

HRM practices in foreign MNCs (multinationals) operating in the PRC: an institutional
perspective

Serena ROVAI

ESC Grenoble/Newcastle School of Management

DBA Programme

Stradone d'Oria 78

19125 La Spezia- ITALY

Serovai@tin.it

serenarovai@yahoo.com

Tel: +39 3355326820

+86 13520487042

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ABSTRACT

This study examines the critical role played by the national-related variables on HRM policies adoption for foreign corporations operating in the PRC. In particular, we analyse the influence of institutional factors on “talent management” and related recruitment and retention policies. In particular, institutionalization theory was instrumental in explaining the degree to which recruitment and retention practices have been adapted or not to the local environment or are more similar to those of multinational’s headquarters and related standardised practices.

To this purpose, the paper reviews the diverse studies regards people management in China and it stresses the lack of research for talent management in the PRC despite the critical situation in the local labour market. Several authors have analysed the transformation of personnel administration practices to human resource management (HRM) practices in multinational corporations in China. Nonetheless, in spite of an impressive amount of quantitative research on different aspects HRM change in foreign subsidiaries of multinational corporations (MNCs) few efforts have been made at analyzing more in depth the individual HRM functions and from a qualitative perspective.

In particular, the specificity of the Chinese labour market poses key challenges for the success of MNCs business operations in China. In fact, due to the outdated educational system providing an insufficient pool of talents, the increasing competition in the market as a result of WTO entry and future Olympic games– i.e. an increasing number of new entrants represented by foreign companies or local private companies – the dearth of top talents with an international exposure, the current labour and legal restrictions for recruitment and retention policy implementation,

MNCs have to face significant challenges to attract, recruit and retain their talents adapt the related policies to the local institutional environment.

Through an in-depth case study with one of the main MNCs corporations in the oil field – Sino-Euro Oil – and 23 interviews with HRM directors and General Managers from the main MNCs operating in China in diverse industrial sector held during 2002-2003, this paper aims to provide an exploration of how foreign MNCc operation in China manage their talents in the Chinese environment and how this context influences their practices.

In particular, our study provides an overview of how the institutional environment has affected the transfer and adoption of specific recruitment and retention policies in China and has resulted in an « hybrid » of their global HRM policies.

INTRODUCTION

Until recently, China has been relatively isolated from the influence of Western management practices and there has not been in China a comparable parallel development of people management policies as in the West (Warner, 1998).

The current situation in Mainland China requires that a specific attention should be paid to the adoption of specific HR policies within Western MNCs to manage people flow. In their decision to hire local managerial personnel and to integrate Western-style HR policies Western MNCs had not sufficiently taken into account the critical issues arising from the Chinese institutional context. The socio-economic, labour and education system, together with the diverse legal regulations seemed to have a significant influence on the transfer and adoption of specific HR policy packages to attract, recruit, manage and develop high-qualified local individuals. The limited number of qualified educational institutions, the specific labour regulations for recruitment and the lack of sufficient talented local managers – trained to Western management skills and possessing the specific technical and human skills – have created serious concerns for foreign MNCs.

In a fast-changing business environment such as China nowadays, “the people dimension” represents a key element in improving foreign companies’ success. It is therefore important not to underestimate the key role of human know-how in this increasingly competitive business scenario and identify the key elements related to human resource management in “China’s

managerial revolution” (Child 1994; Warner 1999, 2003).

Foreign corporations seeking to implement Western recruitment and retention policies - coherent with their corporate goals - and to localise their managerial workforce are faced with multiple personnel issues that result from the highly different context they operate in. In international human resource management literature, people management within MNCs has often been conceptualised in terms of global standardisation versus local adaptation of practices (Shuler, Dowling and De Cieri., 1993; Dowling, Schuler & Welch, 1999). This conceptual framework emphasises the advantages or disadvantages of global standardisation for HRM practices versus the main issues related to the adaptation of those policies to the diverse national context.

Increasing attention from research has been paid towards the fundamental factors influencing the adoption of Western HR policies in a highly different national context as China and the impact of institutional factors on that. (Bjorkman, 2003; Bjorkman & Lu, 2000; Punnet, 1999; Warner, 1999; Whiteley et al, 2000).

In their 1999 research concerning the state of human resource policies and practices in SOEs and JVs in the P.R.C, Bjorkman and Lu reported that between the Government and main FIE agreed that the adoption of specific HRM practices represented the most significant concern involving foreign investment enterprises (Bjorkman & Lu, 1999).

In our specific case, personnel localisation in China and the consequent difficulties to recruit and retain the most suitable and highly qualified candidates - resulting from specific challenges local context - have addressed a specific need to understand and evaluate the influence of the national

institutional determinants on those policies in order to meet MNCs needs and demands. According to Bjorkman (2003), despite the fact that it seems quite clear that changes in HRM practices had been taking place and are still taking place, there has not been sufficiently rigorous work to investigate further how to explain the direction of these changes from an institutional perspective. As a result, this paper examines the institutional influence on HRM practices of one of the main Western MNCs operating in the PRC in order to acquire a deeper knowledge of the resulting form of HRM practices and to evaluate the evolution of their global HRM practices in the local context. Through the fieldwork, we attempted to understand what HRM practices have been adopted and shaped when recruiting, and retaining the local management workforce in Mainland China and the resulting form of those practices. Brewster IHRM paradigm with regard to HRM practices “contextualisation” for foreign MNCs operating in a host country – and the key role played by the institutional context - has been conducive in developing our study.

