

STANDARDIZATION AND LOCALIZATION  
IN THE HUMAN RESOURCE MANAGEMENT  
OF SINO- FOREIGN JOINT VENTURES:  
AN INDUCTIVE MODEL AND RESEARCH AGENDA

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*Summary*

The tension between Standardization orientation of multinational companies and the necessity of localized adaptation has been identified as an enduring theme in the internationalization of human resource management. This tension has been highlighted in the Chinese context by academic researchers and practitioners (Chiang, 2000; Ding, Fields, & Akhtar, 1997; Goodall & Warner, 1997; Kraar, 1999; Lu & Bjorkman, 1997; Upton & Seet, 1997; Wang & Satow, 1994). This paper assesses the perspectives of standardization and localization by reviewing key theoretical frameworks and empirical studies of effective international human resource management (IHRM). The key assumptions in IHRM standardization and localization are explored through the mechanism of 'difference drivers' related to relative advantage in competency, consistency, power and experience, which contribute to the hybridisation of HRM practices in Sino-foreign joint ventures(JVs).

The model developed extends existing IHRM models by acknowledging that there are (at least) three critical organizational 'players' in an IJV, and that each has a complex of factors that effect their interaction with one another and development of IHRM practices and policies. Finally the internationalization environment is seen as a more subjective construction, influenced by interaction and perception rather than by purely objective environmental factors and organizational characteristics. Propositions and a research agenda are established.

### ***Keywords***

International HRM, Standardization & Localization, Sensemaking, China, Joint Ventures

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*" When a multinational corporation invests in a plant in another country, it has to become a citizen of that country in its attitudes if it ever wants to benefit from its investment".*

--Henry Kissinger, 1999.

With economic reform and its open door policy, the People's Republic of China (PRC) is becoming a preferred investment location for multi-national companies (MNCs). Preferential tax policies, a huge potential market and low costs of production have attracted a surge of foreign investment. Since the late 1970s, the Chinese economy has grown far more rapidly than the OECD, with average growth rates over 9% in the 1990s, spiking to almost 14% in 1993. China's premier, Zhu Rongji, announced in 1996 that China's economy will maintain an 8-9% growth rate in the next 15 years. The World Bank predicts that China will be the largest economy in the world in the year 2020. Meanwhile, 'China is the largest recipient of foreign direct investment among developing countries and the second largest in the world after the United States' (Fang, 1999, p1). In 1999 alone, China approved 17,100 foreign direct investment projects with contractual foreign investment US\$412.38 million (Chinese Ministry of Foreign Trade and Economic Cooperation, 23/03/2000).

According to Han's Chinese Cultural Development Company (1996) approximately three-quarters of Chinese foreign investment is in the form of joint ventures, with the remainder as wholly owned foreign ventures. Sino-foreign joint ventures have not only become the most widespread form of multi-national investment in China, they are also the primary source of foreign capital for the Chinese government. Joint ventures allow MNCs to access foreign markets and increase their economic reach, while sharing investment risk, capital requirements and technological expertise (Cyr, 1995). The benefits for Chinese partners include increased access to employment opportunities and development capital, renewal of technology and management systems, and generalised economic development. These reciprocal benefits have led to an explosion in IJV formation in recent years.

Despite potential benefits, however, the failure rate of IJVs is much higher than projected. Many are taken over, change joint venture partners, convert to wholly owned subsidiaries or dissolve (Cyr, 1995; Shenkar & Zeira, 1987). The failure rate in China is even higher than that in comparable host countries. Recent statistics released by the Chinese Ministry of Foreign Trade and Economic Cooperation (23/03/2000) highlighted a 15.88% decrease in joint venture equity in terms of actually-utilised foreign investment from 1998 to 1999.

