

INTERNATIONALIZATION OF CHINESE EXECUTIVES

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ABSTRACT

Over the last two decades, Chinese nationals have increasingly been employed by multinational companies (MNCs) operating in China taking positions previously occupied by foreign expatriates from investor countries. The development of local managers has therefore become crucial in the field of human resource management because the success of these companies depends greatly upon the ability and competence of their executive management class. The present paper addresses the issue of how to develop Chinese executives working in MNCs into a source of sustained competitive advantage. Empirical research was carried out among ten MNCs in China using a resource-based view (RBV) approach. Based on the findings, we propose concrete measures for improving the current skills of Chinese executives and develop new skills.

JEL: F23; M12; O15

KEYWORDS: Chinese executives, Competitive advantage, Internationalization, Resource-based view, Turnover

INTRODUCTION

Foreign direct investment in China has increased noticeably since the 1990s as a result of the country's integration into the world economy and the increase in domestic purchasing power. Despite the current global financial crisis, China has not lost its attraction for FDI. In fact according to the survey on investment for the period 2010 to 2012 (2010-2012 *World Investment Prospects Survey*) presented in 2010 at the *World Investment Forum* organized by UNCTAD (*United Conference on Trade and Development*), China remains the most popular worldwide destination for foreign direct investment (Zhou, 2010).

The continual inflow of FDI has brought about an increase in the number of multinational companies which have set up in China. In these companies, over the last few decades increasing numbers of local Chinese executives have being employed to replace foreign expatriates from the investor countries. The development of local managers has therefore become crucial in the field of human resource management because the success of these companies depends greatly upon the capability and competence of their executive management class. As a result, how to develop Chinese executives into a source of sustained competitive advantage has become a hot issue in MNCs.

The paper is organized as follows: The relevant literature is discussed in Section 2. The research sample and methodology are presented in Section 3. Section 4 gives the empirical results. The empirical findings are discussed in Section 5. The last section concludes the paper.

LITERATURE REVIEW

The resource-based theory of management (*Resourced-based View*), an economic tool used to determine strategic resources available to a company, is founded on the belief that the basis for sustained competitive advantage lies in the utilization of a variety of valuable resources at the disposition of a company (Wernerfelt, 1984). According to Barney (1991), there can be heterogeneity of firm-level

differences among firms that allow some of them to sustain competitive advantage. The resource-based view of management puts its emphasis on identification, development and deployment of key resources in order to maximize returns.

According to Hofer and Schendel (1978), resources within a company can be divided into several different categories:

Physical resources: equipment, localization, access to raw materials.

Human resources: training, experience, judgment, decision-making skills, intelligence, networks, knowledge.

Organizational resources: company culture, formal reporting structures, monitoring and control systems, coordination systems, informal networks.

Technological resources: patents, intellectual property rights.

However, not all resources are able to generate sustained competitive advantage. Some of the four resource categories outlined have tangible characteristics and others have non-tangible characteristics. Generally speaking tangible resources are usually easy to identify, imitable and therefore not strategically competitive. Barney (1991) goes on to state that only resources which meet VRIN criteria are able to generate abnormal economic rent. These resources fall into the following categories:

Valuable: resources which enable a firm to implement strategies to outperform its competitors.

Rare: resources which are not commonplace amongst competitors.

Imperfectly imitable: resources which are difficult to replicate because of their unique historical conditions, causal ambiguity and social complexity.

Non-substitutable: resources which are unique in the sense that there is no other resource with an equivalent strategic value which itself is not rare or imitable.

Amity and Shoemaker (1993) add a few other criteria to the VRIN mix: longevity, non-transferability and being specific to the firm. They make the distinction between resources and capabilities, and conclude that resources are transferable and not specific to a company whereas capabilities are specific to a company and are used to develop the internal resources of the company.

A resource cannot generate sustained competitive advantage if it is tradable. Competitors can buy this resource and use it in the same way (Dierickx & Cool, 1989). Nor is a transferable capability which is not specific to a company, able to generate competitive advantage for the capability can be transferred via recruitment to another company (Amit & Schoemaker, 1993).

Amongst the different resources discussed above it would seem that the most important are human resources. The rare resource in the current environment is not capital anymore because capital is, after all, something which can always be achieved by appealing to the relevant markets, or technological advantages which will be quickly superseded in any event. The rare resource is man himself: his creativity, initiative and knowledge (Bartlett & Ghoshal, 1999). Human resources play a vital role in the generation of business profitability. Being an intangible resource characterized by social complexity and causal ambiguity, human resources are the most likely of all resources to generate competitive advantage (Hitt, et al, 2001). In other words, knowledge, capability and capacity – the constituent parts of the human resources are the things which will determine the success and survival of a business. Companies have a vested interest in identifying and developing human capital within their workforce in order to create sustained competitive advantage and competencies particular to their business.

