Talent in China: exploring the issues faced by Australian multinational enterprises

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Abstract: Past research and anecdotal evidence suggests that talent management issues faced by Multinational Enterprises (MNEs) are quite severe. This paper explores the issues Australian MNEs face in attracting, developing and retaining key human talent in their Chinese operations. Utilising an exploratory, qualitative approach involving 20 semi-structured interviews with senior level managers in Australian MNEs, we find that coercive isomorphism in the Chinese regulatory context is a major influence on talent issues. More particularly, the study shows that Australian MNEs experience significant talent shortages, as a result of contextual conditions in the Chinese market. In addition, MNEs experience problems with retention of talent because other organisations, usually Western MNEs, are offering, amongst other things, more competitive salaries.

Keywords: talent; talent management; China; Australia; staffing; MNEs; multinational enterprises; retention; institutional theory.


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1 Introduction

Business in today’s environment has never been more complex. Ever-changing, larger, more diverse and mobile workforces are a common feature. Globalisation continues apace, even with recent worldwide economic difficulties, as MNEs continue to expand their international operations making the management of global workforces a critical issue (Scullion and Collings, 2006). Recently, attention has shifted to the importance of effective talent management (e.g. Boudreau and Ramstad, 2005; Lewis and Heckman, 2006; Boudreau and Ramstad, 2007; Cappelli, 2008; Becker et al., 2009; Collings and Mellahi, 2009). Talent management (TM) came to prominence in the 1980s when the ‘war for talent’ was termed (Michaels et al., 2001) which highlighted that, as human capital was increasingly contributing to competitive advantage, the human talent pool was rapidly diminishing. Indeed, recent evidence suggests that Chief Executive Officers (CEOs) are increasingly involved in the TM process, with the majority of those surveyed spending at least 20% of their time on talent issues and contending that it was too important to be left to HR alone (Economist Intelligence Unit, 2006).

Although still a concept in its infancy, already some have started to question its importance due to the presumption of an improvement in the availability of talent, because of the worldwide recession. This is based on the idea that many organisations have downsized their operations, which has resulted in mass redundancies and increasing unemployment in many countries. However, we argue TM has never been more critical because the identification and effective deployment and management of an organisation’s best talent is a critical factor in organisational sustainability and success. Furthermore, there is little evidence suggesting that talent deficits are over. For example, Boston Consulting Group (2003) had predicted skilled labour shortfalls of some 60 million worldwide by 2020, 19 million of which will stem from China and Japan. Even if this situation has improved, it has not changed to the extent that it is no longer an issue.

Doing business and managing talent in China is arguably more complex than most locations due to the interplay of changing political regimes and the resultant social and cultural differences. China has become a major research context for the past three decades (Zheng and Lamond, 2009), largely predicated on stunning economic growth which, for the past five years, has averaged around 9.4% per annum (DFAT, 2011a). This coupled with a large population and growing middle-class makes China a very attractive market for investors (Farrell et al., 2006). This is markedly illustrated through Foreign Direct Investment (FDI) statistics for 2005 and 2006 which show China received US$ 70 billion worth of investments (Davies, 2007), making it one of the world’s principal recipients of foreign investment (Bellabona and Spigarelli, 2007).

This paper explores the TM issues and challenges faced by Multinational Enterprises (MNEs) in China. More specifically, our research question is: What are the issues and challenges facing Australian MNEs in attracting, developing and retaining talent in China in their subsidiaries? By the end of 2008 Australian investment into China was $6.9 billion (DFAT, 2011b) and in 2009 0.7% of Australia’s total outward FDI stock went to China (Australian Bureau of Statistics, 2010), making China a key location for Australian MNEs and, thus, a worthy arena for analysis.

In addressing this research question, the paper makes three primary contributions. First, little use has been made of an institutional lens in investigating TM issues. We propose that the Chinese context will have a considerable impact on effective TM for Australian MNEs and, hence, utilise the institutional lens as our theoretical framework.
This contention is based on the changing nature of Chinese institutionalism which is highlighted by the fact that labour mobility is only 23 years old because prior to this, recruitment process was centrally run by the communist government using predetermined quotas (Rovai, 2008). Secondly, the paper provides evidence on key facets of TM, a research field very much in its empirical infancy. Most of the studies in this area have, thus far, focused on developed Western economies with the result that little is known about the emerging BRIC economies, i.e. Brazil, Russia, India and China (Bhatnagar, 2007). The different institutional and cultural arrangements of the Asia-Pacific are likely to impact on management practice, thus, organisations may face different issues and challenges than heretofore identified in the extant literature. When one considers the accelerated economic development which continues to gain pace in this region while Western economies flounder, and the reported importance of TM, this knowledge deficit requires redressing. Finally, our focus on Australian MNEs is noteworthy because they tend to be an under-researched and new group of MNEs. Consequently, our research adds to the growing body of work on recently internationalised organisations.

