

MULTINATIONAL CORPORATIONS IN CHINA: INSTITUTIONAL AND
STRATEGIC PERSPECTIVES ON HUMAN RESOURCE MANAGEMENT AND
INDUSTRIAL RELATIONS

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The dissertation is composed of three separate essays. The first essay critically reviews the current status of strategic human resource management (SHRM) research. I argue that the research to date in this field is built upon several assumptions whose validity may not endure beyond the borders of the United States, where much of the existing research in this realm has been conducted. The paper contextualizes the mainstream SHRM research by comparing institutional environments around human resource management between the United States and the People's Republic of China. Finally I provide reflections and suggestions on how the contextualized understanding of the literature can contribute to resolving and reframing two central concerns of SHRM research

The second paper addresses a major concern relevant to international business research in qualitatively investigating how subsidiaries of multinational companies deal with dual institutional pressures from the parent company and the local environment. Using Chinese trade unions as an empirical context, I develop a model that explains how the dual institutional pressures and organizational characteristics jointly shape the subsidiary's attitudes and behaviors towards a unique local employment relations practice. I analyze qualitative data I have collected in my thirteen months of fieldwork for this study.

The third paper involves a quantitative data analysis of Chinese companies in the manufacturing sector. The major concern of the paper is whether unions and employer-provided training affect firm performance differently depending on the ownership structure. I argue that recognizing unions in China is more beneficial for foreign firms than for domestic ones because it reduces the problem of legitimacy deficiency in the local market. I also argue that the positive impact of employer-provided training on firm performance is stronger in foreign owned firms than in domestic firms in China because foreign companies, unlike domestic firms, can expect an additional benefit of training: the cross-border knowledge inflow. The results of regression analyses generally support the hypotheses.

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CHAPTER 1

INTRODCUTION

Each of the three studies in this dissertation addresses an important issue about the people management practices of multinational corporations in the People's Republic of China. The first study (chapter 2) points out the limitations of U.S.-based strategic human resource management (SHRM) research, and discusses how China-based research can contribute to the advancement of the field. Based on firsthand observations in the field and a careful literature review, I argue that the major premises regarding institutional environments in U.S.-based SHRM research do not hold in the context of China's transitional economy. The second study (chapter 3) explores the variance and determinants of industrial relations practices of multinational corporations in China. In this chapter, I analyze the qualitative data that I collected during my extensive fieldwork in coastal cities of China. The final study (chapter 4) involves quantitative data analysis of Chinese companies in the manufacturing sector. It investigates the impact of unions and training investment on the performance of foreign-invested companies in China.

These studies were initially motivated by personal observations made during my fieldwork in China between June 2006 and July 2007. As a researcher who is interested in the human resource management and employment relations of multinational corporations, I had sound reasons to choose China for the site of my fieldwork. First, China has the largest workforce of any nation in the world. Therefore, no theories of human resource management and industrial relations can claim universal validity until they have been proved to be useful in explaining the phenomenon in China. Second, China is the country that has attracted the largest amount of foreign direct investment in recent decades. Almost no other country can

provide a better setting to observe the issues of people management in multinational companies as vividly as in China. In addition, the massive transformation of the Chinese society, especially in the area of industrial relations systems, implies unprecedented opportunities for social scientists to develop new insights on the processes and consequences of interactions between changing institutional environments and organizations.

The fieldwork began with a simple set of exploratory questions about the variance, antecedents, and consequences of human resource management of multinational corporations in China. Traveling across 11 coastal cities, I interviewed over 100 individuals in foreign companies, unions, and government offices. Among many interesting observations that I made during the fieldwork, three findings were most conducive to the development of the three studies in this dissertation.

First, I realized that the existing theories of human resource management, which evolved primarily in developed economies, do not sufficiently explain human resource management and employment relations in China. For example, U.S.-based human resource management research almost ignores the legal compliance issue. However, for Chinese managers, legal compliance is one of the critical strategic concerns because local regulatory environments continue to change dramatically, and law enforcement practices have a significant degree of variance depending on the region, industry, firm ownership, and personal network. This insight was developed into the study in chapter 2 that explores the limitations of U.S.-based SHRM literature.

Second, I observed that union recognition is a critical concern for multinational corporations in China. Since the Chinese government introduced the policy of “harmonious society” in 2004, companies in China have come under increasing social pressure to recognize unions. As shown in the case of the forced unionization of Wal-Mart China in 2006, some foreign multinational companies are specifically targeted by

local unions. In general, union recognition is a complex and confusing issue for foreign-owned firms in China because Chinese unions are quite different from the counterparts in their home countries. In chapter 3, I qualitatively investigate how subsidiaries of multinational companies make sense of this unique local institution and what influences their responses toward it.

My third observation was that managers in the field have polarized views on the performance implications of unions and training investment in China. With respect to union recognition, some managers believed that unions will undermine the effectiveness of management by encouraging unsolicited governmental interventions through trade union networks. Yet, others believed that unions can contribute to firm performance through facilitating positive interactions among managers, employees, and government authorities. With respect to training investment, some believed that training investment will contribute to firm performance by increasing employees' competence, but others suggested that training investment will not be paid off due to the high mobility in the Chinese labor market. The study in the chapter 4 attempts to resolve this debate by quantitative data analysis of a large national dataset.

Below, I will present an overview of the three studies that focuses on their main arguments and core findings.

A Contextualized Understanding of Strategic Human Resource Management

Over the past three decades, strategic perspectives have emerged as a useful framework to investigate human resource management in the United States. As a separate field of study, SHRM is distinguished from traditional streams of human resource management in that it emphasizes the set (or bundles) of human resource management practices over individual practices, and it focuses on the organizational

outcomes rather than attitudes and behaviors of individuals. A number of empirical studies have shown that progressively designed human resource systems, such as high-performance work systems, lead to higher firm performance. Recently, scholars have attempted to replicate the U.S.-based findings in other national contexts.

In chapter 2, I argue that the mainstream SHRM research is biased toward the institutional contexts of the liberal market economy of the United States and, therefore, the empirical findings and theoretical models based on these assumptions may not have equal relevance in other national contexts, especially in the transitional economy of China.

The institutional bias in the mainstream SHRM literature is embedded in several assumptions on which major theories are built. One of these assumptions is the complete autonomy of managers. Major theories of SHRM have assumed that companies can choose their human resource management systems without considering regulatory and normative constraints. The human resource architecture model proposed by Lepak and Snell (1999) is a good example in that the theory assumed that less valued individuals can be arbitrarily externalized without considering any institutional constraint. This assumption, however, may seriously undermine the explanatory power of the theory in the context of regulated labor markets. In China, for example, the government has recently introduced a series of labor regulations that constrain the discretion of managers in terms of hiring and firing decisions.

Prior studies also have assumed that the technical aspects of human resource management are widely institutionalized so that companies need to take one step further (e.g., adopting high-performance work systems) to assure the competitive advantage through people. This assumption, however, may not hold in countries where human resource management itself is a newly introduced concept. In the transitional economy of China, for instance, human resource management practices, such as

performance-based compensation and market-oriented recruiting, have been implemented only recently.

The influence of individualistic culture, as found in the mainstream SHRM literature, is also problematic. The influence of individualism is especially evident in theories that have explained the causal linkage between human resource management practices and firm performance. For example, some studies have argued that human resource management practices that encourage employees to develop long-term relationships with colleagues will positively contribute to firm performance (e.g., Dess & Shaw, 2001; Leana & Van Buren, 1999). Although the fundamentals of this argument may still hold in collectivistic societies like China, the existing theories would not be equally useful across nations with different cultures. In China, for example, managers are quite concerned about the negative impact of certain collectivistic behaviors (e.g., collective turnover and nepotism in performance evaluations) on firm performance. In other words, relationship-oriented human resource management practices might exacerbate the liability of social capital rather than maximize the benefits of social capital in collectivistic cultures.

The findings that the existing SHRM research is heavily influenced by the institutional and cultural environments of the United States lead me to argue that the contextualized understanding of SHRM can contribute to resolving and reframing two central concerns of SHRM research: (a) the existence of universally effective human resource systems and (b) the causal link between human resource systems and firm performance.

The existence of universally effective human resource systems has been debated extensively in the SHRM literature over the past two decades (Delery & Doty, 1996; Datta, Guthrie, & Wright, 2005). Proponents of the universalistic perspective have argued that certain human resource management practices are inherently

effective. Therefore, they posited that companies are likely to achieve high performance if they adopt those practices. The so-called “high-performance work system” is the set of human resource practices that is most frequently referred as the universally effective human resource management system (Huselid, 1995).

Critics of this perspective, however, have argued that the value of human resource management systems depends on various contingent factors such as the strategies and business environments of firms (Miles & Snow, 1973). According to this view, it is more important to assure the “fit” between human resource systems and contextual factors than to adopt so-called “best practices” such as high-performance work systems.

I argue that a contextualized approach to SHRM is valuable and much needed to resolve or advance the best practice-best fit debate. Specifically, in order for the best practice argument to be proven valid, certain practices or a set of practices need to be shown to improve firm performance in different national contexts. Therefore, the existence of universally effective best practices can be validated only when we have enough evidence that a certain set of practices is shown to be equally effective across different national contexts.

The best fit argument also needs to be informed by the context sensitive studies. In the past, researchers have focused primarily on the fit between firm strategy and human resource management practices. Only recently, researchers have begun to explore contingency factors beyond firm strategy, such as market segment (Batt, 2002) and industry contexts (Datta et al., 2005; Toh, Morgeson, Campion, 2008) . The contextualized approach to SHRM contributes to this emerging stream of research by emphasizing the potential moderating effect of national contextual factors on the relationship between human resource management systems and firm performance.

Determinants of the Industrial Relations Practices of Subsidiaries

A major concern of international business research is how subsidiaries of multinational companies deal with dual institutional pressures from the parent company and the local environment. A qualitative investigation of this issue is detailed in chapter 3.

Research in the area of international human resource management has noted that multinational companies have to cope with the dual imperatives of globalization and localization (Bartlett & Ghoshal, 1989; Rosenzweig, & Nohria, 1994). While earlier studies had focused on concerns of the parent companies such as expatriate management, researchers have more recently begun to examine the issue of globalization and localization in the context of local subsidiaries, especially those located in emerging markets such as China (Ferner, Almond, & Colling, 2005). My research directly addresses the major concern of international human resource management and examines the causes of multinational companies' employment practice strategies in the host country.

Studies in this subject have been widely influenced by the development of neoinstitutional theory. The theoretical perspective that had dominated the earlier works is the framework of isomorphism proposed by DiMaggio and Powell (1983). In this stream of research, behaviors of subsidiaries were understood as the replication of either the practices of the parent firm or those of local counterparts. DiMaggio and Powell's threefold framework of isomorphism (coercive, normative, and mimetic isomorphic pressures) was adopted to explain the similarities of human resource practices among networks within multinational companies. For example, Rosenzweig and Singh's (1991) influential study articulated that subsidiaries of multinational companies are under pressure to conform to the global standards within multinational

networks as well as the local norms. Building on Rosenzweig and Singh's work, Taylor, Beechler, and Napier (1996) proposed a theoretical model in which the impact of isomorphism in the host country on subsidiary human resource systems is moderated by the strength of isomorphism within the multinational networks. Taylor et al. identified a series of structural elements that enable the subsidiaries' behaviors to become more (or less) similar to those of the parent company. This line of argument has been validated by several empirical studies on subsidiaries in developed countries like the United States and United Kingdom (e.g., Rosenzweig & Nohria, 1994).

One of the prominent contributions of the earlier studies concerning the institutional perspective of subsidiary management is that behaviors of subsidiaries are understood as not only being resultant from the rational decisions of home country headquarters, but also from the process of legitimacy-seeking efforts of subsidiaries (Tempel, Edwards, Ferner, Muller-Camen, & Wächter, 2006). In addition, these studies made it explicit that subsidiaries of multinational corporations are facing institutional pressures from two different sources: the parent company and the local environment (Kostova, & Roth, 2002). These dual pressures are not always consistent with each other, and the inconsistency between the two forces can be a source of variance in the subsidiaries' behaviors.

However, these earlier studies have at least two limitations. First, they are susceptible to the emerging criticism against the overemphasis on the isomorphism in early versions of neoinstitutionalism. Over the recent decade, many institutional theorists have pointed out that the earlier formulation of institutional theory is incomplete because it underestimated the role of actors in the process of institutionalization. Oliver (1991) argued that organizations choose to proactively and strategically respond to environmental constraints rather than passively conform to the given institutional pressures. More recently, scholars have indicated that institutional

pressures, in certain cases, may encourage diversity rather than isomorphism among organizations (Lounsbury, 2007).

Another limitation of the previous research has to do with its primary interest in the diffusion of homemade routines and relative ignorance of indigenous practices. The transfer of practices that have been proven effective in the home country is an important issue in international business research because it can be a source of differentiating, and thus building, competitive advantage in local markets. However, indigenous practices are not less important in people management practices because employment management practices are under the heavy influence of local regulations, social norms, and cultures (Rosenzweig & Singh, 1991). Therefore, the lack of attention to subsidiaries' responses to local employment relations practices is an important gap in the literature.

My study attempts to address the two limitations of the prior studies by developing a nuanced understanding of the diverse reactions of subsidiaries toward indigenous local industrial relations practices by qualitatively investigating multinational companies' policies on Chinese trade unions. The Chinese trade union is an ideal subject of study for two reasons. First, it is a good example of a unique local practice of which foreign multinational companies must creatively make sense in order to formulate their responses. Unlike the unions in most developed countries where the multinational companies originated, Chinese unions are the organs of the national Communist Party rather than a representative body of employees. Therefore, standardized union policies developed in a parent company do not have direct relevancy in its subsidiaries in China. Second, the recent union recognition campaign supported by the Chinese government has generated interesting variance in the reactions of subsidiaries toward the local practice. This offers great opportunities for

researchers to observe the interactions between subsidiaries and their surrounding environments within and outside the company.

The research strategy employed in this study is a deductive investigation based on qualitative fieldwork data. Over 100 individuals were interviewed in 11 coastal cities of China between June 2007 and July 2008. The fieldwork was conducted in three stages. First, exploratory work was conducted in the summer of 2007. In this step, I visited five cities searching for major issues surrounding industrial relations in China and identifying potential factors that might influence the choices of multinational companies in their employment practices. In the second stage, I extended my fieldwork so that the sample could include enough variance in identified critical determinants of employment relations in the subsidiaries of foreign multinational companies: location of the subsidiaries, employment relations of the parent company, country of origin, size, and industry. Third, I additionally investigated the subsidiaries of two companies so that the dataset would contain rich information that enabled me to compare and contrast employment relations practices across subsidiaries of different human resource management strategies in their home country.

One of the interesting findings of my study is that the strategies of subsidiaries toward local unions are more diverse and complicated than what business reports often have described. The dichotomous distinction between unionized and nonunionized firms is almost meaningless because a significant number of subsidiaries choose to take the middle road. In addition, unionization of a firm in China does not necessarily mean that employees have an institution that advocates for them. Rather, subsidiaries are able to effectively control the union in a way to serve the purposes of management.

Schematically speaking, subsidiaries of multinational firms in China were found to adopt one of three behavioral patterns toward local unions: circumvention,

ceremonial recognition, and cooptation. Subsidiaries that adopt circumvention avoid recognition of any form of unions. Some establishments exert significant efforts to maintain a union-free workplace while others simply ignore the union issue.

Subsidiaries that adopt ceremonial recognition recognize unions only on paper and discourage any substantial organized union activity. A growing number of subsidiaries have converted their approaches from union-free to ceremonial recognition as the unionization campaign has intensified. In establishments where the recognition of unions is ceremonial, union leaders are appointed by the management. In many cases, union leaders are members of the human resource department.

To the contrary, establishments that adopt the cooptation approach recognize unions and encourage them to organize social activities. Union leaders are chosen through general elections among employees. However, the level of activity of unions does not necessarily mean that employees have a large voice in the company. Because the operations of unions are financially dependent on management, activities of unions are always aligned with the interests of the company. Although union leaders are selected by the employees, the company maintains the right to nominate the candidates. The co-opted unions tend to represent management rather than employees in cases such as adverse actions or downsizing.

Then, what explains this variance in the approaches of multinational firms toward unions? Some of my findings were consistent with those in the previous literature while others were not. As prior studies have reported, subsidiaries' reactions to local practices were significantly influenced by the two types of isomorphic pressures: the isomorphism within the multinational networks and the isomorphic force in the local area (Kostova & Roth, 2002). As for the isomorphism within the company, multinational companies that do not recognize unions in their home country establishments tend to not recognize unions in their local subsidiaries. On the other

hand, subsidiaries of multinational companies that are known for cooperative relations with unions tend to maintain positive attitudes toward unions. The isomorphic pressures in the local areas were observed by the effects of regions with respect to the likelihood of recognizing unions. In less developed regions where the union recognition rate is low, managers of foreign companies do not feel strong pressure to recognize unions. However, in a region where the union recognition rate risen dramatically over the past few years, managers are under direct as well as psychological pressures to recognize unions.

What would be even more interesting in my findings is that diverse behavioral patterns could be found under similar institutional forces. For example, subsidiaries of a multinational company that has maintained a well-established cooperative relationship with unions in the home country do not always adopt a welcoming approach toward local unions. Conversely, subsidiaries of a company that has been known for strong antiunion activities do not always resist recognizing unions in China. Then, how this variance can be explained?

In my fieldwork, I found that managers of foreign-invested firms perceive Chinese unions in different ways, and the way subsidiary managers view the Chinese union is related to the variance within the same profile of institutional forces.

Managers' perceptions about the nature of unions can be broken into three categories: potential threat, social lubricant, and inert substance. Some managers consider Chinese unions to be a potential threat to the foreign firms, others perceive unions as a social lubricant between foreigners and locals, and still others believe unions are simply the inert remnants of the old planned economy that do not play any significant role for or against the company.

The differences in the perceived nature of unions are associated with the perception about the relationship between unions and the government. Even managers

of two extreme perspectives, the potential threat and the social lubricant, generally agree that the trade union in China is a governmental organ. But, they have opposing views on what the close relationship between unions and the government suggests. For those who regard unions as a threat, the close relationship between unions and the government is viewed as a source of managerial uncertainty because it may extend the influence of local government into the company. For those who regard unions as a lubricant, unions are considered to be a channel for communication with the government so that they may reduce the managerial uncertainty in a country where the government maintains a strong influence on the economy. And, those who consider unions as inert substances do not find any expected benefits or costs in the link between unions and the government.

The differences in the perceived nature of unions are also related to the perceived role of unions within the company. For those who regard unions as social lubricants, unions are considered to be a source of harmony in the company. Traditionally, the main role of unions in China is to organize social events and arrange training sessions in which managerial policies are delivered. This role had been defined as a “transmission belt” that smoothed the turnaround of a planned economy. Although economic liberation weakened the direct impact of centrally planned production plans on the management of companies, the legacy of unions as a transmission belt remains. Managers of foreign companies who view unions as a social lubricant imagine that the legacy of unions in China can be revitalized in a way to facilitate the communication between foreign managers and local employees. By supporting unions to organize social events, multinational companies can enhance a cooperative atmosphere between foreign expatriates and local workers. By designating unions as a channel for employees to express their voices, multinational companies can avoid a situation where unvented employee frustrations develop into wild strikes.

However, for those who regard unions as a threat, unions in China are considered to be an organization of local employees that might initiate collective action against foreign managers. Although this concern is supported by unsubstantiated fears rather than by the empirical evidence, many managers of foreign-owned firms have a strong belief that unions in China will deepen the psychological gap between foreign supervisors and local employees. In addition, for those who treat unions as an insignificant legacy of the past, unions are considered to have no capability, or even motivation, to work for or against management.

I found that the three cognitive frames of unions (social lubricant, potential threat, and inert substance) are associated with the three behavioral patterns toward unions (cooptation, circumvention, and ceremonial recognition). At first sight, each type of perception has its own match. For example, the perception of social lubricant seems to have a natural fit with the cooptation approach, and the perception of potential threat seems to be matched with the circumvention approach. It is interesting, however, that the three cognitive frames of unions do not match one-by-one with the subsidiaries' three behavioral patterns toward unions. The similar behavioral pattern was driven by different cognitive frames.

This is most clearly shown among the subsidiaries that adopt the ceremonial approach. In some cases, subsidiaries maintain the paper unions with the belief that unions have no more value except as a symbol of compliance to the external stakeholders. In other cases, subsidiaries adopt unions ceremonially despite the belief of managers that unions have great potential to function as a social lubricant. With respect to this discrepancy, I found that the institutional and organizational factors jointly influence the linkages between the images of unions and the behavioral patterns toward them. Even if expatriate managers believe that the union is potentially detrimental to the company, subsidiaries were found to adopt the union at least

ceremonially (rather than circumventing it) when institutional isomorphism toward unionization is sound or organizational characteristics strongly require intermediary employee representatives. Conversely, even if expatriate managers believe that the union is beneficial to the company, subsidiaries were found to reject the union or only ceremonially adopt it when the institutional pressure for a union-free workplace is strong or the organizational structure is too simple to justify an additional investment in developing employee communication channels.

