



**TITLE: GLOBAL STAFFING IMPLEMENTATIONS IN THE
CHINESE MNCS**

**SUBTITLE: AN EXPLORATIVE STUDY BASED ON SUBSIDIARIES OF MUL-
TINATIONAL CORPORATIONS IN CHINA**

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Abstract

The paper is aiming to explore the global staffing implementations within the background of globalization and localization in multinational corporations (MNCs) in Mainland China. With massive foreign direct investments (FDI) flowing into China and the increasingly competitions in the international and domestic markets, local human capital for MNCs has become prevalent and important as their human resource strategies. A qualitative approach was chosen to conduct interviews with core employees in a Japanese subsidiary and headhunters who work for MNCs. Theoretically the thesis is framed by the concept of embeddedness. Different types of embeddedness are considered as factors explaining the choice of strategies by MNCs'. Three considerations were addressed: cost, development and cultural considerations. They are the major factors for MNCs to be localized and they tend to combine the best practice, such as trainings, personal tutoring and the best fit, as like the local understanding of employees to make the local human resource more valuable and effective.

Key words: Mainland China, MNCs, localization, global staffing

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1. Introduction

The massive development of globalization process across the world affects the market in Mainland China: a number of multinational corporations (MNCs) expand their subsidiaries by setting up branch companies and offices in Mainland China because of large potential beneficial market. This paper explores the implementations of human resource staffing strategies of the companies on a global base. I study the embeddedness of the localization and globalization strategies of other MNCs in the Chinese market and how the “best practice” and “best fit” in human resource management are considered. A specific case is paid on a Japanese subsidiary in Mainland China because of its recent replacement of general manager in the Chinese market, which could be seen as the implementation of global staffing. Doing so is to put an in-depth understanding of how strategic human resource practices are conducted in MNCs.

In the following parts, the backgrounds of the Chinese foreign direct investment (FDI) and economy tendency will be illustrated. Brief introductions of best fit and best practice and the concept of embeddedness build an overall picture of how does the study be constructed. Followed by the discussions of the advantages and disadvantages of expatriates, and the situations of them nowadays in the Chinese market that brings up the trend of localization in MNCs.

1.1. Background

The Chinese economy has witnessed a tremendous integration within the international context, especially in global import and export (Razeen, 2007). Numerous MNCs target China as one of their largest markets. As Razeen (2007) emphasizes, China is the engine of Asia-driven globalization today. The massive transformation is caused by the open door policies since 1978s by Deng Xiaoping. The Chinese economy has skyrocketed dramatically. Followed by the implementation of the policies, radical market reforms unfolded in the

early 1990s (Razeen, 2007), the heart of which was the liberalization of trade and foreign direct investment (FDI). As Razeen (2007) mentions, China has been the world's third largest trading nation. The trade in goods is over 60% of GDP and the annual FDI flows are running at over US\$70 billion. Moreover, the multinational enterprises account for 60% of merchandise trade. The economy trend kept increasing after China joining the WTO in 2001. According to Dauderstädt and Stetten (2005), between 2000 and 2003, the growth of China's share of global GDP and global imports was more than 30%, and its share in the worldwide growth in fixed investment even amounted to 60%. As mentioned in the beginning, the Chinese market attracted a number of foreign companies because of its large market potential. The investigation in Dauderstädt and Stetten (2005) illustrates that by 2002, China had 200 000 firms that were either foreign affiliates or funded from foreign sources, which made China the world's largest recipient of FDI in 2003. In the same year, China's share of global inflows of FDI was almost 10%, and the reasons identified by Razeen (2007) were the liberalized trade, faster and wider FDI flows, as well as the retained flexible labour markets. For its economic modernization Mainland China has relied more on FDI than other Asian "tigers" such as Japan, Korea and Taiwan (Dauderstädt & Stetten, 2005).

1.2. Best fit and Best practice with the Concept of Embeddedness

Best practice as Boxall and Purcell (2011) identify is the action that adopt what is shown to be the best for organizing work and managing people. It is also the set of human resource (HR) policies that could improve performance in all types of organizations and further, all types of employees (Pferffer, 1994,1998). Best fit considers more about the contexts the business embedded in. Boxall and Purcell (2011) illustrate the best fit is about the company need to adapt their strategies to the context and business strategies to gain a competitive advantages in certain business field. Both strategies are shown as the implementations in HR policies, seem like to complement to each other.

Later, I would explain further about these two approaches in detail in the literature review. In order to explore how the companies think about adopt both policies, the concept of embeddedness is chosen as the theoretical framework, because the companies choose their strategies based on the social context they are embedded in. The concept of embeddedness shows that every single business actor exists within relational, institutional and cultural contexts. Companies need to not only take such issues (e.g., social relationships, cultural values) into consideration (Polanyi, 1957), but also think about the on-going contextualization of economic exchange in social structure (Granovetter, 1985). Framed by the conception, I study the global staffing implementations, how the multinational corporations (MNCs) apply their HRM strategies within the certain social contexts. In the following paragraph, phenomena of expatriates and the situations in the Chinese market will be showed as the overall picture of how the global staffing strategies are going on.

1.3. Expatriates

The expanding of MNCs in Mainland China has given an insight of how they deal with the cross-cultural human capital management. Human resource is a source of sustained competitive advantage from the standpoint of the firm (Wright, McMahan & McWilliams, 1994) and it is relatively difficult to imitate. Therefore the issue of strategic international human resource management (IHRM) has become a crucial topic. In the early stage, majority of MNCs preferred to transfer their well-trained employees to the subsidiaries as top managers. The action of transferring and re-allocating the top managers from the parent companies, which has acknowledged as the expatriates taking foreign assignments (Kühlmann & Hutchings, 2010) addresses several advantages. For instance, Edstroem and Galbraith (1977) regards the transferring of managers as the coordination and control strategy in multinational organizations. They improve communication between headquarters and subsidiaries and assist headquarters' staff to understand the local business envi-

ronment (Boyacigiller, 1990; Nohria & Ghoshal, 1994). Another argument is the expatriates are more capable to leverage the internal knowledge (Kostova & Roth, 2003) as they are the powerful means to transfer technic expertise and management know-how (Kühlmann & Hutchings, 2010), especially the tacit knowledge (Bonache & Brewster, 2001) rooted by their individual experiences. Overall, the action of transferring expatriates to manage the subsidiaries overseas to serve is the successful implementation and attainment of global business strategies (Kühlmann & Hutchings, 2010).

Nevertheless, numerous barriers of sending expatriates to host countries have changed the pictures imperceptibly. Studies (Chew, 2004; Selmer, 2004) support the incremental tendency of replacing the expatriate top managers in MNCs, such as the increasing costs for expatriates. Their strategic behaviors and decisions are affected by their cultural backgrounds (e.g., Hambrick & Mason, 1984, Ireland & Hitt, 1999, Sekiguchi & Yamao, 2010). Previous studies showed a number of disadvantages of employing expatriates and therefore they backed up the replacement actions. For example, different language using between expatriates, especially between the top managers and the local employees influence the efficiency and effectiveness of rational communication. Victor (1992) addresses the lack of language skills is a major barrier to effective cross-culture communication. The employees in MNCs consequently interact and make interpretations within their cultural and linguistic context (Von Glinow, Shapiro & Brett, 2004), and lack of a shared language is the persistent barrier to inter-cultural communication (Peltokorpi & Clausen, 2011) causing the unwelcome problems. Further, some scholars (Lee & Pennings, 2002; Yang & Hyland, 2012) emphasize that practices that are more contextualized are associated with efficiency and effectiveness and thus are adopted. In this case, local managers surpass the expatriate managers because their familiarity with the local market and business practices brings value to successful management of foreign affiliates (Harzing, 2001; Toh & DeNisi,

2005). Someone who knows the market, who acquires and shares the local values, can better manage the local subsidiaries. Certainly, sending expatriates is extremely costly because they are entitled to various benefits (Dowling, Schuler, & Welch, 1994). Literature also suggests that the local employees are generally more motivated when they recognize that there are opportunities for them to be promoted to senior management levels (Daniels & Radebaugh, 1998; Gong, 2003a).

1.4. Expatriates and the Trend for Localization in the Chinese Market

An increasing trend has shown a replacement of expatriates at hierarchical positions by local candidates. A number of scholars highlight the values of transferring management of Chinese operations to local talent (Lasserre & Ching, 1997; Selmer, 2003a, 2003b; Peterson *et al.*, 2000). Some companies have reported reductions of expatriate developments to China in response to cost-cutting programs (Grainger & Nankervis, 2001). Wong and Law (1999) points out that localization has become an important issue for Western MNCs in China and also shed light on the process through which the positions originally held by expatriates are localized (Law *et al.*, 2004). Statistical data from ¹*Chinese Entrepreneurial Network* shows the recent replacements in MNCs in 2013: a large number of the manufacturing MNCs employed Chinese executives in Mainland China. For example, the US manufacturer Caterpillar promoted their factory director in ²Xuzhou as the vice-president nation-wide and also the executive in China; John Deere announced their new Chinese chairman who was the marketing director before. Furthermore, Sandvik, Volvo Construction Equipment, as well as Atlas Copco have employed local executives to lead the companies in the Chinese market (Chinese Entrepreneurial Network, 2014, author's own translation).