Although these figures and other perceived failures were generally attributed to increasing market competitiveness and higher than anticipated costs of production (Zhang & Goffin, 1999), the differences in partner expectations and practices are identified as key obstacles to the smooth and effective performance of international ventures (Cyr, 1995; Kraar, 1999; Shenkar & Zeira, 1987; Upton & Seet, 1997). The impact of differences in HR are particularly problematic because they directly involve multiple national cultures and potential changes at every stage of production and management through concrete HRM operations such as staffing, training, performance appraisal and reward (As-Saber, Dowling, & Liesch, 1998; Cyr, 1995; Milliman, Glinow, & Nathan, 1991; Schuler, Dowling, & Cieri, 1993). When one partner imposes its standards and policies on the local operation of joint ventures, the problems soon follow (Cyr, 1995).

Both the problems and the potential for conflict appear particularly pronounced in western MNC operations in China. For example, in mid 1999, Shihon Wu, the general manager of Microsoft China, resigned claiming irreconcilable differences with Microsoft's human resource policy (Chinesenewsnet, 1999). That the "Empress of Chinese employees" would leave the country's highest salary and prestige over the multinational's inadequate training provisions may seem an over-reaction. But "Shihon Wu Shock", as it has been termed in the wake of her autobiographical critique, epitomizes the deep divides that may arise when multi-nationals internationalise their human resource systems.

The obvious reasons for these conflicts derive from three levels of distinction between Chinese and western joint venture partners:

1. Chinese systems are based on socialist ideology, which for thirty years has seen a central authority plan the economy, own all major enterprises and dictate managerial action. This stands in stark contrast to western, capitalist values, concepts of a market economy and assumptions of managerial autonomy.
2. Chinese society is characterised by Confucian values, which have profoundly effected the behaviours of individuals and organisations for centuries (Verburg, 1996; Zhao, 1994). The general focus of Confucianism is the importance of harmonious interpersonal relationships. A sense of order, the obligation to the group, the importance of the family, a hierarchical view of society, benevolent leadership with loyal and obedient subordinates, and power only exercised by intellectuals are the main principles of Confucius. Western societal patterns tend to be both more individualistic and more open to conflict and questioning.
3. As a result of the first two, management systems and styles diverge in Chinese and western settings. A Confucian concept of benevolent leadership is represented by the 'iron rice bowl' policy in China's state-owned enterprises which reflects a reciprocal reality between employers and employees. The workers' loyalty is rewarded by the company by providing housing, medical support and life time employment. This combined with the socialist economic systems has resulted in large stable, but often inefficient, employers. This presents problem to efficiency and best practice orientated western managers who tend to focus on the organisation itself rather than the broader community.

However, China has recently been experiencing significant changes in social, political and economic areas. The 1994 changes to labor law have increased employee rights, for example employees are allowed to choose their employers, and employers no longer have an obligation to provide housing. Furthermore, with the establishment of thousands of joint ventures, western culture and management thoughts and practices are being introduced and creating a turbulent culture clash in the Chinese workforce. Western money-orientated ideology and individualism are seen as eroding Communist beliefs and traditional collectivism (Swaak, 1995). Performance-related pay systems and promotion criteria shake the traditional values regarding the respect for seniority. Recruiting directly from local labor markets and the free movement of the workforce is decreasing their reliance on the enterprise, thus eliminating the traditional basis for individual loyalty to the organization.

The introduction of new HRM practices is not merely one of placing existing MNC practices into a void, but rather an interplay between large organisations, attempting to bridge significant differences in expectations and assumptions to create new organisations and new sources of value. This cannot be done without negotiating both partner requirements and international requirements in all management systems, including HRM. The dialectic of standardisation (adopt practices of the parent) and localisation (adapt practice to local conditions) is at the heart of negotiating successful IJV practice.