The attempt is to provide practical examples that support the argument that despite the ongoing transformation of labour and legal regulations, fundamental local institutional differences affect the adoption of global IHRM policies and require a specific adaptation to the local environment.

The decision to focus our research on the specific recruitment and retention practices of HRM resulted from their currently being some of the major critical issues in HRM for MNCs operating in the PRC and the paucity of research in this specific HRM functions in the China until now.

As a result, the key questions in our research project dealt with the extent to which:

- The MNC recruitment and retention policies have been affected or not by the local

institutional environment

And furthermore:

- What are the institutional factors that have affected the MNC global recruitment and retention practices and the resulting form of them?

CHINA INSTITUTIONAL PERSPECTIVE

In this investigation, it is assumed that the institutionalisation perspective is conducive in analysing why foreign firms are limited in transferring and implementing their global policies to China – in particular recruitment and retention ones. As argued by DiMaggio and Powell (1983), three major ways are considered to produce isomorphism:

- Coercive isomorphism typically happening when a powerful institutional element such as legal regulations imposes specific patterns to the company.
- Mimetic isomorphism typically happening when companies in undefined situations adopt the pattern that successful organisations show in the local context.
- Normative isomorphism happening when professional organisations disseminate appropriate organisational patterns

Bjorkman's theoretical study on HRM in China (2003) and the impact of the institutional perspective suggested that mimetic isomorphism had to be considered when analysing the current

situation in China. He argued that so far scholars in Chinese management research have mainly been concentrated on coercive isomorphism in relation to the historical changes in labour reforms that have mainly occurred until 1994. Bjorkman highlighted that the reforms in 1990s did not result directly to any particular HRM practices. However, during the last years we have assisted

Consequently, in our investigation, both coercive and mimetic isomorphism will be conducive in analysing the resulting forms of HRM practices in foreign MNCs in China.

HRM PRACTICES FOR MNCs IN CHINA

The ability of human resource management to attract, retain and motivate employees has become a key competitive factor for firms exposed to the new global market forces (Schuler, 2001). There is increasing evidence from empirical research that many MNCs are clearly concerned about finding a way of developing effective HR policies, which can be adapted to different national environments highlighting the significant role played by HR strategy implementation in the international high-tech firm (Bartlett and Ghoshal, 1989). Yet, in the same way the academic world has shown a growing interest towards the subject and the specific urgency of the situation for MNCs operating in those areas where the availability of a highly qualified and specialised managerial workforce is particularly.

Increasing attention has been drawn towards the extent to which HRM models may be used in any firm anywhere in the world. However, HRM practices may differ across the world giving rise

to different HRM forms or “regional” forms of HRM – i.e. the Asia-Pacific, US or European models (Brewster, 2001).

Things are done differently in different countries. This includes differences in the way human resource management is conceptualised; the research traditions through which it is explored; and the way HRM is conducted. In conceptual and research terms two different (ideal type) paradigms might be classified as the universalist and the contextual

(Brewster, 2001).

HRM was a concept mainly developed and applied in its policies in the US and in US global organisations across different nations. The adoption of HRM and its strategic approach in different national contexts has revealed a key question related to its applicability and successful implementation in a non-US national environment. Evidence from academic research has indicated a number of issues which seem to legitimise the appropriateness of the question and the rise of the debate. In particular academic discussion in Europe has concentrated its interest towards the possible forms and styles of HRM policies to be adopted instead of whether SHRM should be accepted or rejected outside the US (Brewster, 2001). Brewster has argued that US views of HRM seem to be “culturally-bound” in their “right to manage” culture and organisational independence compared to the less autonomous European or other Asian countries. As a result, the respective legislative and cultural autonomy in each context have a remarkable impact on the role of human resource management and on economic success (Brewster, 2000).

Clearly, the concept of organisational independence is a central issue in the debate given the fact that US organisations are more autonomous both from a legislative and a cultural perspective. The notion of organisational independence and autonomy suggested that the definition or the implementation of a specific SHRM policy could be appropriate and was allowed only if corporations had a certain freedom in designing and adopting their own strategies (Brewster, 2001). In particular, the legislative system was considered to be one of the main constraints in organisational autonomy limiting the conception and adoption of new HRM policies in non-US countries (Brewster, 2001). In 1990, Pieper in his book *Human Resource Management: an International Comparison* remarked that:

The major difference between HRM in the US and in Western Europe is the degree to which HRM is influenced and determined by state regulations. Companies have a narrower scope to choose in regard to personnel management than in the US.