¹ <http://www.gemag.com.cn>

² A city in east of China

This paper focuses on the general localization process of MNCs in Mainland China in regard to their strategies of global staffing. The study is supported with interviews to headhunters who work for the MNCs and one Japanese subsidiary which recently replaced its general manager. For an in depth exploration of the global staffing practice (e.g. Kühlmann & Hutchings, 2010), the author considers the discussion of “best fit” and “best practice” (e.g. Boxall & Purce, 2011) by theorizing with the concept of embeddedness (e.g. Granovetter 1985). In the next section, objectives will be presented and also the research questions are constructed based on the phenomena presented before.

2. Objectives and Research Questions

2.1. Objectives

My objective is to explore the implementation of the global staffing of MNCs in China as well as the growing trend of localization. The explorative study explains how the MNCs consider the social embeddedness in Mainland China, and later the interviews with headhunters and the Japanese subsidiary illustrate the implementations of “best fit” or “best practice” within embeddedness framework.

2.2. Research Questions

1. What are the reasons for the strategic global staffing practices in the Chinese subsidiaries?
2. How localization trend can be explained for the MNCs in China?
3. How do MNCs implement best fit and best practice strategies?

3. Thesis Disposition

The introduction describes the development of subsidiaries setup in China and the general situation of expatriates in the world and the specific phenomena of them in China. The objectives of the study and research questions are presented in chapter two. In chapter three,

the literature review of discussions on “best fit” and “best practice”, and the implementation of global staffing strategies in the MNCs will be shown. In the theoretical framework chapter, the concept of embeddedness is introduced and the empirical case is theoretically framed. In chapter four, I will present the research method and its rationale, the data collection process and discusses methodological problems of the research. Results are shown in the following part based on the empirical study. Lastly, the discussion of the research are presented.

4. Literature Review

In this chapter the definitions of best fit and best practice are shown, and their relation to the overall structure of the research is discussed. Different global staffing strategies are presented, and the advantages and disadvantages of the nationalities of employees are discussed.

4.1. Best practice versus Best fit

Under the rapid expansion of the global market, to some extent, the managers are struggling to meet the different requirements from different markets (Ulrich, 1998). This accelerates the leverage of the advanced knowledge and working values from the parent companies. Best practice (Boxall & Purcell, 2011), is considered to be a successful strategy because according to this approach organizations should identify and adopt what is shown to be the best for organizing work and managing people. Pfeffer (1994, 1998) furthers the best practice as a set of human resource (HR) policies that is associated with improved performance in all types of organization and, by implication, for all types of employees. In terms of implementation, best practice approach suggests to move people, ideas, products, and information around the world to meet local needs. However, even though the transferred knowledge provides the subsidiaries to guide management, from Ulrich’s (1998)

perspective it is still necessary to consider it through a rigorous discussion of “fit”, which will be discussed in the following paragraph.

The combat between “best fit” and “best practice” is ongoing, these represent two approaches on how organizations can link their HR strategy to the overall business strategy. Best practice, as mentioned above, is about the companies to provide their best (e.g., knowledge, values, talents) to support the subsidiaries in local markets, while best fit considers further on, for example, the social context issue. Boxall and Purcell (2011) explains the best fit represents the company has to adapt their strategies to the context and business strategies to gain competitive advantage. Moreover, the best fit also focuses on high performance, which means making the human capital the competitive advantage in order to gain higher performances in the local subsidiaries. The best fit approach (Schuler & Jackson, 1987; Miles & Snow, 1984) argues that performance is maximized when the adopted HR policies are consistent with the business strategy.

Both of these approaches assume that the HR policies adopted will be implemented as intended and have the same effect on all employees who work for the organization. So that better integration and implementation of both approaches are intelligent ways for organizations nowadays, and will motivate and commit employees who are the key to competitive advantage. Stavrou and Kilaniotis (2010) suggest that approaches do not have to be mutually exclusive, but taken together they can add to a business strategy by providing a more holistic perspective. Transferring and adopting the best practice from the parent company is crucial in the Chinese market, because normally the MNCs have had received success elsewhere, they have precious experiences to be successful in their fields. However, the large differences of Chinese culture and society require the sophisticated considerations of the best fit. As Ulrich (1998) states, perhaps the hardest and most important challenge facing many companies in this era of flux is changing their culture.

The best practice and best fit are complementary to each other, the best fit makes the combination of best practices from parent companies and local situation possible, which cultivates the new best practice on a local basis. Szulanski (1996) addresses the emerging transfer of best practice as one of the most important and widespread practical management issues of the second half of the 1990s. Nelson and Winter (1982); Kogut and Zander (1992), emphasize that practice refers to the organization's routinized use of knowledge and often has a tacit component, embedded partly in individual skills and partly in collaborative social arrangements. Kostova and Roth (2003) also support the statement by enhancing that even though firms will look for best fit, they will tend to adopt local understandings of best practice in order to conform to the formal rules and unwritten norms of specific institutional contexts.

Holistically use of best fit and best practice can be seen in different aspects. In strategic HRM perspective, amount of studies upon the global staffing adopt both approaches, which will be presented in the following section.

4.2. Global Staffing

Expatriation, in the field of IHRM (Kühlmann & Hutchings, 2010) has received extensive attentions. Inevitably, China has received high attentions on this issue, because of its particular strategic importance to MNCs worldwide. In particular, the large percentage of FDI that flows into China, made it one of the most popular destination for expatriate assignments (ORC, 2008). However, the diversified cultural contexts add to the difficulties of the cross-culture management, both from the expatriates' and local subsidiaries' perspectives. For the former, Steinmetz (1966) mentions intolerance to heat or dryness that could possibly affect the foreign managers not to adjust to living in foreign locales. More importantly, not able to acquire the foreign culture or working patterns could lead to the failures of expatriate work.

The latter perspective explains the specific adoption of global staffing strategies. Adjustment of the HR practices, to the local context, can be viewed as the best fit, meaning that the MNCs tend to adjust the practices under the certain situations. Dowling, Welch and Schuler (1999) categorized three alternatives that multinationals are faced with when staffing their foreign operations: the employment of expatriates/parent country nationals (PCNs), locals/host country nationals (HCNs), and third-country nationals (TCNs). Advantages and disadvantages exist in all three alternatives. For example, the PCNs are the key for transferring the knowledge from the headquarters to subsidiaries (Downes & Thoms, 2000), they have appropriate social capital, but as the negative result they lost the contacts with headquarters in the parent countries (Makela, 2007) and excessive costs will be spent on them (Harzing & Van Ruysseveldt, 2004). HCNs are important for the accumulation of local knowledge (Gong, 2003a), they can provide proper information more effectively, which is needed in the new environment that helps the subsidiary to adjusted quicker in the host country. But difficulties such as exercising effective control over the subsidiary's operation are also addressed (Harzing & Van Ruysseveldt, 2004). Whereas, the TCNs may adopt new innovations from other experiences, but they need to care very much about the sensitivity of the host countries' employees (Harzing & Van Ruysseveldt, 2004).

Therefore, how and why to choose the nationalities of their employees depend on the local needs and requirements. Thompson and Keating (2004)'s study shows the MNCs may adopt different approaches to staffing in different parts of the organization, at different times and at different stages of the international organizational life cycle. In China, specific characteristics of the local managers have been addressed. For instance, Hutchings (2005) points the local managers are embedded in a network of social relationships or ³'*Guanxi*', which makes it easier for them than expatriates to build reliable and trustful business con-

³ The unique Chinese way of saying personal relationship with others.

nections. Hailey (1996) also suggests that the Chinese employees prefer interactions with Chinese managers for reasons (e.g., a shared language, a common cultural background), in order to contribute to better worker morale and effectiveness. And the localization raise work satisfaction and organizational commitment of Chinese managers (Kühlmann & Hutchings, 2010). As a matter of fact, the Chinese managers are increasingly capable to take the responsibilities alone. Selmer (2003b) attributes this to the great investments of Chinese government in higher education that improves technical and managerial skills substantially.

Even though the expatriates taking foreign assignments show advantages, choosing local managers is a trend for certain reasons. Therefore localization have been discussed due to the massive advantages addressed by MNCs. The process of localization means that replacing the PCNs with HCNs. Xu and Shenkar (2002) confirm that large institutional distances between home country and host country can lead to high management costs for firms. By hiring local managers companies could avoid the unnecessary costs. Rapid changing of the local environment requires the managers to have concrete knowledge of the local markets, are knowledgeable of domestic information and then lead to better strategic decisions. Complexity increases uncertainty and information processing (Boyacigiller, 1990). Therefore the MNCs may seek to upgrade capabilities and competence by accessing knowledge and skills in subsidiaries by adapting to local institutions (Whitley, 2012). High performance and employee's commitment also seen as the positive consequences of proper global staffing strategies. Pfeffer (1994) and Huselid (1995) support the conception, they show the HR strategies or practices refer to the high performance staffing systems include internal staffing and employment security at all levels, while jobs need to be wide enough to provide for flexibility and adaptation. Literature (Daniels & Radebaugh, 1998; Gong,

2003a) also promote that employees are generally more motivated when they recognize that there are opportunities for them to be promoted to senior management levels.

