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The retention of Chinese managers: The Chinese puzzle box[☆]



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Chinese Puzzle Box: a box that can only be opened through some obscure or complicated series of manipulations. Some puzzle boxes may require only a simple squeeze in the right spot, whereas others may require the subtle movement of several small parts, to open the box.

ENTERING THE FORBIDDEN CITY: RETENTION OF CHINESE MANAGERS IN CHINA

Once entering an emerging market like China, foreign multinational enterprises (hereafter MNEs) are confronted with fierce competition almost in every key functional area, including marketing, production and supply chains, finance, human resources and information technology. Yet there is one area where many Western managers do not anticipate facing keen competition and that is in the area of staffing positions. Recent surveys consistently indicate that competition for local Chinese talent is most intense. MNEs in China, such as Yum Brands, Starbucks and Caterpillar, now consider retention of local talent critical to maintain an effective, functional and competitive leadership pipeline. It is the number one priority, followed by increase in market share, innovation in product and services, and so on. Our paper analyze why retention of local Chinese talent is the major challenge MNEs must address to survive and succeed in the booming Chinese market. We start with a review of staffing policies and staffing trends in MNEs in China, and then explain the war for local talent in China. Finally, we discuss three major strategic approaches to retaining local talent in China.

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MNE POTENTIAL STAFFING POLICY: A 'BLIND' MAN'S PERSPECTIVE

Entering a new country market, an MNE has to think about what kinds of people it should select and employ for management positions of its affiliates in the host country. Should it select parent country nationals and bring them to the host country? Should it recruit locals in the host country? Should it select and recruit the best people regardless of their nationalities? Obviously, the answers to these questions bear a significant impact on staffing strategies.

MNEs may take a number of staffing strategies, but three of them are most important: ethnocentric, polycentric, and geocentric. Ethnocentric staffing is a strategy in which all key management positions are filled by parent country nationals. This strategy was widespread in MNEs all over the world at one time and was adopted by Procter & Gamble, Philips and PepsiCo, among others. The ethnocentric staffing strategy is often adopted when there are few host country managers who are qualified for senior management positions, or when MNEs want to maintain a unified corporate culture through the home country nationals, or when MNEs intend to use the home country nationals to transfer core competencies to a foreign affiliate.

The ethnocentric staffing strategy suffers from a number of drawbacks. It tends to lead to cultural myopia, that is, management's failure to understand the host country culture and environment. Differences in consumer preference and marketing practice remain in the globalization process. It takes time for expatriate managers to understand these differences and learn how to deal with them. During the long learning process, they could make mistakes that might have fatal impact on the company. Furthermore, it leaves host country nationals no opportunities for career advancement within the company, and thus causes resentment from them. In Philips, for instance, Dutch nationals used to hold all

key management positions in almost all foreign affiliates and were called cynically the “Dutch mafia” by non-Dutch employees. Moreover, it is very costly, since expatriate managers are normally paid much more than their local counterparts because of relocation subsidies.

In polycentric staffing, parent country nationals fill senior management positions at the corporate headquarters at home, but host country nationals are hired for senior management positions in the affiliates located in the host country. This is the staffing strategy of Yum Brands. Polycentric staffing can help resolve the problem of cultural myopia because host country nationals know much better than parent country nationals about how an affiliate should be run in the particular business environment of the host country. Polycentric staffing can also help resolve the problem of a high cost structure, because host country nationals are normally paid less than expatriates and they do not need relocation subsidies. Furthermore, polycentric staffing provides opportunities for host country nationals to move to senior management positions in the affiliates, and thus can alleviate resentments from local employees.

The polycentric staffing strategy also has some weaknesses. The most outstanding problem is a possible divide between the host country management team and the parent country management team. Owing to differences in cultural traditions and national loyalties, there may emerge a gap between the two groups of managers. A lack of integration between corporate headquarters and foreign affiliates can ensue. As a result, an MNE may become a *de facto* federation in the sense that its foreign affiliates become little kingdoms, with only nominal links to the corporate headquarters. The formation of the little kingdoms makes it very difficult for the MNE to function effectively and efficiently. Another weakness is that local managers have no chance to move beyond management positions within the affiliates located in the host country, which may lead to resentment. MNEs such as Unilever and Wampfler faced challenges in international expansion adopting this staffing strategy.

