employ host country nationals, reasons for staffing approach, use of international consulting firm, background of HR manager, or origin of practices (Miles & Huberman, 1994). Later sections of text were categorized by theme and collated to aggregate data to the company level for further interpretation. Themes were generated through a combination of concept-driven and data-driven methods (Flick, 2013). Thematic codes included codes derived from both the literature (e.g. localization, standardization toward global best practice, country-of-origin effect from Andreeva et al., 2014; Perlmutter, 1969; Pudelko & Harzing, 2007; Schuler, Dowling, & De Cieri, 1993) and our data (such as host country nationals with Chinese background). Our approach to content analysis allowed successive iterations between theory and our data set (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). Two separate rounds of coding for data were conducted. Any inconsistencies in coding and interpretation were resolved and documented. Data analysis concluded with the construction of a case study report that was sent to the case company to check for accuracy (Flick, 2013). To identify the evolution of international HRM approach in the case firm, we compared the coded data concerning HR

structure, headquarters control and major HR activities obtained from data collected in 2009–2010 and those collected from 2014–2015 field work. Then, the findings from this comparison were collated with interviewees' response to our probing questions about changes in areas of study. Any discrepancy between the findings from our analysis and interviewees' account of changes were resolved by seeking clarifications from key-informants from the case firm. We triangulated the data collected from respondents with different perspectives (e.g. headquarters and subsidiary perspectives) and data generated from different sources (i.e. interview, documents and observation).

## Findings

We explored how a service MNE from an emerging market approached HRM in a subsidiary in a developed country. Two major themes emerged from our data.

### *The emerging global standardization of HRM*

HRM in the case bank evolved from a polycentric approach to an emphasis on global coordination and control, which boosted the dominance effect on HRM in the Australian subsidiary of this MNE. During our first stage of data collection (mid-2009 to early 2010), both headquarters and subsidiary interviewees reported that headquarters adopted a hands-off approach to HRM in overseas subsidiaries. Global HRM policies were nonexistent. The headquarters awarded overseas subsidiary managers a high level of autonomy in HRM decisions and exercised control primarily over the total personnel expense ratio and performance target. Headquarters rarely requested HR information from overseas subsidiaries. The Australian subsidiary was managed like a 'little kingdom', and its HR department was headed by an Australian citizen with a master's degree in HRM from one of the top universities in Australia:

*We localize HRM in overseas subsidiaries. Headquarters' management over overseas subsidiary is very broad. We appoint executives for overseas subsidiaries and evaluate subsidiary performance as a whole. We manage expatriates. Other HR matters in relation to managing local workforce, we authorize general managers of overseas subsidiaries to deal with them. We do not intervene in these microlevel operational issues ... We did not formulate overseas policies for overseas HRM. Countries vary and it is difficult to standardize [HR policies and practices]. (Senior Manager of HR Department, Headquarters)*

However, by the second stage of field study conducted in late 2014 and early 2015, the company's approach toward HRM in overseas subsidiaries had changed. A global framework was in place that detailed

procedures for recruitment, job structures, performance evaluation, pay structure, attendance management and so on. Subsidiaries were required to follow the policies specified in the global HRM framework:

*In these 5 years, we have made big changes. Five years ago, we focused on selecting and assigning employees to overseas subsidiaries and managing them. Now, with our globalization strategy, [we] not only manage expatriates but also local employees. Local employees [in overseas subsidiaries] are put under global management system. Except the format of employment which is subject to local laws and regulations, the post/position settings and pay and reward system are all globalized. Regardless of local employees or expatriates, they are recruited and assessed under same standards.* (Senior Manager of HR Department, Headquarters)

Australian subsidiary managers reported that the headquarters' intention to standardize HR policies and practices globally was explicitly expressed. Subsidiaries were required to follow the policies specified in the global HRM framework. However, local adjustments were allowed if global policies were not in line with host country regulations. Nevertheless, subsidiary managers reported that the headquarters' control over HRM in the Australian subsidiary was much tighter than before. Subsidiaries were required to report a substantial amount of HR information, such as information on recruitment, pay and performance evaluation, to the headquarters in writing on a monthly basis. *'Nowadays, every aspect [of HRM] should be reported to headquarters while this reporting is to some extent in the nature of being informed'* (HR Head, Subsidiary).