To sum up, the choice of which talents to use is based on the local requirements and environment. A company needs to take several aspects into consideration when making the decision, such as the local environment, cultural differences, and costs. So as to find out an acceptable way to combine best fit and best practice in global staffing process. In the next section, I will present the overall theoretical framework-the concept of embeddedness in this study. Different scholars of this concept will be presented, diversified categories and approaches to embeddedness will be illustrate for the in-depth understanding of this concept. And a certain attention is paid on the social and structural embeddeness that are related to strategic global staffing implementations.

5. Theoretical Framework

Theoretically the implementation of the global staffing strategies in China is framed using the concept of embeddedness (Granovetter, 1985) to explore the strategic human resource management on a global basis with the considerations of strategies within social relations. Particularly, in order to be more clarified, strategic levels of inner-firm strategy and firm-level strategy studied by Baum and Dotton (1996) are addressed.

5.1. The Concept of Embeddedness

The concept of embeddedness illustrates that every single actor exists within relational, institutional and cultural contexts. This conception was introduced in the work of Karl Polanyi (1957), and was later revisited by Mark Granovetter (1985). The term embeddedness expresses the idea that the economy is not autonomous, but subordinated to politics, religious and social relations (Beerkens, 2004). Polanyi emphasizes that when implementing any economic actions, several terms, such as social relationships, cultural values, moral

concerns, politics, need to be considered. The main argument of Polanyi (1968) is that the substantive economy is an instituted process of interaction between man and his environment, which results in a continuous supply of want satisfying material means (p. 126).

Later, Granovetter (1985) addresses the concept of embeddedness as the on-going contextualization of economic exchange in social structures. According to Granovetter (1985), the embeddedness suggests that economic action is embedded in structures of social relations. The economy is structurally embedded in social networks that affect its functioning (Beerkens, 2004). It also stresses the role of concrete personal relations and structures of such relations in generating trust and discouraging malfeasance (Granovetter, 1985). The concept is basically used in the economy sphere in regard to actors who make decisions in the certain circumstance, such as a target market. As Duesenberry (1960, p.233) points out, “economics is all about how people make choices; sociology is all about how they don’t have any choice to make”. Both relational and structural embeddedness are property of structures in which actors that are integrated in interconnected relations of social networks face different sets of opportunities and constraints than those who do not have such connections (Granovetter, 1985). For an in-depth understanding, different categories of embeddedness and approaches to study the concept are shown next.

5.2. Categories and Approaches to Embeddedness

Embeddedness has become established in economic sociology as an approach to describing the ordering processes (Beckert, 2009), which lead to a reduction of the uncertainty and the social structuring of decisions in markets (Granovetter 1985). However, Granovetter (1985) only uses the term in a specific way to mean that economic action takes place within the network of social relations that make up the social structures. Zukin and DiMaggio (1990) widen this conception by proposing that embeddedness refers to the contingent nature of economic activity on cognition, culture, social structures, and political institutions,

which consisting of the distinguished categories of the concept. *Cognitive embeddedness* refers to “the way in which the structured regularities of mental process that limit the exercise of economic reasoning” (Zukin & DiMaggio, 1990, p. 15-16), to explore the kind of rationality required by neoclassical economic (Dequech, 2003). *Cultural embeddedness* refers to “the role of shared collective understandings in shaping economic strategies and goals” (Zukin & DiMaggio, 1990, p.17). *Social structural embeddedness* mainly with the work of Granovetter’s “contextualization of economic exchange in patterns of ongoing interpersonal relationship”(Zukin & DiMaggio, 1990, p.18). Finally, *political institutional embeddedness* means the role of social, political, and other non-market institution in shaping economic institutions and decisions (Beerkens, 2004).

Different approaches have also been addressed in market sociology. Those embeddedness approaches prioritize the different conditions within which social action takes place. First of all, the *network approach* associated particularly with the works of Mark Granovetter (1985, 2002), emphasizes the social embeddedness of market actors (Beckert, 2009). The *institutional approach*, which is associated with the work of Neil Fligstein (2001a) and Frank Dobbin (1994), primarily stresses the institutional embeddedness of market exchange (Beckert, 2009). The core of this approach lies in the matter of how business groups develop the institutional contents of their embeddedness to enhance their legitimacy and competitive position in a continuously changing institutional environment. Finally, *cultural and cognitive approach*, for example the work of DiMaggio (1994), emphasizes the meaning structures relevant in the behavior of market actors (Beckert, 2009). Dequech (2003) addresses DiMaggio’s identification of culture and cognition aspect, identifies four functions of this approach influenced by institutions, the restrictive function, cognitive function, motivational function and emotional function (p. 463-464).

The replacement action of the top managers with local talents is one of the global staffing strategies in MNCs, which could be seen as the strategy that changes along with the change of the certain context they are embedded in. So that the global staffing implementation is connected to the social and structural embeddedness in the following section to discuss the relations and affections to each other.

5.3. Global Staffing and Social Structural Embeddedness

Baum and Dutton (1996) connect embeddedness processes with strategic management, and distinguish between distinct levels of embeddedness in order to have a clarified structure for discussion. The first level is the strategy within the inter-firm context, focusing on how strategy is affected by individual behavior within the firm, such as the internal communication and information flows. The second level emphasis the firm-level strategy is related to the broader socio-cultural context in which firms are embedded. For example, how the decision have been made within the institutional context.

The network perspective is based on the notion that economic actions are influenced by the social context in which they are embedded and that actions can be influenced by the position of actors in social networks (Zafeiropoulou & Woods, 2007). Specifically speaking, embeddedness is based on the role of concrete personal relations and structural of network relations in the economic behaviors, such as decision-making processes. The major business actors make decisions based on their concrete relational exchanges. And this kind of behavior, as Granovetter (1985) argues, cannot be studied independently because they are formed by continuing social relations. It is the networks of social relations that produce the relational norms, like trust and commitment (Zafeiropoulou & Woods, 2007). Besides the statement that trust comes with the reputation which derives from previous relations and the time length of relationship development, sharing similar values, requiring that, through inter-communication, the transaction partners have developed a common under-

standing of the motives for the transaction and of goals of the exchange (Young-Ybarra & Wiersema, 1999) are also important for network functioning.

Embeddedness in the relational aspect is based on the actors with cohesive ties who can possess more common information and knowledge, so as to diminish uncertainty and focuses on the norms that are cultivated by the strong direct ties of actors in a social network (Burt, 1992; Granovetter, 1992; Gulati, 1998). This can be seen as the internal embeddedness aspect: the top managers themselves are a major strong tie with the other employees, both from the personal reputations and the intangible circumstance they created. Relational exchange is identified as the extent to which relational norms exist in a relationship between contracting actors. The relational elements of embeddedness are trust, commitment, solidarity, mutuality, flexibility, role integrity, harmonization of conflict, and restraint of power (Zafeiropoulou & Woods, 2007).

The embeddedness on structural basis emphasizes the position of an organization in the structure of the network that provides it with higher informational advantages, which builds the status and produces norms from the indirect ties (Burt, 1992; Granovetter, 1992; Gulati, 1998). These structural embeddedness as identified by Zukin and DiMaggio (1990) could explain the reasons for the radical global staffing implementations, as well as exploring the advantages and disadvantages to have local employees in charge of the business instead of the expatriates. Top managers as the core actors inside the company, play crucial roles in the inter-organization system. They are business decision makers, and they also have the capability to motivate the employees and integrate internal operational system. The central virtue of a structural embeddedness perspective lies in its ability to describe action and networks of relationships while acknowledging the motives and interests of individual actors (Granovetter, 1985). Structural embeddedness describes the overall architecture of the network. More specifically, it is defined by the presence or absence of ties,

and the boundaries of the network as a whole can be conceptualized on the basis of network closure (Wasserman & Faust, 1994). Research has also drawn significant information from analyzing the Confucian-based Asian cultures where the elements of relational and structural embeddedness prevail in economic exchanges (Mavondo & Rodrigo, 2001), like the '*Guanxi*' in China.

To conclude, the success of economic actions consider not only the interactions between the actors and their environment, but also embedded in structures of social relations. The concept of embeddedness is the on-going contextualization of economic exchange in the social structures that affect its functioning. In the following chapters, the author explores how the companies think about the global staffing strategies with the concept of embeddedness complemented by the implementations of best fit and best practice, as well as the on-going process of localization in Mainland China.

6. Methodology

In this chapter, the research method and the rationale behind its choice will be presented. Followed by the process of data collection and how I analyzed the findings. Data contents are described and a table with brief descriptions of each interviewees and additional graphic are shown as complementaries for understanding. Lastly the ethic consideration and study limitations are also addressed.