(Pieper, 1990: 8)

Pieper pointed out how in Europe - in comparison to the US - major control is played by the state through legislation and other regulations on people management related issues and this prevents the MNCs from choosing how to manage personnel freely.

At a more general level, academic research - especially from Europe - showed how national and cultural differences were consequently mirrored in legislative systems limiting organisational independence. Further studies in cross-cultural management demonstrated the uniqueness of the

US context regards the individualistic attitude of people. This seemed to have legitimised certain forms of SHRM designed to meet the needs of the US autonomous and individualist social system. (Trompenaars, 1998 ; Adler, 1997).

Brewster's contingent approach to HRM has emphasised the fact that cultural and legislative factors related to a specific nation have a strong impact on HRM choices for organisations.

At present, one of the main challenges to international business is to how to manage human resource across national boundaries. Our study is mainly based on the small but growing research on HRM in foreign MNCs operating in the PRC (Child, 1994, 2000; Goodall and Warner, 1997, 1998; Bjorkman and Lu, 2000; Bjorkman, 2002).

In particular, evidence from the field has highlighted MNCs demand to have effective HRM policies to identify, recruit, manage and develop local talented individuals with appropriate technical expertise and personal skills to be adapted and operate in an international arena. This issue is especially true in the highly diverse Chinese environment, which has attracted a significant variety of foreign investments from diverse countries and whose people management policies and managerial staff technical and personal skills are reported to be at a primary stage (Bjorkman & Lu, 2000).

Until the mid-1970s the presence of foreign direct investment in China appeared to be quite limited. Since 1976, FDI in China are experiencing a new phase as the Chinese government actively promoting foreign investment by providing diverse incentives and opportunities. Fostering foreign investments was a part of a broader reform for China's economy (Redding,

1990). China has been the second main destination for foreign direct investment (FDI) in the past years. At the end of 2001, the total FDI in the PRC was US\$ 393.5 billion (NBS, 2002). Furthermore, China' entry into the WTO organisation has increased and will increase its attractiveness towards foreign investors and will bring to a growing foreign and domestic competition in the local market. In fact, after the China officially signed the WTO agreement in November 2001, China has been regarded as a golden opportunity for foreign firms to invest in the future "factory of the world" (Yeung & Mok, 2003).

However, establishing successful operations in China is still seen as a major challenge because of its distinct difference from other nations (Selmer, 2003). In fact, China was reported to be often considered as the "most foreign" of all places in relation to its highly different culture, institutions and people mindset (Chen, 2001).

Evidence from research has shown how foreign investment enterprises (FIEs) appear to increasingly focus on adopting HRM practices which seems more shaped on the parent company global policies than on those local ones (Bjorkman and Lu,2001). However, according to other scholars and to the local socio-cultural as well as institutional context, it would be naive to expect that in such a "culturally and politically sensitive area" local Chinese management can directly adopt Western human resource practices without considering the cultural and socio-political implications in the process (Child, 1994:158, 2000). As argued by Chiang (2000) and other scholars, a further development towards a third "hybrid" HRM model which will incorporate many features from the MNCs home-country practices but also would also be adjusted to the specific features of the Chinese context is expected (Bjorkman and Lu, 2000; Hui and Graen, 1997; Rowley and Benson, 2002; Tsui and Li, 2000).

The labour context

As argued by diverse scholars (Warner, 2000; Bjorkman and Lu, 2000) compared with the situation in Western countries, personnel practices in China are still at a primary stage. Despite the fact that during the last few years there has been a move away from the Marxist personnel practices that previously prevailed in China state-owned companies, Bjorkman and Lu (2002) highlighted the strong dissatisfaction that foreign executives expressed with regard to Chinese management practice.

According to Bu and Xu (2000), the reform program in China aimed mainly to establish an American-style market-oriented management system, and it had been particularly successful in “undermining the iron-rice bowl mentality and instilling strong pro-market attitudes” among Chinese employees without completely producing an “Americanization” of the Chinese management system.

In fact, until recently, China has been relatively isolated from the influence of Western management practices and there has not been in China a comparable parallel development of people management policies as in the West (Warner, 1998). During the last few years, there has been an increasing distance from personnel practices based on the Marxist model which were mainly adapted in Chinese state-owned enterprises (SOEs). Current research shows changes in how some Chinese companies manage their human resources, and there are significant differences across Chinese companies (Goodall and Warner, 1997). Moreover, as China continues to open up their system and in our specific case, the overall social and labour systems, it has become easier for Western MNCs to introduce their own HRM policies in their operations

in China (Bjorkman and Lu, 2000). However, as HRM is a new concept to China, it still requires a lot of efforts to introduce this new system and related policies in the Chinese working environment.

Data from research have evidenced how in China the labour supply for Western companies can be divided into two distinct markets. On the one hand, an abundant pool of cheap unskilled and semi-skilled labour together with a stock of excess Chinese managers taken over from the state owned enterprises or from the local joint-venture partner. On the other hand, only a restricted selection of highly qualified professionals with an international exposure and a sound knowledge of the local market available from the local workforce (EIU, 1999).