We now review the pertinent literature on TM and then institutionalism which forms the theoretical framework for our subsequent analysis. Following this, we describe the methodological approach adopted in the study, followed by the key findings. We then conclude and set out some future research avenues, as well as the limitations of our study.

1.1 Talent management

The work in the talent management (TM) area has some varied definitions of what TM actually is. Collings and Melahi (2009) and Lewis and Hackman (2006) start with some broad definitions of talent management and argue first that TM was simply a rebranding or relabelling of human resource management activities such as staff planning, recruitment, training and retention. However, more developed definitions define strategic TM as activities and processes that involve the systematic identification of key positions within the organisation. This is opposed to ‘toploading’ the organisation with ‘A’ grade players (Collings and Melahi, 2009). They argue that these key positions need to be able to contribute to the organisation’s sustainable competitive advantage. There is also a need of the development of a talent pool of high potential and high performing incumbents to fill these roles. In addition, the organisation needs to develop differentiated human resource architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organisation (Collings and Melahi, 2009). Therefore, it is important to look at individuals who are in the strategic talent pool, and where they need to go in the future. Therefore, there is an emphasis on identifying and recruiting ahead of what the organisation needs; an important point of the talent management process is to scout for talent and skills for the future. This means that management needs to be proactive and think of skills that they do not already have yet (Collings and Melahi, 2009). Therefore, TM is more than just managing talent.

The resource-based view (e.g. Barney, 1991) focuses specifically on the potential value of the firm’s internal asset stocks for conceiving and executing corporate strategies (Morris et al., 2006). Subsidiary management represents one such vital strategic resource of an MNE (Holcomb et al., 2009). However, shortages of this pool of employees have been reported for some time (cf. Boston Consulting Group, 2003). This is, in part, due to the increasing difficulty of getting people to undertake international assignments...
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(Scullion and Collings, 2006) and the increasing location of FDI in emerging markets (e.g. China) where qualified, experienced local managers are believed to be few and far between (Ketter, 2008). Consequently, TM is believed to be becoming more important as organisations place greater emphasis on identifying, developing and retaining their most talented employees to achieve organisational sustainability and success. TM is likely to be even more critical for MNEs (Scullion et al., 2010; Tarique and Schuler, 2010).

The extant international literature identifies the importance of management having distinct global competencies with the desire to work in culturally, socially and geographically distant countries (Stroh and Caligiuri, 1998; Black and Gregersen, 1999; Scullion, 2001; Björkman and Xiucheng, 2002; Li and Scullion, 2006). We suggest that the traditional model for MNEs managing their overseas operations (i.e. through the location of Parent Country Nationals (PCNs) in senior management positions) is becoming less appropriate because of the difficulties in attracting candidates and the issues surrounding international assignment success (see Scullion and Collings, 2006 for an in-depth discussion). This is likely to be particularly so in the Chinese context. China is likely to add further complexities for MNEs due to the institutional environment that brings additional challenges that organisations from developed Western economies may not have previously faced. We propose that the Chinese host context will be a key issue for foreign MNEs operating there. We now briefly turn to the literature on institutionalism to establish some of the key facets of this theory and why it is likely to have an impact on MNE talent management practice in China.

1.2 Institutionalism

Institutional theory emphasises the influence on organisations of societal and cultural factors as well as the legal environment (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 2008). Consequently, the implementation of standardised global practices may not be straightforward because organisational behaviour will be strongly impacted by environmental factors. Resultant from this, isomorphism, a constraining process which forces a unit in a population to bear a resemblance to other units facing the same set of environmental conditions, may occur, for which three specific drivers have been identified (DiMaggio and Powell, 1983). First, coercive isomorphism is where a powerful constituency (e.g. government) imposes patterns of behaviour on an organisation. Second, mimetic isomorphism occurs when, in times of uncertainty, organisations mimic patterns of successful organisations. Finally, normative isomorphism is the product of professional organisations (e.g. consultancies) disseminating organisational ‘best practice’.

Legitimacy is a key construct of institutional theory whereby organisations need to display both external (being seen as following the appropriate way of doing things in a given context) and internal (as set by the parent company headquarters) legitimacy. Consequently, the host context is likely to have a substantial impact on the TM practices adopted by MNEs (Deephouse and Suchman, 2008), particularly in China to which we now turn our attention.