6.1. Research Method and its Rationale

Case study approach has been chosen as the research method for this study, because the the aim was to explore the reasons for MNCs about their global staffing implementations. According to Yin (2003), there are certain reasons for a case study, which include the focus of the study is to answer "how" and "why" questions. In this study, how the MNCs think of their global staffing strategies and why they made the decisions, such as replace the top

managers were the focuses. Moreover, the study was based on a circumstances of certain contexts. Yin (2003) addresses that case study is conducted when the researchers want to cover contextual conditions because there are possible relevances. The Chinese market is the major context I considered that make the case study reasonable. Similarities can be predicted among different MNCs, such as the high costs for expatriates is always a problem. As Yin (2003) says multiple-case study can be used to predict similar results or for similar reasons. There were two parts of the qualitative research process, one was the interviews with the core employees in a Japanese subsidiary in Mainland China, another was with headhunters who work for different MNCs. Qualitative research was chosen to fulfill the multiple-case study, as Zainal (2007) addresses it as a research method that researchers were becoming more concerned about the limitations of quantitative methods in providing holistic and in-depth explanations of the social and behavioral problems in question.

Semi-structured interviews with major actors in the case companies has been conducted, the interviews with headhunters were carried out in regards to further exploration of the topic. The design of the research questions focuses on the particular issues that are related to the study, and the interview question guidelines are followed the suggestion of Eriksson and Kovalainen (2008) that many qualitative interviews within business research fall into this category, which can be used to study both “what” and “how” questions (p.82). Various participants in this study provided me more information to analyze the research questions in a broader perspective. In the Japanese subsidiary, different positions of core employees were chosen, as the different identities of them presented the different relations with the company and helped me to address and interpret as many aspects as possible in my findings. Other companies that were addressed in the interviews with the head-hunters al-

lowed me to include a wider range of companies and possible localization strategies in the analysis

This study followed an explorative way to get an in-depth understanding of global staffing strategies by discussing the considerations of best fit and best practice. By doing so, I discussed how better relational and structural embeddedness between the top managers and the rest of economic actors result in higher performance both inside and outside the company. In the following parts, the data collection process is presented in detail.

6.2. Data Collection Process

Sufficient information is crucial for empirical research study. Qualitative interviews were the primary source of data. As used in scholarly research, they are research vehicles, the purpose of which is to produce empirical materials for the study in question (Eriksson & Kovalainen, 2008, p.78). To collect as much information as possible, I chose secondary data, such as articles, journals, and books. Public interview transcriptions, annual reports and published documents of case companies have been categorized and used in the empirical analysis.

The case selection became a complex two-step process. First a Japanese subsidiary was chosen as a case, because of its recent replacement of the general manager in the Chinese market. However, it appeared to be impossible to collect sufficient number of interviews, and to fix this problem, complementary interviews were conducted. The interviews with the HR manager and core managers in the business section of a Japanese subsidiary provided a micro perspective understanding of this global staffing practice, whereas a broader understanding of the localization phenomenon in China can be addressed from the interviews with other sophisticated headhunters who work for MNCs (i.e., American service company, American beverage company, German device company, Communication compa-

ny, technic company) that gave insights of the localization process in Mainland China by considering the global staffing adjustments.

Duration of each interview was between 25 minutes and 45 minutes per person. Not all of them, During the actual process of interviewing, the guidelines were not always followed in the same order as in the interview guide (see Appendix). When more interesting and related information came up , the interviewees would be guided to develop their argument on that issue. The interviewees asked me to send them the guidelines before meetings, and they were prepared for the interviews. All the interviews were conducted in Chinese, since the interviewees are Chinese nationalities. As Tsang (1998) argued that three important reasons to communicate in the respondent's language: it allows respondents to "fully express themselves"; it establishes "good rapport"; and enables the interviewer to interpret the interviewee's statement with "cultural understanding" (p.511). The interviewees felt more motivated and comfortable when taking in their mother language. During each interview, I recorded the conversations under the permission of the interviewees, additional notes have also been taken. After each interview, I transcript the audio recordings and written notes in Chinese, then translated into English with the very close meanings of the interviewees' for the further findings and analysis. All quotes in the analysis are author's (Zimei Zhou) own translations.

6.3. Data Contents

As mentioned in the above, the data was collected in two steps. The first part of interview was with the Japanese case company, three face-to face interviews have been carried out in the branch company located in Chengdu, two telephone interviews have been conducted with the group leader and section chief in the branch company located in Chongqing. In the second part of interview with the headhunters, three face-to-face interviews were carried out with headhunters who are/were in charge of the recruiting and selecting processes

for MNCs, and two more telephone interviews carried out due to the time limitation and geographical reasons. While qualitative interviews are almost exclusively conducted face-to-face (Lamnek 2010, p. 315), I opted for the telephone interviews in some cases as they mean low in cost and easier contact and procedure (Vogl, 2013). At a long distance, telephones are complementary way for the author to get informative data in a less expensive and more efficient manner.

The data had been divided into two groups (Table 1), one with the core employees in the Japanese subsidiary. The job descriptions, years of working and locations can be seen in the table. And additional human resource structure is shown with a flow figure (Figure 1). The other group is the description of headhunters in different fields of MNCs.

Number	Position	Region	Year of Working
ITV 1	Group Leader in JC	Chongqing	18
ITV 2	HR manager in JC	Chengdu	22
ITV 3	Section Chief in JC	Chengdu	20
ITV 4	Minister in JC	Chengdu	25
ITV 5	Section Chief in JC	Chongqing	Around 20
	Position	Region	Field
ITV 6	Headhunter	Chengdu	Technic & service
ITV 7	Headhunter	Beijing	Beverage
ITV 8	Headhunter	Chengdu	Appliance & Research
ITV 9	Headhunter	Chengdu	Communication
ITV 10	Headhunter	Chengdu	Technic

Table 1: Interviewee contents

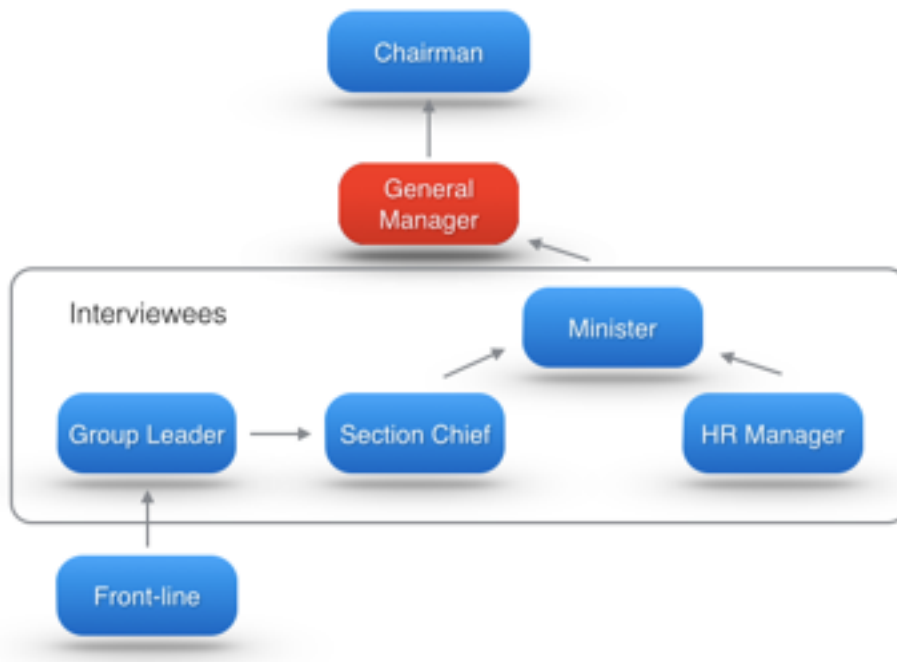


Figure 1: Human resource structure of the interviewees (Source: ITV 2 & 3)
(Hierarchical relationships as arrow flows)

6.4. Analysis Process

I chose to analyze my material using thematic analysis as described in Aronson (1995). According to Aronson (1995), thematic analysis focuses on identifiable themes and patterns of living and/or behavior (p. 3). It is suitable to be chosen, because this study aimed at the exploration on the global staffing strategies in MNCs, which means similarities are expected to be found during the interview process based on shared patterns, such as culture shock, unadaptable of expatriates. Four steps were identified as the process to conduct thematic analysis in qualitative research. First of all is to collect the data, I collected the data with multiple ways that I have already mentioned in the previous section. As Aronson (1995) argues patterns of experiences can be listed based on the transcribed conversations. In this study similarities from all the transcripts were coded and gathered from direct quotes or common ideas. Next step was to identify all data that related to the classified patterns (Aronson, 1995). For example, I addressed the themes like

“high costs”, “trust in the organization”, “network” to identify different patterns that were common in different interviews. Combining and cataloguing related patterns into sub-themes was the next step (Aronson, 1995). That meant that I added to the sub-themes to obtain a comprehensive view of the information. I reviewed the previous study and combined my findings with, for example, best fit and best practice to categorize further information. And finally, on the last step, I tried build a valid argument for choosing the themes (Aronson, 1995). The findings, the analysis and the discussion based on the previous study and theoretical framework, are presented in chapter seven and eight.