The Educational context

In addition to the difficulties created by the local legal system, successful human resources policies implementation is also reported to be complex as a result of the differences in the educational system and the inappropriate level of knowledge compared to the Western management and business requirements. Few candidates are available in the market and companies have to strive to attract and select them, as recent data from Western MNC activities have shown.

According to recent statistics, 16% of Chinese over 15 years of age are literate, 3.5% have a college degree and only less than 2% of the entire population has completed post-secondary or higher education (EIU, 1999). The annual 2001 *China White Paper* edited by the American Chamber of Commerce in China - has included a detailed report of the challenges faced by the

Chinese government in the educational system in order to enhance the level of Chinese management education.

Improving the quality of the labour force is fundamental to attracting foreign investment to China. An important condition for multinational companies to move and expand their investment in any country is the country's capability to quick absorb and master new skills and technologies.

(Whiteley, 2000)

The overstated data from research is particularly significant in order to overcome the lack of the high-level management talent and the availability of people who could highly flexible and possess Western-style managerial skills.

Recruitment and Retention in the PRC

As shown in the introduction to our paper, the current situation Mainland China requires that a specific attention should be paid to the adoption of specific HRM policies within Western MNCs to recruit, develop and retain local employees. In their decision to hire local managerial personnel and to integrate Western-style policies Western MNCs has not always sufficiently taken into account the critical issues arising from the Chinese context. The limited number of qualified educational institutions, the specific labour regulations for recruitment and the lack of sufficient talented local managers – trained to Western management skills and possessing the specific technical and human skills – have created serious concerns for foreign MNCs. Evidence from

research has shown that the shortage of local management talent limits the speed with which high-tech MNCs are able to localise management personnel for their China operations (Tsui and Li, 2000).

Statistics shows that less than 30% of all professionals and managers in the nation have received higher education. This discrepancy brings out a big contradiction between the quality level of human resources available at the moment in China's economic development and the demand and real need for highly skilled people from multinational companies willing to extend their operations directly in China.

Amongst diverse empirical studies, a survey by management consultants McKinsey and Co reported that annual turnover amongst Chinese middle managers was at 20 or even 30% amongst their Western MNCs clients (Meier et al, 1995). At present, as a result of China entry into the WTO, future Olympic Games and an increasing number of new entrants in the market does not seem to improve the situation as a result of the scarcity of top talents in relation to the growing demand (Rovai,2000). As a result of this scenario and the growing demand MNCs have to develop appropriate recruitment and retention practices, we have decided to concentrate our study on the related forms of those two specific practices in MNCs branches in China.

METHODOLOGY

The methodology used was single case research and face-to-face interviews. Data were collected from interviews and direct observation as well as written documents. Those documents were both supplied by the company and collected from public sources. Multiple interviews as well as

spontaneous conversations with company current employees and potential candidates were conducted in November-December 2002 as well as August-September 2003. Open-ended interviews were carried out involving HR top management – local HR Managers and foreign HR managers in diverse HR functions as well as some line managers to further validate data collected. The open-ended nature of interviews allowed integrating into our expected findings further data from local informants according to the explorative approach. The interviews were being face-to-face and conducted in English. The informants were planned to be four-five - three from the HR department and possibly one-two from the business for the case-study and twenty-three for interviews.. The interviews covered the history, organisational structure, legal and labour issues, and HRM practices in China and in the parent company. Direct Observation was also used as a further attempt to detect some relevant behaviour or environmental conditions which would validate the results of this investigation. The account of the companies involved was also related to the purpose to explore the impact of institutional factors in different industrial sectors and companies with different legal status as the HRM scenario in China is far from being homogeneous (Bjorkman, 2003). Nine companies were from the manufacturing sector, twelve from the high tech sector and two from the service sector. Twelve companies were joint ventures, eight representative offices and two wholly owned enterprises.

CASE STUDY

Scene 1: Two recent graduates were waiting at the reception for a new round of interviews with the Recruitment Manager. Our interview was about to come to its end and Mr Cooper, the Recruitment Manager, was reviewing the core issues to be addressed during the interview to the

selected candidates. Mr Cooper had been working with Sino-Euro Oil for almost 14 years, covering diverse positions in the HR function in diverse world regions. Nigeria, Australia, Indonesia are only a few of the different world regions covered during his assignments. His main functions regards general HRM as well as more specific recruitment strategy and training. In China, he is in charge of Sino-Euro Oil Corporate Recruitment strategy and supervising all the diverse recruitment activities within Sino-Euro Oil group of companies. He had been involved in this position for almost two years and now he is also coaching the future new Recruitment Manager, a Chinese national with previous international experience, who will replace him at the end of his assignment period in China following company personnel localisation plans. He walks me at the reception while we make plans to the future meeting according to his busy schedule. At the same time, he friendly welcomes the new potential candidates to make them feel at ease while he suggests his Assistant to offer them a cup of Chinese tea or some hot water as it is custom in China.