What Do Unions and Training Investment Do for Multinational Corporations?

The consequences of employment relations and human resource practices in the context of multinational corporations operating in the emerging economy of China are addressed in chapter 4. This study confronts that issue by analyzing a quantitative dataset on Chinese companies in the manufacturing sector. The major concern of the study is whether unions and employer-provided training affect firm performance differently depending on the ownership structure.

In this chapter, I attempt to provide evidence that support two arguments. The first argument is that recognizing unions in China is more beneficial for foreign than domestic firms because it reduces the problem of deficient legitimacy in the local market. The second argument is that the positive impact of employer-provided training on firm performance is stronger in foreign-owned firms than in domestic firms in China because foreign companies, unlike domestic firms, can expect an additional benefit of training: the cross-border knowledge inflow.

The first argument extends the existing discussion of the organizational consequences of unions. While previous research on this subject has focused on unions in mature market economies, my study provides new insights to the literature

about “what do unions do?”(Freeman & Medoff, 1984) by investigating the issue in the context of the emerging economy of China. The present study also offers a new way to see the organizational consequences of unions by introducing sociological perspectives instead of the perspectives of economics that were primarily employed in prior studies. In addition, this argument has significant practical implications because foreign multinational companies in China are seeking an answer to the question of whether they should or should not recognize unions in the face of an intensifying government-supported unionization campaign.

The second argument adds to the existing knowledge about the relationship between employer-provided training and firm performance. Transaction cost theory and a resource-based view of the firm as well as human capital theory have commonly suggested that assuring firm-specific human capital is necessary for a firm to develop a sustainable competitive advantage in the market (Barney, 1991). Based on these perspectives, employer-provided training has been recognized as an important source of competitive advantage because it promotes the firm specificity of human capital. By definition, firm-specific human capital cannot be obtained from the external labor market. The labor market is supposed to supply a workforce with general skills that can be utilized by many companies including competitors. A training program designed to serve specific needs of an employer is the major instrument to develop employees’ skills and knowledge that have exclusive value to the firm. In this regard, employer-provided training is presumed to contribute to the firm’s performance.

Despite the well-established relationship between employer-provided training and firm performance put forth in the literature, managers of foreign-owned firms in the emerging economy of China are often skeptical about the efficacy of investing in human capital development. In China, labor mobility is very high. Skilled workers are often offered better job opportunities by competing foreign employers. Due to the

serious labor shortage in the skilled labor market, employers find it difficult to retain employees who received a significant amount of company-provided training. More often than not, employees of companies that are known for their well-organized training programs are targeted by staff-searching firms. This tendency is especially prevalent in foreign-invested sectors. What this situation suggests is that the positive relation between training investment and firm performance might not be as strong as was demonstrated in other mature market economies, especially for foreign multinational firms.

The data used in this study was originally collected by the National Statistical Bureau of China in 2004. One of the great merits of this dataset is that this is the only national dataset that contains union variables. The original dataset contains all registered manufacturing firms in China. From this dataset, I excluded firms where the majority of ownership belongs to the Chinese government because these companies may operate under an institutional environment that differs from other domestic firms. I also excluded firms owned by investors from greater China regions, such as Hong Kong, Taiwan, and Macao, because the institutional dynamics of these firms might be unlike those of other Chinese domestic firms or purely foreign companies. Firm performance was measured by the return on equity. Union recognition was coded from the reported number of union members. Training investment was calculated as the education expenditure per employee.

The results of the regression analyses generally supported the hypotheses. Unions showed a moderately positive impact on firm performance in foreign-owned firms, but a clearly negative impact on firm performance in domestic private firms. Training investment showed a positive impact on firm performance regardless of the ownership type, although the impact was stronger in foreign-owned firms.

The organization of the remainder of this dissertation is as follows. Chapter 2 points out the limitations of existing SHRM literature and demonstrates the potential contributions of institutional perspectives using China as an example. Chapter 3 qualitatively examines the institutional and organizational determinants of industrial relations practices of multinational corporations in China. Chapter 4 provides quantitative evidence that unions and training investment bring positive organizational consequences for foreign-owned firms in China. The final chapter provides conclusions and discusses future research directions.

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CHAPTER 2
PUTTING STRATEGIC HUMAN RESOURCE MANAGEMENT IN
CONTEXT: LESSONS FROM CHINA

INTRODUCTION

Strategic human resource management (SHRM) has emerged as a field of scholarly inquiry in the United States over the past 30 years. Facing unprecedented global competition, managers in the United States came to recognize that carefully designed human resource management (HRM) can be a major driver of organizational performance. A number of studies have empirically demonstrated that HRM practices or a bundle of practices significantly affect organizational outcomes (Delery & Dotty, 1996; Huselid, 1995; MacDuffie, 1995). More recently, researchers have attempted to provide rigorous theoretical explanations for the causal link between human resource (HR) systems and firm performance (Batt, 2002; Collins & Clark, 2003; Evans & Davis, 2005).

It is debatable whether the field of SHRM has provided a body of knowledge that is equally relevant beyond its birthplace. Some authors have conceded that the universality implicit in the U.S.-based SHRM literature has widespread applicability and have claimed that “there is *no a priori reason to believe* [italics added] (Bjorkman & Fan, 2002, p. 854)” that the prior SHRM models will not work in other countries. Assuming “the transferability of the Western hypothesis of a relationship between strategic HRM and organizational performance” (Zhu, Thomson, & DeCieri, 2008, p. 143), several researchers have succeeded in offering initial evidence for the replicability of U.S.-based findings in Asian Pacific countries (Bae & Lawler, 2000;

Bjorkman & Fan, 2002; Guthrie, 2001; Sun, Aryee, & Law, 2007; Takeuchi, Lepak, Wang, & Takeuchi, 2007).

However, others have argued that SHRM is one of the “made-in-the-U.S.” fields of study that are biased toward institutional and cultural contexts of the United States (Boseli, Paauwe, & Richardson, 2003; Boyacigiller & Adler, 1991; Hofstede, 1980; Shenkar & Von Glinow, 1994). Examining HRM in the Netherlands, Boseli and his colleagues concluded that the explanatory power of U.S.-based SHRM models is limited in countries with the so-called Rhineland model of industrial relations (Boseli & Richardson, 2001; Boseli et al., 2003; Paauwe & Boseli, 2003). They stated that “much of the existing HR literature is unnecessarily narrow and that far more attention needs to be paid to institutional contexts” (Boseli, Paauwe, & Jansen, 2001, p. 1088).

This paper intends to remind HRM researchers that current major theories of SHRM are significantly influenced by the institutional environments of the United States. Although SHRM can encompass a wide range of topics associated with antecedents as well as consequences of HR systems (Wright & McMahan, 1992), I focus on the primary concern of the field: the relationship between HR systems and firm performance. Drawing from literatures of national business systems, institutional theories, and cross-cultural studies, I argue that the mainstream SHRM research is framed by biased assumptions that reflect the regulatory, normative, and cultural environments of the liberal market economy of the United States. Therefore, existing major tenets of SHRM should not be automatically taken as context-free theories with global relevancy. In addition, I propose that the explicit consideration of contextual variables (particularly, those of national contingency) will provide opportunities to answer the central questions of SHRM in a new way.

The paper will contextualize the U.S.-based SHRM research by comparing institutional environments around HRM between the United States and the People’s

Republic of China. My choice of China as a comparative case is justified in the first section of the paper. Next, I will discuss how the regulatory, normative, and cultural environments of the U.S. economy have shaped the previous SHRM research, and why the global relevancy of the literature should not be taken for granted. Finally, I will provide reflections and suggestions on how the contextualized understanding of the literature can contribute to resolving and reframing two central concerns of SHRM research: (a) the existence of universally effective HR systems and (b) the hidden causal link between HR systems and firm performance.

Why Compare the United States and China?

There are several compelling reasons why it is important and useful to examine China as a benchmark case for evaluating the existing SHRM research. First, China has the largest number of employees of any country in the world. Therefore, theories about people management cannot claim universal validity unless they can effectively explain the phenomena in China (Shenkar & Von Glinow, 1994).

Second, China is quite different from Western developed countries in its regulatory, normative, and cultural environments. I admit that China is not the only nation where these dimensions differ from those of the United States. For example, continental European countries such as Germany can be used as comparative cases for the dissimilarity in national business systems (Hall & Soskice, 2001). Yet, not many places other than China offer the opportunity to examine the impact of the regulatory, normative, and cultural environments simultaneously. In other words, China is an ideal “research laboratory” to test the relevance of existing SHRM research developed in the U.S. context (Shenkar & Von Glinow, 1994).

Third, the recent burgeoning of HRM research in China requires a systematic understanding of the institutional differences between the United States and China. A recent comprehensive review (Zhu et al., 2008) reported that the number of published academic studies on Chinese HRM has grown from 5 between 1979 and 1984 to 98 between 2000 and 2005. The number of studies that specifically look at HR and firm performance relations in Chinese companies is also rapidly growing. My review of the 10 major academic outlets¹ between 1992 and 2008 revealed that 17 papers have specifically investigated the empirical relations between HR and firm performance of Chinese companies (see the article summaries in the Table 1.1). In the same period, probably no country other than the United States would have received as much attention from HR researchers. Despite the growing number of studies, however, China-based SHRM research has provided few theoretical contributions to the global SHRM literature. Part of the reason for this lack of theoretical contributions is that researchers of Chinese HRM have tended to uncritically assume the universal applicability of U.S.-based theories and focus only on replicating those findings in China. When researchers encountered unexpected findings, many simply employed the convenient concept of cultural difference without specifying how the cross-national difference caused the counterintuitive results in their Chinese sample. This is unfortunate because these researchers lost excellent opportunities to further contribute to the global knowledge of SHRM. By contextualizing U.S.-based studies, this paper hopes to assist future China-based SHRM studies to formulate new questions and identify better explanations for novel empirical findings.

¹ The ten journals reviewed include: *Academy of Management Journal*, *Organization Science*, *Strategic Management Journal*, *Administrative Science Quarterly*, *Journal of International Business Studies*, *Asia Pacific Journal of Management*, *Organization Studies*, *Management International Review*, *Human Resource Management*, and *International Journal of Human Resource Management*.

Table 1.1

Empirical studies on HR-firm performance in China that appeared in major English journals (1992-2008 January)

Citation	Major Findings
Wei, & Lau, (JIBS, in press)	SHRM has significant positive relations with firm performance measures
Akhata, Ding, & Ge, (HRM, 2008)	Strategic HRM practices affects both financial and product/service performance. Employment security and job descriptions contributed uniquely to product/service performance, whereas profit sharing contributed uniquely to financial performance
Ngo, Lau, Foley, (HRM 2008)	HRM and SHRM (independently) positively affect firm performance
Li, Lam, Sun, Liu(SMJ, 2008)	Internal employment mode positively associated with firm performance(profit and market share)
Sun, Aryee, Law(AMJ, 2007)	HPWP significantly increase OCB, and OCB reduces turnover
Zheng, Morrison, O'Neill (IJHRM, 2006)	Motivation factors(perf based pay & participatory decision making) + / Social Benefits Factor (provision of social security scheme & substantial trade union) -
Lee, Hsu, Lien (IJHRM, 2006)	Retirement and pension plans reduces the turnover while severance pay increase the turnover rate
Gong, Shenkar, Luo, Nyaw (JIBS, 2005)	HR problems on parent-subsidiary relations have direct positive impact on IJV performance, but it also reduces the effectiveness of within IJV HRM which leads to lower performance.
Ng and Siu (IJHRM, 2004)	managerial training has a significant and positive impact on performance/ # of technician has a positive impact on performance (in SOEs)/# of managerial workers has a positive impact on performance (in Non-SOEs)
Li, Ji (IJHRM, 2003)	Long-term oriented HR reduces turnover/Proportion of University graduate increase productivity/Pay level reduces turnover and increase ROA
Bae, Chen, Wan, Lawler, Walumbwa (IJHRM, 2003)	HPWP works across different nations/ HPWP works better for indigenous firms than foreign firms/ the effect of HPWP is not significant for European firms
Law, Tse, Zhou (JIBS, 2003)	In JV, role of HR has a positive significant correlation with ROE; in Shared stock firms, role of HR is significantly correlated with ROE and Productivity
Takeuchi, Wakabayashi, Chen(APIJ, 2003)	Japanese type of HR practices positive affect financial performance, but not behavioral outcomes(turnover/absenteeism)
Bjorkman,& Fan (IJHRM, 2002)	HPWP significantly increase firm performance/HR-Strategy alignment significantly improve firm performance
Wai-Kwong, Priem, & Cycyota (IJHRM, 2001)	HR manager involvement during strategy making was positively related to perceptions of future business performance. Pursuit of a cost leadership strategy, combined with either high HR manager involvement or high middle manager involvement, produced high business performance.
Glover, L. & Siu (IJHRM, 2000)	Low wages, lack of training, and lack of career planning undermine the product quality
Ngo, Turban, Lau, & Lui (IJHRM, 1998)	Training, Performance based pay, Diversity increasing practice are positively associated with firm performance

Finally, testing the relevance of the existing SHRM literature by using the Chinese case has a practical importance. China has attracted the largest number of foreign multinational firms in recent years (Huang, 2003). Thus, there is an enormous need for managers of multinational companies to know whether they can apply the propositions of the existing SHRM literature to Chinese subsidiaries in the same way that they do in their countries of origin.

INSTITUTIONAL ENVIRONMENTS AND STRATEGIC HUMAN RESOURCE MANAGEMENT

This paper does not intend to challenge the internal validity of the major existing SHRM studies. Rather, I attempt to identify the boundary conditions of the mainstream SHRM research and question the external validity of the existing findings. Specifically, I argue that current SHRM is significantly biased toward U.S. institutional environments in which the major theoretical development has been occurring. Therefore, the universal applicability of the SHRM model should be very carefully assumed.

To systematically examine how U.S. institutional environments have shaped the current SHRM research, I employ Scott's (2008) three pillars framework that is composed of regulatory, normative, and cultural-cognitive elements. The regulatory aspect of an institutional environment is constituted by laws and rules of a nation that constrain or promote certain types of behaviors. The normative component involves values and norms held by a society. The normative environment specifies the socially appropriate behaviors of members. The cultural-cognitive pillar has to do with the ways in which members of a society make sense of the world around them. Using the three pillars framework, I will depict institutional profiles of the United States and

China with regard to a specific issue of SHRM and discuss how the mainstream SHRM research is influenced by regulatory, normative, and cultural arrangements of the U.S. liberal market economy.

The Regulatory Environment: Is This a Negligible Issue?

The mainstream SHRM literature presumes that top management can autonomously design and implement HR systems according to the strategic need of a company without much consideration of regulatory constraints. The popular “dual fit model” of SHRM is an illustrative example in point. According to Baird and Meshoulam (1988), companies are expected to achieve high performance when the management implements a set of coherent HR practices (horizontal fit) that is well aligned with firm’s strategies (vertical fit). The assumption behind this argument is that management can freely choose or adjust major aspects of HR practices according to their strategic intentions without considering any regulatory constraints.

Lepak and Snell’s (1999) HR architecture model and its extensions (e.g., Kang, Morris, & Snell, 2007) are another popularized SHRM theory that assumes a wide range of managerial autonomy in designing HR systems. According to this theoretical model and extensions, companies are described as independent entities that can unilaterally adjust HR composition according to their managers’ judgments about the value and uniqueness of employees. Without considering any regulatory constraints on hiring and firing practices, these authors recommended that firms externalize less valuable and replaceable individuals while maintaining long-term relationships with core employees.

The assumption of complete managerial autonomy and the lack of attention to labor market legislation in the mainstream SHRM literature may reflect the regulatory

environment of the liberal market economy. Theorists of national business systems (e.g., Hall & Soskice, 2001) have suggested that, in liberal market economies such as the United States, companies enjoy an extensive degree of autonomy when it comes to HR and industrial relations practices. In liberal market economies, the labor market, rather than regulations or collective representatives, dominates the relationship between companies and individual employees. Companies generally enjoy a substantial amount of freedom in hiring and firing decisions. Firms are not obliged to recognize unions and can unilaterally control employees. Except with regard to certain issues such as government-sanctioned affirmative action programs, dealing with the regulatory environment is considered to be an administrative task that does not add much value to the firm. Reflecting this regulatory environment, U.S.-based SHRM research has tended to neglect the element of the regulatory context and describe corporations as autonomous entities that design and implement HR systems according to their strategic needs.

However, the assumption of complete managerial autonomy may not hold in China. Even after decades of ambitious marketization and economic liberation programs, the Chinese government still maintains a significant influence in the Chinese economy, and Chinese companies do not enjoy the kind of freedom to hire and fire of their U.S. counterparts. Even the branches of foreign firms, which are believed to have the largest degree of autonomy in China, must recruit, at least officially, through government-run HR services such as FESCO (interview, Beijing, 10 July 2008). In fact, Chinese labor regulations are becoming increasingly, rather than decreasingly, restrictive. The Chinese labor law enacted in 2008 clearly illustrates the trend. For instance, the new law stipulates that companies are not allowed the freedom to fire employees who have worked for the firm for more than 10 years. Unions or local labor authorities are to be consulted about layoff decisions. Temporary

workers must be able to easily obtain job security. Furthermore, the new labor law also specifies that companies have to provide mandatory severance pay. In sum, the newly introduced law intends to constrain companies' autonomy in hiring and firing.

In addition to these increasingly restrictive elements, the transitional nature of Chinese regulatory systems poses an additional layer of problems on HRM. In the case of the United States, the regulatory environment is relatively stable and predictable. The interpretation of labor laws is generally less contestable than that of emerging economies. Therefore, neglecting the regulatory environment, or assuming it as "given," may not create a serious gap between theories and the realities in the U.S. context. However, in the transition economy of China, regulation is not simply a given condition. Rather, it is an issue to be strategically managed. Chinese HR managers are attentive to the regulatory environment not only to comply with it, but also to proactively manage it.

The observations made in my fieldwork confirmed that companies in China, especially those originated from foreign countries take the regulatory environment into consideration very seriously. Managers considered maintaining intimate personal relationships, or develop a high level of "guanxi" with local law enforcement authorities is one of their critical concerns. In an interview, a CEO of a Korean company in a Northern coastal city confessed that he regularly treat local law enforcement authorities with expensive dinner and stunning gifts. He said this is necessary because the company will suffer a high degree of uncertainty with respect to law enforcement without concrete support of the "friendly" officials (interview, 26 May 2008, Qingdao). In another interview, a human resource manager of an European energy company stated that the company maintains the headquarter office in the most expensive area of Beijing not because it enhances the efficiency of managing othe

Chinese subsidiaries, but because the location is close to important governmental offices (interview, 21 Dec. 2006, Beijing)

Three unique characteristics of the Chinese labor law systems contribute to this phenomenon. First, Chinese labor regulation systems are continuously changing. The Chinese government has introduced multiple major labor regulations over the past 20 years in order to meet the challenges accompanied by dramatic economic development (Lee, Lee, Kim, & Yoon, 2008). The new labor law enacted by the Chinese government in 2008 superseded the prior labor law of 1994. Between the enactments of these two major labor laws, regulations on unions (2001), a collective contract law (2004), and minimum wage regulations (2004) were newly introduced or revised. Because labor regulations are evolving, Chinese firms must invest resources to monitor and interpret new information in regulatory updates, and adjust their HR systems accordingly.

Second, there is a significant difference between the written laws and their enforcement. In many cases, Chinese labor law does not clearly specify the sanctions against offenders. Sometimes, local regulations are not totally consistent with the national law. Therefore, legal compliance often involves negotiations with relevant stakeholders (Athreya, 2004). For example, the current labor law specifically stipulates that employees cannot work more than 36 hours of overtime in a month. However, the Chinese government is quite flexible in enforcing this law. In many manufacturing facilities, a mutual understanding among the employer, employees, and local authorities allows employees to work more than 60 hours of overtime in a month. The severity of punishment for employers on this violation depends on the formal or informal terms of negotiation with employees and local authorities. Therefore, the activities of dealing with the regulatory environment have “strategic value” to Chinese firms.

Third, in China, there is a significant within-country variance in the regulatory environment. One of the variables that may capture this within-country variance is ownership type (Gallagher, 2005). For example, state-owned firms are generally under stronger regulatory controls than other types of firms in terms of employment relations. In return, state-owned firms enjoy better protection in the domestic market. Alternatively, foreign-owned firms have been endowed with a set of favorable regulatory measures at the same time as they are under heavier pressure of legal compliance than domestic firms. Another variable that may indicate the difference in the regulatory environment is geographical region (Cheng & Kwan, 2000). The regulatory environment between China's industrialized eastern coastal cities with a long history of economic liberation is quite different from that of its recently emerging inner cities.