6.5. Ethical Considerations

Kvale and Brinkman (2009) distinguish four ethical guidelines, which are informed content, confidentiality, consequences, and the role of the researches. The interviews are followed the four considerations. First of all, the author contacted all the interviewees before the interviews, and explained the research purpose and aim, and guidelines for interviews to make the author more reliable. Furthermore, considering the conservatism of the Chinese, the author also adhered master program certification, the recommendation letter for master thesis. Also, the difficulty to access to the company made the author to use individual network to get in touch with them. Secondly, before each interview, the author gets the permission for recording and transcription, all the transcript texts are written and sent back to them. The author will only use them after checked and permitted by them. In addition, the names of the companies are anonymous during the whole paper by following the requirement of the respondent, and the names of each interviewee are also covered, only the positions are named. Moreover, the transcript texts and analyzed results are only used once for this study. Finally, the author is not only as a researcher, but also a guide for the interviews. The author has to be familiar with the interview guidelines and knowledgeable

for the global staffing backgrounds, so as to be more eligible during the interviews to guide the conversations.

6.6. Study Limitations

Every study has its limitations in nature. Several limitations have been addressed in my paper as well. First, for a qualitative study, validity, reliability and representativeness have a different meaning than for quantitative. The number of the interviewees is limited that might affect the validity. It is difficult to access to a company and conduct the interviews as an outsider due to company's security policy. Also, in China university students rarely write the thesis based on actual research in companies. In order to fill the gap, I collected additional materials to support the analysis, such as the published materials that are systematic and comprehensive for better understanding. Second, the study is mainly based on the subsidiaries in southwest part of China (Chongqing and Chengdu), so it might affect the validity as well due to the large geography and population in China. But it could be an aspect for other researchers to enhance in the further study. Third, only managerial employees in the Japanese subsidiary made the case limited because they could not provide enough information that I need. So that I changed my research strategies and added interviews with headhunters to my paper to make it valuable and reliable. Finally, besides the face-to-face interview, which is highly recommended for semi-structured interviews. Telephone interviews are carried out because of the long geographical distance (China and Austria & Sweden) or peak time (mid-season review for Chinese headhunters). Telephone interview may be less advantaged for the information gathering, because of the unobservable of feelings, facial expressions, and body gestures of the interviewees. However, it is the best way to conduct the interviews under several difficulties and it is quite time and financial saving for the author.

7. Results

The aim of this study was to explain the reasons for the global staffing implementation in MNCs, and the localization process in China. Even though there were different interview concentrations during the processes with the Japanese subsidiary and headhunters working for other MNCs, similarities were shown. This chapter is categorized into eight different topics, the first two are related to the internal factors for the global staffing implementation; topic three to six illustrate the considerations from companies; the last two topics are findings on the general basis about social differences and localization process in Mainland China.

7.1. High Costs and Expatriate Failure

7.1.1. High costs in the Chinese market

Both the managers in the Japanese subsidiary and headhunters mentioned the high costs that have spent on the expatriates.

“I think the first ones got failed are the FDI companies, because their costs are much higher than the domestic companies, the human resource costs, tax costs, and managerial costs are very high.” (ITV 3)

“As the expatriates in the German device company, they get additional compensations, such as rent, bonus. And now you know the currency exchange rate is fluctuating, at the moment the Chinese Yuan is more valuable than Euro compared to before. They even have the right to choose the composition of their salaries, for example 50% in Chinese Yuan and 50% in Euro. So actually they get more money than 100% in Euro.” (ITV 9)

Expatriates get additional compensations and benefits, such as house allowance in the located country or private schooling of the local language. Their salaries are based on the standards in home countries, while in the host countries the salaries for the same positions are expected much lower, which means that the costs are actually avoidable if they could hire the locals instead of transferring the expatriates to the local markets. Moreover, human resource cost is one of the huge parts consist of the whole cost for MNCs, and that

is disadvantage for the companies especially when they have numerous competitors in the certain markets.

7.1.2. Expatriate failure in the Chinese market

It is obvious that all the interviewees in the Japanese subsidiary are aware of the replacement implementation in 2013. When asking about the reasons from their point of view, almost everyone mentioned the previous Japanese managers are related to the business failures in the Chinese market.

“The previous managers are all Japanese, only until 2013 the first Chinese manager replaced them. For the previous two managers, the sales results were bad, the company experienced a great loss in the Chinese market.” (ITV 1)

“From my point of view, [.....] the most serious one is we didn’t recognize the Chinese market trend clearly. And the first one to take the responsibility supposed to be the most hierarchical leader [.....]. When the FDI analyze the reasons, they tend to find the objective reasons, this would be the biggest malpractice for enterprise managers.” (ITV 4)

Besides the high costs for the expatriates, they seems not be able to handle the local business very well. Even though the expatriates are experts in regards to the companies’ cohesive business strategies and tacit knowledge from their previous experience in certain fields, meaning that they understand what are the best practices for the companies. They still unknowledgeable to the local situations, such as the language, culture or political systems, which means they are failed to match the best fits that are embedded in the certain markets. And the non-match or mis-match are the reasons for the failure for the expatriates to take the foreign assignments.

7.2. Trust and Employment Commitment

7.2.1. Trust in the working relationship

Trust in the working relationship comes from effective internal communications. The interviewees point out that internal communication was addressed by newly appointed managers more clearly after the replacement.

“For some less competitive products, the manager will communicate with the factories directly, asks them to adjust and produce more suitable products which are in line with Chinese customers’ needs , and this activity was rarely carried out by the previous managers.” (ITV 1)

The managers who know the ways to interact with the employees affect the internal communication intensively, because they act as the strong tie inside the companies. While for the Japanese managers, it seems difficult for them to build the trust.

“In the Japanese system, you can only be a general manager around 52 years old, because you have to work from bottom to the top. Well, after 4-5 years working in China, they turn 57. Then they go back to the parent company in Japan for 1-2 years before their retirements.” (ITV 1)

Some interviewees point out the previous Japanese managers would be less solid in building the trust because of their frequent job rotation. And the high levels of rotation is also more difficult for them to get embedded in the local culture, which means they are less likely to strategically make the “best fit” plans for the markets.

7.2.2. Motivational incentives

The new announcement Chinese manager is very active to enhance the inter-firm communication. After the replacement of the general manager, the HR department collaborates his new incentives to make changes in order to motivate the sales employees.

“The manager divided our employees into front-line employees and managerial employees. For the front-line employees, they can get quarterly bonus depending on how much they finish, while the managerial employees [.....] can only get the bonus in the end of each year according to the profits the company got, which means more challenging.” (ITV 2)

The HR department mainly corporate with the new manager to adjust the policies in order to gain the high performance of the employees. I argue this as the contribution of the new manager to the best fit in the company, because he is expected to be knowledgeable about

how to motivate the local sales employees since he had experience in the Chinese market for years.

7.2.3. Employment commitment and Expectations of better performance

Almost all the managers at sales-positions talked about their willingnesses to perform better. The interviewees in the Japanese subsidiary worked for the company for years (e.g. HR manager for 22 years; section chief for 18 years), even the HR manager was rotated from a saleswoman to the HR manager during the internal promotion process.

“From my perspective, I would like to see the Chinese manager to perform much better than the managers before. At least he knows better about our customers, our markets and our employees.” (ITV 3)

“A Chinese manager took over the Chinese market means a lot to the new comers, but for me maybe different. What I understood the promotion is not about how much salary increase, it is actually about did you gain your professional abilities? Will you be much better to manager your team and your work. If I didn't contain those abilities, it worth nothing to put me in that position.” (ITV 4)

The promotion of the Chinese manager seems motivated the other managers to perform better, as there are opportunities for them to be in that position as well. This can be also seen as the role of strong tie the new manager acts, that to promote the internal employment commitments and high performances. This can be also seen as the rising level of trust in the companies.

7.2.4. Common information and knowledge

Over half of the interviewees confirmed that the manager's shared knowledge of the Chinese market is the great advantage for him to lead the company to a better situation. Because he knows better about the market and what to do and how to have the work done.

“He was the minister in Guangdong, and Guangdong is always a large market in China. He understands our market and personally I think he is a remarkable colleague.” (ITV 4)

“At least he knows better about our customers, our markets and our employees. [.....] he knows it clearly about what promotion activities we need and what supports we need for the activities. [.....]. For the communicating with the employees maybe because of the language and cultural background, at least everyone understands.” (ITV 3)

The Chinese manager has worked from bottom to top (ITV 3) in the company, when he was in charge of the Guangdong market. During his 20 years in working, he acquired the industry and the market, such as the necessities to the sales department to promote their products, this is also the best fit the Chinese manager could contribute to. Headhunter of the America service company supports the importance of shared knowledge of the market. She thinks the lack of the local knowledge of the expatriates made them less attractive for the MNCs.