Company background: an overview

Sino-Euro Oil's business relationship with China is reported to date back more than a century ago. In early 1890s, Sino-Euro Oil began shipping kerosene to China and they started building installations in Hong Kong, Shanghai, Guangzhou and Xiamen. At first Sino-Euro Oil Transport and Royal Dutch were competitors. However, in 1903, they agreed to set up a joint marketing company for the Far East operations. As a result, the Asiatic Petroleum Company (the so called APC) was incorporated in London.

Branch offices were established in Hong Kong (1906) and Shanghai (1908). In 1913, these offices became the headquarters of the Asiatic Petroleum Company Ltd.

Sino-Euro Oil's re-entry in China dated back to 1970/71, when invited to attend the Guangzhou Trade Fair. A Sino-Euro Oil representative office was re-opened in Beijing in 1980. China's "Open Door Policy" led to the opening of two Sino-Euro Oil joint venture depots in Shenzhen Special Economic Zone in 1985 and 1987 respectively. Since then, Sino-Euro Oil's businesses in China have continued to develop across a broad front.

Sino-Euro Oil's aim in mainland China is to provide clean energy solutions that are sustainable over the long term, and to help alleviate current serious pollution problems in the country. In China, the government is working to improve the environmental performance and efficiency. Sino-Euro Oil's focus in these areas is on gas and renewable energy and new methods of using coal as well as providing consulting services on energy efficiency and technological solutions. As a result, in all the projects they make sure that the environmental and social consequences are fully mitigated and that those extensive environmental and social work projects may set the standards for major infrastructure projects in China. In so doing, Sino-Euro Oil brand image as a company looking after the local environment and local Chinese population is improved to its benefit for recruitment and retention.

Sino-Euro Oil Corporate headquarters are based at the “Guomao” – China World Trade Centre – which is considered the core of the business district, exactly downtown Beijing. The location is

an enviable one for successful foreign corporations operating in China. It increases prestige to company image and it also represents a sign of the company status for potential candidates.

Recruitment and retention in transition

One year ago the company management decided to go towards a localisation process which has started and it is planned to be completed by the 2008-10. As a result, the recruitment of local valuable experienced staff or the development of internal one will become strategically important in the localisation process.

Interviews with both the Recruitment Manager and the HR Manager as well as written documents have stressed – which had also been further documented in company brochures and newspaper – that Sino-Euro Oil has been actively involved in environmental protection and sustainable development. In so doing, it has further strengthen its brand image in the Chinese market. In fact, local Chinese are extremely sensitive to the improvement of their country environment and reducing current pollution level and as a result, particularly attentive to the issue. As a result, foreign companies - as Sino-Euro Oil - actively supporting this process may increase their attractiveness to potential candidates by showing their involvement in improving China environment.

China is transforming very fast. As a result of this on going change, the Compensation and Benefit Advisor noticed how Chinese potential candidates are becoming more short term benefit

oriented and consequently how it will be increasingly challenging to transfer and implement in China effective remuneration packages for the future, in order to make it more adapted to the fast changing environment and to increase personnel retention.

As stated by one of the Managers in the HR department, as far as HR policies are concerned in China, « expatriates set the business but with the locals, by the locals and for the locals ». As a result, company main goal – as he recalled – “is to be considered as a local company and to adopt and implement recruitment policies according to that local context”.

The recruitment policies

Recruitment methods are following two different approaches if for experienced or recent graduated candidates as a result of global practices. Graduate recruitment mainly follows three diverse channels as it is done by the company world-wide:

- Campus recruitment
- Web site applications
- Management Training

However, it has been noticed that in China – as a result of their local culture which emphasise the importance of networking “guanxi” - forms of partnership with universities and institutions are considered strategically relevant for the local recruitment strategy - in order to select the most qualified candidates. Sino-Euro Oil annually organises presentations to promote the company in

those “key” universities. As documented in annual reports, Sino-Euro Oil is also sponsoring MBAs, in particular a new EMBA based on the principles of sustainable development in partnership with the United Nations Development Programme and Tsinghua University to be pilot-tested in 2003.

However, as the Recruitment Manager noticed, as a result of the dearth of local talents in the Chinese context because of the issues associated with the educational system we already mentioned, further co-operation between Sino-Euro Oil and universities relevant to Sino-Euro Oil business should be strengthened in order to increase the availability of top talents.

Besides those recruitment methods, interested candidates can also apply through Sino-Euro Oil global interactive Internet Web site from where CVs are screened for further selection. A China-related website for graduate recruitment has been developed and local Mainland Chinese may apply through that.

However, the Recruitment Manager agreed that internships organised through local or overseas headquarters recruitment – targeting local Chinese studying for graduate and post-graduate degrees in top universities in China or overseas – are one of the most effective methods to select the appropriate candidate. In fact this method gives the opportunity to directly observe candidate job performance over a certain time as well as its working style. As a result of China highly diverse cultural values reflected in candidates diverse working habits, by following this approach, company staff may better assess:

- If the candidate cultural and individual values may correspond to company ones.