The influence of the regulatory environment on the relation of HR systems and firm performance is also empirically shown to be significant in some of recent China-based SHRM studies. Law, Tse, and Zhou (2003) found positive and significant correlations between the strategic role of HR systems and firm performance in joint venture and shared enterprises, but the correlations were not significant in state-owned and collectively owned firms. In a similar vein, Ng and Siu (2004) investigated how employer-provided training affected firm performance differently between state-owned and non-state-owned companies. They found that the positive relationship between training and firm performance was more clearly seen in the non-state-owned sector. More recently, Ngo, Lau, and Foley (2008) determined that the adoption of sophisticated HRM practices was negatively associated with financial performance in private-owned firms. Wei and Lau (in press) suggested that the alignment of HRM with firm strategy was more strongly associated with firm performance in foreign-invested firms than in other types of ownerships. Although these studies did not

elaborate on the exact mechanisms through which the regulatory environment affects the relation of HR systems and firm performance, the empirical results clearly showed that the regulatory environment does matter in the Chinese context.

The Normative Environment: Do U.S. and Chinese Human Resource Managers Share the Same Understanding of Strategic Human Resource Management?

The growth of SHRM as an independent field of study in the United States has been accompanied by the evolution of HRM as a professional occupation over more than a half century. In contrast, HRM in China is a recently imported concept that is part of the ongoing institutionalization process. In this section, I will briefly summarize how HRM has historically developed and been institutionalized in the United States and China, and then discuss its implications for the relation of HR systems and firm performance.

Before 1980, personnel management, which was later replaced by HRM, represented a collection of administrative activities such as recruiting, selection, training, compensation, and handling industrial relations (Dyer & Burdick, 1998). In this pre-SHRM period, the major roles of a personnel management department were to conduct administrative works, monitor legal compliance, deal with collective bargaining, and preempt unionization. Although the employee advocate role was not neglected, the personnel management department had developed with independent functions that distinguished it from labor relations activities (Dyer & Burdick, 1998). After World War II, some personnel managers began to consider themselves as professionals who could contribute to employee welfare and organizational performance. However, others regarded the personal department as a “trash can” for duties that no other department wanted to be assigned such as factory security,

firefighting services, and the reception desk (Ritzer & Trice, 1969). In this period, industrial relations research dominated the field while behavioral science theories, which had inherited the traditions of the human relations school, provided systematic knowledge on motivation, leadership, and group dynamics (Dyer & Burdick, 1998).

During the 1980s, the U.S. economy faced unprecedented global competition. The old mass production model was viewed as irrelevant and obsolete in the rapidly globalizing economy. The upheaval of the U.S. economy forced companies to rethink their operations across all major functions including HRM. Some companies reduced the number of employees through massive layoffs and firings. Others experimented with new sets of production systems referred to as high-performance work systems (HPWSs) or high-involvement work systems (Appelbaum & Batt, 1994). The declining influence of unions was another notable phenomenon that promoted new understanding about the role of HR.

Facing these challenges and changes, HR professionals strived to be recognized as a profit center rather than a cost factor within their organization (Dyer & Burdick, 1998). On the one hand, HR managers promoted their expertise on the technical aspects of HRM. Professional associations distributed “human resource best practices” through conferences, publications, and certification exams (Wiely, 1995). Academic research provided concrete knowledge on various functional areas of HR. Consequently, in the early 1990s, the technical knowledge on HRM activities had become so widely institutionalized that it was “inadequate as a means of differentiating from competitors” (Huselid, Jackson, & Schuler, 1997, p. 184).

On the other hand, HR managers began to claim that the integration of HRM and firm strategies would result in a superior firm performance. The role that Ulrich (1997) called “strategic partner” has emerged as an ideal image for HR professionals. Although other roles such as employee advocate and administrative expert were also

considered important, professional associations and consulting firms promoted the concept that the strategic partner is the ultimate role for HR professionals (Booth, 2001; Marshall & Whelan, 1996). In the handbook for HR professional certification, for instance, the Society for Human Resource Management claimed that the major role of HR is to monitor, control, and rearrange every aspect of people management including industrial relations “in support of the organization’s strategic goals, objectives, and values” (HR Certification Institute, 2008).

Responding to the practitioners’ needs, researchers have developed theoretical and empirical justification for value added aspects of HRM. The organizational consequences of HR systems, rather than individual practices, have become a defining characteristic of SHRM research (Wright & McMahan, 1992). As a result, the positive relationship between sophisticated HR systems and firm performance has come to be supported by a good deal of academic research (Wright, Gardner, Moynihan, & Allen, 2005).

In the transitional economy of China today, the professional and academic community of HRM is still in its formative stage. The marketization of the economy through the years has generated a notable variance in the expected role of HRM (Wang, Bruning, & Peng, 2007). In the centrally planned Chinese economy of the pre-reformed era, employee or labor management was considered a type of administrative function to be mechanically implemented according to the guidance of the Communist government (Warner, 1993). Personnel management in this era was often represented with the expression of “iron rice bowl.” This system was characterized by lifelong employment with few practices aimed at individual-based motivation. As the economic reformation proceeded, however, the Chinese government came to consider this traditional method of managing people as a source of inefficiency. Therefore, the government initiated reformation programs in early 1990s that gradually allowed

company managers to have autonomy in hiring and firing decisions (Ding, Goodall, & Warner, 2000; Ding & Warner, 2001).

In addition, with the lowering of competitive barriers and ensuing movement of large multinational firms into China through either joint ventures or wholly owned subsidiaries, the so-called “Western-style” HRM was introduced by foreigners and gained legitimacy among Chinese managers, partly through the newly established business schools and emerging consulting industry (Ding et al., 2000). The expression *renli ziyuan* (human resource management) was a quite novel and rarely used concept in early 1990s, but it has become a common Chinese business term in the 2000s (Zhu, Cooper, De Cieri, & Dowling, 2005). Some companies, especially those privately owned, quickly embraced the idea of HRM either because their managers believed it would promote the firm’s performance in the marketized economy or because it suddenly became a legitimate concept (Tolbert & Zucker, 1983).

However, the change, although fast and far-reaching, should not be overstated. The majority of Chinese companies, particularly state-owned firms that still constitute a sizable portion of the economy, have been slow to follow the trend and even now maintain many aspects of the traditional methods of personnel management (Ding et al., 2000). Some state-owned firms are required to contribute to the society by offering employment security and extensive benefits regardless of their market performance. Studies have shown that the old, socialist welfare type of employment system is hardly dying and is being actively regenerated in newly established firms (Francis, 1996; Warner, 1999). For many companies, basic elements of HR systems such as recruiting and variable pay remain novel practices yet to be internalized. Therefore, only a small fraction of Chinese companies have HR managers whose technical capabilities are on a level similar to their U.S. counterparts (Mitsubishi, Park, Wright, & Chua, 2000).

The resurgence of Chinese trade unions may further complicate the normative environment of HRM. In response to the growing number of labor disputes in industrialized regions, the Chinese government is promoting the employee representative role of trade unions (Clarke, Lee, & Li, 2004). According to the corporatist tradition of China, the grassroots union leadership is often held by HR managers, and it is also closely connected to government authorities (Gallagher, 2005; Tsui & Carver, 2006). Although the current Chinese labor union is cooperative rather than antagonistic toward management, the social norms and political pressures summarized in the expression of “harmonious society” may increase the need for HR managers to assume the role of “employee advocate”(Ulrich, 1997).

The cross-national differences in the historical development of HRM, degrees of institutionalization of HRM, and the expected roles of HR managers may make subtle, but important, differences in the relation of HR systems and firm performance. First, dissimilarities in the socially constructed meaning of an HR practice can foster differences in the relation between the practice and organizational outcomes (Berger & Luckmann, 1967). Studies have shown that organizations that adopt a socially desirable HR practice may increase firm performance (Perry-Smith & Blum, 2000), while companies that adopt a socially condemned practice may suffer negative consequences such as a bad reputation (Ahmadjian & Robinson, 2001²). Where an HR practice is considered to be a progressive activity in one society but is perceived as being regressive in other country, the relationship between the practice and firm performance differs accordingly.

² Ahmadjian and Robinson (2001) demonstrated that the permanent employment practice is considered to be a normatively appropriate practice in Japan. Therefore, the press and public opinion have punished companies that dismissed employees without extensive efforts to avoid the option.

Employment security can be a case in point. In the U.S. context, progressive HR systems were introduced as an alternative method for the control-oriented Tayloristic mass production model (Appelbaum & Batt, 1994). Manufacturers in the United States realized that the old system might fail them in the face of cost-effective competitors and quality conscious customers. Therefore, a new manufacturing system with the dual capability of cost containment and quality improvement was required. Many companies found a hope in the HPWS that enables nonmanagerial employees to provide discretionary effort and share constructive ideas. In creating an environment where workers do not have to worry about losing their jobs when offering suggestions and ideas, the HPWS includes an element of employment security. Therefore, provision of employment security is often considered to be a part of progressive HR systems (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Batt, 2002; Delery & Doty, 1996; Huslid, 1995; McDuffie, 1995).

Ironically, however, HR systems centered on job security are strongly associated with “old and inefficient,” rather than progressive, employment systems in China. In the context of the transitional economy, innovation in work systems is equated with a departure from the traditional social welfare model (Filatotchev, Demina, & Wright, 2003). And, the most prominent feature of the traditional model is lifelong employment. Therefore, the job security is associated with the old and inefficient model of personnel management. A human resource manager of Chinese state owned firms told me that “we let poor performers leave the company as GE does because it is the way a good company should go (Beijing, 13 July 2008)

A recent inductive study (Xiao & Bjorkman, 2001) also showed that Chinese managers and employees do not associate long term oriented HR practices such as job security with “high commitment work systems.” This is an important issue because employees infer the values and goals of their company through the nature of HR

practices (Bowen & Ostroff, 2004; Perry-Smith & Blum, 2000; Weick, 1985). If job security is strongly associated with a regressive instead of a progressive HR system, Chinese companies may find it difficult to create an image of advanced organization by offering employment security.

Second, the level of the technical knowledge of HRM among HR managers may affect the pattern of the relation between HR systems and firm performance. In countries, regions, or economic sectors where HR managers generally have a low level of functional expertise, efforts to integrate HRM and firm strategy may not result in a significant level of performance improvement. In this context, HRM practices that focus on technical effectiveness may show a significant impact on firm performance. Reporting that SHRM, not the technically oriented HRM, does contribute to firm performance of U.S. companies, Huselid, Jackson, and Schuler (1997) commented that:

“This conclusion may not generalize, however, to smaller U.S. firms and to firms competing in environments characterized by lower levels of institutionalization for technical HRM activities. . . . Furthermore, if firms in such contexts have not yet achieved at least moderate levels of technical HRM effectiveness, they may not have the foundation needed to successfully implement strategic HRM activities” (pp. 184–185).

In China, the technical knowledge of human resource managers about their job is in its formative stage. During my fieldwork in China, I encountered several occasions that indicate that human resource management is still a new concept in the country. For example, I was once asked to offer a lecture on strategic human resource management to the whole human resource management department of a Shanghai

based textile company in mid July 2006. After the lecture, one of the feedbacks that I received from many participants was that the lecture was useful but not as much relevant as it sounds because they are still struggling to introduce many basic functions of human resource management such as incentive pay.

Although not many academic studies have explored this issue in an empirical setting, Glover and Siu's (2000) qualitative study on foreign-invested firms operating in Shenzhen is informative. Despite the common belief that foreign-invested firms located in the industrialized coastal region of China are eager to adopt sophisticated HRM practices, Glover and Siu found that their case companies were experiencing a significant performance loss due to poorly organized training, compensation, and career planning practices. Comparing the poorly designed HR systems of the Chinese firms with the scientific management technique of U.S. companies during the industrialization era, Glover and Siu suggested that developing "appropriate" practices of recruitment, training, development, and reward systems will significantly increase the firm performance in Chinese context.

The Cultural Environment: Do Human Resource Systems Affect Firm Performance in the Same Way Across Nations?

The causal mechanism through which HR practices affect organizational outcome is a research subject that is receiving increased attention. The current research in SHRM "is theoretically undeveloped and has not specified the mediating employee behaviors that explain the relationship between HR practices and performance" (Batt, 2002, p. 587). The missing link between HR systems and firm performance, or the so-called "black box" of SHRM, has been deemed an important research topic to be addressed by further academic efforts (Collins & Clark, 2003).

Answering this call, scholars have begun to identify the mediating variables that connect HR systems and firm performance (e.g., Batt, 2002; Collins & Clark, 2003; Sun et al., 2007; Takeuchi, Lepak, Wang, & Takeuchi, 2007).

Given the emerging nature of the discussion on the SHRM black box, it is difficult to systematically examine whether existing theories have been overly influenced by one type of institutional context. However, current discussions of the HR performance mediator show some signs of cultural bias toward American individualism.

The influence of U.S. individualism can be found first in the behavioral perspective, which is one of the most popular views in the SHRM literature. Schuler and Jackson (1987) argued that HR practices contribute to positive organizational performance by motivating individuals to behave in accordance with organizational goals. They suggested that organizations can align employees' role behaviors with strategic goals through proper HR practices. Extending this view, Wright and Snell (1998) theorized that carefully designed HR systems can promote employees' skills and behaviors in ways that are congruent with current firm strategy and future organizational needs. Explaining the linkage between commitment-based HR or HPWSs, McDuffie(1995) suggested that, in order for innovative HR practices to affect firm performance, employees must be motivated by the belief that their individual interests are aligned with those of the firm.

An underlined assumption of the behavioral perspective is that individuals' commitment to their organization, job, or both is the major driver of employees' discretionary behaviors, which leads to improved firm performance. Although this theory may have some cross-cultural generalizability, some studies have suggested that, in a collectivistic culture such as China, employees' motivation is not only rooted on individuals' satisfaction and commitment, but also strongly affected by personal

relationships with their supervisor, colleagues, or extended family (e.g., Schuler & Rogovsky, 1998). Therefore, theories that underplay the social dimensions may have only limited explanatory power in China.

The social capital argument, one of the emerging popular theories on SHRM, is worth noting in that it emphasizes the role of social dimension as a mediator between HRM and firm performance. Social capital refers to an asset embedded in social relations (Adler & Kwon, 2002). Theorists have argued that social capital significantly enhances organizational outcomes because it increases employees' commitment to their organization, facilitates the inflow of external information, and motivates individuals to share valuable knowledge with their colleagues (Dess & Shaw, 2001; Leana & Van Buren, 1999). Some SHRM theorists have argued that social capital may be the key to open the hidden causal link between HR systems and firm performance. They claim that "innovative" HR practices such as high-involvement HR systems significantly enhance organizational outcomes through developing social capital. For example, Leana and Van Buren (1999) suggested that high-performance work practices are beneficial for a company because they produce a stable employment environment in which organizational social capital can be readily developed. Evans and Davis (2005) proposed that HPWSs contribute to organizational performance through tightening social ties between employees, creating shared mental models, and promoting the norm of reciprocity. Collins and Smith (2006) showed that commitment-based HR practices play a part in the performance of high-technology companies through enhancing trust, cooperation, and a shared code of conduct among employees.

Although the social capital approach may have some relevance across different cultures, the current theorizing of social capital may misrepresent the reality in some countries, those with collectivistic culture. In collectivistic society social relations may

not always function as a “capital”. Rather, it may function as a source of a “liability” for companies. In China, for example, high performing employees often leave the company not by themselves, but as a group (interview, Shanghai, 7 Dec 2006). Sometimes, strong informal networks among employees undermine the effectiveness of formal leadership structures (interview, Huizhou, 19 July 2006). Therefore, managers of Chinese companies are keen to moderate the negative impact of social relations and encourage individualism by introducing individual based human resource management practices.

A few recent studies confirmed that social relations can be a liability rather than capital in collectivistic culture of China. For example, Xiao and Tsui (2007) found that, in the collectivistic culture of China, individuals with high level of social capital may not always contribute to organizations in the ways that Western theorists have suggested. Specifically, Xiao and Tsui showed that individuals who occupy the position of the “structural hole” do not enjoy information benefits in Chinese firms because they are seen as “outsiders” from multiple groups. Chen, Chen, and Xin’s (2004) findings about the negativity of relationship-oriented HR practices are also informative. Chen et al. demonstrated that HR practices based on *guanxi* (a Chinese concept of interpersonal relations) have a negative impact on the employees’ perceptions about fairness of the systems. These studies collectively suggest that moderating the negativity of exclusive dense networks is more important in China than simply developing more networks among workers. Unfortunately, however, current conceptualization of social capital in the mainstream SHRM literature only focuses on the positive potentials of social capital and does not pay due attention to the dark side of social relations, which undermines the cross-cultural relevance of the theories.

DISCUSSION

Recognizing the influence of institutional environments on the relation of HR systems and firm performance can provide opportunities to resolve enduring theoretical problems in a new way. In the following subsection, I will discuss how a contextualized understanding of SHRM research may contribute to reframing two central theoretical concerns of SHRM: a) the best practice versus best fit debate and b) the SHRM black box, a discussion about the causal mechanisms between HRM and firm performance.

The Best Practice Versus Best Fit Debate

The existence of a set of universally effective HR practices has been one of the critical and continuing subjects of debate in SHRM. Proponents of the universalistic or “best practice” approach have argued that there is an inherently effective set of HR practices and suggested that the more similar a company’s HR systems are to ideal HR systems, the more likely it is that the company will achieve high performance (Huselid, 1995; Pfeffer, 1994). High performance work systems are the most frequently examined candidates of the universally effective HR systems. Pfeffer claimed that even cost-based contenders such as Lincoln Electric and Southwest Airlines are successfully incorporating high-commitment work practices. He stated that, “if one wants to achieve competitive advantage through people, there is little evidence that one should not use the [best] practices” (Pfeffer, 1994, p. 65). Although there is no absolute consensus on their composing practices, high performance HR practices usually include practices of employee involvement in quality enhancement activities, team-based production, performance-based compensation, employment

security, selective recruiting, and extensive training. Studies have demonstrated that high performance HR practices not only are positively associated with firm performance in manufacturing companies, but also in service and high-technology firms (Batt, 2002; Huselid, 1995; Collins & Smith, 2006).

The contingency argument, or so-called best fit approach, however, contends that the effectiveness of certain HR systems is determined not by their inherent characteristics, but by the degree of fit with other contingency factors. To date, scholars have addressed the contingency argument in two ways: the strategic fit approach and the contextual fit approach. The strategic fit approach, a dominant perspective in HR work, claims that the effectiveness of HR practices emanates from the alignment between HR systems and business strategies instead of the inherent merits of certain HR practices. For example, Delery and Doty (1996) proposed a twofold model of HR systems: the market-type system and the internal system. The market-oriented system includes HR practices such as hiring outside the organization, minimal training, and results-oriented performance appraisals. The internal system involves extensive training, job security, and well-defined career ladders. Delery and Doty (1996) matched this categorization with the ideal strategy types offered by Miles and Snow (1978), which are composed of a prospector, an analyzer, and a defender. The argument is that the defender strategy should be matched with the internal systems while the prospector strategy should be aligned with a market-based system.

The contextual fit approach, a recently emerging stream of the contingency argument, extends the best fit argument by exploring the impact of external contextual factors on the relation of HR systems and firm performance. Batt (2002) found that the relation between high performance HR practices and firm performance is stronger in markets where those practices are rarely adopted. Datta, Guthrie, and Wright (2005) demonstrated that industry characteristics moderate the relationship between HPWSs

and firm performance. Sun et al. (2007) reported a statistically significant impact of labor market conditions on the relation between high performance HR practices in a regional hotel industry of China.

The contextualized understanding of the relation of HR systems and firm performance contributes to the best practice versus best fit debate in at least two ways. First, it calls to mind that the debate cannot be completely resolved unless we have evidence that the same set of HR practices is equally effective across regions or nations of different regulatory, normative, and cultural environments. To date, debates have been developed mainly in liberal market economies with individualistic cultures such as the United States, the United Kingdom, and New Zealand. Studies of the effectiveness of high performance HR practices in other national and cultural contexts are growing in number, but this research is still in the emergent stage (Bae & Lawler, 2000; Sun et al., 2007). A particularly important context to be examined is transitional economies with a collectivistic culture such as China. If certain HR systems that have been shown to be effective in developed liberal market economies are demonstrated to be generally effective in China across different regions, industries, and ownership types, we can be more confident in the existence of universally effective HR systems.

Second, the realization of an environmental effect on the relation of HR systems and firm performance provides opportunities for the best fit argument to move one step further. As discussed above, the contingency argument not only has begun to examine the fit between HR systems and firm strategy, but also between HR systems and contextual factors such as characteristics of target markets (Batt, 2002), industries (Datta et al., 2005), and unemployment rates (Sun et al., 2007). As suggested earlier, the mainstream SHRM research has not hitherto paid enough attention to the contextual factors, especially the national contingency. Consequently, a number of important contextual variables have not yet been examined. To name a few, national

business systems (Hall & Soskice, 2001), legitimacy of certain employment practices in a society (Ahmadjian & Robinson, 2001), patterns of institutionalization of SHRM practices (Tolbert, 1985; Tolbert & Zucker, 1983), and cultural dimensions (Hofstede, 1980) are potentially important contextual factors that may make a difference in the relation of HR systems and firm performance across countries as well as within nations.