The headquarters' global standardization effort was influenced by global best practices. Both headquarters and subsidiary managers interviewed contended that the case bank was resourceful and had aligned management practice with international practices for years. The headquarters had support from top international consulting firms in designing the global HRM policies, which incorporated the most advanced knowledge and best practices in the world:

*We do many things according to international practices. Even in China, we constantly improve and change according to international practices ... We use very well-known consulting firms and they have to be top five consulting firms in the world specialized in HR. The consulting firms collect information, analyze, compare globally and benchmark for us.* (Senior Manager of HR Department, Headquarters)

The influence of the dominance effect/global best practices on the global HR framework was confirmed by Australian subsidiary managers. The Australian subsidiary had established a relatively comprehensive HRM system based on global best practices and local customs before the headquarters formulated the global HRM framework. Subsidiary HR

managers reported that the pressure for them to adapt to the global framework was acceptable because few aspects of the global framework diverged much from existing practices in Australia. The Australian subsidiary adopted an attitude of learning from, and adjusting HRM practices toward, the global framework whenever possible.

*Our headquarters have resources. They can get most advanced stuff. They are supported by very big consulting firm when they issue any policy. Therefore, policies they formulate will not give us a big surprise. For us, it is more of learning from the global HR policies and implement in our practice. The framework, I feel, and our existing practices are not against each other.* (HR Head, subsidiary)

When global policies were not viable in Australia, the subsidiary adjusted the policies in the global HR framework and reported such adjustments to the headquarters for approval. The headquarters rarely challenged the subsidiary's decisions in this regard. The Australian subsidiary claimed that the adjustments fell within the guidelines of the global HR framework, which, in conjunction with the case company's awareness of national differences, might explain the headquarters' flexible attitude toward these local adjustments. The perceived legitimacy of the headquarters and the high level of alignment between the global HR framework and subsidiary HRM contributed to the smooth implementation of the global standardization initiative.

*I feel we are a typical global company now. Our overseas operation follows the overall basic framework and operate in adaption to local conditions. I feel we are such kind of a company.* (HR Head, subsidiary)

### **Hybrid HRM in the Australian subsidiary**

In general, the HRM policies and practices in the Australian subsidiary were shaped primarily by a host country effect and a dominance effect. They hardly reflected the Chinese personnel management typology in a typical SOE. Interviewees stated that HRM in their company had both administrative and strategic functions and that the HR department reported directly to the subsidiary general manager. However, traces of their Chinese origin could be detected in the implementation of HRM policies and practices. The subsidiary's staffing practice defied the orthodox typology of international staffing approaches – ethnocentric, polycentric or geocentric (Perlmutter, 1969). On the surface, the Australian subsidiary adopted a polycentric staffing approach. About 10% of the subsidiary's workforce was Chinese expatriates and the rest were Australian residents. However, only 1% of the Australian workforce did not have a Chinese ethnic background. The imprint of the home country

cultural heritage on the subsidiary's staffing practices was also revealed in managers' justifications for adopting such a staffing strategy:

*... using people with Chinese background can effectively realize the purpose of management. It is easier to communicate with people who have similar cultural background. With the same skills level and capability to perform tasks, smooth coordination and effective implementation of orders can be better realized with Chinese [than others]. You will find that Chinese people are hardworking and they can develop and progress well wherever they go. Therefore, such workforce is a quality one. (HR Head, subsidiary)*

*Many documents are from headquarters. Rules in these documents are often in English and Chinese. Some of them may be only in Chinese. Because of this, there is a need to recruit such people [employees with a Chinese background]. Moreover, Australia is a nation of migrants and it has abundant capable and bilingual professionals. Therefore, to some extent, our candidate pool makes it easy for us to recruit [such employees]. (HR Manager, subsidiary)*

In addition, the major customer group of the subsidiary was Chinese. Thus, employing staff with a Chinese ethnic background arguably made the subsidiary an attractive service provider for the majority of its customers.

The training and development of employees were an important part of HR department in the case bank. The emphasis on training and development could be attributed to both the headquarters' influence, which was shaped by learning from global best practices, and the institutional constraints imposed by Australia. Both headquarters and subsidiary managers mentioned that the company paid a lot of attention to training and development. The Australian subsidiary was no exception. It had a comprehensive training system that incorporated a wide range of in-house and external training programs. In response to our question about why the Australian subsidiary invested in training, the HR manager made the following comment that highlighted a host country effect:

*First, our company pay attention to this [training and development]. Second, in Australia, you need to invest 1.5%–2% of payroll into training. Moreover, when applying for Visa 457, you need to provide immigration department evidence, stating how much training you have provided to local employees.*