- If the candidate is suitable or not for a specific job position
- If the candidate mindset may fit or not the company environment

In relation to the highly diverse cultural values in China, those internships may provide a valuable support to develop a local managerial workforce better aligned with company culture as well as business needs and goals. As reaffirmed in the Statement of General Business Principles document, despite the fact that Sino-Euro Oil Group is a decentralised, diversified group of companies with wide freedom of action, Sino-Euro Oil reputation and values are paramount to any business involvement and as a result, individuals who join the company should fit those values.

As far as experience recruitment is concerned, the following main channels have been identified such as:

- Sino-Euro Oil institutions and affiliated ones both in China and abroad – for Chinese returnees or those currently studying abroad
- Headhunting services possessing a specific knowledge of the local market
- Word of mouth of high talented candidates referred by current Sino-Euro Oil employees
- Web applications.

Some of the experienced Chinese managers interviewed who have confirmed being recruited through global head-hunters operating in China – following global HRM practices – have also reaffirmed that those HRM practices have been adjusted to the local context. As an example,

assessment centres have been “adapted” to the local context in the use of specific tools, interviews have been handled by Chinese and English speaking interviewers to ensure:

- Candidates linguistic competencies and capabilities – in English
- Candidates’ adaptability to the global company values
- Candidates knowledge of the local market

The company recruitment strategy focuses on providing an attractive remuneration - with a good position in the market and a career-oriented benefit strategy. As internal and external surveys have shown the importance that Chinese managers address to training and career development opportunities, Sino-Euro Oil has decided to provide their global practices related to educational assistance for MBAs and PhDs as well as sending local staff overseas for training or job assignments in China, as well. In the following sections, we will see more in details how those training programmes are organised.

The main retention policies

Until a few years ago, financial rewards seemed the only effective way to attract and retain managerial workforce in China. However, at present this approach does not seem to be appropriate any longer. As previously underlined, company brand image as well as “learning” system are considered as core policies to attract and retain top talents in the local Chinese market as a result of the high importance addressed from local Chinese to those issues.

Mr Wang, Business Manager, has remarked the fact as Sino-Euro Oil company is positioned in the top 25% salary rate in the market and it provides employees an attractive career-oriented benefit strategy. Training, namely “on-going learning” is considered as a long-term company commitment to employees. R. Cooper, Recruitment Manager, has reported that every employee is granted ten days training per year with a minimum of two. As enthusiastically confirmed by Sino-Euro Oil Chinese employees during our interviews, learning programmes are tailored for each employee in order to develop his/her own competencies. Specific training programmes chosen for each employee result from an internal assessment which aims at identifying those technical and interpersonal skills the employee needs to develop. Training programmes abroad are assigned according to performance and career needs and they extremely significant for local Chinese managers eager to develop international managerial skills and not having numerous possibilities to have overseas assignment because of the local institutional constraints.

Furthermore, induction training with a specific China focus is provided to every new employee who joins the company. As Mr Wang recalled, during the first months within Sino-Euro Oil, they were participating to an induction training programme where an external speaker was providing relevant information regarding Sino-Euro Oil activity in the Chinese market. As a part of the training some Sino-Euro Oil senior staff was also presenting relevant data related to Sino-Euro Oil company culture and values.

In addition to these methods, financial bonuses are also provided to each employee according to individual as well as company yearly performance. Furthermore, bonuses are also granted related to seniority status within the company as a result of Chinese cultural values and previous employment system highly valuing seniority.

As a result of the recent changes in the labour system, at present health insurance for employees and their dependants as well as housing allowance must be provided directly by the employer and as a result increasing labour-related costs. In fact, until a few years ago, local governmental organisations – through which personnel was allocated to foreign companies operating in China – were handling housing allowance and health insurance. Since a few years, foreign companies have to directly handle those social tasks increasing their employee related costs. However, at the moment, those housing and health related responsibilities are also used to shape effective attraction and retention policies. In fact, supplementary health insurance to the individual as well as to his/her family and diverse kinds of housing loans are provided following specific policies targeting employee's retention.

Mr. Wang, Business Manager, confirmed how Sino-Euro Oil is promoting a safe and employee friendly working environment as reported by the HR Manager, as well. In fact, as documented in diverse flyers framed on headquarters' walls, safety teams are organised within Sino-Euro Oil. In a developing country as China is, where security and safety at work is a newly introduced issue, Sino-Euro Oil commitment reinforce its brand image, in particular during and after SARS outbreak.

In the same way, Sino-Euro Oil is promoting a pleasant working environment and employees' interpersonal relationship in order to create employee commitment. Diverse kinds of social activities are promoted to increase cohesion amongst employees through outdoors meetings which are highly appreciated by Chinese managers - used to a familiar and paternalistic working environment as a result of their Confucian cultural values.