#### **.IHRM issue: standardization vs localization**

*'Applied Materials, Inc., in California, formed a series of global task forces that are charged with identifying the best HR practices... regardless of national origin. There's a global compensation task force, a global job-grading task-force, and global mobility, benefits and training task forces. The goal,*

*according to Carol Kaplan, manager of global compensation and benefits, is to look at which HR practices can be standardized across the 14 countries in which Applied Materials operates, and which practices need to be managed on a local or regional level'*

*-(Caudron, 1995, p93).*

The globalisation of industry has seen an increasingly competitive MNC environment. Given the emphasis on human capital and assets throughout the knowledge economy, it is not surprising that MNCs also feel pressured to improve their human resource management practices. These efforts often result in broad, company-wide initiatives that encounter difficulties when they spread beyond the boundaries of the host country. This difficulty arises from the fundamental tensions in the international arena between the 'parent' companies – a term which evokes the power differences inherent in some international ventures – and their subsidiaries and between organisational standardisation and localised adaptation. This tension is reflected to a greater or lesser extent in the dominant models of international human resource management (IHRM).

As the study of international human resource management has resulted from the actions and interests of multi-national companies, it is not surprising that it is closely allied with the strategic HRM literature, with a split between resource based views of the firm, congruence or fit models and/or resource dependency views (Milliman et al., 1991; Schuler et al., 1993; Shenkar & Zeira, 1987; Taylor, Beechler, & Napier, 1996). The majority of these models focus at the level of the parent company and foreign subsidiary or international joint venture (IJV). Most posit a parent company driven by strategy and top management beliefs, and the subsidiary affected by local conditions such as culture and legal structures (Milliman et al., 1991; Schuler et al., 1993; Welch, 1994). This underscores the assumptions about inequality in the dynamics of multi-national venturing, which while understandable in multinational wholly-owned subsidiaries, is also evidenced in the IHRM literature concerning IJVs. This sets up not just a consideration of standardisation and localisation, but implicitly a tension or dialectic between them.

Given the two ideological bases for human resource management in the partners to Sino-foreign joint ventures, the potential differences in management style and assumptions are clearer than in other IJV scenarios. The tension between standardization and localization has a more obvious opportunities for expression in Sino-foreign joint ventures than other structures of international business such as wholly-owned foreign subsidiaries or simple indirect investment or cooperation. This is not only because of different social, political and cultural institutions and different management systems, but also from the internal turmoil caused by extensive reform in the Chinese economic system from central government planning to an emerging market system, resulting in two potential levels of ideological conflict - one within China and one across its borders with international partners. The mutual management responsibility and close linkage of partners in an IJV make those tension more frequent and unavoidable. As a result, the encounter of significantly different traditions, assumptions, values and political-economic systems of cooperating partners make HRM practices at the level of the Sino-foreign JVs more complex and difficult.

While the theory recognises the standardisation-localisation dialectic, this area has been largely overlooked in the contemporary empirical research. As the case of Shihon Wu and Microsoft indicates, these issues can become very publicly dysfunctional, particularly when the cultural and legislative differences between MNC home and host nations are large. This is particularly true in joint ventures where a new organisation is formed in an alliance or partnership between two or more organisations with distinct competencies and expectations.

Given these issues, the following paper seeks:

- To question dominant perspectives on IHRM;
- To identify the key contexts and drivers of standardization and localization; and
- To posit a model that links key determinants with standardisation and localisation outcomes.



Within this paper,

- International joint venture refers to a legally independent company joint-owned by partnership of the parent corporations, and at least one parent corporation has its headquarters outside the country where the JV is located (Shenkar & Zeira, 1987); and
- IHRM is defined as the interplay among HRM functions, HRM practices, diverse types of employees, and different countries of operation in a cross-national background (Dowling, Schuler, & Welch, 1993).

While we acknowledge that there are an almost infinite array of partnership combinations possible for the formation of an IJV, as the definition above encompasses, we are adopting a simplified nomenclature within this paper. Because this paper focuses on Sino-foreign joint ventures, we will adopt the nomenclature of the most common form of Sino-Foreign JV where a multinational company – generally from the OECD – enters into a venture in China with a Chinese partner – generally a Chinese state-owned enterprise. We will refer to the non-Chinese partner as the MNC and the Chinese partner as the CP.