“⁴GDC prefer the Chinese and Indians employees, because they are excellent at the technical skills with comparably lower labor costs. And ⁵GBS would prefer hiring Chinese and ⁶ABC. Actually, the company shows little interests on the expatriates in this case, because the expatriates won’t be able to acquire the Chinese situation in a short time, and it will affect the quality of consultant services.” (ITV 6)

The MNCs concern not only about the personal business abilities, but more importantly, about the familiarities the employees acquire in regards to the certain market. Especially when facing with the Chinese market that seems quite different with the European markets, the capabilities that specially for Chinese market are highly required, which make the local talents more valuable and competitive.

⁴ Global Deliver Center

⁵ Global Business Service

⁶ America born Chinese; or a border meaning of people who have received western education

7.3. Network and Social Relations

Network of the Chinese manager has been addressed as the important factor for him to be entitled at this position. This phenomenon requires a person with concrete knowledge and understanding of the industry in the Chinese market to deal with it.

“I think the replacement action is a necessary change along with the change of the market. In the transforming time, a leader must have resources and capabilities to handle this. [.....] He must have the network that he suppose to have after years of working, which I think the Japanese manager would not able to surpass.” (ITV 5)

The strong network of the top manager, for example, the relationships with the distributors or with the government, require a long time to stabilize. As mentioned before, the frequent rotation or the unfamiliarity to the market make the expatriates difficult to build or retain the network. Some headhunters though the relations in the certain markets help the companies, for instance, to share the market.

“I think the rising competition in the market is a major factor. Communication industry is related to department of Jointed Communication. The department will host the business bidding every year, and all the communication companies have to run for the bidding. So your relations are very important to help get more share. [.....] The share you got affects your business and profits, which lead to the layoffs or business reduce if your share couldn't support your costs.” (ITV 9)

Not only the MNCs in China think about the relations with local operation departments, the Chinese companies emerging to the other market also cares.

“Because nowadays all the business are tend to international. [.....] a Chinese company, like HUAWEI, emerged to other markets all over the world. They need to corporate with locals as well. For example, they need to expand their business in South Africa, then a local people who understand the local demands and capable to assess to the local operators would be necessary.” (ITV 9)

In addition, for training program, the company provides not only the general professional trainings, such as the corporation values or managerial skills, but also a way to help building the necessary network.

“I go to Peking University for the managerial trainings on weekends. For me, I don’t think it is the main point to learn a lot from the teachers, but to meet up with the people there. Normally you need to meet the requirements then you can attend the trainings, such as how many years of working experience, what kind of positions you are in [.....]. You know the people there and build the personal relationships for yourself, and we will exchange the network resource somehow in the business when necessary.” (ITV 4).

On one hand, best fit can be addressed because the MNCs would like to promote their managerial employees to build their networks in diversified ways, meaning that structurally embedded in the target market. On the other hand, the local talents are more powerful and competitive along with the diversified training program they attend to, which make them responsible and capable enough to take over the business assignments alone.

7.4. Relations with HQ in Parent Company

Apparently, the disadvantages of the replacement can be seen as the misunderstanding and difficulties to communicate with parent company, also shows that the different culture would lead to unwelcome consequences.

“But as a FDI, the major decision makers are all in Japan, in the parent company. Sometimes, when the Chinese manager go to Japan and propose some ideas and proposals, even though those must be good for Chinese market, not all of them will be permitted. I don’t think the Chinese manager working in a FDI is an easy job, the differences of thoughts, culture, locations still have some influences.” (ITV 1).

“For a Chinese manager, it won’t be that much convenient, especially when asking for resources and provides. Nevertheless, this is a FDI company supported by Japan, sometimes when promote new strategies, design new products and ask for resources, Chinese managers could be in an awkward situation.” (ITV 2)

As many other MNCs, the top positions in the host countries have normally been taken by the expatriates from parent companies, because it will be easier for them to communicate with headquarters since they speak the same language and share the same value. More importantly, this could be seen as the best practices that the parent company consider, they

prefer to control in hierarchical level and keep the subsidiaries in line with the business value of the parent companies.

7.5. Indirect Influence and Reputation

A general manager in MNCs in China could also positively affect the image of the public, in the Japanese subsidiary, I noticed that in the same year with his announcement, there was an aggressive conflicts in China that against Japan, which could also be a reason for the staffing adjustment.

“In 2013, because of the conflicts, I can say that every Japanese enterprise slowed down the investments in the Chinese markets. In Chongqing, there were some unthinkable actions, for example, the overheated patrols destroyed the Japanese brand cars parked along the road side without any reasons, just because the cars are Japanese. And it leaded some Japanese supermarkets to temporary closure. [.....] At least, in the risk management aspect, I think a Chinese image in a Japanese enterprise would has some positive help.” (ITV 5)

A Chinese manager in charge of a foreign company in the Chinese market is builds a positive image of the company. And again, his network could be helpful in this case, for example, the good relationship with the government or other actors make it easier for them get through difficulties in the risk management aspect.

7.6. Knowledge Leverage and Transfer

Company like the German device company focuses on the business development in the future, opened up its factory and research center in Chengdu two years ago, in which 50% of the mechanic and managerial employees are transferred from Germany.

“It is necessary, because Chengdu is a new place to explore, they cannot just let it go directly by local people. So they need amount of expatriates to help developing, but they targeting that in 10 years they will dramatically reduce the number of German employees both in mechanism and management.” (ITV 6).

In the Japanese subsidiary, trainings are also their strategies for localization policies, not only the general trainings from the parent company but also the trainings corporate with local institutions are conducted.

“The localization strategies contain working with Japanese managerial employees, attending several kinds of training. [.....] In our parent company, there is an education center, every year, the employees above section chief will go there and complete the certain studies and trainings. [.....] We also corporate with Peking University, the employees above Minister will go to Beijing for courses, which is a bit like MBA [.....]. Another way is the job rotation, the high level of managerial talents will be rotated to the headquarters in Beijing, taking the responsibility of important positions.” (ITV 2).

Taking trainings as the major approach to leverage and cultivate talents are popular in MNCs. Sometimes it is two-way approach, both the locals and the expatriates have the opportunity to be trained in other countries.

“The German device company is more likely to promote its training program abroad, they have the project to send Chinese employees to Germany to attend the trainings. At the same time, German employees will be sent to China as well for the trainings. For example, they will send 10 Chinese employees to Germany for 3 month to half a year training. And they encourage Chinese and German employees to keep close touch with each other.” (ITV 8)

Transferring of knowledge and leveraging of the best practices are ways to ensure the Chinese subsidiaries are working on the right track. In doing so, carrying out training programs is the common way for MNCs to leverage and localize their knowledge and values to the host countries. This enables the local talents to be more capable and responsible to work independently.

7.7. Differences in the Chinese Market

All the interviewees in the Japanese subsidiary mentioned the unregulated market for home appliance industry made it even more difficult to do the business in China. The increasing competitions and unregulated Chinese market forced the company to adjust their strategies, in order to be more in line with the customer’s needs.

“In the Chinese market, a lot of enterprises would have requirements and targets annually, which lead to the totally oversupply for the home appliance, including refrigerator, wash machine, air conditioner, etc. Normally, if the oversupply situations continually existed, some enterprises will give up the products, but they don’t [.....], and In China, there is no such an institution like OPC that allows all the enterprises to sit down together and make an agreement for the quantity and price of each products.” (ITV 3).

“The German device company will set up its research center in China, [.....] that could be more benefit for itself in regards to train talents and understand the local requirements.” (ITV 8)

Chinese customers are not loyal to specific brands, they are used to choose from multiple options. *“[.....] the Japanese citizens prefer their own products, they are proud of and believe in their own products. While the Chinese are more likely to choose the imported products and compare one with another all the time.” (ITV 5).* Moreover, the unregulated market environment raise the difficulties for MNCs. *“In China, there is no so-called such a business management and control, even though we have some policies, but everyone has their own ways to deal with it.” (ITV 5).* In addition, the government-owned enterprises are prevalent in China, which could make the MNCs more challenging. *“But in China, the situation is a lot of the enterprises are corporate or even ran by the government. For instance, Changhong is a company ran by ⁷Mianyang government, they will never ever make the enterprise to suffer such a loss.” (ITV 5)*

7.8. Localization Strategies

During the interviewing process, all the companies seem to have their own strategies to be localized in China. Some of them started localizing when they first come to China, some of them adjust their strategies to be more localized with the business development in the Chinese market.

“[.....] the American service company is mutual to do the localization. They have a theory called “long stool”, means they believe that at least 5 capable candidates

⁷ A city in southwest of China

have to be addressed for one position, like playing football, the stool must be crowded with players for unexpected replacement.” (ITV 6)

The capable candidates here mean the potential Chinese employees that are expected to take over the job from the expatriates. So that the companies have already prepare to train the local talents and let them to take the responsibilities. Companies that are completely depend on their customers would like to give more autonomy to the local subsidiaries. And the high degree of autonomy can be seen from both the way to run the business in China and control methods for the subsidiaries.