HRM IN CHINA AND INSTITUTIONAL FACTORS

Recruitment

Goodall & Warner (1997) and Warner (1995) have emphasised that in shifting from a centrally-run system with a labour structure based on the enterprise – as the centre of social organisation and welfare for the employee – to a free-market based economy relying on a social system of welfare provision, new concerns arose regarding the professionalization of danwei's workforce. The qualification and capabilities of employees appeared to be as a critical issue to be taken into account. In fact, employees' key capabilities and skills required to effectively performing in the new market economy and foreign MNCs turned out to be different from those in SOEs. Consequently, this issue created concern when recruiting local talented middle-career or senior managers for MNCs from SOEs - or in inheriting personnel from the local partner. Our interviews with the HRD and diverse HR managers from Sino-Euro Oil HR department - as well as presentations from hr conferences held in Beijing – have confirmed the inadequateness of senior local Chinese managers to operate in an international environment and the consequent difficulties in recruitment and retention of effective ones.

As far as other institutional factors are concerned, a certain number of concerns were expressed by diverse managers from Sino-Euro Oil HR staff with respect to the local educational system – an insufficient number of local business schools and universities and related courses in business and management - causing a lack of high qualified candidates with a sounded business knowledge for foreign companies. As Warner (1992) and Whiteley (2000) remarked, the

improvement of the quality for the labour force is fundamental to attracting foreign investment to China in this context. However, as main informants have evidenced, the current educational system is still not adequate to international standards and consequently MNCs currently operating in China have decided to follow other options. Today China is the largest recipient of foreign direct investment among developing countries, with annual investment rising from almost zero on 1978 to about \$ 52 billion in 2002 (nearly 5% of GDP). However; social investments are required for a sustained economic growth and with education as a key component of the process. Currently; China public spending on education is 2.3% of GDP while that on health is 2.1% of GDP. These data show that the Chinese government's outcomes for human development appear to be clear (UNDP, 2003).

Sino-Euro Pharma HR Country Manager stressed the fact that the educational system in China needs to be reformed to provide a sufficient number of qualified managers however it will take time. Currently, education was considered not to provide an effective management preparation. As a result Sino-Euro Pharma has decided to implement an effective training system to develop those employees who had been considered as high potential ones and in this way fill those gaps. 80% of the interviewed companies consider their "learning" system as a key retention component in China as a result of the need to provide suitable competencies and skills that the educational system is not providing – and Chinese managers considers as a top priority for their career development.

As a matter of fact, discussions with interviewed HRDs operating in Beijing highlighted that in addition to the traditional training, there is an increasing number of joint ventures between universities and business that have also been promoted by the local government to reduce the

gap. For instance, a group of French business schools have paired with Nanjing University to develop MBA programmes. In the same way, some foreign universities have opened their offices in China and run directly executive training programmes as well as Master and MBAs as a result of government new regulations allowing to foreign institutions in higher education to open their branch in China. In this way, the local managerial workforce or local graduates can have the opportunity to participate in bicultural business programs and living experience that prepares them for senior-level management positions.

Main constraints are related to the local legal labour that is – in some cases - preventing the implementation of global policies. The Talent and Diversity Manager, as well as the HR Manager have evidenced the fact that campus presentations are submitted to local authorities permission, limiting freedom in implementing global recruitment policies. However, some improvement has been achieved in the field. Now the government allows direct recruitment to foreign companies operating as WOFEs or JVs – but not allowing it to Representative Offices that still have to use local organisations as FESCO to do it. In the same way, since October 2002, headhunter companies are formally allowed to operate in the PRC and as a result those are providing MNCs recruitment support for top talent search. This change undoubtedly represents a further possibility for foreign companies to transfer and implement their standardised recruitment methods – as those referred by Taylor (2001).

Other labour related constraints confirmed through our interviews are mainly employee related such as the transfer of the personal working file from a previous employer - when hiring a local experienced manager - as well as the houkou transfer from one location to another – when hiring from a city. Despite the fact that some improvements have been done from the government

regards this issue – in particular easing the houkou transfer from one location to another for technical level and above – these changes are only limited to coastal areas.

Retention

Sino-Euro Oil as other MNCs are battling to provide effective retention packages including diverse health related insurance types and housing support. Diverse key informants within Sino-Euro Oil highlighted the fact that Sino-Euro Oil provide a certain number of supplementary insurance programmes related to unemployment, further pension scheme, house funds as well health benefits which make their C & B package particularly attractive to Chinese employees. Furthermore, as it has been previously stated, the Chinese labour and legal system does not provide an effective welfare structure. In particular, with regard to the health and pension scheme, the current system is under reform as a result of the inadequate level of health and pension coverage provided. For this reason, local Chinese are particularly concerned on this issue and they positively evaluate those companies that provide effective support and benefits.

In addition to these methods, financial bonuses are also provided to each employee according to individual performance as well as company yearly performance. Furthermore, bonuses are also granted related to seniority status within the company. As a result of the recent changes in the labour system, health insurance for employees and their dependants as well as housing allowance must be provided and in this way increasing company costs. In fact, until a few years ago, local governmental organisations – through which personnel was allocated to foreign companies operating in China – were handling housing allowance and health insurance. Since a few years, foreign companies have to directly handle those social tasks increasing their employee related costs. However, at the moment, those housing and health related responsibilities are also used to shape effective attraction and retention policies. In fact, supplementary health insurance to the

individual as well as to his/her family and diverse kinds of housing loans are provided following specific policies targeting employee's retention.