### **Perspectives on IHRM standardization and localization**

The centrality of the HRM function to the internalization process has led to extensive research and theory development in the field. This has provided the framework from which to identify the principal elements of international HRM standardization and localization. The primary theories in use in international HRM are resource dependency and the resource based view of firm. The former emphasizes the effective control of organizational resources. The latter's central tenet is to utilize organizations' specific and systematic resources, including the human resource system and its outputs, to generate a sustained competitive advantage.

Schuler et al (1993) and Dowling et al (1994) explore the key facets of IHRM and their interrelationship of IHRM from a strategic level of analysis within multinational parent companies. Milliman (1991), Taylor(1996) and their colleagues assess IHRM initiatives on two organizational levels, that of the multinational parent companies and that of their foreign subsidiaries (including IJVs and wholly-owned subsidiaries) as well as the relationship between the two. Taylor et al (1996) and Welch (1994) reveals the interrelated determinants of IHRM practices, but they add elements of employee group and individual experience to complement and enrich the analysis at the level of the parent and/or subsidiary.

The research aim of IHRM is to pursue the adaptation or fit between the standardization of multinational parent companies' HRM policies and practices (global integration) and localization of host countries' practices (local differentiation) (Dowling et al., 1993; Milliman et al., 1991; Schuler et al., 1993; Taylor et al., 1996). More focal research has identified both general characteristics and common concerns of IHRM practices in terms of convergence and divergence; control and autonomy; integration and differentiation; fit and flexibility; standardization and localization, within different cooperating countries or regions (As-Saber et al., 1998; Bae, Chen, & Lawler, 1998; Jain, Lawler, & Morishima, 1998; Martin & Beaumont, 1999; Nam, 1995; Napier & Vu, 1998; Ngo, Turban, Lau, & Siu-yun, 1998; Rowley, 1998a; Rowley, 1998b).

Empirical research and theory development of the last decade has also identified critical determinants in shaping IHRM systems, from both strategic and tactical perspectives, including:

- External variables or exogenous factors. These include industry and competition characteristics, cooperating countries' background (e.g., local political, economic, legal, and socio-cultural conditions and requirements) (Milliman et al., 1991; Schuler et al., 1993; Welch, 1994); and

- Internal variables or endogenous factors. These are MNC-specific contextual factors including the strategic orientation, structural characteristics such as ownership, source of authority, top management perceptions, stage of internationalization, and decisional styles (Milliman et al., 1991; Schuler et al., 1993; Shenkar & Zeira, 1987; Taylor et al., 1996; Welch, 1994).

One of the first points of concern in reviewing the literature is the focus on the western MNC as the policy initiator and often sole point of analysis. The investigation of “top management beliefs” is generally restricted to top management of the MNC. The primary concern of this area of research is often on expatriating MNC managers to the host country to ensure cooperation in the implementation of MNC standards. This relegates the majority of host country activity to an endogenous or contextual status for the consideration of MNC initiatives. In the case of IJVs this is not only an over-simplification, it is a potential source of conflict in the management of the business. Unlike a subsidiary and the attendant parental metaphor, an IJV is a separate legal entity with two strong founding partners. These three parties each have roles in the JV, and each have interacting factors, both internal and external and including top management beliefs in all three organisations. Existing models limit this interaction to context or interference, if it is considered at all.

Inevitably, different perspectives (strategic and/or tactical) and different levels of analysis (multinationals, JVs themselves and/or employee group) will carry different assumptions and result in different outcomes in IHRM research. Based on models developed to date, it is clear that IHRM standardization and localization involve two critical assumptions. One is that multinationals and their local partners have not only common interests but also inevitable conflicts, and resolution of the latter may hold the key to IJV success. The second is that there are several levels of complexity in understanding IHRM in the IJV, including:

- both countries’ business and employment environment;
- both partner’s strategy and intent in the IJV;
- the beliefs and values of top management teams in parent and IJV organisations; and
- temporal variables in terms of the life cycle of the organisation, overall, as well as of its internationalisation stage.