1.3 Chinese institutionalism and talent management

Since the mid-1980s China has been undergoing substantial institutional change. There has been a move away from the ‘tie fan wan’ or ‘iron rice-bowl’ system characterised by State-Owned Enterprises (SOEs), life-time employment and high institutional
dependency, to a more open-policy type model consisting of diffused ownership and lower institutional dependency (Braun and Warner, 2002). These major and ongoing institutional changes are likely to have major implications for the way foreign MNEs manage their Chinese operations. For instance, up until 1987, the recruitment process in organisations was centrally run according to government predetermined quotas (Rovai, 2008). Hence, labour mobility in China has only been possible for 23 years. Other more recent changes include the introduction of new labour laws to regulate and enhance employment rights on the 1st January 2008 (New York Times, 2008). Changes in the ownership of enterprises in China are also noteworthy. Between 1979 and the mid-1990s, most forms of capital inflows were in the form of Equity Joint Ventures (EJVs), typically, state-owned. Laws introduced in the mid-1990s, and subsequent revisions in 2000 and 2001, mean that foreign firms can establish a Wholly Owned Foreign Enterprise (WOFE) (Linong, 2006).

While the potential influence of coercive isomorphism on management in China is quite apparent, a theoretical article by Björkman (2002) suggested that it was also important to take heed of mimetic isomorphism. Along with the changes in investment forms allowed, mimetic isomorphism is likely to have a growing influence on management practice in China. For example, evidence from Sino-EJVs suggests that the diffusion of sophisticated HRM practices is easier in WOFEs (e.g. Nyaw, 1995). In terms of the management of staff, WOFEs also offer a higher degree of independence, and there is no necessity to accommodate the staffing requirements of a local EJV partner.

Early indications from the limited research base suggest that, as a result of acute managerial talent deficits (Tu and Jones, 1991), TM is emerging as a key issue. Due to the continuing growth of business establishment and an increase in FDI, demand for managerial staff often outweighs supply (MacEachern et al., 2005). Even at a lower level, Chinese labour supply is believed to be problematic, with the current workforce estimated at 790 million, while Manpower (2006) suggests that China will need 1.1 billion workers by 2020. However, the most critical issues have been with respect to middle and senior managerial and specialist technical roles (Brocket, 2006). Furthermore, According to Farrell and Grant (2005), China’s current management talent pool numbers 5000 when it needs 75,000 executives.

The impact of the recent Chinese government’s emphasis on improving management education and training is, as yet, unknown. However, a report by the pioneers of the TM debate – the McKinsey Group – estimated that the 2003 to 2008 period will see China produce 15.7 million university graduates, of which only 1.2 million will be suitable for employment in MNEs due to a lack of the mix of skills and experience that these organisations seek (English proficiency being a fundamental issue). This observation receives some support from Ma and Trigo (2008), who suggest that, despite the changes, the Chinese educational system remains conservative, outdated and struggles to provide the required numbers and calibre of graduates. In addition, traditional managers who are steeped in the practices of China’s SOEs, have considerable difficulty in understanding or embracing modern business norms such as demonstrating flexibility and showing initiative (Manpower, 2006).

Some recruitment strategies articulated in previous research included the use of the Chinese partner’s staff, if it was an EJV, the use of parent country or third country nationals, or Host Country Nationals (HCNs) from the Chinese labour market (Björkman and Lu, 2001). More positively for MNEs and their TM challenges, it has been suggested
employees prefer to work for WOFEs rather than Chinese SOEs or EJVs (Izquierdo, 2007). However, retention of talent seems to present a major issue for business, with turnover rates averaging approximately 20% (Suri and Hou, 2010). This is another new development because the labour turnover rate was virtually zero before the 1990s due to the socialist state restrictions in place (Warner, 1995). The new generation of Chinese managers have different needs from their older counterparts; they are more individualistic, independent and more likely to take risks to gain higher salaries in comparison to the older, more traditional managers (Chen and Francesco, 2000). The move to a market-based system has led to greater prominence of material rewards, with the result that employees are more often motivated to change companies for higher pay (Chen and Francesco, 2000). A further characteristic of China is that salary varies according to cities and provinces (Melvin, 2001), for example, employees would receive 100% in a first-tier city (e.g. Beijing and Shanghai), 80% in a second-tier city (e.g. Qingdao, Tianjin), and 60% in a third-tier city (e.g. Ulanhot, Ankang).

It is clear that China has provided major challenges to foreign enterprises establishing operations. It appears that the institutional environment, which continues to evolve, has become more supportive of foreign investment. However, the extent to which the changes have relieved some of the significant issues MNEs have faced surrounding sourcing and managing human talent, remains unknown. This is in no small part due to the limited research on TM in the Asia-Pacific region which is something we seek to address here. Through understanding the approaches MNEs are taking to meet the challenges, this paper will assist practitioners in showing the range of practices being used, and aid policy-makers by providing information on whether the introduced institutional changes are having a positive impact.