Unclear or still undefined legal policies prevent from transferring and implementing an attractive stock option plan as a result of the current unclear taxation for stock options to be allocated to local citizens. Further difficulties have been reported with regard to employees' contracts as a result of the diverse labour regulations supervising labour contracts according to the different local governments. In the same way, political and legal constraints prevent from developing Sino-Euro Oil projects and as a result, block ongoing recruitment campaigns. China business environment and its transitional phase may cause uncertainty when planning recruitment activities. In fact, governmental barriers or delays in project approval may slow down or even cancel recruitment activities already planned. A typical example stated during our interviews referred to the West Pipeline project when the recruitment process had already started but it was then stopped because the project was not authorised to proceed by the Chinese government.

CONCLUSION

Mandated workforce practices can either aid or decrease company's opportunities locally. Specifically, Chinese institutional related factors such as labour law and regulations have been identified as having a key impact on compensation and benefits policies (Bjorkman, 2003).

Social costs, medical-care costs, pension and social security costs differ greatly from one country to another. In China, data collected from our fieldwork have evidenced that this is a sector under a very specific reform with a number of implications for foreign company compensation and

benefit systems. Furthermore, the way compensation and benefits are quoted and designed can vary significantly according to the diverse regional labour regulations which have not completely been harmonised to the national laws.

Sino-Euro Oil China HRD emphasised the role of labour and legal regulations in shaping C & B policies for China. He stressed that:

Local labour regulations and related laws may be the only factor really affecting the adoption and implementation of global standardised policies. Those international policies are often restricted by the both the local and national government regulations, which prevent their transfer and implementation.

Sino-Euro Oil HRD as well as C & B specialists and managers from other companies confirmed that national labour regulations still may hinder the implementation of global standardised C & B policies to attract and retain top talents such as:

- Stock Options – No specific labour law is regulating the company policies in this area. As a result of the lack of clarity, foreign MNCs often prefer not to offer stock options plan in order to avoid legal problems – as confirmed by our main case study as well as Sino-Euro Airplanes and Sino-Euro Pharma. However, on the other hand, few informants from other MNCs operating in China have admitted to implement Stock Option plans by taking advantage of that lack of clarity in regulations.
- Housing and health policies - The housing allocation as well as the health system were completely reshaped from the government forcing foreign companies to restructure their

position towards health and housing benefits to be provided to their workforce. In addition to pension, unemployment insurance and medical contributions, companies must also pay into housing provident funds on their employees' behalf as mandated by local regulations. As a result, foreign companies had to provide health assistance to local employees and to conceive some kinds of housing support such as housing allowance or loans. Legal and labour changes represent a significant concern for both foreign and local companies resulting in a cost increase because of the company contribution to the medical and pension scheme for employees – as Sino-Euro Oil Corporate Compensation and Benefits Advisor recalled. Furthermore, with the passage of provisional regulations on medical and unemployment insurance this year, the State Council has established a unified social security system. The institution of a mandatory payment system, requiring employers and employees to pay into locally administered pension, medical and unemployment insurance funds locked the programme into place. The government has moved swiftly to put a new system in place. Selected cities have hosted pilot pension and medical programmes since the mid-1980s. With the passage of the 1995 Labour Law, the government called for the eventual establishment of portable pension funds, a retail healthcare system and unemployment insurance on a national scale. Also in December 1998, the central government passed the “Decision on the Establishment of a Basic Medical Insurance System for Urban Staff and Workers” outlining a unified medical insurance programme. Employers are to contribute 6% of their payroll and employees 2% of their wages for basic medical insurance. As with pension payments, medical insurance payments are divided between pooled funds and personal accounts. The personal medical insurance account is used to pay illness or injury costs of up to 10% of the locality average annual salary (EIU, 1999).

During our interviews, HR managers have emphasised the fact that now foreign invested enterprises in China major's cities complain of increased cost burdens, asked now to pay up to 60% of payroll to local labour and social security bureaux. Another concern shared by foreign companies was reported to be the fact that their employees may never see the money, given poor administration of the funds and the massive demands placed on them by older retirees and workers. Furthermore, as far as foreign companies operating in remote locations are concerned, that fear was considered to be exacerbated by the fact that national implementation is still a long way off. In all, foreign employers in cities that conform to the unified model can expect to pay 30%-50% of employees' wages in aggregate social security contribution. As confirmed by Sino-Euro Oil HRD, current labour and legal policies prevent Sino-Euro Oil China HR policies to be completely global consistent.

This scenario confirms that nowadays as in the past, despite the on-going institutional transformation, HRM policies transfer to China is still affective by a coercive isomorphism despite the fact that best practices from top organizations are also partly influencing the scenario – mimetic isomorphism. Data collected through our interviews emphasised the negative role of the existing labour system – evolving from the system derived from previous China-specific centrally planned economy - and the fact that it prevent from transferring and completely implementing global standardised HRM policies in China (Child, 1994; Rowley, 2003; Warner, 1995, 2003).

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