Pay and performance management in the Australian subsidiary reflected the influence of both a dominance effect and a host country effect. Pay and performance evaluation were managed differently across expatriates and host country nationals. The subsidiary adopted a performance-based pay system across both groups, in line with the headquarters' global HR policy guideline. The headquarters stipulated a global guideline for expatriates' salary and specified the pay structure. Executive expatriates' performance was assessed by the headquarters with

assistance from the subsidiary. The subsidiary recommended to the headquarters a salary for the expatriate executive based on the headquarters' guideline and local salary levels. The pay structure and pay level for Australian employees followed local customs. Their salaries were decided by the subsidiary HR department, which was required to comply with the overall framework set by the headquarters:

*For this part [pay and reward system], our headquarters issued a framework. It is very detailed. We can make decisions [on salaries] based on the framework. In general, [salaries] are decided locally but we are constrained by the framework ... By the framework, I mean some conceptual stuff such as total personnel expense and its floating range. When it comes to specific issues such as how much we pay, we make the decision based on our circumstance. (HR Head, subsidiary)*

In general, the Australian workforce was paid at the middle range of the industry salary scale in Australia. The pay structure adopted in Australia was much simpler than that in China, and the Australian employees' salary consisted of salary, superannuation contribution and a bonus. The bonus was based on an annual performance evaluation. The amounts of bonuses varied little among employees working in the same group or department, which indicates application of the egalitarian principle. Individual performance was assessed against performance targets allocated to individuals in a top-down fashion by the manager of each functional department for which the employee worked.

The Australian subsidiary experienced little turnover. Around 10% of employees left the subsidiary annually, much less than the industry average in Australia. Evidence of the subtle influence of country of origin – or, to be exact, Chinese affinity – on employee retention was gleaned from interviewees' explanations of the attractiveness of working for the case bank:

*As a firm with Chinese background, our firm is quite attractive [for employees]. After making some choices, one may feel that his/her expertise can be better recognized and utilized in a growing Chinese firm with long history and reputation of good employment security. Also, in terms of culture, the cultural fit/integration [rong he] is very good. (HR Head, subsidiary)*

## **Discussion and conclusion**

This study advances the debate on country-of-origin, host country and dominance effects in international HRM. Our first major conclusion is that HRM practices in emerging market service MNEs operating in a developed economy are shaped by both dominance and host country effects. This finding supports previous studies that have observed a host country effect (e.g. Ferner et al., 2001) and/or a dominance effect (e.g.



Pudelko & Harzing, 2007) in the HRM of MNEs from developed economies. However, our finding adds some new insights. Previous studies suggest that MNEs from developed economies tend to coordinate international HRM partly around the Anglo-Saxon model and standardize home country practices that are perceived as a competitive strength if host country institutions allow them to do so (e.g. Dickmann, 2003; Ferner et al., 2001). Our longitudinal study shows that host country and dominance effects tend to override a country-of-origin effect in shaping formally articulated HRM policies and practices of emerging market MNEs operating in developed economies.

This finding is a logical extension of the existing literature when the specific combination of home and host country contexts in this study is considered. In our study, the dominance effect was accentuated by both the home and host country contexts. The subsidiary operated in the banking sector in Australia, a developed country heavily influenced by the Anglo-Saxon business system. The high compatibility between the host country and Anglo-Saxon business systems made the subsidiary receptive to perceived global best practices (Dickmann, 2003). In terms of the home country context, the dominance effect plays out in the headquarters' standardization initiatives. Chinese MNEs, and emerging market MNEs in general, internationalize with weak management capability (Child & Rodrigues, 2005; Zhu et al., 2014). Aspiring to learn global best practices and become globally competitive within a specific sector, the headquarters in this study formulated a global HRM framework with the support of big international consulting firms. This dilutes the influence of country-of-origin heritage (meaning the traditional Chinese personnel model) even when the case firm chooses a global standardization approach to HRM.

We did not find a country-of-origin effect on formally articulated HRM policies and practices in the Australian subsidiary. However, traces of country of origin were revealed in the way that the case bank executed Western HRM policies and practices. Although the case bank adopted a polycentric/localization approach to staffing its Australian subsidiary, nearly all host country nationals employed in the subsidiary had a Chinese ethnic background. This employment practice enhanced the effectiveness of management and coordination both between headquarters and the subsidiary and between expatriate executives and local employees. In other words, this made it easier for local employees to accept Chinese management practices, especially the leadership style of expatriate executives. Therefore, the employment of local employees with a Chinese background was dictated by the case firm's embeddedness in its country of origin. A country-of-origin effect was also suggested in the

area of pay and performance management. Although the Australian subsidiary adopted a performance-based pay system, the pay gap between employees at the same level and in the same department was low. The egalitarianism reflected in the implementation of the performance-based pay system was arguably influenced by the ethos of Chinese personnel management model as discussed above.