2 Methodology

This study adopted an exploratory qualitative methodology (Yin, 2009) in attempting to determine the types of TM issues that Australian MNEs face in China. This approach was chosen because of the undeveloped nature of TM and the limited amount of research on Australian MNEs. Eisenhardt (1989) suggests qualitative methodologies are particularly useful for studying concepts in their infancy, as is the case with TM (Lewis and Heckman, 2006), because they enable an understanding of underlying patterns, trends and relationships between activities and factors (Welch, 1994). More specifically, semi-structured interviews with senior level managers of Australian MNEs were utilised as the research method. Semi-structured interviews were used to give the interviews some direction while providing the flexibility to explore issues that had not previously been allowed for in the researcher’s thinking.

Participants were recruited through the Victorian membership list of the Australia China Business Council (ACBC), which supported the study. Invitations to participate were emailed to ACBC Victorian members, with follow-up calls made to non-respondents to encourage participation. Due to a relatively low take-up, personal contacts and the snowball technique were also utilised. The snowballing method, common in social science research, involves asking participants whether they could identify other potential interviewees from other companies (Burgess, 1984). The key criterion in
inviting individuals to participate in the study was that they were directly involved in the management of the Australian company’s Chinese subsidiaries. Furthermore, we drew on a wide range of organisations to provide some indication of the potential issues faced across different industries. Table 1 provides a description of the interviewees and the key characteristics of the MNEs in which they worked. A cross-section of industry sectors were represented, including seven manufacturing firms, three in construction and engineering, three finance and insurance organisations, two in the transportation/logistics industry, and others in business and property services, government service provider, mining, law and horticulture. Of the people who were interviewed, five were managing directors, nine were senior managers, five were middle managers and one was a senior lawyer. All were highly involved in the Chinese internationalisation of their enterprises, much of which included spending time in China, including the lawyer who set up their Chinese office. Senior managers were chosen as they had a broad knowledge of their company’s business operations. In terms of entry mode, 11 were a WOFE and the remaining nine were EJVs. In terms of location, the majority had operations in Tier 1 cities, namely, Shanghai (12), Beijing (7) and Guangzhou (5), with the remaining in Tier 2 cities, Shenzhen (2) and Tianjin (2).

<table>
<thead>
<tr>
<th>Company</th>
<th>Company type</th>
<th>Manager interviewed</th>
<th>Industry type</th>
<th>Entry mode</th>
<th>Location(s) in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Banking firm</td>
<td>Senior Manager</td>
<td>Finance and insurance</td>
<td>Joint venture</td>
<td>Beijing, Shanghai, Tianjin and Guangzhou</td>
</tr>
<tr>
<td>B</td>
<td>Architecture firm</td>
<td>Senior Manager</td>
<td>Building construction and engineering</td>
<td>Joint venture</td>
<td>Shenzhen and Shanghai</td>
</tr>
<tr>
<td>C</td>
<td>Logistics business</td>
<td>Middle Manager</td>
<td>Transport and logistics</td>
<td>Joint venture</td>
<td>Shanghai, Hong Kong and Shenzhen</td>
</tr>
<tr>
<td>D</td>
<td>Resources firm</td>
<td>Senior Manager</td>
<td>Mining</td>
<td>Joint venture</td>
<td>Shanghai, Beijing and other locations</td>
</tr>
<tr>
<td>E</td>
<td>Resources firm</td>
<td>Senior Manager</td>
<td>Manufacturing</td>
<td>WOFE</td>
<td>Suzhou, Guangzhou, Beijing and Tianjin</td>
</tr>
<tr>
<td>F</td>
<td>Manufacturer of metal vats</td>
<td>Managing Director</td>
<td>Manufacturing</td>
<td>Joint venture but now WOFE</td>
<td>Changzhou and Jiangsu Province</td>
</tr>
<tr>
<td>G</td>
<td>Government service provider</td>
<td>Middle Manager</td>
<td>Government administration and defence</td>
<td>WOFE/representative office</td>
<td>Tianjin</td>
</tr>
<tr>
<td>H</td>
<td>Automotive component supplier</td>
<td>Middle Manager</td>
<td>Manufacturing</td>
<td>Joint venture</td>
<td>WuHu, Anhui Province, Changsha and Hunan Province</td>
</tr>
</tbody>
</table>
Table 1  Participant characteristics (continued)