RESEARCH METHODOLOGY

Our study has used resource and capability theory to carry out an empirical and exploratory study involving 10 multinational companies currently operating in China. The aim of the study is to assess the state of the Chinese management executive class against academic criteria used to determine competitive advantage to ascertain whether or not this resource can truly generate sustained competitive advantage. Using the results obtained, we then put forward proposals for future development.

The companies involved in our research have been operating for more than a decade in China (See table below). All of them employ Chinese executives in various different functions. Our interviewees are either HR directors or people in charge of the representative offices of MNCs in China. We selected them on the basis of their direct involvement in the decision-making processes connected to the management of staff.

Table 1: Characteristics of 10 companies interviewed

	Business industry sector	Size in China	Length of time company operational in China
Case 1	Automobile	10 000	+20 years
Case 2	Automobile	43	+ 20 years
Case 3	Energy	1 000	+ 20 years
Case 4	Energy	250	+20 years
Case 5	Construction materials	12 200	+ 20 years
Case 6	Food packaging	350	+10 years
Case 7	Retail distribution	39 600	+10 years
Case 8	Retail distribution	40 000	+ 10 years
Case 9	Hotel chains	16 000	+ 10 years
Case 10	Aviation	300	+ 40 years

This table shows some of the main characteristics of the 10 multinational companies interviewed. These companies conduct business in seven different sectors in China: automobile, energy, construction materials, food packaging, retail distribution, hotel, and aviation. The size of the companies vary significantly from 43 employees to 40 000. All of them have been operating in China for a considerable length of time, from 10 to 40 years.

In order to get detailed and in-depth knowledge we carried out qualitative research using the technique of semi-structured interviews. This method allowed us to look beyond the statistics produced and to get a more profound understanding of underlying causes. We were also able to have open and wide-ranging discussions with the individuals interviewed and so obtain clarification or further information on some points. Each interview was on average 1 hour long.

EMPIRICAL RESULTS

The body of managerial talent within multinationals in China - made up of both expatriates and Chinese executives - is an intangible resource capable on the face of it of generating a source of sustained competitive advantage. Measured against the criteria for competitive advantage developed by Barney, Amit and Shoemaker, our study reveals that in reality, currently, in the majority of multinational companies, transforming Chinese executives into a source of sustained competitive advantage has not yet been achieved. This statement is based on the following observations.

Firstly, the potential for value added that local executives are able to bring to a business has not been sufficiently developed. Although Chinese management personnel are a valuable resource - particularly in the development of the local market, their potential has not yet been fully exploited and returns on investment have not been maximized. In fact, in the majority of cases, up until now the management positions occupied by local executives have tended to be more operational than strategic or supervisory, and their exposure has been limited to the local market.

There was a general consensus of opinion amongst the 10 participating companies that strategic management and supervisory positions were considered to be key posts and that such positions had a considerable and decisive impact upon business performance in China. With the exception of the companies featuring in case B and C, regional headquarters have been set up in China; however, in all but one of these companies, the general management of the headquarters is carried out entirely by French executives. In the case of the exception-Case F, the regional director is American of Taiwanese extraction.

In relation to supervisory management roles e.g. individual unit management (factory, shop or hotel) and financial management, 4 characteristics were observed. Firstly, these positions are mostly occupied by French nationals. Secondly, when a post such as financial controller is actually transferred to a Chinese executive, the incumbent continues to be monitored by a French executive manager - often the Director General. Thirdly, in the area of financial control more overseas Chinese or Chinese returnees from overseas are employed than Chinese local hires. Finally, we observed that localization of these positions was more likely to take place when the company established a regional headquarters or a holding company within China able to oversee the business operation on the ground.

Secondly, Chinese executives are rare but transferable. In the Chinese employment market, the imbalance between supply and demand means that foreign and national companies are competing for local executives in the same small pool of managerial talent. Some smaller companies have noted a turnover rate in excess of 30% but even the larger multinationals are not immune from the phenomenon. L'Oreal, which employs some 3.000 in China, reports a turnover rate amongst its marketing staff of 15 % (Jakouiller, 2006). Our study data reveals turnover rates of anywhere between 3 and 30%. Despite having such a low staff turnover rate themselves, the two companies which reported only a 3% turnover rate recognize that turnover is a real concern. The threat comes mostly from Chinese local companies which are going through structural reorganization and modernization.

When an executive moves from one company to another, his knowledge goes with him to the new employer.