The SHRM Black Box

As mentioned above, the mediating mechanism between HR systems and firm performance has emerged as a major concern in SHRM. Scholars have attempted to explain why certain HR systems improve firm performance by borrowing insights from the resource-based view (Wright, Dunford, & Snell, 2001), the behavioral perspective (Schuler & Jackson, 1987), population ecology (Welbourne & Cyr, 1999), the organizational climate (Bowen & Ostroff, 2004), and, more recently, the social capital theory (Collins & Clark, 2003; Dess & Shaw, 2001; Leana & Van Buren, 1999). Although these studies have offered useful clues to the underlying causal mechanisms between HR systems and firm performance, more rigorous theoretical and empirical research is needed (Sun et al., 2007; Takeuchi et al., 2007).

One idea that has not been explored in the literature, but might be a promising avenue for future research, is that the same set of HR practices may drive firm performance through different causal mechanisms in different contexts. Perhaps in individualistic cultures, HPWSs contribute to organizational performance through their social capital-enhancing aspects (Collins & Clark, 2003; Evans & Davis, 2005) while, in collectivistic cultures, HPWSs drive organizational performance through moderating the liability of dense social relations. If SHRM researchers will

acknowledge that employees' behaviors, attitudes, and social relations are not free from the regulatory, normative, and cultural environments, the black box between HR systems and firm performance may be more widely opened in the near future.

CONCLUSION

To date, research on the relation of HR systems and firm performance has underplayed the impact of the institutional environment. This tendency constrains the scope of the research frame and undermines the cross-national applicability of the findings. In order for SHRM research to generate globally relevant knowledge, it must move beyond the current research frames influenced by the contextual assumptions of its birthplace.

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CHAPTER 3
**INSTITUTIONAL DUALITY AND SUBSIDIARY MANAGEMENT:
MULTINATIONAL COMPANIES' APPROACHES TO THE LOCAL LABOR
RELATIONS**

INTRODUCTION

Institutional duality is a central concern for the subsidiaries of multinational corporations, especially when the host and home countries have quite different institutional profiles (Kostova & Zaheer, 1999; Kostova & Roth, 2002; Rosenzweig & Singh, 1991; Xu & Shenkar, 2002; Zaheer, 1995). The term institutional duality refers to two isomorphic pressures on subsidiaries: one from within multinational networks (for internal legitimacy) and the other from local stakeholders (for external legitimacy). Because the survival and growth of subsidiaries depends on the level of legitimacy endowed by the parent company and the local stakeholders (Hillman & Wan, 2005), managers of subsidiaries must be attentive to gaining and maintaining legitimacy from both sides (Geppert & Williams, 2006).

Satisfying these two institutional requirements simultaneously is challenging because the two forces are often inconsistent with, and even contradictory toward, each other. For example, managers of the subsidiary of a U.S. firm operating in Germany may have to reconcile the antiunion ethos of the U.S. headquarters with the social norm of collective representation in the host country (Tempel, Edwards, Ferner, Muller-Camen, & Wächter, 2006). What, then, should be the behavioral patterns of subsidiaries of multinational firms toward inconsistent dual pressures?

To date, this question has been answered by two major approaches. Earlier works on institutional duality answered the question by focusing on the characteristics of isomorphic forces. Their primary interest was in the structural elements that

determine the similarity of practices either between subsidiaries and the parent firm or between subsidiaries and other organizations in the host countries (Rosenzweig & Nohria, 1994; Rosenzweig & Singh, 1991). In contrast, a recently emerging body of research has placed more emphasis on the dynamics within subsidiaries. Employing Oliver's (1991) strategic response perspective, this stream of research has described subsidiaries as independent entities that strategically respond, rather than passively conform, to the given institutional pressures; particularly, from the parent company. In this perspective, subsidiaries are assumed to mobilize resources to strategically reject the internalization of organizational practices transferred from the parent firm (Ferner, Almond, & Collings, 2005; Kostova & Roth, 2002).

This study is broadly in line with the emerging stream of research. However, unlike previous research that has focused on the cross-national transfer of home country practices, this study examines the responses of subsidiaries to unique local practices. It first investigates how subsidiaries' responses are influenced by dual institutional pressures and organizational characteristics. It then explores how different interpretations of a situation are related to organizational behaviors by analyzing qualitative data on how the *Gonghui*, the official trade union, practices within the subsidiaries of multinational companies operating in the People's Republic of China. Through examining how subsidiaries make sense of, and formulate responses to, a novel local labor practice, the study attempts to deepen the understanding of global management.

This paper is organized as follows. First, I will review the relevant literature on the responses of subsidiaries to dual institutional pressures. Next, I will discuss the empirical contexts, sample selection, and data collection processes. Then, I will detail the major findings of the qualitative study; first, by presenting a model and discussing its major elements—three behavioral patterns, three images of unions, and the effects

of institutional duality; and, second, by further examining the relationship among major variables through a matched comparison of two multinational companies. In the final section of the paper, I will discuss future avenues of research.

LITERATURE REVIEW

In his seminal work, Perlmutter (1969) proposed that multinational firms should grow out of ethnocentric or polycentric companies and must evolve into geocentric global companies in which subsidiaries are “neither satellites nor independent city states, but parts of a whole whose focus is on worldwide objectives as well as local objectives” (Perlmutter, 1969, p. 13). This idea has been paraphrased and elaborated on in a number of later works. For example, Bartlett and Ghoshal (1989) suggested that successful multinational companies, which they referred to as firms with “transnational solutions,” are to be able to utilize knowledge across national borders. In other words, subsidiaries are required to readily internalize global knowledge transmitted from the headquarters in addition to constantly promoting local knowledge generated in response to regional needs.

This recommendation, however, is easier said than done. Maintaining geographically dispersed subsidiaries that are closely integrated, but sufficiently independent, is an inherently demanding task (Lawrence & Lorsch, 1967). It is especially challenging when subsidiaries are located in countries where the regulatory, normative, and cognitive institutional environments are different from that of the country of origin. Drawing from neoinstitutionalism, scholars have examined this challenge in the framework of institutional duality (Kostava, 1999; Rosenzweig & Singh, 1991). As mentioned above, institutional duality refers to the twofold institutional pressures on subsidiaries of multinational firms for internal legitimacy

(within the multinational corporation) and external legitimacy (within the host country). Because the survival and growth of subsidiaries is possible only when they are accepted by both the parent company and the local market, subsidiaries strive to ensure that their organizational practices are aligned with internal and external institutional requirements. However, the problem is that the two types of institutional pressures are not always consistent with each other. More often than not, the two types of requirements are divergent and even contradictory. In that case, what would be the behavioral response of a subsidiary to these inconsistent dual pressures?

To date, two groups of research have independently contributed to our understanding of the behavior of subsidiaries toward institutional duality. By focusing on the isomorphism, an earlier research stream helps us understand the process through which subsidiaries become similar to the parent firm or to local organizations. By emphasizing the role of agent, a recent perspective highlights the variety of subsidiaries' responses to given dual institutional pressures. In the following, I will review these two lines of research in more detail.

Early studies on this subject were primarily interested in the structural elements that determine the strength of the isomorphic pressures. For example, Rosenzweig and Singh (1991) proposed that a number of factors may influence the degree of isomorphic pressures. Behaviors of subsidiaries may be similar to those of the parent firm or local counterparts due to the regulatory systems, the industries, the nature of the technology used, and the cultural distance between countries. This theory was empirically validated in Rosenzweig and Singh's (1994) work in which they examined the contextual factors that influence the similarity of human resource management practices among the parent company, subsidiaries, and local firms. In their analysis of U.S. affiliates of foreign-based multinational corporations, Rosenzweig and Singh found that the method of founding, the dependence on local

inputs, the presence of expatriates, and the communication with the parent company affected the strength of institutional pressures on the subsidiary so that its human resource management practices became similar to those of the parent firm or local counterparts. Later, Kostova (1999) conceptualized the transnational transfer of strategic organizational practice as the institutionalization of the practice at the recipient subsidiaries. According to Kostova's theory, the successful transfer of practice, or the "institutionalization" of practice, within multinational corporations depends on various contextual factors including institutional distance between the home and host countries, the relationship between the parent and subsidiaries, and the organizational culture of subsidiaries. Building on this work, Kostova and Roth (2002) empirically demonstrated that the degree of the diffusion (i.e., institutionalization) of quality management practices within multinational networks is moderated by the favorability of host country nations' institutional support for the practices and the nature of relations between the parent company and subsidiaries.

Although the earlier studies have successfully demonstrated the impact of isomorphic pressures on the similarities between subunits, more recently, researchers point out that previous studies have not paid enough attention to the role of subsidiaries in the formulation of local responses to institutional duality (Ferner, et al., 2005; Kostova, 1999; Kostova & Roth, 2002; Tempel et al. , 2006). Referring to Oliver's (1991) strategic response perspective, these researchers argued that the diversity of subsidiaries' responses toward dual institutional pressures is larger than that described in previous studies. In her seminal work, Oliver argued that organizations do not simply conform to the institutional pressures, but proactively resist against environmental pressures. Drawing from the resource dependence theory, she proposed a typology of strategic responses to environmental cues: acquiescence, compromise, avoidance, defiance, and manipulation. Oliver suggested that

organizational choice among these strategic options depends on (a) the nature of institutional pressures and (b) the dependence of organizations on the sources of pressures.

Kostova's (1999) work was among the first to explicitly discuss the possibility of subsidiaries' resistance to given institutional pressures. She argued that subsidiaries may conform to the institutional pressures from the parent company on only the surface level. The dependency of subsidiaries on the parent company may enforce the adoption of a certain practice, but this does not guarantee the full acceptance of the practice by the local employees. In a later study (Kostova & Roth, 2002), Kostova refined this idea and empirically demonstrated that subsidiaries tend to ceremonially adopt a practice initiated from headquarters when local institutional environments are not sufficiently favorable to the practice. Ferner et al.'s (2005) study on subsidiaries' attitudes toward a workforce diversity practice elaborated on this previous line of thought. Anchoring in the work of Oliver (1991), Ferner et al. showed that UK subsidiaries of a U.S. multinational corporation did not simply conform to the workforce diversity program. Despite the U.S. headquarter's belief that the workforce diversity program had been effectively transferred to the UK subsidiaries, the subsidiaries managed to avoid full implementation of the program. Ferner et al. argued that the differences in the national business systems between the two countries provided opportunities for the U.K. subsidiaries to justify and materialize their resistance to the "made-in-the-U.S." human resource management practice. Tempel et al. (2006) also relied on Oliver's (1991) framework and further developed this line of thought. These authors argued that subsidiaries of multinational companies are likely to display diverse forms of resistance toward the parent firm's pressure as well as against isomorphic pressures from the local environment. In their case studies of U.S.-owned subsidiaries' reactions toward collective representation practices in the United

Kingdom and Germany, Tempel et al. observed that subsidiary managers adopted diverse strategies to simultaneously satisfy internal and external institutional pressures.

By illuminating the active role of agent, the emerging perspective successfully demonstrated that subsidiaries' responses to given dual institutional pressures are more diverse than the earlier studies have presumed. However, this emerging perspective has at least three rooms for further development. First, the studies that emphasize the active role of subsidiaries do not much specify whether subsidiaries have always the same range of alternatives from which they can strategically choose. A complete portrayal of subsidiaries' reactions to institutional duality can be drawn only after we are better able to specify the conditions where subsidiaries are endowed with a wide or a narrow range of behavioral options (Goodrick & Salancik, 1996).

Second, current understanding of the underlined mechanisms through which subsidiaries formulate their own solutions to institutional duality is still scant. The current research successfully display that subsidiaries are responding differently to the similar environmental cues. However, they rarely specify how it happens. In this respect, recent theoretical developments concerning the role of agents' cognition in the process of institutionalization may provide a good starting point. For example, Zilber's (2002) ethnography study on an Israeli rape crisis center showed that the same set of practices was interpreted differently among a competing group of agents in the midst of institutional change. Drawing from theories of individual decision making, George, Chattopadhyay, Sitkin, and Barden (2006) suggested that the diversity of strategic responses can be driven by the range of interpretations of the institutional environment. They argued that the same institutional environment can be viewed as either a threat or an opportunity, and, therefore, the responses to it can vary

accordingly. The relevance of these theories in subsidiary management needs be examined.

Third, prior studies tend to focus on the subsidiaries' resistance patterns towards the parent company and examined the institutionalization of practices that were originated from the home country. The responses of subsidiaries to local practices that are unfamiliar to them are rarely examined. Subsidiaries' responses towards the unfamiliar local practices may require different theoretical explanations than subsidiaries' reaction toward home country practices.

Drawing from this review of the literature, I will attempt to answer several key questions with respect to subsidiaries' approaches in dealing with unique local labor practices. To what extent do dual isomorphic pressures determine subsidiaries' responses to distinctive local practices? How far do the structural elements of institutional duality dominate or constrain the strategic options of subsidiaries? To what extent, and in what manner, does the interpretation process affect subsidiaries' responses to institutional duality?

METHOD

This study attempts to identify underlying patterns of subsidiaries' responses to novel local labor practices, which has been rarely documented in the literature. Therefore, I chose to employ the inductive qualitative method of research. The inductive method is an appropriate research strategy when the question is exploratory in nature, the state of prior research is immature, the goal of data analysis is to identify underlying patterns, and the primary purpose of a study is to propose a suggestive theory that invites further works (Edmondson & McManus, 2007).

As an empirical context, I chose labor relations of multinational companies in China. Besides the practical importance of China as a country that has recently attracted a large number of foreign companies (Huang, 2003), the multinational corporation in China provides an ideal example from which to examine institutional duality because it generally is under intense institutional pressures from both the parent company and the local environment. First, the institutional pressure to comply with the parent company's directives is high for subsidiaries in China because they tend to rely heavily on headquarters for critical resources like technology, management skills, and finance. Second, subsidiaries of multinational corporations in China have to overcome their lack of local embeddedness. Although the Chinese government offers a number of incentives for incoming foreign capital, it does not fully eliminate the "liability of foreignness" in China. More than often not, foreign companies are targeted by the local media and condemned as bad corporate citizens. Therefore, subsidiaries of multinational firms in China must be attentive to the local environment in order to assure a sufficient level of local legitimacy.

Given that it is implausible to examine all dimensions of subsidiary management in China, this study focuses on one important issue: recognition of Chinese trade unions. Foreign companies' attitudes toward Chinese unions is a critical topic for study primarily because of the social pressure for unionization in the country. Since 2004, the Chinese government has claimed that it will develop a "harmonious society." When it comes to the industrial relations issue, the political propaganda of the harmonious society has been translated into an issue of unions. The widely publicized event of Wal-Mart unionization in 2006 graphically demonstrated how much the Chinese government is committed to the issue of unions, and how much managers of foreign companies feel reluctant to recognize unions.

In the process of developing and validating the proposed model, I utilized a multiple-case study involving 27 firms. In addition, I used the matched pair comparison method (Eisenhardt, 1989) in order to further investigate how institutional duality influences multinational companies in different organizational and institutional settings.

Sample Selection

I selected cases for this study through use of the theoretical sampling procedure (Eisenhardt, 1989). Based on my initial exploratory fieldwork conducted in summer 2006, I identified several potentially critical categories that could influence patterns of employment relations in the subsidiaries of foreign multinational companies: location of the subsidiaries, employment relations of the parent company, country of origin, size, and industry. Accordingly, I chose at least two subsidiaries of multinational firms in each of the following categories: (a) three regional development stages (first-, second-, and third-tier cities); (b) three geographical regions (southern, northern, and central coast cities); (c) differing patterns of employment relations in the parent company (pro-union vs. union-free policies); (d) origins (U.S., European, and Asian); (e) size (subsidiaries of Fortune 500 companies or companies not on the Fortune 500); (f) industry (manufacturing vs. service). To obtain a balanced and in-depth understanding of the context, I visited the offices of the central government, the national headquarters of the Chinese trade union federation, local governments, local trade unions, and foreign employers' associations. I visited a total of 42 subsidiaries of 27 companies. A summary of the sample profiles is provided in the Appendix.

In addition, to better understand how the internal and external institutional pressures jointly influence labor relations in subsidiaries, I intentionally chose two

large multinational companies among the sample for more in-depth case studies. The two companies originated in the same country, but had contrasting employment relations. (For purposes of this study, I will refer to these companies as Ufree and ProU.) I visited multiple subsidiaries of both companies that were located in different regions (see the Table 3.1). More details about the two companies will be discussed later.

Table 3.1
Description of the Matched Cases

Site Visited		Companies	
		ProU	Ufree
Global HQ in the parent country		ProU global HQ (Two HR Directors, Two Employees)	Ufree global HQ (Four HR staffs)
China HQ in the first tier city (Beijing)		ProU China HQ (CEO, HR VP, HR Director)	Ufree China HQ (3)
Manufacturing subsidiaries in second tier cities	Eastern Central area	ProU2a(CEO, HR Director, Manager)	Ufree2 (1)
		ProU2b (HR Director)	
		ProU2c (CEO, HR VP, Line Manager)	
Manufacturing subsidiaries in third tier cities	Northern area	ProU3a (HR VP)	Ufree3a(1)
	Southern coastal area	ProU3b (HR VP, Union president, Two Local Staffs)	Ufree3b(1)
Total Interviews		19	10

Data Sources

Semistructured interviews. During the period between June 2006 and July 2007, I conducted 108 interviews. Sixty-seven interviews were with individuals working for 27 subsidiaries of foreign multinational firms; the other interviews were with officials of governmental agencies (9 interviews in 6 offices); local unions (9 interviews in 4 offices); foreign employers' associations (6 interviews in 6 offices); an international labor activists; and Chinese scholars who have seats in national policy advisory committees (16 interviews). Almost all interviews took place at the work sites. Most of the interviews lasted between 1 and 3 hours.

The majority of the interviewees in foreign firms were senior expatriate managers who were responsible for the overall human resource management function of the subsidiary. In smaller firms, the interviewees were CEOs because they were most well informed about the subject. Since the focus of this study is the attitudes and behaviors of foreign firms toward Chinese trade unions, interviews with local employees were not necessary. However, when the company gave its permission, I interviewed trade union leaders and local employees so as to triangulate the information obtained from the expatriate managers.

During the semistructured interviews, I typically first asked foreign managers to provide information on subjects such as the general business model, recent performance of the subsidiary, the perception of the business environment in general, descriptions of the general human resource management policies, and the relationship between subsidiaries and the parent company. I then asked a question about the relationship between the expatriates and the locals as an introduction to employment relations issues. Then, I asked questions about the unions. If the company had a trade union, I asked further questions about the history and activities of the union. If the

company did not have the trade union, I asked for the manager's perspectives on trade unions. Many of the interviewees did not want to be tape-recorded and requested strict confidentiality due to the sensitivity of the trade union issue in China. I conducted the interviews in English, Korean, or Chinese. Interviews in Chinese took place in the presence of a translator. I took detailed notes both during and after each interview.

Observation of meetings. Participant observation at the meetings of employers' associations helped me to understand how foreign multinational corporations collectively made sense of the environment surrounding employment relations in China. First, I participated in a 1-day meeting held in Shanghai on December 7th 2007. Human resource management professionals representing 12 large U.S. and European multinational corporations attended that meeting. The main purpose of the meeting was to identify major human resource management challenges for multinational corporations operating in China. In addition, I observed two seminars (3 hours each) and a national conference (2 days) offered by the Korean Chamber of Commerce in China. These membership-based meetings were held between April and June 2007 in different industrialized cities in China. The CEOs and senior-level managers of Korean companies in China were invited to these meetings for the purpose of sharing their perspectives and best practices on employment relations in China. More than 30 delegates participated in each meeting. Finally, on July 10th 2007, I attended a luncheon meeting at Beijing in which senior human resource managers who represented the Chinese subsidiaries of nine large Korean multinational corporations. During the meeting, human resource managers shared their best practices on Chinese trade union and labor relations. Prior personal contacts with the leadership of relevant organizations enabled me to sit in on the meetings as a researcher. For the most part, I did not voice my opinion during the meetings. Instead,

I asked questions of participants after the sessions. I took detailed field notes during and after the meetings for use in future analyses.

The observation of the meetings was particularly useful in identifying the alternative logics that foreign companies were adopting toward the nature of the Chinese trade union. In the meetings, participants often debated about the nature of the Chinese trade union, and offered contrasting suggestions on future courses of action toward the unions.

Archival data. I also extensively searched for relevant documents on the Chinese trade unions and their relationship with foreign multinational companies in China. For example, I studied the teaching materials for trade union leaders in China to understand how the Chinese government defines the role of the trade union in foreign-owned firms. I also collected a large amount of official and informal publications from foreign employers' associations such as the American Chamber of Commerce (AmCham), the European Union (EU) Chamber of Commerce, and the Korean Chamber of Commerce. These documents helped me to understand how foreign multinational firms generally perceived the nature of the Chinese trade union.