<table>
<thead>
<tr>
<th>Company</th>
<th>Company type</th>
<th>Manager interviewed</th>
<th>Industry type</th>
<th>Entry mode</th>
<th>Location(s) in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Flower business</td>
<td>Managing Director</td>
<td>Horticulture</td>
<td>Joint venture</td>
<td>Kunming and Yunnan province</td>
</tr>
<tr>
<td>J</td>
<td>Building firm</td>
<td>Senior Manager</td>
<td>Building construction and engineering</td>
<td>WOFE/representative office</td>
<td>Shanghai, Beijing, Suzhou and Harbin with projects around China</td>
</tr>
<tr>
<td>K</td>
<td>Legal firm</td>
<td>Senior Lawyer</td>
<td>Legal</td>
<td>WOFE/representative office, project based</td>
<td>Shanghai</td>
</tr>
<tr>
<td>L</td>
<td>Automotive component supplier</td>
<td>Managing Director</td>
<td>Manufacturing</td>
<td>WOFE</td>
<td>Shanghai</td>
</tr>
<tr>
<td>M</td>
<td>Building firm</td>
<td>Senior Manager</td>
<td>Building construction and engineering</td>
<td>WOFE/representative office, project/client based</td>
<td>Hong Kong, Beijing, Guangzhou, Shenzhen and Macau</td>
</tr>
<tr>
<td>N</td>
<td>Software firm</td>
<td>Middle Manager</td>
<td>Manufacturing</td>
<td>Joint venture</td>
<td>Chengdu (HQ), Beijing, Shanghai, Guangzhou and Hong Kong</td>
</tr>
<tr>
<td>O</td>
<td>Automotive producer</td>
<td>Senior Manager</td>
<td>Manufacturing</td>
<td>WOFE</td>
<td>Dalian</td>
</tr>
<tr>
<td>P</td>
<td>Engineering firm</td>
<td>Senior Manager</td>
<td>Manufacturing</td>
<td>Acquisition/ WOFE</td>
<td>Shanghai and Guangzhou</td>
</tr>
<tr>
<td>Q</td>
<td>Corporate social Responsibility consultancy</td>
<td>Managing Director</td>
<td>Business and property services</td>
<td>WOFE</td>
<td>Shanghai</td>
</tr>
<tr>
<td>R</td>
<td>Resources firm</td>
<td>Middle Manager</td>
<td>Transport and storage</td>
<td>WOFE</td>
<td>Northern China (Baichuan) and Southern China</td>
</tr>
<tr>
<td>S</td>
<td>Gambling firm</td>
<td>Managing Director</td>
<td>Finance and insurance</td>
<td>Joint venture</td>
<td>Shanghai</td>
</tr>
<tr>
<td>T</td>
<td>Banking firm</td>
<td>Senior Manager</td>
<td>Finance and insurance</td>
<td>Joint venture</td>
<td>Beijing and Shanghai</td>
</tr>
</tbody>
</table>

All interviews were conducted in English and took place, as requested, at the interviewee’s office during the period August to December 2007. Interviews lasted an average of one hour, all were recorded and transcribed to allow maximum data retention and reproduction of verbatim quotations. Some of the key guiding questions during the interviews included: ‘What are the major issues that you are facing in your business at the present time?’ ‘What staffing practices do you utilise in your Chinese operations?’ ‘What are the key HR issues (retention, performance management, etc.) that your business is facing?’ These broad questions were used as they are included in most definitions of TM in the existing literature.
A thematic style of interview analysis was employed where interview data was examined for themes, important events, decisions or occurrences. First, the 20 transcripts were examined for important themes that arose in the interviews. These themes were initially based around our questions asked to participants. From those questions major themes arose pertaining to the theoretical framework of institutionalism in that we anticipated the Chinese context to be a major challenge for effective TM amongst our research participants. In coding the transcripts, key TM practice issues emerged as the most important factors, all of which were impacted to varying degrees by the host context.

3 Results

3.1 Staffing choices

In the majority of cases (14 out of 20) an ethnocentric staffing model was selected by the Australian MNEs (Cases A, B, C, D, G, I, J, K, M, N, P, R, S and T) rather than looking to employ HCNs. However, it was often the preference of these firms to use Australian expatriate managers who had significant ‘China experience’. For instance, the senior manager interviewed in Case D commented that their General Manager had 25 years of work experience in China. While the use of Australian nationals in senior positions was very common, a sole ethnocentric style was not always pursued as there was a policy in many of the case firms of maximising the number of Chinese nationals within their business. This, however, varied in terms of the level of utilisation of Chinese nationals.

Therefore, at face value organisations used an ethnocentric model; however, they also had a preference for staffing their subsidiaries with locals for particular reasons. This included for positions where networks and relationships with Chinese institutions were important (e.g. relationship and trade finance managers, as in Case T):

So for me, it’s been critical to make sure that I get a Chinese local as my relationship manager and a Chinese local as a trade finance specialist, who a) speaks good English, but clearly is Chinese and speaks Mandarin, who knows the local marketplace and has a good network of contacts in the local marketplace, knows how local Chinese banks operate — what are the pitfalls, risks, opportunities. So I am looking for somebody that has got a reasonably real experience, either in a major Chinese bank or in a major international bank in China for some period of time, which can complement my skills.

   Senior Manager, Case T.