Thirdly, the knowledge possessed by Chinese executives is not specific to a particular company. All the companies interviewed have acknowledged employing local executives primarily for their intimate knowledge of local markets and for their network of professional and personal contacts. However, although this knowledge is vital and contributes significantly to the success of a company in the Chinese market, this type of knowledge is not specific to the business because it can be used in and by other multinationals (Tan & Mahoney, 2006).

DISCUSSION

Given the current state of local management staff, the development of local managers into a sustained competitive resource has therefore become a crucial consideration in the field of human resource management. Our study indicates that the internationalization of Chinese executives can be an effective solution which would both improve existing competencies as well as create new ones.

The term «internationalization» refers to the involvement of Chinese nationals across the whole spectrum of company activities both in and out of China. Two concrete measures are proposed: Firstly instead of sending local executives on short courses at company headquarters abroad for training and observation, a common practice in the majority of companies, individuals showing particular potential should be given posts of responsibility at company headquarters and be based there for a significant period of time. This experience would enable executives to get an in-depth understanding of the way the company works, to be immersed in the organizational culture and to establish a network of working relations at headquarters. The aim is to get them out of their subsidiary cocoon-like mentality and help them acquire an increased understanding of the company's operations generally on a widespread global scale. Secondly, instead of confining them to the local market, once an employee has worked with the company for several years, they could be offered a variety of different posts, in a variety of overseas company locations. This particular measure would be designed to increase a sense of global cooperation and coordination between different operations of the company worldwide. The benefits of internationalization are numerous.

Firstly, internationalized local talent will become a more valuable resource. The knowledge accumulated and skills acquired through the process of internationalization are vital not only for the Chinese operation of the company but also for other company bases located outside China throughout the rest of the world. Armed with these new skills, executives are more able to take on strategic management positions within China or overseas. In addition, the process of internationalization of Chinese executives is also beneficial for the personnel at company headquarters for Chinese experiences provide them with the learning opportunities about the Chinese market. Working with Chinese managers enriches their knowledge of intercultural management. As a result, the improved knowledge and competence can stimulate more pertinent reflections in the development of global strategies of the company.

Secondly, internationalized local talent will become a rarer resource. At the current moment the internationalization of Chinese executives has not yet become a commonplace business practice in the majority of companies. Amongst the 10 companies interviewed, only 2 had started to introduce measures designed to encourage and foster internationalization and even then these initiatives were not being carried out in any formal or systematic manner. As a result of this lack of uptake on the ground, a company which elected to encourage internationalization initiatives would acquire the competitive advantage of being the first mover. Competent Chinese executives are already few in the Chinese employment market so to be an internationalized executive on top would make them a rare pearl indeed.

Thirdly, internationalized local talent will become an imperfectly imitable resource. Internationalization is a long and complicated process. An internationalized executive needs to have been exposed to a variety of experiences in a variety of roles throughout a variety of different countries worldwide. Several years are required to develop competent skills. As a result, internationalization enables a company to create a distinct competitive advantage, over a relatively long time scale, which would not be easily imitated by competitors. In fact it could take a considerable amount of time for competitors to catch up in this area.

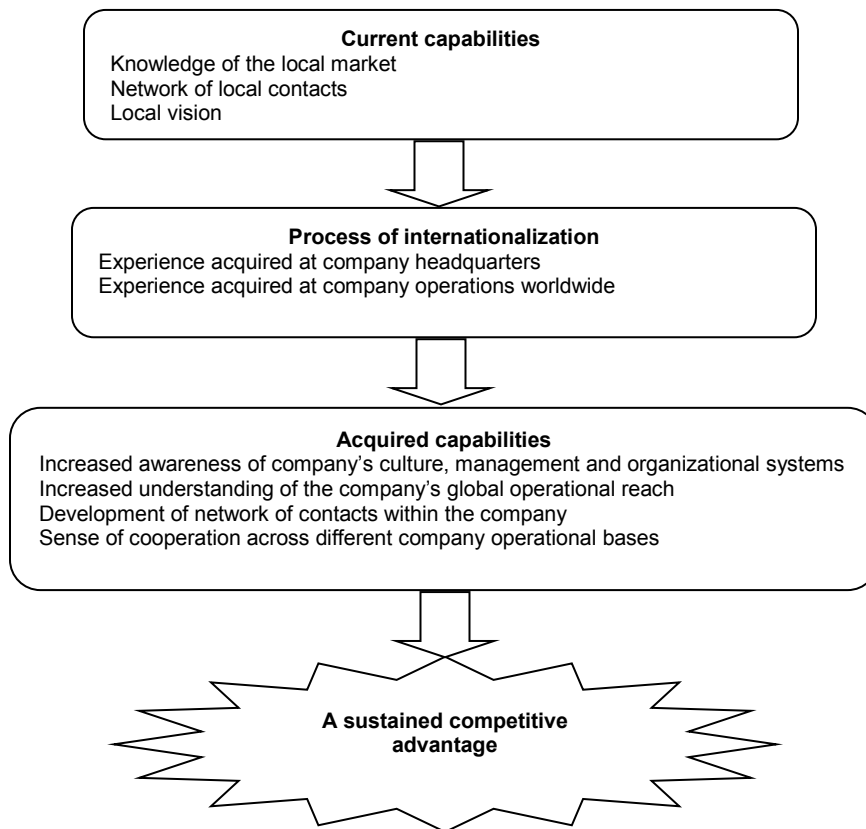
Fourthly, internationalized local talent will become a non-substitutable resource. By the time Chinese executives have completed the process of internationalization within the company, they will have acquired a much wider vision and understanding of the company's activities, a more intimate knowledge of organizational functions and they will have established a network of internal contacts. These new and uniquely acquired skills are almost impossible to be replaced by other resources - either tangible or non-tangible.