FINDINGS

The Variance in Subsidiaries' Responses to Local Unions

Three alternative approaches were observed to have been adopted by subsidiaries of multinational corporations toward Chinese trade unions: circumvention, ceremonial recognition, and co-optation. In this subsection, I will

describe primary features of the three types of responses. Then, in the subsection that follows it, I will discuss determinants of the subsidiaries' choices.

Circumvention. In China, companies do not have the legal obligation to recognize unions unless employees request it. However, the Chinese government recently has proclaimed openly that it supports the legal rights of employees including the right to organize a union. All of the managers of foreign companies who I interviewed were aware of the recent unionization campaign and expressed at least some level of concern toward the social pressure to recognize unions. The forced unionization of Wal-Mart stores in 2006 was viewed as a clear signal of the Chinese government's commitment to unionizing foreign-owned firms. For some companies, the pressure had been actualized because managers had received several phone calls from local authorities asking them to recognize unions. However, the majority of the subsidiaries (63%) did not recognize unions at the time that I visited them.

Subsidiaries that had adopted the circumvention approach were using various tactics to maintain a union-free workplace. One common strategy was to create an alternative organization that could substitute for a union. In Communist China, organizing social events and distributing gifts has been considered the major function of unions. Referring to company-sponsored employee organizations that could function as a pseudounion such as social clubs or an employee board, managers of foreign companies claimed that a union would be redundant and would not bring any additional benefits to employees. A European human resource director in Beijing said that:

“We do not have a trade union. Instead, we have “XXX[company name] clubs.” They organize sports competitions, movie nights, and various celebration

events. The company fully supports them financially. The clubs basically provide the same activities that unions are expected do in China. The money we use for the corporate social clubs is actually more than what we are supposed to give to the union once we have it” (Interview, 12/21/06).

Another common tactic accompanied by circumvention was generating evidence to show that the company respects employees and, more broadly, the Chinese people. Corporate social responsibility (CSR) activities are considered to be important methods of increasing the social acceptance of a company so that the company can offset criticism about not welcoming local practices such as unions.

Some companies have attempted to reduce the unionization pressure itself. Employers’ organizations have played a significant role in this effort. Many foreign companies participate in employers’ associations that represent their home country or region such as the United States or Europe, and thereby attempt to influence the local and central governments through collective action. For example, AmCham has regularly publicized strong concerns about the unionization campaign. In its annual White Paper that is distributed in both English and Chinese, the association recommended that the Chinese government

“[e]nsure that foreign-invested enterprises in China will not be disadvantaged in their dealings with authorities in cases where employees in those enterprises have freely chosen not to set up a trade union” (AmCham White Paper, 2007, p. 36) .

In addition to participating in collective action, companies that use the circumvention approach attempt to appease unionization pressure through establishing and maintaining *guanxi* (strong personal relationships) with local authorities. Human

resource managers of foreign companies regularly invite the local labor authorities to dinner. Through ongoing personal interactions, human resource managers develop a trust with local authorities and encourage them to stand for their company's position when it comes to labor relations issues.

Finally, many subsidiaries have used a cost-effective method against unionization pressures: pretending to be in the midst of unionization and asking for patience until it is accomplished. A human resource director confessed to me that the company kept finding made-up justifications for the "unavoidable delay" of the unionization process. For example, she once responded to the local authority who asked the company to recognize the union by saying, "Unfortunately, the manager who has the right to decide it [union recognition] is currently on long-term leave" (Shanghai, December 7, 2006).

In sum, a majority of subsidiaries have resisted local institutional pressure for union recognition. To maintain their position, these companies employed diverse tactics such as supporting alternative organizations, initiating CSR activities, participating in collective actions, developing personal networks, and pretending to be in the unionization process.

Ceremonial recognition. The second most frequent response of multinational corporations' subsidiaries to institutional pressures for a union is to recognize the union, but only on a paper. A common feature of this mode of response is the lack of employee activities under the name of the official trade union, the Gonghui. Let alone the absence of collective bargaining and employee representative works, some unions do not organize social events regularly at all. In many cases, employees do not even know that the company has a trade union. The unions are recognized, but only in the

documents submitted to local authorities. A Korean CEO of a small manufacturing company stated that:

“We made a union about a year ago. Officials of regional economic development bureau had kept pushing us to do it. I was quite reluctant, you know. But I came to realize that unions here do not threaten management... I just reported that we made a union. In a given form, I wrote down who is the president and who is the vice president of the union, and then submit it. That was it. I just did it, and then forgot all about it. I have not paid any union fee. No one has ever bothered me with respect to unions since then. (Interview, 05/22/07, Tianjin)”

Ceremonial recognition is not necessarily a deceptive behavior toward local authorities. Managers of subsidiaries that respond in this way have claimed that the “paper union” is maintained with a mutual understanding between local labor bureaus and the company. More than often, local authorities have been the first to ask a foreign company to recognize a union on paper so that they can count the company as a unionized one. An executive of a Korean manufacturing company who also hold a leadership position in a local employer organization said:

“It (ceremonial recognition) was not my idea. They gave me a call and explained that it is nothing more than a paperwork. Regional government officials visited the company, and I filled the paperwork (Interview, 05/24/07, Shanghai)”

When companies came to recognize unions in response to pressures from local authorities, the main area of negotiation is the trade union fee, rather than the level of union activities. In China, unionized firms are obliged to submit 2% of total wages to

regional union offices, sometimes through the local tax bureau. The definition of “total wages,” however, is largely negotiable. For example, an appliance component manufacturing factory in Shandong Province has recognized a union since late 2006. The company appointed a trusted individual, its accountant, as the union president, but the union nevertheless exists only on paper. When the company reported unionization, the local tax bureau agreed to consider only 60% of the company’s employees as eligible for the union so that the company could submit a discounted amount of union fees. The CEO of the company suggested to me that negotiating the amount of the union fee is a normal practice in the region.

Co-optation. A few subsidiaries of multinational companies co-opt a union as a managerial partner. In this company, unions are substantial, but they are not necessarily independent from the company. In the co-optation mode, union leaders can be freely elected by employees among multiple candidates. However, the company preserves the right to recommend candidates. The chosen union leaders are invited to board meetings and informed about major human resource management decisions. However, they are not allowed to openly oppose to the company’s decisions. Unions are given a significant degree of discretion and financial support for arranging social events. They also play a critical role in maintaining the quality of company-provided dining services and dormitory facilities. However, they are not allowed to organize strikes. Union leaders are well respected by the company through generous compensation packages and perquisites. Instead, they are expected to work for maintaining “harmonious workplace”.

By recognizing and supporting the union, these subsidiaries expect to increase employees’ acceptance of the company’s human resource management decisions and promote the image of a socially responsible company. Since major human resource

decisions are pre-approved by the union leaders, companies can easily defend the legitimacy of decisions, especially adverse actions such as firing.

A substantial presence of a trade union is also believed to increase labor stability and discourage wild strikes. At least on an official level, all unions in China are branches of a monopolistic national organization, the Gonghui, that claims itself to be a representative body of “all laborers in the workplace.” Therefore, any collective action without the Gonghui’s approval can be considered as legally ungrounded. In other words, unionized firms can claim that any collective antagonistic behavior of employees without the Gonghui’s support is illegal. Therefore, recognizing and supporting cooperative unions may facilitate the control of labor.

In addition to preempting wild strikes, subsidiaries with the co-optation approach can promote the local reputation of the company as a responsible corporate citizen. Ever since the Chinese government initiated its union recognition campaign, some foreign companies such as Wal-Mart and Kodak have been condemned as foreigners who do not respect the “legitimate rights of workers” in China. In contrast, foreign companies that show proactive recognition are praised by the local and national media. For example, a large Korean tire manufacturing factory in Nanjing has been recognized as a workplace with “a model trade union” after adopting the co-optation approach to unions. A senior manager of the subsidiary proudly said, “We have many visitors from Beijing. They want to see what an exemplary trade union looks like.”

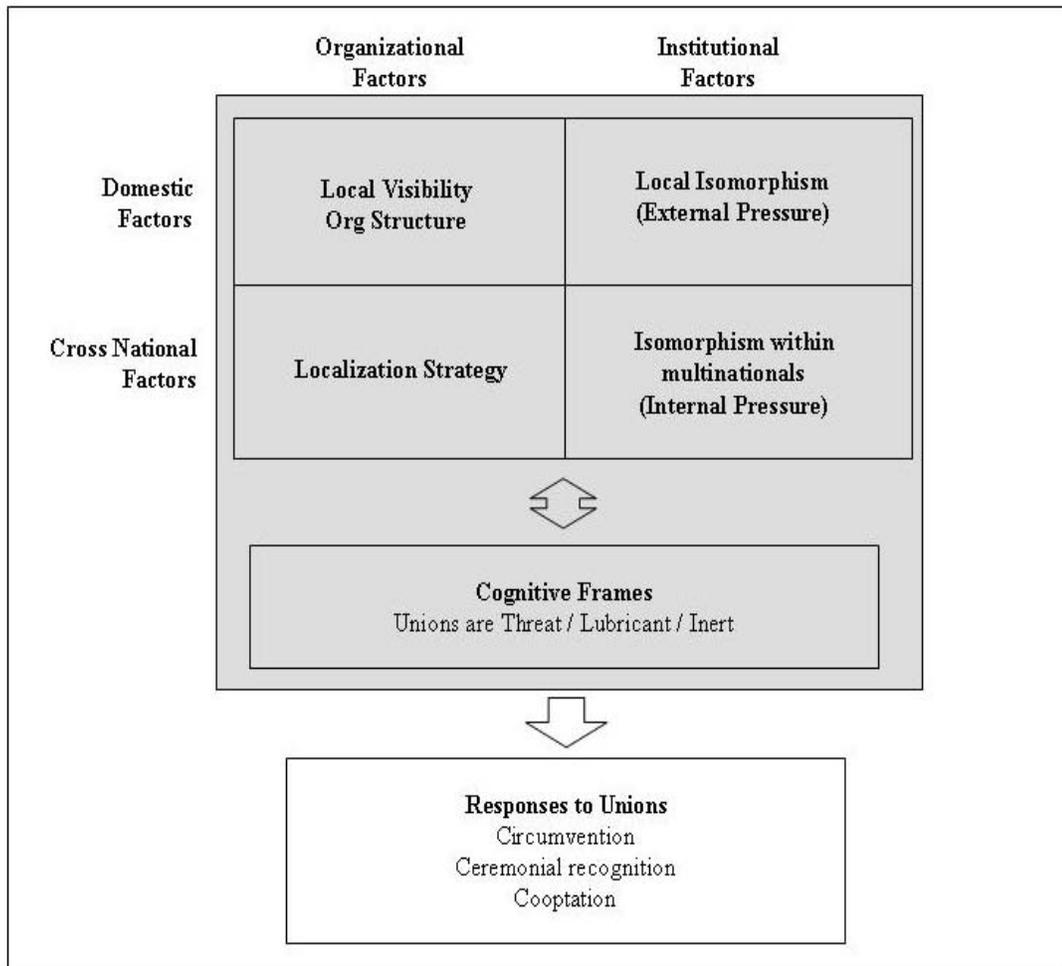
Maintaining unions active as well as cooperative cannot be achieved without substantial investments. First of all, the company with cooptation approach needs to abide by the regulations with respect to union fee. Given the fact that many local competitors do not pay the full amount of union fee (2% of total wage), the full payment of union fee may undermine the competitive advantage of the company in

price sensitive market. Second, companies need to financially support union activities in order to maintain the union dependent on the company. Third, companies with cooptation strategy need to invest additional money to maintain the "cooperative spirit" of union leadership. For example, the Korean tire manufacturing company in Nanjing provides union leaders a decent compensation package accompanied by various perquisites including spacious offices and luxury cars for private use.

Three Cognitive Frames for Chinese Unions

Then, what Shapes the Subsidiaries' Responses? What are the underlying mechanisms that lead subsidiaries to take the action of circumvention, ceremonial recognition, or co-optation toward a union? According to my observations, subsidiaries erect an image of the union and use that impression to justify their behavior toward it. The image of a union set up by a subsidiary falls roughly into three categories: a phantom threat, a social lubricant, and an inert substance. I will first explain these three images and then discuss major factors that shape the view of a union by subsidiary managers. Figure 3-1 shows the schematic relationship among three alternative behavioral patterns, three images of unions, and four institutional factors.

Phantom threat. Due to the close relationship between the Communist Party and the government, unions in China are often described as governmental organs. To many foreign managers, the connection between unions and the government is viewed as a source of risk. Because foreign firms do not fully trust the Chinese government, they do not trust trade unions. Expressing his concern about the risk of recognizing trade unions, an employment relations specialist in Shanghai based a U.S. service firm said that:



Determinants of Foreign-owned Companies' Union Approaches
Figure 3.1

“They [Chinese government] want to extend the control mechanism into enterprises. As you know, unions are the governmental organ here. Once it [unions] comes, it will lie underneath the ground. Any information can be directly and rapidly reported through the hierarchy. Using the information acquired by this channel, the Chinese government may blame foreign companies if they want to. XYZ [the company name] will be okay because we highly respect the Chinese government and strictly follow laws and regulations. But, who knows?” (Interview, 05/23/07).

The nationalism of the Chinese people is another source of concern to subsidiaries of multinational companies. Subsidiary managers often feel that Chinese workers treat them as “foreigner exploiters” who can be organized against. This concern of foreign managers has been reinforced by publicized events such as the labor strikes that occurred in the Dalian Economic Development Zone. In July 2005, a wild strike against a sudden workload increase in Toshiba’s manufacturing facility in the northern coastal city of Dalian was followed by a series of strikes in other Japanese companies in the same region. The strikes affected more than 15 Japanese companies and lasted until September of the same year. Although the main drivers of the strikes were working conditions and pay raises, many foreign managers believed that anti-Japanese sentiment and the patriotism of Chinese workers contributed partly to the diffusion of the strikes among the Japanese firms. Referring to the strikes, a human resource executive of a large Asian chemical company in Beijing said that:

“I think trade unions in China are heavily influenced by the nationalism. As was shown in the [nationalism-based labor disputes] case of the Japanese companies in Dalian, labor relations in foreign-owned firms is susceptible to ethnocentric patriotism. It is not just about offering a higher wage and better working conditions” (Interview, 07/10/07).

Whether these concerns accurately reflect the real nature of Chinese trade unions is debatable. Rejecting the claim that trade unions are governmental organs that may stand against foreign firms, an official of the All China Federation of Trade Unions (ACFTU) argued the belief about the close relationship between the government and unions is “simply not true.” She asserted that the government has

better ways to influence foreign firms than through unions (personal communication, December 22, 2006). Recent studies have also suggested that the link between unions and the government is not as strong as it seems (Liu, 2008).

However, even the officials of unions do not clearly claim that they are independent from the government. An instructor of government funded institution for union leaders acknowledge the influence of the Chinese communist party and its government on unions as follows:

“When I visited in western countries, I noticed that the relationship between regional/national unions and enterprise labor union is much more like support, but not leading. But to what extent, it will change, I am not sure. Because, the function of labor union is decided by the political policy, and the political policy is determined by the economy. Also, the role of labor union leader will be the main focus of future reformation”(Interview, 12/06/06).

The above statement of union officials suggest that foreign managers’ perception about the close relationships between unions and the government is not ungrounded. However, the close relationships between unions and the government do not lead every manager of foreign companies to believe that unions will be a source of risks rather than benefits. Rather, as discussed below, some foreign managers perceive unions are beneficial because of the close relationship to the government.

Social lubricant. Local labor authorities have commonly argued that unions in China lubricate the relations between management and employees. Therefore, these authorities have suggested that recognizing unions is actually beneficial to management. A regional union official in Dongguan City, Guangdong Province, asserted that:

“Without the trade union, the relationship between the employer and employees can easily deteriorate. Once there is a trade union, it will stand between the two. Trade unions in China do not go against management. Trade unions represent both management and employees” (Interview, 06/13/07).

Regional union authorities have also claimed that the intimate relationship between the government and unions is actually helpful to companies because the Chinese government and its ruling Communist Party are committed to economic development based on stable labor. A high-level union official in Shenzhen City argued that, “because the Communist Party leads the trade union, it does not solely serve employees or management. It is in a neutral position” (personal communication, June 14, 2007).

The pro-management spirit of unions is clearly expressed in many parts of official ACFTU publications. For example, an official textbook for union leader education program writes that the supporting economic development is one of the main roles of unions. In the section that describes the major goals of unions, the textbook stipulates:

“the economic function of unions is to improve managerial effectiveness of a company. Unions achieve this central objective by promoting the quality of products, services, human resources, firms’ capability to meet the market demand, maximizing the potentials of the company, as well as reducing the production costs. Unions should align the economic function with companies’ production activities (ACFTU, p. 151)”

Some foreign managers have accepted this view and consider unions to function as a lubricant that promotes cooperative relations between foreign employers and employees. These managers believe that unions in China are advantageous; especially, for “foreigners.” According to their perspective, unions can moderate the potential negative reactions of Chinese employees toward managerial decisions. A CEO of a subsidiary located in Nanjing recounted these benefits of allowing a trade union to exist as a partner to the company:

“In many respects, it is more desirable to let the trade union do the human resource management. Because we [expatriates] are foreigners, it is not easy for us to manage Chinese employees. They do not fully trust foreigners. They [Chinese] are more willing to follow someone who is Chinese than a foreigner. . . . We have arranged that all adverse actions such as firing and punishment are completely handled by the Chinese. We [expatriates] take only the bright side of human resource management such as promotion and performance recognition events” (Interview, 05/25/07).

In addition, a union can act as a lubricant that enhances the relationship between the company and local stakeholders. By respecting and supporting the “government organ,” companies can develop the image of responsible corporate citizen. In order to maximize this potential benefit, some foreign companies have implemented corporate social responsibility activities through unions. For example, a large Korean company in Tianjin financially supports its union to regularly conduct community outreach programs such as nursing home visits and poverty relief missions.

Inert substances. Finally, some subsidiary managers do not consider unions to be either a threat or an opportunity. Unions are considered as neither harmful nor beneficial to management, but as remnants of the old planned economy era that no longer have a unique function. Although the Chinese government has recently been promoting the employee representative role of unions, managers with this view have not yet found visible signs of change. They do not buy into the argument that unions will be a significant threat due to their connections with the government or employee groups. However, these managers also disagree with the idea of local unions functioning as a social lubricant. In other words, unions are perceived as an inert substance that does not interact with almost every element of managerial activities, except some administrative tasks. A human resource manager of an international joint venture company in Beijing said:

“We have unions. One of our company executives is the union president. The union occasionally organizes a social event, but not often. When somebody has to sign on a document as a representative of employees, the union president does it. Unions might be helpful for human resource management in some ways, but not very much. In China, unions do not hurt management. . . . When I visited Sweden on business, I was surprised to learn how much time Swedish human resource managers spend on dealing with unions. I feel lucky to work in an environment where I don’t have to pay attention to unions” (Interview, 06/13/07).

In summary, managers of foreign-invested companies in China perceive unions either as a potential threat that might undermine the managerial control, as resources for developing better relationships with employees and external stakeholders, or as a legacy of the planned economy that does not have a unique role. These perceptions are

reinforced or inflicted by the subsidiary's contextual and organizational factors. In the next section, I will discuss the factors that collectively influence subsidiary managers' attitudes toward Chinese unions.

Institutional and Organizational Determinants

Dual institutional pressures. A substantial amount of evidence suggests that the subsidiaries' attitudes toward local unions are significantly influenced by the pressures within the multinational network. Although unions in China are qualitatively different from unions in the home countries of multinational corporations because Chinese unions rarely represent the collective interests of employees, subsidiaries continue to attempt to reenact their views of home country unions in the Chinese context. Therefore, on the one hand, multinational companies that have experienced positive interactions with unions in their home country tend to perceive the unions in China as a social lubricant. On the other hand, companies that have accumulated negative experiences with unions in their home country tend to view unions as a source of risks. A human resource director working in the Beijing branch of a large information technology company explained how the union concept in his home country headquarters influenced the union policy in its Chinese subsidiary:

“The main reason that ABC [the company name] does not recognize the Gonghui is the strict policy of the home country headquarters.... In China, unions do not have the right to organize collective actions. Therefore, in my opinion, they are not a trade union. But, the problem is that . . . the Gonghui is officially translated as “trade unions.” Once it is translated as “trade unions,” the Gonghui is subject to the union-free policy of the headquarters” (Interview, 05/01/07).

Local institutional pressures also play a significant role in shaping subsidiaries' attitudes. In highly industrialized regions, regional unions often capitalize on their relationships with government authorities and pressure foreign firms to recognize unions (Liu, 2008). At the same time, regional unions spread the word that they will not undermine managerial discretion. In contrast, in underdeveloped regions where local governments pay more attention to attracting foreign investment, local officials even offer protection from unionization pressure in exchange for capital investment.