This was, in part, due to the view that it is important to have people with intrinsic knowledge of the Chinese ‘way of doing things’. However, the policy of maximising host country staff was also related to difficulties in getting expatriates to work in China. This was related to negative attitudes foreigners have towards China and what living there would be like:

You’ve got to find people that are willing to go, that are willing to cross the cultural divide, span the cultural issues, even to go offshore. In general terms I think in my experiences Australians are more overseas tourists than they are overseas livers. They’re much more timid when it comes to living overseas.

   Senior Manager, Case A.
Consequently, there was also use of domestically based international managers, those who travelled from Australia to China frequently (once every month) or more infrequently (once every quarter, bi-annually or annually). For instance, *Case J* had an Australian-based Director who was responsible for their international operations and would fly to China once every month for two weeks at a time to manage the overall operations and various building projects the company had. A number of participants also noted the use of Chinese nationals with Western education or work experience for their managerial positions. They argued that this strategy provided the organisation with the benefits of having individuals that understood the Chinese culture and context, which was deemed imperative by most respondents, as well as the global, Western business world culture. In addition, some firms have a strategy of recruiting Chinese students who have graduated from Australian universities. However, the managing director in *Case F* provided an interesting example where a major issue arose where they utilised this approach. Specifically, he mentioned the placement of a Chinese national, who had spent a significant amount of his working life in North America, however, as a managing director in China had not been accepted by local staff due to a perceived dilution of their Chinese attitudes and values. This further highlights the uniqueness of Chinese culture and how important the host context is.

*Their managing director in China is a Chinese-born fella who at a relatively young age moved to Canada and then subsequently to the US where he became the employee of this company. Now they’ve put him in as Managing Director in China because he’s Chinese but I’ve discussed him with our managing director who was fully Chinese and he’s of the view that he’s much more American than Chinese. He’s lost it.*

Managing Director, *Case F*.

Further reference to the Chinese context was also forthcoming with respect to joint ventures. Specifically, some Australian firms wanted to utilise local nationals but not necessarily those from their EJV partner’s staff. For example, the middle manager interviewed in *Case C* said they did not want to utilise EJV staff in senior positions because of the SOE background of the employees, who had an old communist mentality which they deemed was not suitable for their business. The Chinese context was also important where regulations imposed by the government limited legal firms employing local lawyers:

*You can’t sign off directly on Chinese law because you can’t employ … the Chinese government still has this barrier, which might go in the free trade agreement, that you can’t employ Chinese lawyers. So you can employ people who are fully qualified to be lawyers, but they’re not actually admitted as lawyers. So you could do basically everything, but the Chinese government sort of won’t let you call yourself a Chinese law firm. You’re still a foreign law firm.*

Senior Lawyer, *Case K*.

### 3.2 Talent deficit

The study shows that talent shortages remain a key issue for a number of organisations although perhaps it is not as difficult a situation as had been suggested in earlier research (Tu and Jones, 1991). Seven of the interviewees reported that they faced considerable
problems attracting the right type of talent (Cases A, C, F, H, J, M and N). The majority of them cited availability of managerial talent as arguably the biggest, albeit not the only, issue. This was also a key reason behind the common usage of PCNs:

… there’s a very tight supply of qualified and experienced labour and that is over the spectrum of employees that you might have, from office administrative people or sales people right through into the workshop.

Managing Director, Case F.

In addition, the managing director’s (Case F) other comments highlight that context is important, for how the organisation can obtain talent and how quickly, “There have been some days when you could snap your fingers and have unlimited numbers of whatever you wanted … they’re gone. That’s quite a big factor now”. This is in no small part related to the increasing location of foreign companies in China and the growing economic significance of China’s economy globally. Therefore, this changed context impacts directly on this organisation’s ability to gain staff.

A middle manager of an automotive manufacturer (Case H) stated that they continue to experience skills shortages, with the main issue being the lack of experience of host country employees, although their aptitude, attitude and willingness were very good. The issue of lack of experience arose in a number of interviews. However, it was not solely mentioned with respect to host country employees but was also noted in terms of the criticality of expatriates having China-specific experience:

It’s very hard to find qualified people. There is a real strain on skilled and qualified resources. So that’s a challenge …. You need the right person to lead the job, and we don’t employ ‘guns-for-hire’ in a senior position like that. Clients now, with the maturity of the Chinese market, expect that person who is leading the project, to have past China experience. You can’t just throw in someone who hasn’t been there before.

Senior Manager, Case J.

The recent global financial crisis may also be having some impact as it was noted by some that they would like to use greater resources, if they could, on recruitment and training and development if they were allowed. Unfortunately, more challenging economic conditions have largely prevented this. Two participants also mentioned problems with recruitment in the provincial areas where they were located. These firms stated that they had to rely on wider recruitment strategies targeting Tier 1 cities where qualified, skilled and experienced staff was likely to be:

For us it’s the people. It’s getting experienced, qualified people into your business, which is probably difficult enough in somewhere like Shanghai. It’s aggravated by the fact you’re in a more provincial area.