In geocentric staffing, by contrast, an MNE selects and recruits the best people, regardless of their nationality, for key management positions throughout the corporation, headquarters and affiliate. Geocentric staffing strategy can best resolve the resentment problem in both ethnocentric staffing and polycentric staffing. As the most talented locals are very likely employed in key positions in foreign affiliates, it can also overcome the cultural myopia problem in ethnocentric staffing. Because the management teams in both parent headquarters and foreign affiliates are not divided by nationality, the problem of lack of integration between headquarters and affiliates in polycentric staffing is migrated. Under the geocentric staffing strategy, an MNE can make use of the best human resources available both at home and in the host country. It can build up a pool of senior managers who can work internationally. In theory, therefore, geocentric staffing appears to be the most appropriate staffing strategy that an MNE can adopt, as evidenced in Molex.

The adoption of the geocentric staffing strategy is, however, restricted by protectionism that prevails in the labor market in most countries in the world. Many countries, including the U.S., the U.K., Canada and Australia, issue immigration regulations requiring foreign affiliates to hire their citizens in the first instance. If foreign affiliates want to

hire citizens of other nationalities to fill certain positions, they have to prove that there are no qualified locals for these positions. The process of provision of relevant documents is often so long and troublesome that MNEs have to abandon the idea. In addition, the strategy often requires a standardized compensation scheme throughout an MNE and a standardized relocation subsidy scheme across all countries where it has affiliates, which adds to the cost structure of the MNE.

There are both advantages and disadvantages, though to different degrees, in each of the three staffing strategies that an MNE may adopt when it operates in overseas markets. Because the ethnocentric staffing strategy is most problematic, it has become less and less popular among MNEs in recent years. As there are drawbacks and limitations in both polycentric staffing and geocentric staffing, very few MNEs adopt either of the two staffing strategies in its pure form. In practice, they tend to adopt a mixed approach to staffing to avoid the drawbacks of individual staffing strategies and combine the strengths of them. No matter what kind of mixed staffing approach an MNE may adopt, staffing localization appears to be inevitable. The question is not whether or not to localize managerial staff, but how and to what extent to do so. In the case of China, the most practical challenges faced by MNEs in staffing are localization, localization and localization.

DEVELOPING A LOCALIZATION OF STAFFING OF MNEs IN CHINA: THE ART OF WAR

In the 1980s, when MNEs first moved to China, most of them adopted an ethnocentric staffing strategy, filling all key management positions with parent country nationals. The adoption of the ethnocentric staffing strategy was then justified by the fact that there were few, if any, local Chinese qualified for senior management jobs. Formal management education, such as M.B.A. programs, did not start in China until the early 1990s, and lack of qualified local managers was a nationwide phenomenon. Due to the relatively low level of intense competition for talented senior managers in China at that time, the high cost structure of ethnocentric staffing had not yet posed a severe challenge to MNEs operating in China.

To overcome the cultural myopia in a country where qualified local managers were not available, some MNEs worked out an ingenious approach to staffing. The hiring of talented overseas Chinese for senior management positions in their affiliates in China was started. IBM hired, for example, Mr. Wilson Wang – an overseas Chinese from Taiwan, as chief representative in China. These overseas Chinese were born and brought up either in mainland China or in an environment strongly influenced by traditional Chinese culture, such as Singapore, Taiwan, Hong Kong, Macao, or local Chinese communities (e.g. Vancouver, Seattle, New York City & LA) within western countries. These overseas Chinese were educated in the West, so they were familiar with not only Chinese culture but also western culture and management practices. They played an important role in bridging the two cultures, and helped MNEs avoid cultural myopia in China.

The overseas Chinese staffing approach failed, however, to overcome two shortcomings. Overseas Chinese managers were given the same compensation package (salary and

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