Professional associations and conferences are also important sources of local institutional pressures. The observation that I made at a meeting of human resource professionals illustrates how the normative institutionalization of the circumvention strategy occurs. In December 7th, 2006, human resource executives from 12 large multinational companies convened in Shanghai to discuss current issues relating to human resource management in China. During the daylong meeting, these human resource managers shared their concerns about the potential risks in recognizing unions. The consensus developed at this meeting was that the Gonghui is a potential threat to foreign companies because it is a government organ. During the break between the sessions, participants exchanged recounts of their own experiences and ideas about ways to avoid unionization pressures. My participant observations of two other employers' meetings also confirmed that the networks of foreign employers in China play a significant role in institutionalizing subsidiaries' attitudes toward unions.

Domestic and cross-national organizational factors. In addition to external contextual factors, organizational characteristics promote positive or negative attitudes toward unions. Organizational factors can be identified on the level of the subsidiary (domestic) or the multinational corporation (cross-national). On the subsidiary level, ownership structures, local visibility, size, and organizational complexity were

observed to affect attitudes toward unions. For example, when subsidiaries are jointly owned with a state or local government, they need to develop cooperative relationships with local partners. In this case, unions can act as glue between foreign investors and domestic partners. For example, in an automotive component company in Nanjing, the union president was chosen to represent the Chinese investors so that the two partners could share the responsibility of adversarial managerial decisions such as firing employees.

On the level of the multinational corporation, the orientation of headquarters toward localization encourages subsidiaries to show a positive attitude about unions. For example, a large Korean steel company has recognized unions in all three of its manufacturing subsidiaries in China, despite the fact that managers have discouraged unionization in the parent company for a long time. An underlying driver of this relatively positive attitude toward unions in China is the Korean company's strong commitment to the local market. The aim of the company's manufacturing facilities is to serve the rapidly growing Chinese domestic market. "Localization" is an important keyword for the subsidiaries (personal communication, 05/21/07). With this spirit, the human resource executive of one subsidiary of the Korean company was proud about the subsidiary's localized people management including that of labor unions.

MATCHED COMPARISON

In the above subsections, I have identified three interpretations of the nature of unions in China, and discussed two major forces—institutional pressures and organizational characteristics—that affect how subsidiary managers justify their interpretations. In this subsection, I will further specify how these variables interact

with each other in formulating behavioral patterns. I will do so by comparing two companies with similar organizational characteristics, but contrasting union policies.

Sample selection is a critical first step for case studies (Eisenhardt, 1989). I chose two companies, which I designated as Ufree and ProU, because they were quite similar in their business lines, international experience, and cultural background, but considerably different with respect to employment relations in their home country headquarters. They were both highly successful Fortune 500 companies originating from the same country—South Korea. Both Ufree and ProU manufactured technology-intensive electronics products including micro audio devices, mobile communication devices, upscale home appliances, and other core components of digital systems. Many of the two companies' products competed directly in the same U.S., European, and Asian (including Chinese) markets. They each started their manufacturing operations in China during the early 1990s. Both firms ran about the same number of manufacturing sites across the coastal cities of China (as of 2007, Ufree has 13 and ProU has 14), and some were located in the same cities.

Although Ufree and ProU were similar in many aspects as discussed above, they had developed quite contrasting employment relations policies in their home country. Ufree had maintained a strong union-free policy and often had been blamed for its antiunionism. The union free policy of this company is traced back to 1970s when the unionization of female workers of a manufacturing facility attempted to organize a trade union. The founder of the company claimed that unions could only be established “over his dead body” and proactively dismantled the unionization campaign (Cho, 2005). Since then, the Ufree has exerted a serious amount of efforts to discourage the union activism within the company. On the one hand, those who attempted to organize union were driven out or encouraged to leave the company with a substantial severance package. On the other hand, Ufree has offered the most

competitive compensation and benefit package in the relevant labor markets to reduce the perceived need of unionization.

Along with the union-free policy, Ufree has developed human resource management systems that reward individuals' performance. The pay differentials between the highest performers and the lowest are larger than other comparable large companies in Korea. Low performers are continuously "ushered" to leave the company.

In contrast, ProU had developed a highly effective labor relations program and was well known for promoting a cooperative relationship between management and labor unions. In this company, labor unions and management consider each other as a strategic partner for the business. Unions are invited to important corporate meetings and encouraged to participate decision making processes. Downsizing is highly avoided, and only occurred in concurrence with unions. In response, unions respect managerial decisions on technological innovations and work restructuring.

ProU's human resource management systems were designed to encourage a culture of cooperation among employees. Union leaders were invited to participate in board meetings. Employees were offered a high level of job security. Training program is designed under the assumption that employees will spend most of their working ages in the company.

The Chinese subsidiaries of Ufree and ProU were selected in ways that have captured the variance of the local institutional pressures. Studies of regional disparity in China have suggested that the level of economic development and openness to foreign capital have had profound impacts on the business environment including employment relations (Kanbur & Zhang, 2005). Foreign multinational companies have commonly used a three-tiered categorization of Chinese cities in their decisions about investment and expatriate compensation packages. The first-tier cities are the most

developed and cosmopolitan cities (e.g., Beijing and Shanghai) where most Chinese headquarters of multinational firms are located. The second-tier cities are those that have been recently developed. Because manufacturing is the major industry in second-tier cities, labor disputes are more severe than in first- and third-tier cities. Foreign companies in the second-tier cities tend to feel a strong degree of unionization pressure. The third-tier region is an underdeveloped or less-developed area. In general, the main interest of the officials in third-tier cities is to attract new foreign companies. Therefore, the pressure for unionization is very low. For the purpose of this study, I compared the subsidiaries of Ufree and ProU in the second- and third-tier cities. Conceptually, the second-tier cities represent a region with high unionization pressure while the third-tier cities represent a region with low unionization pressure.

		Cross-national Pressures	
		Parent company's union policies	
		ProU	Ufree
Local Pressures	<i>Developing Cities</i> (High unionization Pressure)	Lubricant Cooptation Inert Ceremonial recognition	Lubricant Ceremonial recognition
	<i>Undeveloped Cities</i> (Low unionization Pressure)	Threat Ceremonial recognition	Inert Ceremonial recognition Threat Circumvention

The Results of Matched Comparison
Figure 3.2

Major Findings

On a behavioral level, the results of this study confirmed prior international business research on institutional duality (See the Figure 3-2). For example, the parent company effect was obviously observed.

On the one hand, when the parent company had a union-free policy, no subsidiaries in China adopted a co-optation approach. On the other hand, when the parent firm had a pro-union attitude, all Chinese subsidiaries recognized unions at least ceremonially. The effect of local institutional forces was also evident. In cities where unionization pressure was strong, all subsidiaries of both companies recognized unions at a minimum on paper. In cities where unionization pressure was weak, no subsidiary took the co-optation approach. It seems that internal and external institutional pressures do not affect subsidiaries' choices by enforcing one type of behavior, but instead by reducing the range of options. When two institutional forces contradicted with each other, subsidiaries took the ceremonial recognition route so that they could avoid punishment from both sides.

On a cognitive level, however, the data offers somewhat novel results that may not be readily explained by the existing literature. Below, I will discuss two very interesting observations that may provide new insights for future theory development.

Similar behavioral pattern was driven by different cognitive frames.

Ceremonial recognition was the most prevalent behavioral pattern. It was found in almost every type of institutional duality. But, the images of unions that supported the adoption of ceremonial recognition ran the full gamut from phantom threat to inert substance. For example, both Ufree2 and ProU2b ceremonially recognized unions. However, human resource managers of both subsidiaries had contrasting views of

unions: phantom threat and social lubricant. The human resource manager of Ufree2 complained that headquarters did not understand this “uniqueness” of Chinese unions and, therefore, the company was losing opportunities to capitalize on the benefits of having cooperative unions in Chinese subsidiaries.

In contrast, the human resource manager of ProU2b argued that a union was unnecessary and even might be dangerous. He suggested that the reason why the subsidiary maintained the paper union was the home country headquarter’s policy that enforced unionization of all manufacturing subsidiaries in China. He asserted that:

“We recognized the trade union from the beginning [because it is the company’s global policy]. . . . The human resource management executive is the union president in my subsidiary. . . . I am concerned about the ever-increasing labor problems in China. We are keeping an eye on the future of unions [hoping it does not emphasize the employee representative role]” (Interview, 6/15/07) .

The finding that a similar behavioral pattern was associated with different or even contrasting understandings of the situation raises an interesting question about the relationship between the institutionalization process and equifinality. Equifinality is defined by a tendency to achieve the same consequence through different paths (Katz & Kahn, 1978). Traditionally, institutional theory has suggested that the shared understanding of a situation encourages organizations to adopt the same type of practice. Therefore, institutionalized practice is deemed to be the “objectification” of underlying cognitive consensus (Zucker & Tolber, 1996). But, the current finding indicates that organizations may objectify different sets of practice based on different understandings of a situation. Future study on this issue may lead to new insights on the institutionalization process.

Diverse behavioral patterns found under similar institutional forces.

Evidence showed that the one combination of internal and external institutional forces did not necessarily lead to one type of behavior. As is shown in the figure 2-2, for example, ProU's subsidiaries in the same environment (the context of high unionization pressure) responded to unions differently (ceremonial recognition or co-optation). The responses of Ufree's subsidiaries under a similar context (low unionization pressure) also varied. This finding is consistent with Oliver's (1991) argument that organizations do not show the same reaction to the same institutional pressure.

Then, what factors can explain this variance? In my case studies, the variance under the same institutional (internal and external) environments was associated with the difference in the perceived value of unions. For example, managers of two subsidiaries of ProU that adopted the co-optation approach (ProU2a and ProU2c) showed a strong belief in the union's role of social lubricant while the human resource manager of ProU2b discounted the positive role of unions, arguing that he should be prepared for a potential antagonistic relationship with unions.

The difference in the perceived value of a union seems to have to do with the organizational characteristics such as the operational complexity. For example, ProU2a was composed of six independent subunits that collectively hired over 9,000 workers in its peak time. Due to its size and complexity, the subsidiary required an intermediate organization that effectively represented employee voices so that unexpected labor disputes could be prevented. Therefore, a co-optation strategy for unions could easily gain legitimacy in that subsidiary. In contrast, ProU2b had a simple organizational structure. It hired about 1,000 workers in peak times, and produced only one type of product.

The behavioral differences between Ufree3a and Ufree3b also can be explained by the organizational variables. Ufree3a was a fully foreign-owned firm and the largest manufacturing company in the entire province in terms of sales. Due to its visibility, the company was susceptible to severe monitoring by local stakeholders. Ufree3a had a strong need to demonstrate its commitment to Chinese employees and the local community. In contrast, Ufree3b was less visible in local community. Ufree3b was a local major employer, but not the largest factory in the region like Ufree3a. Therefore, the expected benefit of recognizing a union was generally lower for Ufree3b than Ufree3a.

DISCUSSION

I began this paper by noting that institutional duality is one of the critical issues in international business research. Recent studies on this subject have called for in-depth understanding about the process through which subsidiaries of multinational corporations devise their responses under dual institutional pressures. Based on an inductive study on the approaches of multinational companies to Chinese unions, I developed a model that explains how their subsidiaries formulate their responses toward novel local labor practices. Future studies will need to examine the external validity of the findings.

This study contributes to international business research in several ways. First, it is among the earliest to examine multinational companies' responses to local practices that are too new to be covered simply by existing behavioral scripts in the parent company. Previous studies primarily have been interested in the transfer of practices from the parent company. Second, this paper attempted to reconcile the institutional determinism of earlier studies and the "strategic" perspectives of more

recent works. This research showed that subsidiaries' responses are not totally determined externally, nor are they solely formulated strategically. Subsidiaries have to choose their course of action within the given institutional constraints (Goodrick & Salancik, 1996). Third, this study highlighted the importance of the social implications of multinational corporations' industrial relations practices. It showed that the legitimacy concern is a major driver of subsidiaries' responses to unionization in China. It confirmed that subsidiary management can be better understood by employing neoinstitutionalism perspectives.

In addition, this study contributes to industrial relations research; particularly, Chinese labor relations research. There has been a growing interest in the changing nature of Chinese labor unions in the era of "harmonious society" (e.g., Liu, 2008). By identifying patterns of employers' reactions to the Chinese national unionization campaign, this study enables future researchers to examine the dynamic features of this change.

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CHAPTER 4
**OVERCOMING THE LIABILITY OF FOREIGNNESS THROUGH PEOPLE:
THE RELATIONSHIP AMONG FOREIGN MAJORITY OWNERSHIP,
UNIONS, TRAINING INVESTMENT, AND FIRM PERFORMANCE IN AN
EMERGING ECONOMY**

INTRODUCTION

Overcoming the disadvantages associated with being foreign is one of the central concerns for companies operating in multiple nations. Due to their lack of local legitimacy and native knowledge, foreign subsidiaries of multinational companies face additional costs that domestic companies do not encounter (Zaheer, 1995; Zaheer & Mosakowski, 1997). Studies have shown that, other things being equal, foreign firms are less profitable and have a lower probability of survival than comparable local domestic firms (Mezias, 2002; Miller & Parkhe, 2002; Zaheer, 1995; Zaheer & Mosakowski, 1997). Zaheer (1995) called this phenomenon the “liability of foreignness.”

The liability of foreignness (LOF) is an issue that is especially important to multinational firms operating in emerging economies. Over the past several decades, emerging economies like India and the People’s Republic of China have attracted an enormous amount of foreign direct investment. Case studies have suggested that some of the multinational firms achieved great success in these lands of new opportunity (e.g., Luo, 2000). However, doing business in emerging economies remains challenging because of factors such as the nationalistic governments, complex regulatory systems, and shortages of skilled labor (Hoskisson, Eden, Lau, & Wright, 2000). The rapidly growing competitiveness of domestic private firms is another

challenge that exacerbates the inherent disadvantages of foreign firms in these regions (Xu, Pan, Wu, & Yim, 2006).

Prior studies have identified several actions that multinational companies take to reduce the risks and costs of doing business abroad when they decide to enter emerging markets. For example, researchers have suggested that multinational firms can reduce the LOF by selecting the right countries (Xu & Shenkar, 2002), choosing appropriate entry modes (Chan & Makino, 2007; Li, Yang, & Yue, 2007), and considering local competitive pressures (Miller & Eden, 2006). However, relatively less is known about the measures that subsidiaries take after they enter emerging markets. Particularly little research has been done on the role of people management practices on the reduction of the LOF in the contexts of emerging markets.

In this study, I argue that foreign-owned companies in emerging markets can moderate the LOF through effective people management practices. Specifically, drawing from institutional theory and the knowledge management literature, I contend that foreign-owned companies can moderate the negative effects of being foreign through legitimacy-enhancing industrial relations (e.g., recognizing government-endorsed employee organizations) and knowledge transfer-enhancing practices (e.g., investment in training). Empirical analyses of data from a large national survey of the Chinese manufacturing sector generally support the hypotheses detailed below.

THEORETICAL BACKGROUND AND HYPOTHESES

Foreign Ownership and Firm Performance in Emerging Markets

Two competing arguments put forward contrasting performance implications of foreign ownership in emerging economies. One argument, the ownership advantage

thesis, focuses on the knowledge and legitimacy benefits of multinationality in the competition of the emerging market. According to this view, foreign-owned firms are likely to achieve a higher return than their domestic counterparts in the emerging economy due to: (a) the superior knowledge transferred from overseas units and (b) the social legitimacy endowed by the development-oriented government. The other argument, the liability of foreignness perspective, emphasizes the difficulties of doing business in transitional economies and predicts that foreign-owned firms will exhibit lower performance than domestic companies because of (a) the lack of local legitimacy and (b) the imperfect cross-national knowledge transfer.

The ownership advantage view suggests that subsidiaries of multinational companies operating in emerging markets may enjoy the advantages of superior knowledge transferred from the home country. Porter (1990) noted that the competitive advantage of global firms is influenced significantly by the country of origin. Globally competitive firms are often grown out of the supportive business environments of their home country. A sophisticated home market enables a multinational firm to develop advanced products and services, which enhances the competitiveness of the firm in global markets (Porter, 1990). Therefore, companies from developed economies have a greater chance of carrying a competitive edge over firms that have originated in emerging economies.

In addition, foreign multinational firms operating in emerging economies, unlike in developed economies, may undergo less legitimacy problems and even may enjoy higher legitimacy than domestic companies. Jansson (2007) suggested that multinational firms may have high degree of legitimacy in emerging economies because they are considered to be crucial contributors of economic development, technological advancements, and job creation. Therefore, many governments of emerging economies have introduced institutional and regulatory supports for

incoming foreign firms. According to this view, it is expected that foreign-owned firms in emerging economies will achieve a higher rate of return than their domestic counterparts. This assumption has been reinforced by popularized success stories of early movers into these economies (Luo, 2000).

However, the LOF argument suggests that the opposite might be true. According to Zaheer (1995) and others (e.g., Zaheer & Mosakowski, 1997; X & Shenkar, 2002), foreign-owned firms will endure the disadvantages of “foreignness” due to their lack of local embeddedness and the deficiency of local knowledge. Nationalistic buyers may severely punish foreign firms for small incidents that affect their local reputation. Lack of information networks may cause foreign firms to incur higher costs in managing local supply chains than their domestic counterparts. Talented local employees may require high wage premiums, show low organizational commitment, and be prepared to leave the company because they perceive obstacles to developing a long-term career plan within a foreign firm that is weakly embedded in the host country. Unless the host environment has a cosmopolitan culture in which foreignness does not contribute to the visibility of the firms or institutional favoritism toward domestic firms, foreign firms need to overcome a significant degree of foreignness disadvantages (Meta & Portugal, 2002; Mezias, 2002; Miller & Parkhe 2002; Nachum, 2003; Zaheer & Mosakowski, 1997).

The LOF argument suggests that foreign-owned firms are likely to show lower performance than comparable domestic private firms; particularly, in emerging economies because the cost of doing business abroad can be significant and the benefit of multinationality may not be perfectly materialized. First, foreign firms tend to incur much higher costs than their domestic counterparts due to various institutional barriers. The relationship-based, rather than rule-based, economic transactions in emerging economies (Peng, 2003) are the cause of these higher costs to foreign firms.

In China, for example, local firms are able to easily use preexisting personal networks to minimize daily transaction costs while foreign firms must invest many years to gain the access to local networks (Standifird & Marshall, 2000). Immature regulatory systems of emerging economies impose additional burdens on multinational companies. In emerging economies, protection of intellectual property rights is a challenging task because the local judicial systems do not provide impartial and effective legal services. Sometimes, this causes severe financial damage to foreign firms. Recent disputes between foreign and local Chinese automakers illustrate well the risk of doing business in an emerging economy (Goodman, 2004).

Second, the firm-specific knowledge, the basis of a foreign firm's competitive advantage to overcome the local disadvantages, may be imperfectly transmitted to subsidiaries for various reasons. The risk of technology appropriation may limit the scope of knowledge transfer from the beginning (Zhang, Li, Hitt, & Gui, 2007). To avoid technology leakages, a parent firm may allow transfer of only partial and outdated knowledge, instead of holistic and cutting-edge knowledge, to subsidiaries in emerging economies (Zhao, 2006). In addition, a lack of education and training may hinder local employees' understanding of the transferred knowledge and systems (Minbaeva, Pedersen, Bjorkman, Fey, & Park, 2003).

In summary, neither the foreign ownership advantage argument nor the concept of the LOF provides clear prediction to the relationship between foreign ownership and firm performance. Therefore, I propose the following hypotheses:

Hypothesis 1a. Foreign majority ownership is positively related to firm performance in the emerging economy.

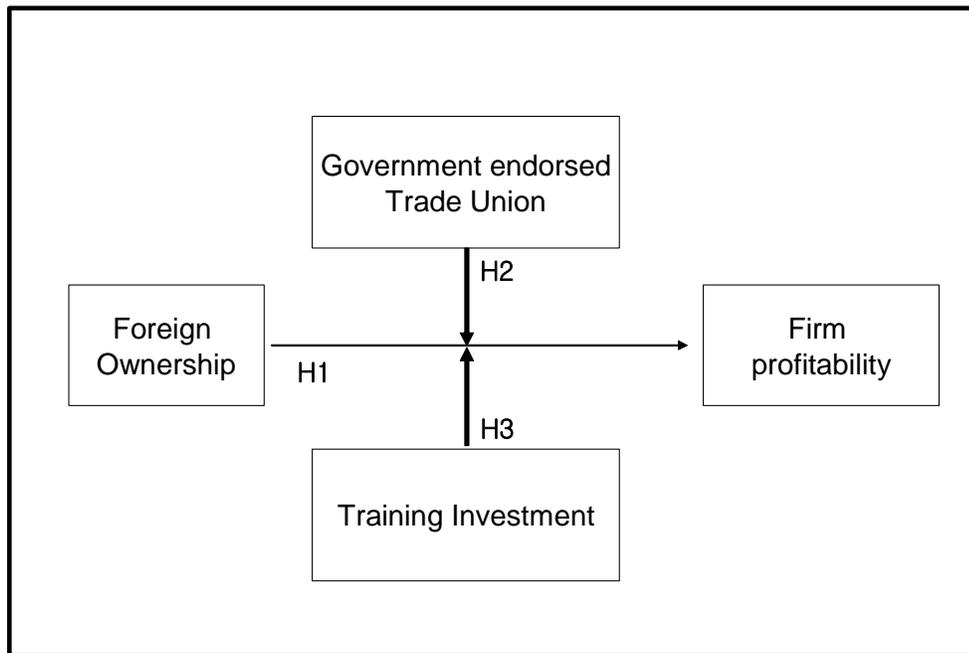
Hypothesis 1b. Foreign majority ownership is negatively related to firm performance in the emerging economy.