Fifthly, internationalized local talent will become a non-transferable resource specific to the company. Throughout the whole process of internationalization, the knowledge acquired by executives of the operations of the business as a whole, the organizational culture of the company as well as the network of

contacts accumulated, are specific to the particular company in question. This knowledge and these skills are not transferable to other companies which will have their own particular management methods, their own organizational structures and hierarchies as well as their own organizational culture and network of contacts specific to them.

Lastly but not least, internationalized local talent will become a non-tradable resource. Chinese executives who are internationalized will become a resource which is almost completely non-tradable. The whole process of internationalization requires considerable personal investment in terms of energy and time. This investment is irreversible. If they move to another company they lose a huge part of the economic value of their acquired knowledge, skills and contact network which is specific to the company (Becker, 1964; Williamson, 1975). This increases the turnover cost for Chinese executives themselves. Allegiance to the company is much greater upon completion of the internationalization process (Tan & Mahoney, 2006). Immersion in corporate life experienced from various different vantage points enables executives to gradually identify with the company. As a result a strong allegiance to the company is developed. Finally, several years' stay in the company is needed to complete the internationalization process. Previous research indicates that seniority has a negative link to staff turnover rates e.g. the longer a person stays in a company, the smaller the chances are that he will leave the company for another (Mobley, 1977, Simmons, et al, 1997). To summarize, a figure is set up below to illustrate the link between the development of sustained competitive advantage and internationalization amongst Chinese executives.

Figure 1: Development of Sustained Competitive Advantage through the Process of Internationalization



This figure shows the link between the development of sustained competitive advantage and internationalization amongst Chinese executives. The process of internationalization through accumulation of managerial experience at headquarters and in other operations outside China helps improve the current skills of Chinese executives and develop new ones as well thus enabling them to become a source of sustained competitive advantage.

CONCLUSION

Our empirical study leads us to conclude that currently in the majority of cases Chinese executives employed by multinationals have not yet really achieved sustained competitive advantage in line with the resource-based view. The aim of this current research paper is to show the need for and benefits of the internationalization of Chinese executives. This measure would not only improve existing capabilities but also create new ones so that Chinese executives can be developed into a resource which is valuable, rare, imperfectly imitable, non-substitutable, non-transferable, non-tradable and tailor made to a specific company.

The importance of internationalization as a human resource management practice is also supported by Huselid, Jackson and Schuler (1997). They make a distinction between technical and strategic practices in human resource management, and emphasize that practical techniques in the field of recruitment and training both effect and influence business performance. If employees of high caliber are selected and trained in a different way to their competitors, resource heterogeneity within a company can be achieved as a result. The heterogeneous nature of resources is key to transforming a short-term advantage into a sustained competitive advantage (Barney, 1991). The process of internationalization of local management talent -largely overlooked until now by the majority of multinational corporations, offers a way for companies to create novel business solutions to help them stand out from the crowd at the same time as adding value in the current highly competitive market.

Our study also reveals that despite recognition on the one hand that the internationalization process is beneficial for both individual employees and the company as a whole, it is still not commonplace practice amongst multinational corporations in China. Our interviewees indicated that there are 3 main reasons for this reluctance. Firstly, the process of internationalization requires considerable input in terms of time and financial resources and the returns are not immediate or easily quantifiable and identifiable. Secondly, the Chinese market is so culturally special that the company relies on local managers for daily activities. Finally, sending Chinese executives to work either at company headquarters or in company bases elsewhere worldwide can be a very complicated bureaucratic procedure particularly if the company involved is a joint venture in which the 2 partnership entities don't share the same vision or management practices.

How best to plan and organize the process of internationalization, and how to balance the need for immediate results with long-term interests will be investigated in the next stage of our research.

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BIOGRAPHY

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