#### **Differences drivers and determinants in IHRM standardization and localization**

*--'Thinking globally and acting locally'*

Although the basic principles of “partnership” in an IJV include equality and mutual benefit, MNCs generally insist that their policies and practices are transferred and executed strictly to protect their interest, with the underlying – but only occasionally articulated - assumption of MNC best practice in contrast to what is often seen as inefficient or antiquated local practices. MNCs also gain operational efficiencies by exporting their standardized practices to guarantee their operational consistency in their cross-countries’ business (Jain et al., 1998). In terms of HRM, this may also include key appointments within the IJV to both standardise and socialise the new organisation in key areas such as financial reporting, HRM and operational monitoring and reporting.

From this perspective, IHRM standardization can be seen as a rational management initiative by MNCs to transfer their HRM policies and practices to their international operations with the belief that these standardized operations will produce the best performance for both partners. This initiative may be seen as the result of four inter-related “difference drivers” presented here supporting complete IHRM standardisation:

- First, top managers in the MNC must believe that the current MNC HRM practices are clearly superior across all scenarios (competency difference);
- Second, they must believe that coherence amongst practices is required for operational effectiveness, that is, an all-or-none approach and “missionary” top managers are required (consistency difference);

- Third, they must clear hold a significant advantage in their industry or international sector, such that they dominate the allegedly “equal” partnership (power difference); and,
- Fourth, they must be experienced at internationalisation such that they have work through and practiced standardisation approaches in other environments (experience difference).

These assumptions meet their theoretical match, however, in the opposing assumptions that may operate in the IJV locale (Jain et al., 1998):

- First, local managers must believe that only local HRM practices are possible and plausible and that imposed MNC practices “just will not work here” (competency difference);
- Then, both local culture and political-legal systems may make some aspects of MNC practices either inappropriate or illegal, requiring piecemeal “editing” of MNC policies (consistency differences);
- Third, the ability of local managers to control access to the labour market and product distribution channels, expertise and information may effectively stymie standardisation efforts – either directly or indirectly (power differences); and
- Finally, in dealing with large centralised economies such as China, there exists a significant central pool of experience in IJVs which may not be company specific, yielding cross-company experience and expertise far in excess of many MNCs unique developmental histories (experience difference).

Where these differences operate in favour of the locality, IHRM localisation results. Conversely, differences in favour of the MNC tend to reinforce standardisation. These differences can be summarized as:

Differences	Standardization drivers	Localization drivers
Competency difference	“Global best practice”	“Contingent/local practice”
Consistency difference	Global consistency of practice, coherence amongst HR systems	Politico-legal differentiation; coherence amongst local regulations
Power difference	MNC advantages in affiliated industry and international market	Local partner control over resources such as labor, material, information and market/distribution
Experience difference	MNC experience in internationalising operations (level of maturity)	CP or national experience in negotiating with foreign partners

### **Making sense of IJVs and IHRM**

*“Localization is one of the key factors for a company's survival and competitiveness in the Chinese market. By localization, I mean using local managers to run the business in the local setting, rather than expatriate managers from the parent company.”(Lily Chiang, 2000, p337).*

Although IHRM localisation clearly operates at many levels and across diverse practices, it is often confused with simply appointing local managers as CEOs and top managers of the IJV. From the theoretical perspective of most IHRM models, however, localisation encompasses the full range of HRM practices and policies, from recruiting and selection through training development, reward structures, and structures for participation and influence. The international HRM literature specifically recognises both contextual factors (e.g. local legislation and labour markets) as well as organisational factors (e.g., senior management belief structures, autonomy of local operations) as contributing to the differentiation of IHRM practices. The hybridization of practice (Ding et al., 1997; Lu & Bjorkman, 1997; Warner, 1997) has already been noted as one way in which IJVs may balance localisation and standardisation requirements for the enterprise. To extend the analysis from the IHRM literature concerned with subsidiaries to a model appropriate for IJVs

requires a recognition that there are three parties to HR policy-making, and that power relationships are more complex than the 'parent-child' metaphor applied to subsidiaries.