“Only very high positions are full of expatriates. [.....] In the Chinese market, the American beverage company corporates with three local companies to make the whole market under cover. [.....] The headquarter takes investment method as a way to control the sub-corporations, and proper division of equity [.....] ⁸SGP will hire outside auditor to assess the sub-corporations and factories every two years, including HR, suppliers, environment, etc. [.....] he will go to the factory to do the observations, ask random questions, check the environment, employment policies, etc. Three levels of assessment he will use in the end: green, yellow and red. Green means fine, yellow requires improvement in the future, while red leads to direct closure of the factory.” (ITV 7).

Reasons for the localization strategies are tend to be similar for MNCs, in general with the cost factors because lower the compulsory costs like rent, human resource costs are basic strategy for all the MNCs nowadays (ITV 10); development factors, such as the company need to think about customer’s need (ITV 8); and culture factors, like the training programs along with parent company values and specific trainings in related to the certain market. The same ways of thinking (ITV 7) was addressed that can be achieved from the increasingly level of ability that the local talents gain from educations and trainings. These are the long-term beneficial strategies for MNCs.

⁸ Supply Guide’s Principle

8. Discussion

In this chapter I present the discussion by using embeddedness theory, which has been divided into inner-firm embeddedness and firm-level embeddedness combined with the findings. Further the discussion around localization in MNCs in mainland China is explored.

8.1. Inner-firm Embeddedness

8.1.1 Effectiveness in the Organization

Studies showed that people from the same cultural background, for example from the same country and speak the same language, tend to be more efficient on communication. George *et al* (1998) have studied that the cultural values influence linguistic styles in communication. And Kim and Gudykunst (1988) address that culture also influent how individuals understand messages, the meanings they have for their messages, and the conditions under which messages may or may not be sent, noticed and interpreted. From the interviews conducted in the Japanese subsidiary, more direct communications in regards to the business strategies are shown. The Chinese manager acts as the direct strong tie in the organization to improve the internal commitment with employees, which enhance the commitment of the employees by performing better. Moreover, the tacit knowledge of the Chinese manager about the Chinese market and personal interactions with the other business partners help significantly in the business section, which also consequently enhances the passions of employees because they tend to trust in a manager who knows what they are doing and how they could have the work done.

Effectiveness inside corporations can also be addressed as the high employee commitment, which can be seen as the competitive advantages for the company especially during the competitive time. And a proper incentives or regulations issued by the manager who know about how to motive the employees would be much helpful. As Huselid (1995) has found in

his study those organizations that link HRM practices to strategy report higher financial performance outcomes. Besides the higher performance, retaining the experienced employees is another advantage as they are experienced in this work field as the new motivational incentives keep the experienced workers during hard time. Guest (1997) addresses the more of the high performance HRM practices that are used, the better the performance as indicated by productivity, labor turnover or financial indicators. As the HR manager described, the front-line employees will get the quarterly bonus if they finished the target without counting the actual benefits. While for the managerial employees (section chief and above), bonus is linked to benefits, which encourages them to innovate the managerial skills as well.

8.1.2. Trust in the Organization

Putting Chinese managers in a core positions can be a real advantage, as the study of Björkman and Lu (1999) shows: a local manager has a better understanding of the local environment. Knowledgeable about how to encourage the local employees leads to the high motivation of them and can be seen as the best fit along with the local HR situation, further results in better performances. For instance,⁹*China Intellectual Property* reported that the Japanese company has more than 300,000 employees worldwide. Nearly one third of their workforce is located in China, which intensively requires a person who knows about the local employees to make the proper decisions. Besides, career planning is seen as a way to retain core employees and a method to enhance the trust between the core employees and the company. Most MNCs now emphasize internal promotions rather than external recruitment to create career growth for their Chinese employees (Björkman & Lu, 1999) that could also encourage the local talents to take the responsibility alone.

⁹ <http://www.chinaipmagazine.com>

The differences in culture, labor market, and employment systems between China and other countries create challenges for MNCs attracting and maintain qualified staff in Chinese market (Björkman & Lu, 1999; Wu, 2008). So that hiring local talents in the local market could be wise choice for the MNCs as China is the emerging market for majority of MNCs, emerging competitions could be raised aggressively. More authority given to the divisions could be seen as the trust to the local employees in subsidiaries, especially when the companies try to shift their business focuses. Awareness of the customer's need would be the key to win, which requires a manager who knows the market better, and as one of the targeted markets, China need more local insights.

8.1.3. Knowledge transfer and Training program

Knowledge transferring and trainings are quite important in the study. As from the analysis, MNCs try to develop local staff to run the training programs and teach the courses in Chinese language, using a combination of Western and traditional Chinese teaching methods. And they have also built up partnerships with local universities (Björkman & Lu, 1999). The German device company provide two-way trainings for local talents and expatriates. The Japanese company sees the organization as a means of strengthening the company's presence outside Japan, particularly in emerging markets, through the transfer of marketing expertise, funding of local branding activities, and promotion of local product development in cooperation with regional headquarters (Wakayama, Shintaku & Amano, 2012, p. 113). The American service company promote its "long stool" to train and retain the target candidates. MNCs offer numerous training program both locally and internationally, which could be seen as the combination of the best fit and best practice. To be more specific, the trainings from the parent company regarding working values, languages, etc., are the best practice through years' practicing. Corporations with local institution about current economy situation, domestic trend, etc., are the best fit that are in line with

the certain circumstance. As from the interviews, cognitive and cultural embeddedness is shown in the regular trainings.

With the process of localization, I identify the role of the parent company as becoming a weak tie in regards to the Chinese market. In a way, they prefer leveraging values and standard working patterns to ensure the Chinese market connected in the global network that is in line with the international standard, while at the same time, give more autonomy to them for actual operating. Indeed, they found a way to ensure that deeper localization invited greater worldwide integration, which in turn enabled even more localization.

Above all, the proper global staffing, in particular, the localized human resource strategy could influence the effectiveness inside the corporations. More direct communication and higher performance can be addressed from it. Trainings from the parent company and local institutions are the combination of the best practice and best fit. In the following part firm-level embeddedness will be discussed.

8.2. Firm-level embeddedness

8.2.1. Autonomy and Customer's needs

Not only the trust between Chinese manager and the local employees is shown, but also the trust from the parent company to the very core person exists. Wakayama, Shintaku and Amano (2012) emphasize the higher levels of trust, actually altered the balance of authority, and China operations were given increased autonomy, a rarity among multinationals in general and Japanese companies in particular (p. 112). For instance, an American beverage company is only in charge of the investments and controls the subsidiaries with outside auditing. Under the pressure of increasing competition, customer's demands are surpass the products themselves to be the first on the list to be considered. Somehow, more autonomy should be given to the local employees who are closer to the market. In a way, knowl-

edgeable employees in regard to the customers and market are highly required. For instance, China has been chosen as one of the strategic regions (i.e.. Asia, China, the Middle East and Africa) of the “business-focused approach.” Also, in working toward growth, management strategies would incorporate a “region-focused standpoint” in order to get closer to customers. Wakayama, Shintaku and Amano (2012) comment on the strategy that through its efforts in the Chinese market, the company learned to bridge two strategies that are often seen as mutually exclusive: on the one hand, finding competitive advantage through expertise in integrated, worldwide operations, and on the other, focusing locally to meet consumers’ particular needs (p. 110). From the HR perspective, the general manager is acting as the direct strong tie to promote the strategy in China by using his concrete knowledge of the domestic market.

8.2.2. Differences between the Chinese market and home markets

It is noticeable that only the best practice, like the previous understandings of business environment, or the solid experiences may not function well in the certain market, like China. The companies hardly understand what the customers really need because the Chinese customers are not loyal to any kind of products, but low prices. The unregulated market environment in China is another barrel for all the MNCs. Meanwhile, there are incitement numbers of international and domestic companies produce and sell similar products that add to the competitions in the market. With the facts that the domestic products keep improving the quality and innovating products, and even some of them are owned by the government. I argue the overall phenomena about the unfamiliar situations between the Chinese market and parent market would lead to the adjustment of global staffing strategies, for instance the general manager replacement. In addition, indirect influences of the general manager could be seen from the image for the company, like the Chinese manager may work well in the risk manager in 2013 during the conflicts period.

8.2.3. Network relations

Doing business in China is different and difficult for MNCs. Because it is a relationship-based society (Nardon & Steers, 2006), needs to take personal relationship, or more precisely '*Guanxi*' into consideration. MNCs tend to use the local talents as they know the proper ways to do the business in China. Expatriates may not be able to gain the special relationships because '*Guanxi*' needs time to build and retain. Davies *et al* (1995) see '*Guanxi*' as the lifeblood of the Chinese business community, extending into politics and society, without which one simply cannot get anything done. Because MNCs cannot beat the domestic companies ran by local government or someone with special contacts with the government in China. The government-owned companies provide not only the taxes, but also a positive image for the core person, which the MNCs cannot reach. As Dunfee and Warrant (2001, p.2) pointed that the core idea of '*Guanxi*' involves relationships between or among individuals creating obligations for the continued exchange of favors. Warner (2012) emphasizes the interpersonal relationship is more important because many things need to be done through informal networks, such as the network during training program. Under this pressure, MNCs are on the progress of adjusting their global staffing strategies.