Middle Manager, Case H.

3.3 Retention

Retention of staff also emerged during the interviews as a critical issue facing Australian MNEs in China. Some 50% of all participants remarked that this was the case. These firms commented that they were paying greater attention to strategies for retaining their best local employees. However, the mode of their operation in China, and indeed the institutional context, emerged as constraints.
Participants observed that financial motivation was a particularly important factor in staff retention, with the move towards a market-based economy and talent shortages resulting in employees adopting quite capitalist values where they would move to better-paid roles. Some of the EJV-based operations stated that increasing the pay of their best employees was a major issue due to the fact that the SOE which they were in partnership with had limits on the level of pay they would provide to employees. This caused them to be uncompetitive in the local labour market (Case C). However, some participants stressed that while employees may run off to other organisations for more money, they did not believe just paying them more was a sensible, long-term solution. One manager from a car components manufacturer reported that both monetary and non-monetary factors came into play when seeking to retain workers:

*If somebody gives them 10 RMB instead of 8 RMB, they’ll jump. And they just don’t look at the monetary thing. They also look at the canteen food, because we provide them free canteen food. We provide them free transport and we also provide them dormitories. They look at all this sort of thing, “Oh, the Hyundai one, look at their dormitory, that’s nice.”*

Senior Manager, Case O.

A number of participants also commented that they were cautious about spending significant money on training and development activities as a means to retaining employees. They believed this tactic was not particularly successful, as Chinese nationals would still move to better-paid organisations, and they were hit with losing the investment made in costly development activities. There was also concern over spending in the context of deteriorating economic conditions. The middle manager, interviewed in Case H, observed that there was little loyalty from Chinese staff and that it was evident that ‘Western’ methods of motivation and retention were not particularly successful in the Chinese context and there was need to explore different tactics.

4 Discussion and conclusions

This exploratory study found that MNEs face key issues and challenges related to TM in their Chinese operations (Osland and Cavusgil, 1996; Björkman and Lu, 1999). It is evident that the ‘war for talent’ still remains very strong in the Chinese context, with the Australian MNEs competing with other MNEs and domestic Chinese enterprise for the best talent (Ma and Trigo, 2008).

The institutional environment of China emerged as a key issue with respect to the availability of talent and retention. Support is provided to previous research which suggested Western companies in China need to pay greater attention to the Chinese institutional context because it represents a major influence on the ability to attract, recruit and retain highly qualified and skilled local employees (Rovai, 2008). For instance, where EJVs were the Australian firm’s mode of operation in China, some considerable issues emerged. Specifically, some firms noted the inability to increase pay for employees due to the state-owned partner imposing limits on the pay they could offer. Consequently, there is still some hangover from the changes introduced in 1986 which saw a move away from the state regulations that regulated careers and movement of employees between organisations and the practices used (Child, 1994). In addition, our results did not support previous work by Björkman and Lu (1999) who found Western
EJV partners preferred to use staff from their EJV partner, because they were perceived to be more loyal and easier to retain. Here, participants suggested that they preferred not to use staff from their EJV partner due to the typically communist background of many Chinese managers, which was deemed a key, negative issue and an outdated mentality in the global business world of today. It adds to the early work in China by Child (1994) and Nyaw (1995), who found problems remained with the recruitment and dismissal of employees in EJVs in China. It seems that organisations which establish in China as a WOFE, the preferred method of establishment since 1997, are faced with fewer restrictions than those that establish on an EJV basis (Gamble, 2003).

Overall, it is clear that there have been some ‘coercive’ improvements in China in regard to the way human resources are managed, although there is still some way to go, especially in relation to the skills with which students from university graduated. The study demonstrated that some mimetic isomorphism had taken place. For instance, the manufacturer who compared themselves to a competitor in terms of salary and employee benefits, implied that they needed to mimic the behaviour of successful organisations in regards to providing good quality dormitories, to retain workers. In addition, this example revealed that the Australian MNE customised their HRM practice to the Chinese context. From this study, there appeared to be little evidence of normative isomorphism in the Chinese context; however, there is lots of evidence in the public domain of best practice organisations such as McKinsey, Ernst & Young, PricewaterhouseCoopers, who have offices in China and are all busy disseminating best practice on HRM in China.

In terms of staffing choices, the preference by these Australian MNEs was to primarily use PCNs (Tharenou and Harvey, 2006). However, there seemed to be great importance placed on ‘China experience’ (Wong and Law, 1999). In other words, having experience of working and undertaking business in China was deemed very important. In addition, there were indications of the utilisation of Chinese nationals in some senior positions due to the importance of guanxi networks for organisations (Selmer, 2005). This supports the work of Rovai (2008) who argued that in the banking sector the use of HCNs can be very positive for an organisation because they will provide important links and networks to the local community. Consequently, industry sector may be an important factor as services industry players are likely to need stronger links with the local context than manufacturing firms. One company had suggested they used overseas Chinese returnees; students or workers, or what has been termed as Haigui (Jiaojiao, 2007). Chung and Smith (2007) support the finding in this paper that organisations can find it problematic to employ these people because they have a different mindset and values which makes it difficult for them to work within Chinese businesses.