Our second major finding concerns the evolving nature of Chinese MNEs' approach to international HRM. The approach in the case company evolved from a polycentric approach to one that emphasized both global standardization and local adaptation. This global integration was shaped in line with global best practices, rather than the traditional Chinese personnel management model. In implementing a global HRM framework, our case company allowed its Australian subsidiary a high level of autonomy. The large institutional distance between Australia and China, and the fact that the subsidiary was profitable, gave the subsidiary leverage in selectively complying with the headquarters' global integrative initiative (Ferner, Almond, Colling, & Edwards, 2005). This finding about subsidiary autonomy confirms Andreeva et al.'s (2014) and Zhang and Edwards's (2007) observations about Russian and Chinese MNEs' attitudes toward subsidiaries located in developed economies.

In our study headquarters' attitude toward subsidiary autonomy and local adaptation changed from localizing every aspect to standardizing some aspects of HRM. This differs from Andreeva et al.'s (2014) finding and contradicts Fan et al.'s (2013) observation. Andreeva et al. (2014) find little evidence of knowledge transfer within Russian MNEs or lateral exchanges between operations. The difference between our finding and that of Andreeva et al. (2014) might be explained by the difference in managers' perceptions about the advancement of headquarters' HRM and consequent legitimacy of the headquarters' global standardization initiative. Our case firm had accumulated international experience over a long history of operating overseas. In addition, operating in the competitive financial service industry, our case firm had modernized its HRM through international learning. The firm had built up perceived legitimacy as a modern enterprise and as a source of best practice with support from reputable international consulting companies. All of this contributed to headquarters' confidence in requesting that the subsidiary comply with the global HRM framework, and the subsidiary's willingness to embrace this initiative.

The contradiction between our finding and that of Fan et al.'s (2013) may be explained by the different evidence used to reach the conclusions. Fan et al. (2013) argue that HRM in their case bank evolved from global integration to local adaptation primarily based on

the observation that the bank changed its organizational structure in 2005. Our findings, however, are derived from data provided by both headquarters and subsidiary interviewees in relation to the emerging global standardization initiative and changes to various HRM activities in the case bank.

Despite its small sample size, this study has important implications for international HRM research and reveals a number of promising avenues for future research that have been largely ignored in the literature. These include, but are not limited to, research on the implication for international HRM of massive migration brought about by globalization, MNEs' management practices toward migrants, and the consequence of a staffing approach dominated by migrants with home-country culture ties on cultural dynamics and other aspects of operation in MNEs. Specifically, we identify three areas for future research. First, the finding that this Chinese MNE's polycentric approach to staffing involved employing migrants with a Chinese ethnic background highlights the need for future research to use more sophisticated proxies than a simple indicator of employees' citizenship when examining staffing in MNEs. Second, the finding that this Chinese MNE employed ethnic Chinese to serve its biggest client group, Chinese clients, highlights the influence of cultural affinity in the management of MNEs. This is especially so in the service sector when a particular culture group dominates the customer base. Future research should investigate how characteristics of an industry and a firm's competitive strategy impact international HRM in MNEs. Third, the finding that the headquarters-generated global HRM framework was shaped in line with global best practices and developed with support from international consulting firms underscores two research needs: the need to investigate the role of international consulting firms in shaping firms' perceptions of global best practices and in spreading these practices, and the need to investigate further implications of emergingness for international HRM. Joining Zhu (2015), we call for more research examining how attributes of emerging market MNEs, such as internationalization with weak management capabilities and aspirations to learn global best practices, impact international HRM and management in MNEs across the service sector.

This study also has implications for managers. First, Chinese MNEs investing in developed economies and focusing on customers with a Chinese ethnic background can employ migrants with a Chinese ethnic background if there is a sufficient number in the host country. Doing so can increase coordination efficiency within the organization and improve customers' experience with face-to-face services. Second, MNEs from emerging markets that aspire to globally coordinate their international

HRM should consider measures to increase perceived legitimacy among their subsidiaries before implementing a global HRM system.

### Disclosure statement

No potential conflict of interest was reported by the authors.

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