Overcoming the Liability of Foreignness through People Management

Minimizing the disadvantages of foreignness and maximizing the advantages of multinationality are fundamentally imperative for subsidiaries of multinational companies; especially, those in emerging economies (Hoskisson et al., 2000). This study attempts to extend the prior research on the LOF by investigating the performance implications of people management practices in emerging economies; particularly, the endorsement of trade unions and the investment in employer-provided training. These practices were chosen because 1) they relate to the main aspects of people management in the emerging economies in which the government drives low wage-based economic developments, and 2) two practices are directly associated with the dual imperatives (minimizing disadvantages of foreignness and maximizing advantage of multinationality).

The arguments on the moderators can be summarized as follows. First, the government-endorsed trade unions bring more benefits to foreign firms than to domestic private firms in emerging economies because they enable foreign firms to compensate for the lack of local embeddedness. In other words, unions are to contribute to reduce the disadvantages of being foreignness.

Second, an investment in training provides more benefits to foreign firms than to local private firms because the training in foreign firms not only increases the immediate skill levels of employees, but also facilitates the transfer of home country knowledge. In other words, training will maximize the advantage of multinationality. In summary, the negativity (or benefit) of foreignness will be reduced (or strengthened) by the two practices. In the following subsections, I will elaborate on these arguments. The Figure 4-1 illustrates the hypothesized relationship between variables of interest.



Model
Figure 4.1

Legitimacy-Enhancing Employment Relations Institutional theorists have suggested that organizational efforts to gain legitimacy influence many organizational practices and structures. Legitimacy can be defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). Unlike traditional economic theories that emphasize rational choice of economic actors, institutional theory suggests that, in order for organizations to survive and prosper, they need to adopt structures and practices that are accepted by local constituents (Dimaggio & Powell, 1983).

Kostova and Zaheer (1999) argued that assuring legitimacy is a demanding task for foreign firms. Local people may apply different standards toward foreign firms than domestic firms. Behaviors of foreign firms are interpreted based on local

customers' mental frameworks rather than those of the home country (Brannen, 2004). Among local interest groups, foreign-owned companies are easy targets for criticism because indigenous people may perceive foreign firms as "others" rather than "part of us." The lack of legitimacy makes foreign firms be vulnerable to various risks including appropriation of the business (Gardberg & Fombrum, 2006). Therefore, assuring the reputation as good corporate citizens in the host country is a challenging but critical task for the survival and prosperity of foreign-owned firms.

The legitimation literature has suggested that organizations can enhance their legitimacy by formulating alliances with other organizations of high status in their field (Dacin, Oliver, & Roy, 2007). Resource dependency theory also suggests that organizations can improve their chances of survival by co-opting critical resource providers (Pfeffer, 1973). In an emerging economy, the government is the single most important resource provider and the source of legitimacy. Therefore, developing good relations with the government is crucial for companies in the effort to establish and maintain legitimacy (Peng & Luo, 2000).

In an emerging economy, the recognition of government-endorsed trade unions can be an act that shows respect to the government, and therefore enhances positive relations with the local stakeholders. Although a significant degree of heterogeneity has been observed across emerging economies' industrial relations (Kuruvilla & Venkataratnam, 1996; Morley, Gunnigle, & Collings, 2006), trade unions in emerging economies generally have strong relationships with the government or major political parties. For example, Chinese and Vietnamese trade unions are largely considered to be extensions of the Communist government. Trade unions in India are affiliated with major political parties and have a strong influence in domestic politics. Trade unions in Malaysia and Indonesia are tightly controlled by the government. Labor movements in Latin American countries such as Brazil and Chile operate under the tradition of

corporatism in which the state controls and assists trade unions. In general, the role of trade unions in an emerging economy tends to be in line with the government's economic development agenda. Trade unions in the rapidly developing countries are often conceived of as a governmental organ whose mission is to maintain the harmonious workplace so that the country can attract foreign direct investment (Frenkel & Kuruvilla, 2002). Therefore, recognizing trade unions in these countries needs to be understood, at least in part, within a framework of governmental relations rather than through pure employee-employer relationships. In other words, government-endorsed trade unions can enhance the legitimacy of recognizing companies by promoting positive relations with the government, the most important resource provider in an emerging economy.

I argue that the effect of legitimation by recognizing trade unions will be stronger in foreign firms than domestic firms. Unlike foreign firms, domestic firms tend to have various alternative ways for developing good relationships with government due to in-depth local networks. For example, Xin and Pearce (1996) showed that the *guanxi* (social relationship) is an important method of acquiring institutional support for private companies in the emerging economy of China. However, foreign-owned firms find it difficult to establish the personal relationships with governmental officials that their domestic counterparts enjoy. Therefore, developing institutional relations with government is critical in order for foreign firms to survive and prosper. In this regard, recognizing the government-sponsored trade union can be an effective measure for a foreign firm to use to enhance institutional relations with government and further legitimate itself in the emerging economy.

Recognizing the nationally endorsed trade union may also increase the legitimacy within a foreign firm because it gives a signal to employees that the company respects local institutions, workers' rights, and employees' well-being. The

diversity within the multinational firms, especially the dissimilarity between expatriates and local employees in subsidiaries, is a source of social conflict that can undermine the effectiveness of human resource management practices (Cooper, Doucet, & Pratt, 2007; Lu & Xu, 2006). In foreign-owned firms operating in emerging economies, local employees may easily categorize foreign expatriates as members of the out-group (Cooper et al., 2007) and develop negative sentiments that lead to their resistance to managerial decisions made by the expatriates (Meardi, 2006). Therefore, multinational companies need to develop symbols that show their human resource practices are not solely initiated by foreigners, but are monitored by and coordinated with local institutions such as trade union branches.

The above arguments suggest that the presence of government-endorsed trade unions will weaken the negative impact of foreignness in emerging economies. This means that, on the one hand, if it is true that foreign ownership is positively associated with firm performance, then the effect will be stronger for firms that have recognized trade unions. On the other hand, if it is true that foreign ownership is negatively associated with firm performance, then the effect will be weaker for firms that have recognized trade unions.

Hypothesis 2a. Trade union presence moderates the relationship between foreign majority ownership and firm performance in such a way that the relationship is more positive in unionized companies.

Hypothesis 2b. Trade union presence moderates the relationship between foreign majority ownership and firm performance in such a way that the relationship is less negative in unionized companies.

Knowledge Transfer-Enhancing Practices The resource-based view of the firm (Barney, 1991) suggests that a sustainable competitive advantage can be assured by resources that are valuable, unique, scarce, and difficult to imitate. Following this logic, scholars have suggested that effective human resource management practices that develop a valuable, unique, scarce, and inimitable pool of human capital are the basis for an enduring competitive advantage (Lepak & Snell, 1999; Wright, McMahan, & McWilliam, 1994). Employer-provided training is a good example of the effective human resource management practices because it enhances the value and uniqueness of firms' human capital at least in two ways. First, training increases the firm-specific capability that resides in existing employees. Researchers have noted that human capital which brings sustainable competitive advantages is developed within the firm rather than bought in the market (Lepak & Snell, 1999). Second, developmentally focused human resource practices contribute to attracting and retaining high-quality human capital pools that are scarce in labor market (Huselid, 1995). Therefore, employer-provided training is likely to have positive impacts on firm performance as has been shown in a number of empirical studies (e.g., Aragon-Sanchez, Barba-Aragon, & Sanz-Valle, 2003; Bartel, 1994; Russell, Terborg, & Powers, 1985).

Besides the general organizational benefits of training, I argue that employer-provided training brings more gains to foreign-owned firms than domestic firms in emerging economies because it assists multinational companies to better realize their the home-based knowledge advantage. Unlike domestic firms, foreign firms have access to valuable knowledge accumulated in overseas units. The advantage of being connected to global networks is the primary source for foreign companies to utilize in offsetting the disadvantages of foreignness and successfully competing with local competitors. Porter (1990) noted:

“In practice, firms that do not exploit and extend their home-based advantages through competing globally are vulnerable. . . . As the globalization of competition has become widely recognized, attention has been focused on system advantages and on the benefits of locating in other nations. In fact, home-based advantages are usually more significant to competitive advantage [than location-based advantages]” (pp. 60–61).

This ownership advantage, however, is not fully realized in foreign subsidiaries unless the knowledge is actually transmitted across borders. Studies have suggested that the knowledge inflow from the parent company to foreign subsidiaries is significantly influenced by the subsidiaries’ capacity to acquire knowledge (Gupta & Govindarajan, 2000; Wang, Tong, & Koh, 2004). The capacity to acquire knowledge from other units is subject to the familiarity of recipient units with incoming knowledge, and the quality of communication channels between the sender and recipients (Cohen & Levinthal, 1990; Gupta & Govindarajan, 2000).

If the recipient unit is totally unfamiliar with the knowledge stored in the sending units, the transfer of knowledge will be limited. For instance, manufacturing systems that have been developed based on the principles of Six Sigma techniques cannot generate the same level of productivity in the local subsidiaries unless the employees are trained to understand the basics of the procedures. The lack of communication channels also can cause serious problems in the transmission of the knowledge across national borders. These are especially critical issues for subsidiaries in emerging economies in which local employees’ skills and knowledge are generally low (Lyles & Salk, 1996; Wang et al., 2004), and expatriates are easily segregated from local employees (Chen, Choi, & Chi, 2002; Toh & DeNisi, 2003).

Employer-provided training can assist subsidiaries in assuring a smooth transfer of knowledge from their overseas units by addressing the two problems mentioned above. First, training will increase the absorptive capacity of subsidiaries. Employer-provided training in subsidiaries will familiarize local employees with the firm-specific knowledge of foreign origin, which will enable the workers to fully understand and make use of the systems and practices transferred from the parent company. Second, the personal interactions between foreign experts and local employees during the training will enhance the social capital between the parent company and subsidiaries, which will strengthen the continuous inflow of knowledge (Kostova & Roth, 2003).

In summary, I argue employer-provided training has a larger positive impact on foreign firms than domestic firms because it facilitates the cross-national transfer of firm-specific knowledge from overseas units to subsidiaries of multinational firms. This means that, on the one hand, if it is true that foreign ownership is positively associated with firm performance, then the effect will be stronger for firms with a high level of training investment. On the other hand, if it is true that foreign ownership is negatively associated with firm performance, then the effect will be weaker for firms with a higher level of training investment.

Hypothesis 3a. Training investment moderates the relationship between foreign majority ownership and firm performance in such a way that the relationship is more positive in unionized companies.

Hypothesis 3b. Training investment moderates the relationship between foreign majority ownership and firm performance in such a way that the relationship is less negative in unionized companies.

METHOD

Data and Sample

This study began with qualitative research during my extensive fieldwork conducted in China between June 2006 and July 2007. Although the study is deductive in nature, the fieldwork assisted me in developing an in-depth understanding of the empirical context, which increased the appropriateness of model specification and results interpretation. Fifty-nine interviews were conducted with managers of foreign-owned companies working in 40 establishments across 11 coastal cities. Twenty-five establishments were subsidiaries of 10 Fortune 500 companies (4 U.S., 4 Asian, and 2 European) while others were affiliated with small- and medium-sized companies. To draw a more complete picture of the reality, nine officials of the All-China Federation of Trade Unions, one official in the International Labor Organization's Beijing office, seven representatives of foreign employer organizations, two central government administrators, and two officers of special economic zones were interviewed. The format of interviews was semi-structured and each interview lasted between 1 and 3 hours. Expatriates were interviewed in English and Korean while Chinese employees and officials were interviewed through translators.

To quantitatively test the proposed hypotheses, I used nationally representative survey data conducted by the Chinese National Bureau of Statistics. The original 2004 survey data presumably includes all manufacturing firms classified as state-owned enterprises, and other manufacturing enterprises that reported more than 5 million yuan (approximately US\$600,000) of annual sales in the previous year. For these firms, the bureau reports financial statement information, number of employees, number of labor union members, the amount of the trade union fee, and training

investment. By law, all businesses in China are required to collaborate with the bureau for this survey.

I excluded state-owned enterprises (companies with more than 50% of state ownership) because the organizational dynamics regarding the trade union and human resource management might be different from that of private sector businesses. I also excluded firms associated with capital from Hong Kong, Macao, and Taiwan because their legal status, in the perspective of the People's Republic of China, does not fit into the foreign-domestic dichotomy. By excluding a small number of firms in primary industries such as coal mining, the final sample contains only manufacturing companies. To increase the integrity of the dataset, I deleted blatant outliers and cases with obviously inaccurate numbers such as negative total assets. There were 224,433 firms in the final data that I analyzed. Although the reliability of Chinese data has been an issue in academia, this source of data has been recognized as reliable in a number of academic studies (Buckley, Clegg, & Wang, 2002; Xu et al., 2006). To the best my knowledge, this 2004 data is the first, only, and the most complete nationwide survey data in the emerging economy of China that contains information on industrial relations and human resource management.

Measures

Return on equity (ROE) was used as the performance variable. It is the accounting ratio often used to measure the effectiveness of management (Richard & Johnson, 2001). To examine the effect of the LOF, I created a dummy variable that indicated the foreign majority ownership (more than 50% of foreign equity). Studies have shown that the majority ownership has important consequences on the choice of managerial actions (Jaggi & Tsui, 2007; Lin & Kamal, 2004). Also in China, “the

decision-making power is determined on the basis of . . . equity ownership” (Huang, 2003, p. 19). The fieldwork in China confirmed that foreign managers make the major human resource decisions in companies with majority foreign ownership while Chinese managers have more decision-making power in firms with minority foreign ownership.

The trade union was measured by the number of union members divided by the total number of employees. According to Chinese law, employees in a company that hires more than 25 individuals can organize a company branch of the All-China Federation of Trade Unions. However, in reality, the union branch at the enterprise is initiated by the firm instead of the employees. The fieldwork indicates that, except in rare cases such as Chinese Wal-Mart, domestic private and foreign-owned firms have been allowed to determine their position toward unions, even in the midst of the recent unionization campaign. Although the law suggests that unions, once established, are supposed to cover all employees including management, a significant variance is observed in the union coverage. I assumed that the coverage rate indicates the degree to which a firm has a proactive and positive attitude toward unions.

Several aspects of firm-specific characteristics were controlled. State ownership proportion was included to control for the potential state influence on domestic private or foreign firms. The size was measured by the logarithms of employee number. The liability of newness (Singh, Tucker, & House, 1986) was also controlled by including the logarithm of company age. The level of current human capital was controlled by an imperfect proxy measure of social wage, which is the combination of housing benefit, unemployment insurance, and medical insurance (per individual). Conformity of the local managerial practices was measured by the “management expense.” In China, the manager of a company is allowed to use this money at his or her own discretion as a lubricant that facilitates the daily managerial

operations. This money can be used for various occasions such as rewarding high performers or buying out problematic employees. Advertising expense was included to control for the local market strategy. As for the environmental factors, the provincial union recognition rate was included to address the institutional pressures of unionization in the region. Finally, 13 dummy variables for most industrialized regions were included to control for any region specific factors.

Analytic Approach

I employed hierarchical regression analyses to test the hypotheses. Variance inflation factors (VIF) did not show significant multicollinearity ($VIF < 3.02$). Kolmogorov-Smirnov test of normality indicated that there was no significant violation of normality assumption at the .05 level of statistical significance.

Table 4.1
Descriptive Statistics

Variable	Mean	s.e.	1	2	3	4	5	6	7	8	9	10
1 ROE	0.17	0.28										
2 Foreignness	0.09	0.28	-0.05									
3 Union	0.31	0.41	-0.05	-0.02								
4 Training (log)	0.08	0.18	0.02	0.00	0.13							
5 State Ownership	0.01	0.04	-0.03	0.05	0.09	0.05						
6 Comp Age (log)	1.60	0.94	-0.03	-0.03	0.26	0.05	0.07					
7 Size (log)	4.57	1.07	-0.03	0.12	0.22	0.01	0.08	0.19				
8 Social Wage (log)	0.49	0.66	-0.07	0.17	0.30	0.25	0.14	0.23	0.09			
9 Traditionality	0.07	2.80	-0.01	0.00	0.01	0.00	0.00	0.01	-0.01	0.02		
10 Competitive Pressure	0.19	0.39	-0.03	0.01	0.12	0.14	0.05	0.09	0.19	0.20	0.00	
11 Regional Unionization	0.31	0.09	-0.02	-0.11	0.12	0.04	0.01	0.01	-0.02	-0.02	0.00	0.03

RESULTS

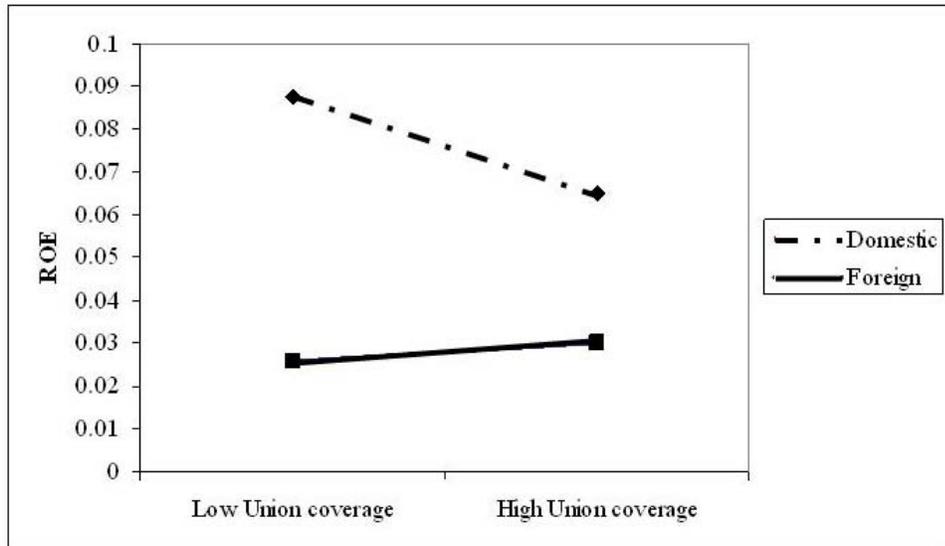
Table 4.1 provides descriptive statistics and correlations. The dependent variable ROE was negatively correlated with foreign majority ownership and trade union presence while positively correlated with training investment. These correlations were all statistically significant ($p < 0.001$). Table 4.2 provides the results of the hierarchical regression analyses. The results generally support the four proposed hypotheses. The F statistic shows that all three models are significant ($p < 0.001$). The changes of R² were also statistically significant ($p < 0.001$).

Between the two alternative hypotheses, the data supported the second hypothesis that the foreign majority ownership is negatively associated with firm performance (Hypothesis 1b). That means that, other things being equal, foreign-owned firms achieve lower firm performance than Chinese domestic firms.

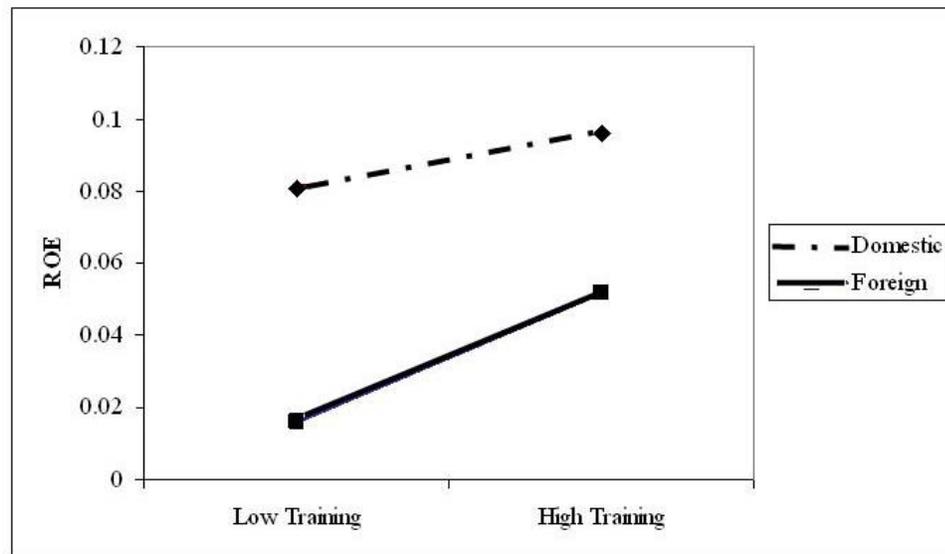
As predicted, the trade union interacted with foreign majority ownership in a positive way in Hypothesis 2b. The results suggest that foreign-owned firms can reduce the performance disadvantage by recognizing unions. The training investment had a positive interaction effect with foreign majority ownership (Hypothesis 3b). That means, foreign-owned firms acquire higher return on investment in training than Chinese domestic firms. In the Figure 4.2, I provide interaction plots that depict the moderation effect of the trade union and training investment. Although I did not specify the main effect of the trade union and the training, the results provide some useful information on the main effects. Specifically, the trade union was found to have a very strong negative impact on the firm performance of domestic private firms while the training had generally positive impacts on performance.