8.3. Localization Strategies and Embeddedness

Localization is a trend for majority of the MNCs as long as they intend to be successful in the Chinese market, and from my opinion, it is also a common efficient way of being embedded in the local contexts. Localization of HRM has hence emerged as the times require (Wu, 2008) to overcome the difficulties (e.g., emerging the Chinese market) and reduce the cost (e.g., lower labor costs, convenient tax policies). Nevertheless, the methods to be embedded can be various, for instance, Siemens set up its representative office in Beijing in 1982 (Fryxell, Butler, & Choi 2004); Coca Cola operated a wholly foreign-owned enterprise that produced beverage concentrate in Shanghai and is direct joint-venture partner

in a similar facility in Tianjin (Weisert, 2001). Localization means that training the local people to take the responsibilities on their own. It is important because in MNCs, conflicts are also affected by cultural differences as individuals may have very different approaches to conflict resolution (Törnroos *et al*, 1993). While the cultural differences (Pahlberg, 1995) may become one of the most crucial problems for expatriates, and is thus a main factor causing friction between parties in MNCs as cultural differences may lead to a communication gap. Further conflicts may be produced by a company's failure to understand the key role of particular resources in establishing competitive advantage (Barney, 1991; Barney & Delwyn, 2007, Piotti, 2012). In this part, various reasons of localization and different strategies are presented and discussed.

8.3.1. Cost considerations

The compensation and benefits for transferred expatriates are expected much higher than the local employees. It is reported that the expatriate compensation packages are typically much costly than the locals (Wu, 2008). For example, an expatriate manager in China typically receives at least three times more than a local manager in total salary and benefits, including hardship allowances and other perquisites (Wong & Law, 1999). In a way, through localizing the human capitals save the MNCs money. And China provides a very low cost structure for MNCs (Wu, 1996). The Japanese company is being in a difficult time thus lowering the human capital costs could be its way to make it through. The German device company set up its largest research center in southwest of China to hire the qualified talents with lower costs. The Danish logistic company set up its Asia auditing center in Chengdu, which is the biggest financial department because of the lower labor and rental cost (Source: ITV 6). In addition, besides the lower labor cost and rent, tax incentives are also available for some foreign investors (Yang & An, 1998), such as corporate with Chinese companies could enjoy the preferential policies for foreign companies.

8.3.2. Development considerations

As mentioned before, China is a large potential market along with the tremendous purchasing ability of the large population. Numerous MNCs and domestic companies are searching the opportunities to expand their business to gain more profits. In a way, the products or services must be in line with the customers' needs. While, inefficiencies in studying the market and addressing the market demands may be generated by "environmental" constraints from, for instance, institutional and political contexts (Brink, 2004; Dunning, 1993; Fagre & Wells, 1982; Poynter, 1982, Piotti, 2012). The importance of understanding the Chinese customer demands makes the local employees more outstanding, because they share the same social values and ways of corporation in the certain market. One example is the American service company, who set up in China in the year of 1992. They tend to use the local talents to manage the local teams and in charge of local markets, because they believe in them would be much better than the "outsiders". And the new research center of the German device company is not only out of cost-effective consideration, but also a way to embed the research and development projects into the local contexts and the customer demands.

8.3.3. Culture and Trust consideration

Mead (1998) and Porta *et al* (1997) support the positive effects of trust relationship in the business operating could improve the cooperation and decision-making process inside organization. Three type of trust identified by Shapiro *et al* (1992) the calculative trust which is the basic trust for employees, knowledge-based true and identification trust that need be developed over time and require both parties to gain enough information about each other. Expatriates who work only shortly in the Chinese subsidiary or lack of the knowledge of the market could have less trust from colleagues and business partners. The longer employees work with each other, the more knowledge they will gain from their partners. Agar (1994) furthers that language carries with it patterns of seeing, knowing, talking and acting. Not

patterns that imprison you, but patterns that make the easiest trails for thought and perception and action (p.71). Different culture values can be identified and understood over time and the chance to have misunderstanding or conflict during work time has been decreased. The local managers acquire the knowledge about the social contexts and more importantly, the ways of doing business in this certain circumstance can be the real advantage for them.

Localization strategy as the global staffing implementation becomes increasingly important for MNCs in the Chinese market. Besides the reasons discussed above, the even narrowing gap between best fit and best practice in the Chinese market also helps. Specifically speaking, the MNCs found the disadvantages of the expatriates and tend to hire more local talents as the preconditions, and at the same time, provide their valuable trainings to the local talents that help them to level up and narrow the gap with expatriates. Additionally, the local talents are more skillful and capable because of the even advanced educations in China and numerous trainings received, also, they know better about the local market and how to gain the networks in this system. Both best practice and best fit are vital for the success in China, however, it is hard to say which one is overwhelming because even though the local contexts and proper ways of doing business are the crucial factors for the success, the headquarters still hold all the resources on hand.

To conclude, MNCs prefer making most use of the local employees to understand and promote the business in the host countries, because they can be trusted with concrete understanding of the market and employees, which is the best fit. They see the market in an embedded way into the local society and context. However, in order to make sure the subsidiary is in line with the working values, cognitive and cultural embeddedness, such as trainings of corporation values, tacit knowledge transferring is crucial as the best practice (Figure 2). Embeddedness is an important concept because it is not only about networks or

knowledge, but also because it is about the whole society with its different institutions and domains.

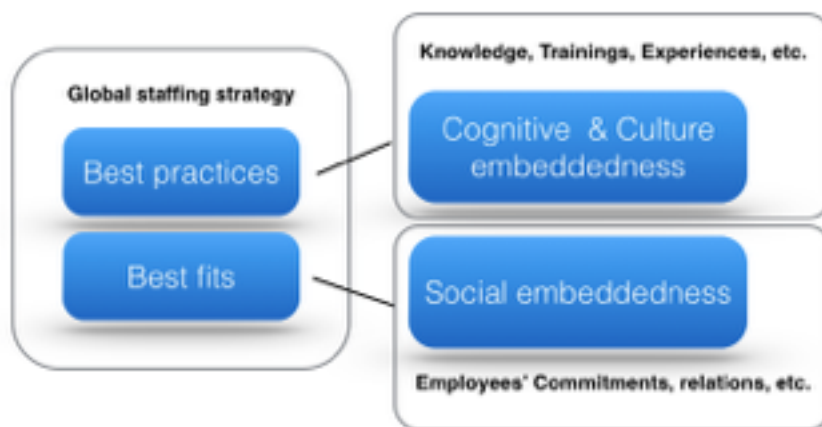


Figure 2 : Implementations of “best practices” and “best fits” with the embeddedness theories

9. Conclusion

Employment localization is the final purpose for majority of MNCs. Some companies tend to train the local talents in person by transferring the expatriates for a certain period of time. By doing so, the best practice from the tutors and the best fit with the local employees' knowledge could be combined and made most use of. There are also companies chose to give a large extent of autonomy to the host countries. By that mean, the Chinese HR department have the authority to choose the most proper ways to manage people in China, such as the compensation and benefits, the enroll and deposition, etc. High level of autonomy does not mean an absolute freedom, as for the control from headquarter, annually auditing is the way to control them. MNCs adopt standardization of HRM in infancy, which believed coherence strategy and coordinate practice can lead to operational effectiveness and efficiency (McGraw & Harley, 2003). However, they met difficulties after the international dimension becoming more and more popular as a result of changes in operating environment and structures (Wu, 2008). Lowering the cost is their intention to set up

business in China, while as the growth of Chinese market and increasing customer needs, MNCs become concentrate on the further development in China because of the large potential beneficial market. Localization can be seen as the most common way of being embedded. Different social contexts and ways of doing business are fundamental reasons for MNCs to take the embeddedness issue into consideration. China, nowadays is not only a place offers cost-effective labors, but also a place help MNCs to get further developments. Best practice and best fit shown indispensable in this study, best practice, such as the trainings, knowledge transfers are methods for the overall control and guidance of parent company, while best fit are the actual operations which are embedded in the local contexts.

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12. Appendix

Guideline of semi-structured interview in Japanese subsidiary

1. What is your position in this company? What are your major responsibilities?
2. Have you heard of the amendments in 2013 in the company? Can you give me some examples?
3. Do you know about the executive replacement in 2013? Can you tell me more about it?
4. What do you think the reasons for the replacement?
5. Do the company prepare for it for a long time? What kind of preparations are these?
6. How would you describe both advantages and disadvantages?
7. What do you think of the advantages and disadvantages of the local managers? How about the expatriate managers?
8. Does the implementation impact on you? Can you describe the influences?
9. From your point of view, what kind of consequences for the company after the replacement?
10. Do you have any changes in HRM strategies after the replacement? (For HR department)

Guideline for headhunters

1. Which international companies do you work for?
2. What kind of qualities do the companies need?
3. How do you think about the expatriates working in China?
4. Do you know about the localization strategies for this company when hiring?
5. How do you think about localization trend in China?
6. If there was a trend, why do you think it is important? (What factor?)
7. To what extent, do you think they connect best fit and best practices? (e.g. International experience and the understanding of the local business)