A further issue, which also supports the global staffing literature (cf. Scullion and Collings, 2006), was that Australian MNEs found it difficult to get PCNs to take on international assignments in China. This was primarily put down to the cultural or psychic distance between Australia and China (Lowe et al., 1999). To overcome this challenge, it seems that some of the Australian firms are utilising a broader suite of staffing options than the PCN, third country national and HCN options. Specifically, there was some evidence of use of international commuter assignments, whereby staff commuted from their home country to the host country on a bi-monthly basis (Scullion and Collings, 2006). The utilisation of a multi-faceted staffing approach in China, of both Australian and HCNs, is to be welcomed as it will assist the MNEs in managing the complexities of global integration whilst retaining local knowledge (Gamble, 2003). Indeed, the idea of local adaptation has been suggested as imperative in the Chinese
context (Björkman and Xiucheng, 2002). In addition, the use of expatriate managers may facilitate learning and knowledge transfer among host country employees (Tsang, 2001). An area that was not pursued during the fieldwork was the use of outward flows of HCNs from the Chinese operations to the Australian headquarters (commonly referred to as inpatriates), or to foreign operations to give them a broader international experience. There is a growing body of literature suggesting this represents a useful, viable and increasing staffing option for MNEs (cf. Reiche et al., 2009; Collings et al., 2010).

Geographical location also emerged as a key issue for MNEs. Specifically, the location of an organisation in China had a strong impact on the issues surrounding the attraction and retention of talent. While availability of talent emerged as more difficult in provincial areas, existing research suggests that employee retention is more difficult in the Tier 1 cities due to the greater opportunities that exist (Björkman and Lu, 1999). This suggests that it is not just a national level of institutionalism that causes challenges but that there are more regional sub-systems that also have an impact. It would be interesting to explore whether there are any levels of partnerships between firms within regions to overcome these issues. Additionally, a longitudinal study of how these challenges play out would be particularly welcome as it would allow trends to be observed over time.

The key strategy used for employee retention by the Australian MNEs was to pay more than local organisations or other MNEs, which supports previous research that Chinese employees place a strong emphasis on compensation (Xin et al., 1998; Chen and Francesco, 2000). In saying that, there was a suggestion that a sole emphasis on higher salaries was not sustainable in the long run, and that there is a need to consider other options for improving employee retention. It is worth mentioning, too, that Australian MNEs utilised HR practices that involved non-monetary benefits which were important in retaining workers. The idea of transferring Western management techniques to China was questioned by some participants, which supports previous research. For example, it has previously been reported that Chinese applicants find the use of role plays as a selection method, which is quite common in the Western world, as problematic due to their upbringing and education (Björkman and Lu, 1999). “It may be naïve … to think that Western managers can enter China with an armoury of motivational techniques which have proved useful back home” (Jackson and Bak, 1998, p. 283). Consequently, researchers may look at exploring types of strategies that may be more successful in managing and retaining Chinese employees because it is clearly an issue of major concern and importance. We suggest this is particularly important because much of our knowledge is based on the Western world and, as witnessed by the worldwide recession, such practices may not be as good as one was being led to believe.

While this paper helps redress some of the deficits on TM in the Asia-Pacific region, it is important to be cognisant of some of the study’s limitations. First, a small sample of MNEs was used. While our study has given a flavour of possible issues and challenges for Australian MNEs across a range of industries, not all sectors were included, nor should these findings be treated as generalisable to those that were included. Furthermore, only one respondent per MNE was interviewed, thus gathering a potentially limited perspective, in addition interviewing HR managers may also give a more in-depth perspective. There may have been other issues and challenges that our interviewees were not a party to. However, this provides a solid foundation on which future studies can build. We also urge caution in interpreting the results due to the fact that all of the individuals interviewed were Australia-based managers. While they had considerable experience of the Chinese operations, gaining a perspective from the Chinese operations...
may add considerably to our knowledge and understanding of the issues raised in this paper. Nonetheless, notwithstanding these limitations, this study points to the importance of institutionalism in TM, and highlights some of the issues and challenges MNEs in China may face.

Acknowledgements

The authors would like to thank the Faculty of Business and Law, at Deakin University, Australia, for funding the research project, and the Australia China Business Council (ACBC) for supporting the project by allowing us to interview their members.

References

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Note

1 Victoria is the second most populous state of Australia.