Table 4.2
Robust Regression Results

	Mean	SD	Model 1		Model 2		Model 3	
Foreignness	0.087	(0.282)			-0.040	(0.002) ***	-0.056	(0.003) ***
Union	0.312	(0.410)			-0.021	(0.002) ***	-0.024	(0.002) ***
Training	0.080	(0.179)			0.059	(0.012) ***	0.050	(0.005) ***
Union x Foreignness	0.025	(0.144)					0.036	(0.011) ***
Training x Foreignness	0.007	(0.070)					0.065	(0.012) ***
Control								
state ownership proportion	0.005	(0.043)	-0.118	(0.012) ***	-0.109	(0.004) ***	-0.117	(0.004) ***
log(comp age)	1.603	(0.936)	-0.004	(0.001) ***	-0.003	(0.001) ***	-0.003	(0.001) ***
log(employee number)	4.571	(1.065)	-0.006	(0.001) ***	-0.003	(0.001) ***	-0.003	(0.001) ***
log(social wage per person)	0.487	(0.664)	-0.016	(0.001) ***	-0.014	(0.001) ***	-0.014	(0.001) ***
management expense	0.074	(2.797)	-0.001	(0.000) *	-0.001	(0.000) *	-0.001	(0.000) *
advertise expense	0.002	(0.391)	-3.421	(0.001) *	-0.006	(0.001) ***	-0.006	(0.001) ***
regional union recog rate	0.309	(0.090)	-0.085	(0.021) ***	-0.085	(0.021) ***	-0.082	(0.021) ***
Beijing	0.025	(0.158)	-0.009	(0.004) *	-0.009	(0.004) *	-0.009	(0.004) *
Tianjin	0.023	(0.149)	0.037	(0.006) ***	0.042	(0.006) ***	0.043	(0.006) ***
Hebei	0.033	(0.179)	0.154	(0.005) ***	0.155	(0.005) ***	0.154	(0.005) ***
Liaoning	0.037	(0.188)	0.023	(0.004) ***	0.028	(0.004) ***	0.027	(0.004) ***
Shanghai	0.056	(0.229)	0.059	(0.004) ***	0.061	(0.004) ***	0.062	(0.004) ***
Jiangsu	0.171	(0.376)	0.039	(0.002) ***	0.041	(0.002) ***	0.041	(0.002) ***
Zhejiang	0.177	(0.382)	0.070	(0.002) ***	0.069	(0.002) ***	0.069	(0.002) ***
Fujian	0.038	(0.191)	0.013	(0.003) ***	0.019	(0.003) ***	0.019	(0.003) ***
Shandong	0.098	(0.298)	0.129	(0.004) ***	0.132	(0.004) ***	0.132	(0.004) ***
Henan	0.041	(0.198)	0.141	(0.005) ***	0.140	(0.005) ***	0.140	(0.005) ***
Hunan	0.025	(0.156)	0.053	(0.005) ***	0.052	(0.005) ***	0.052	(0.005) ***
Guangdong	0.107	(0.309)	0.019	(0.005) ***	0.022	(0.005) ***	0.023	(0.005) ***
Sichuan	0.027	(0.161)	-0.003	(0.004)	-0.002	(0.004)	-0.003	(0.004)
Constant			0.195	(0.008) ***	0.184	(0.008) ***	0.184	(0.008) ***
n			205374		205374		205374	
F			305.6 ***		300.12 ***		279.1 ***	
R-squared			0.033		0.036		0.037	
R-squared Change					0.004 ***		0.001 ***	



(2a) Trade Union and the Foreign Majority Ownership



(2b) Training Investment and the Foreign Majority Ownership

Interaction Plots
Figure 4.2

DISCUSSION AND CONCLUSION

I examined the moderating effects of the trade union and training investment on the relationship between the foreign ownership and firm performance in China. The empirical results show that foreign-owned companies in the emerging economy of China are experiencing the LOF, and the negative impact of LOF is moderated by recognizing the company branch of the national trade union and investment in training.

This study contributes to the international management and international human resource management literatures. Given the importance of the LOF in the success of multinational corporations, studies have attempted to identify ways to moderate the negative impact of the LOF. Recently, researchers have begun to examine the role of human resource management for moderating the LOF, but mainly in the U.S. context (e.g., Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Matsuo, 2000; Mezias, 2002). The current study contributes to this line of research by: (a) exploring the issue in the emerging economy of China, which has attracted the largest amount of foreign direct investment over the past decade (Huang, 2003); (b) investigating both elements of institutional and firm-specific competency factors; and (c) examining not only human resource management practices, but also trade unions, which are a critical concern in developing countries.

Major findings of this study also contribute to the body of research industrial relations. Industrial relations scholars have investigated the relationship between the presence of a trade union and firm performance (Bennett & Kaufman, 2007). On the one hand, a traditional view of the research conducted on unionism in the United States posited that trade unions tend to have negative impact on the profitability of firms (Freeman & Medoff, 1984). On the other hand, a context-specific study found

that the impact of Chinese trade unions on organizational outcomes was negligible (Ding, Goodall, & Warner, 2002). Contrary to these prior works, the current study proposes the possibility of a positive performance impact of the trade union in the context of the foreign-invested sector in emerging economies. In the emerging economy of China, recognizing the trade union may function as symbolic, although not necessarily substantive, action of the good corporate citizen. This aspect of trade unions may positively affect foreign-owned companies' performance where it has been negatively affected by a lack of local legitimacy. Considering the general public's recent attention to the "corporate social responsibility," more studies are required to determine the antecedents and consequences of this aspect of the trade union effect, especially in other contexts.

Findings of this study have significant practical implications. First, the study questions the validity of some foreign managers' beliefs and concerns about the negative impact of trade unions in emerging economies. One manager that I interviewed in Beijing told me that "the acceptance of trade unions will do more harm to foreign-owned companies than to domestic companies." According to the results of this study, however, trade unions in emerging economies may contribute to the management of foreign-owned companies through moderating the LOF.

Second, the significant direct and moderating effect of training expenditures on firm performance justifies the investment in training, even in the face of a high turnover situation in an emerging economy. Due to high labor mobility in the foreign-invested sector, some managers of foreign companies have doubts about developing human capital in emerging markets. The results of this study suggest, however, that training investment does have a significant positive impact on a company's bottom line; especially, that of foreign-owned firms.

Surprisingly, the results suggest that grassroots trade unions have a significant negative impact on the performance of domestic private firms. On the surface, this result is consistent with the findings of previous research in the U.S. context. Studies on trade unions in the United States have argued that trade unions have significant direct effects on firm profitability (e.g., Freeman & Medoff, 1984). But, the results of U.S.-based trade union studies should not be directly applied to Chinese context because the Chinese trade union does not have the monopoly power, nor the right, to organize collective actions within firms (Liu, 2008). One possible explanation for this surprising finding is that the trade union fee (2% of the total wage) and other related costs directly impact a company's bottom line. Because the firms in the sample are manufacturing companies that possibly are competing in the price sensitive market, the costs associated with maintaining a trade union may directly affect a company's financial margin. The general manager of a toy manufacturing company located in Shandong Province stated that the firm could not afford to have a trade union because it would lose buyers once it failed to keep costs to the bottom line (Qingdao, personal communication, April 28, 2007). Future studies should examine the validity of this explanation or explore other possible explanations for the negative relation between the trade union and firm performance in China and other emerging economies.

The current study has several methodological limitations mainly caused by the data availability. First of all, the performance data used in this study may not completely reflect the firms' financial performance because foreign companies often reduce the profitability of their local subsidiaries by manipulating transfer prices. Although this possibility may not necessarily undermine the core arguments of the paper, the results should be interpreted with caution.

In addition, the causality argument of this study should be further tested by longitudinal data analysis. Since the current analysis only used cross-sectional dataset,

there is inherent limitation to establish concrete causal relations between variables. Future studies need to address this issue by using multi-year datasets.

Finally, generalizability of the findings needs to be examined in other emerging economies. Previous studies have noted that emerging economies have adopted different economic developmental strategies that have differentially affected the role of trade unions (Kuruvilla & Venkataratnam, 1996). Therefore, future research needs to determine if the arguments and findings of this study are valid in emerging economies that have adopted developmental strategies different from those of China.

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CHAPTER 5

CONCLUSION

This dissertation has addressed three important issues of human resource management and industrial relations in the context of the People's Republic of China using institutional and strategic perspectives. The first study (chapter 2) critically reviews the current status of strategic human resource management (SHRM) research. I argue that the research to date in this field is built on several assumptions, the validity of which may not endure beyond the borders of the United States where much of the existing research in this realm has been conducted. This study contextualizes the mainstream SHRM research by comparing institutional environments around human resource management between the United States and China. Finally, I provide reflections and suggestions on how the contextualized understanding of the literature can contribute to resolving and reframing central concerns of SHRM research.

The second study (chapter 3) addresses a major concern relevant to international business research in qualitatively investigating how subsidiaries of multinational companies deal with dual institutional pressures from the parent company and the local environment. Using Chinese trade unions as an empirical context, I develop a model that explains how the dual institutional pressures and organizational characteristics jointly shape the subsidiaries' attitudes and behaviors toward a unique local employment relations practice. I analyze qualitative data that I collected in my 13 months of fieldwork for this study.

The third study (chapter 4) involves a quantitative data analysis of Chinese companies in the manufacturing sector. The major concern of this study is whether unions and employer-provided training affect firm performance differently depending on the ownership structure. I argue that recognizing unions in China is more beneficial

for foreign than domestic firms because it reduces the problem of deficient legitimacy in the local market. I also argue that the positive impact of employer-provided training on firm performance is stronger in foreign-owned firms than in domestic firms in China because foreign companies, unlike domestic firms, can expect an additional benefit of training: the cross-border knowledge inflow. The results of regression analyses generally support the hypotheses.

THEORETICAL CONTRIBUTIONS

Although the three studies address different issues using distinctive methodologies, they share common features that have important theoretical and practical implications. Theoretically, the three studies collectively extend the scope of human resource management studies by explicitly incorporating elements of institutional theory.

Although diverse intellectual traditions have used the term institutions in quite different ways, it can be broadly defined as a combination of regulatory, normative, and cultural elements that stabilizes social life. In the area of human resource management, I understand the institutional perspective to be a view that emphasizes the impacts of contextual factors (e.g., regulations, social norms, national culture, industry effect, and historical background) on organizations' employment and human resource management practices. This perspective acknowledges that people management practices are not formulated and maintained solely by the rational calculations of managers. Rather, it pays attention to the processes in which employment relations and human resource management practices emerge over time through the interactions among diverse stakeholders, including: managers, employees, national governments, unions, and professional organizations. The institutional

perspective also appreciates the fact that not all companies operate under the same institutional environments. Therefore, it is open to the possibility that the same set of organizational practices may lead to significantly different organizational outcomes in different institutional environments.

The three studies in this dissertation explore how institutional perspectives—the framework that acknowledges the impact of regulatory, normative, and cultural factors—can provide new insights into the study of human resource management and industrial relations in the globalized economy. For example, the first study (chapter 2) argues that the previous SHRM research has been shaped by the institutional context of a liberal market economy.

The second study (chapter 3) draws more directly from institutional theories and explains how people management practices of firms are shaped by institutional contexts. Unlike earlier works in this area that emphasize the pattern of conformity of subsidiaries to institutional pressures, the findings in chapter 3 specify the conditions under which organizational characteristics and the duality of institutional pressures create a leeway for subsidiaries to formulate their own responses.

The third study (chapter 4) explores the performance implications of adopting socially legitimate employment relations practices. As I suggest in the first study (chapter 2), the relative ignorance of institutional contexts has been a critical weakness of prior human resource management studies, particularly those in the tradition of SHRM. The three studies in this dissertation jointly contribute to the literature by acknowledging and illuminating the influence of the institutional context on people management practices.

The three studies also contribute to the literature of international human resource management. International human resource management has emerged as a distinct field of study over recent decades. Scholars in this area have examined a

variety of people management issues in the globalized economy, particularly the issues of expatriate adjustments, global human resource systems of multinational corporations, and convergence/divergence of human resource practices around the globe.

The first study (chapter 2) in this dissertation suggests that SHRM needs to be understood as a part of international human resource management studies, not the other way around. As I argue in this study, the current SHRM research has produced incomplete knowledge on the relationship between human resource management and firm performance because the field did not seriously consider the fact that institutional environments are not the same across countries. By acknowledging that human resource management may affect firm performance differently in a different national context, this study highlights the criticality of international perspectives as an overarching framework for SHRM research.

The second study (chapter 3) contributes to international human resource management research by employing Chinese trade unions as a main variable. Due to the influence of U.S.-based human resource management research, scholars of international human resource management tend to ignore the significance of industrial relations variables in the management of local subsidiaries. Instead, they tend to overemphasize human resource management practices that are usually considered important for U.S. firms operating in the U.S. context. My study takes the context more openly, and explores the dynamics of people management in local subsidiaries around trade unions.

The third study (chapter 4) directly addresses the main concern of international business, the liability of foreignness which is defined as the disadvantages of doing business abroad. This study is differentiated from the previous line of research on the

liability of foreignness by introducing the idea that the disadvantages of being foreign can be moderated by effective people management practices.

PRACTICAL IMPLICATIOIS

In addition to various theoretical contributions, the three studies jointly offer a number of practical suggestions for multinational corporations operating in China. China is the largest emerging market in the world, and it is attracting an enormous number of multinational corporations. Companies originating in developed economies are bringing their knowledge and capabilities to China's developing economy in an attempt to replicate their prior success in other emerging markets. However, the unique institutional environment in China does not allow multinational corporations to achieve success easily. Among other challenges, multinational corporations must overcome the liability that stems from their lack of local embeddedness. In order for multinational companies to reduce the costs of doing business abroad, they will have to understand the limitations of previously accepted knowledge and identify methods to moderate their inherent disadvantages as foreigners.

The first study (chapter 2) offers practical implications for multinational firms in that it identifies the reasons for which existing formulations of SHRM may not work in the emerging economy of China. Multinational companies often attempt to replicate their human resource management systems in local subsidiaries. Many multinational firms in China that followed this path have come to realize that the homemade systems do not work as expected. More often than not, expatriate managers have attributed this failure to the ambiguous concept of cultural difference or to the lack of skill or professionalism of local employees. This study offers an overall framework for understanding why human resource systems that have originated in one

institutional context may not function fully in other contexts. By comparing the regulatory, normative, and cultural differences between the home and host countries, managers of foreign subsidiaries will be better able to identify potentially nonfunctioning elements in their standardized human resource systems.

The second study (chapter 3) is also beneficial for practitioners in that subsidiaries actively find solutions to unfamiliar local practices within the given institutional constraints. This study provides a conceptual map that shows how institutional duality interacts with organizational characteristics regarding subsidiaries' reactions to local union practices. This conceptual model not only may assist managers of subsidiaries in China, but also managers of multinational firms generally to formulate appropriate strategies toward local employment practices.

Finally, the third study (chapter 4) encourages subsidiary managers to be attentive to locally legitimate labor practices by showing that unions in China make a difference in the' financial performance of firms. Many popular reports have described the recent unionization campaign in China as a potential threat to the management of foreign companies. However, the findings in this study suggest that foreign-owned firms can expect benefits rather than disadvantages from recognizing unions. At least, the study strongly indicates that the concern for the potential negative impact of unions on the performance of foreign companies is largely exaggerated and cannot be supported by the empirical data.

FUTURE RESEARCH

The findings of the three studies in this dissertation have answered important questions, but many more questions remain unanswered. One of the unanswered questions involves identifying the pattern of difference in the relationship between

human resource practices and institutional environments. In the first study (chapter 2), I indicated that the way that human resource management drives firm performance may vary according to the institutional environment. This argument needs to be further validated by empirical studies that incorporate data from multiple types of institutional environments. For example, future research could examine how the relationship between high-commitment work practices and firm performance is moderated by the national regulatory, normative, and cultural environment.

Another unanswered question has to do with the role of actors toward institutional environments. The three studies in this dissertation commonly showed that human resource management and industrial relations practices of private companies are significantly affected by the national political, regulatory, normative, and cultural contexts. However, the studies do not present a sufficiently clear picture that captures the efforts of actors (e.g., subsidiaries, unions, and the government) to proactively modify the institutional environment in order to generate more favorable situations for them. In this respect, future research may need to incorporate recent developments of theories on the relationship between organizations and institutional environments, particularly the insights offered by the institutional entrepreneurship literature. If we can better understand how multinational corporations proactively influence their institutional environments with respect to human resource management, we could develop a better approach to the debate about global convergence and divergence in the area of human resource management.

The external validity of my findings is another critical issue that should be addressed by future research. Although the three studies provide useful insights on human resource management and industrial relations in mainland China, whether these findings will also be valid in other transitional economies is a matter in question. Even though it was a reasonable choice for me to choose China as an empirical context, I

cannot claim cross-national generalizability unless I am able to present convincing evidence that a similar phenomenon is observed in other transitional economies.

The transitional economy of China is moving toward a new era. While the inflow of foreign direct investment is likely to continue to be massive for some time, the nature of foreign investment is changing. In the past, the main interest of foreign investors was the cheap workforce in the Chinese manufacturing sector. Recently, however, foreign investors have begun to pay attention to the growing domestic markets. As this change occurs, the regulatory, normative, and cultural landscape of China with respect to employment relations and human resource management will also turn toward a new chapter. How these changing institutional environments will affect the antecedents and consequences of the strategic choices made by multinational companies is a critical subject of academic inquiry for which this dissertation lays an initial building block.

APPENDIX Description of Cases

* First tier cities are Beijing/Shanghai; second tier cities include Tianjin, Nanjing, Hangzhou; third tier cities include Qingdao, Huizhou, Donguan.

** see the Table 3.1 for details

Company	Business Description	Location*	Origin	Interview	Total
Coretech	Manufactures core parts of electronics appliances	Third tier, South	Asian	CEO, HR VP (union leader), HR manager	3
Display	Manufactures display parts of electronics appliances	Second tier, East	Euro-Asian Joint	HR VP, HR VP, HR director	3
Service	Information Technology solutions	First tier, East	US	Senior HR VP, HR VP, ER director	3
Hightech	System integration solutions	First tier, East	US	HR director, local staff	2
Solution	Information Technology solutions	First tier, North	US	HR director	1
Equip	Provides building infrastructure	First tier, North	US	HR director	1
Energy	Provides energy solutions	First tier, North	Europe	HR VP	1
Auto	Assembles automobile	First tier, North	Europe	HR director (local)	1
Road	Manufacturing major auto parts	Second tier, East	Asia	CEO, HR VP	2
Steel	Steel Manufacturing	First tier, North	Asia	HR VP	1
Telecom	Telecommunication	First tier, North	Asia	HR VP, HR director	2
Build	Provide building equipment	Third tier, East	Asia	Engineer	1
Pharm	Pharmaceutical company	First tier, North	Asia	HR VP	1
SME1	Manufacturing apparel	First tier, Eastern	Asia	HR director, HR staff	2
SME2	Manufacturing electronic parts	Second tier, North	Asia	CEO, VP	2
SME3	Manufacturing electronic parts	Second tier, East	Asia	VP, HR director	2
SME4	Manufacturing container	Second tier, East	Asia	CEO, VP	2
SME5	distribution and sourcing	First tier, East	Asia	CEO	1
SME6	Manufacturing home furniture	First tier, East	Asia	CEO	1
SME7	Manufacturing electronic parts	Third tier, South	Asia	VP	1
SME8	Electronics assembly	Third tier, South	Asia	CEO	1
SME9	Factory facility design service	Third tier, South	Asia	CEO	1
SME10	Accessory manufacturing	Third tier, North	Asia	CEO	1
SME11	Electronics manufacturing	Third tier, North	Asia	CEO	1
SME12	Toy manufacturing	Third tier, North	Asia	CEO	1
Ufree**	Consumer Electronics	Varies**	Asia	HR VP, HR directors, and employees**	10
ProU**	Consumer Electronics	Varies**	Asia	CEO, HR VP, HR directors, union leader and employees**	19
Total					67