Thus the difference drivers elaborate the dialectic between standardisation and localisation of the enterprises on HRM and other management issues; they determine WHO (organisationally speaking) decides, but not WHAT is decided. While Schuler et al ( 1993) and other IHRM theorists recognise endogenous and exogenous factors for the MNC, the focus has been largely on the objective politico-economic environment. But the concept of strategic environment is not limited to the politico-economic, or the purely objective. , A common Chinese proverb captures this issue:

*"Ren Ding Sheng Tian"--man can conquer nature; man will triumph over nature; or (through the lens of people's subjective initiative)--man's aspiration and power can surely change or create a desirable objective environment.*

The decisions regarding what HRM policies and practices will be implemented in the IJV are constrained by certain objective factors (e.g. labour/industrial law and regulation) but also by a range of subjective analyses of the environment by senior managers in all three organisations. As Weick (Weick, 1995) and other strategic theorists have noted, environments do not just exist, they are enacted. This distinction is particularly important in the multi-national milieu, where differing assumptions and beliefs lead to different strategic environments in the same objective local. This has been demonstrated both at the level of the organisation (Resnick, Levine, & Teasley, 1991; Weick & Roberts, 1993) and amongst the members of the top management team (Simpson & Wilson, 1999), as well as posited for multi-cultural decision-making overall (Harvey, 1997). Although this adds an additional layer of complexity, it also adds a culturally relevant level of explanation of diverse practice development amongst Chinese joint ventures.

The decisions regarding what HRM policies and practices will be implemented in the IJV are constrained by certain objective factors (e.g. industrial law and regulation) but also by a range of subjective analyses of the environment by senior managers in all three organisations. While information may be unequally accessible to managers in the three organisations, even when they have the same information, we can not assume that they will interpret it equivalently. Cognitive interpretations have been shown to constitute an essential underpinning of both strategic process and content (Daft & Weick, 1984; Dutton and Duncan, 1987; Starbuck & Milliken, 1988), with decision-makers using different dimensions to understand the strategic domain (Porac & Thomas, 1990; Thomas, Clark & Gioia, 1993). The structures used to interpret the environment are often held subconsciously (Fiol & Huff, 1992) and differences may be particularly significant in cross-cultural management scenarios (Fang, 1994). These cognitive structures are held collectively, by groups (Freyd, 1983), or communities (Wenger, 1998).

While it would be tempting in IHRM models to consign environmental structures to internal-external dimensions, this does not adequately capture the dynamics of three organisations (what is internal to one is external to the other) and the concept of subjectivity at a collective level that is fundamental to the sensemaking perspective on strategy. Weick and Roberts (1993) have employed the idea of the collective mind to explain reliable organisational performance in complex, high risk environments, but it may be equally applicable to the predicatbility of misunderstanding between organisations in the same high risk environments, as distinctive collective mind sets form within the three organisations: MNC, IJV and CP.

Douglas (1986) and others (Fang, 1994) have noted the cultural and cross-cultural nature of this approach toward institutional thinking. Social theorists have long suggested that groups or cultures may have cognitive properties that differ from those of their individual members (Berger & Luckman, 1966) but which inform collective action according to cultural norms. The cultural norms of the Chinese partner and the majority of members of IJV management are rooted in Confucian values and "Chinese stratagems"(Fang, 1994) that are far removed from the cultural assumptions of MNC partners. This dissonance continues through the construction and interpretation of the strategic HR environment, not only at the level of "what is" the environment, but "what is possible" in terms of managerial decision-making.

This collectivity and divergence has been demonstrated both at the level of the organisation (Resnick, Levine & Teasley, 1991; Weick & Roberts, 1993) and amongst the members of the top management team (Simpson & Wilson, 1999), as well as posited for multi-cultural decision-making overall (Harvey, 1997). From the perspective of causality, practices and policy emerge at the level of the Sino-foreign IJV as either localised, standardised or hybrid (with both localised and standardised features) as a result of partner and IJV influence and relative decisional authority as determined by the difference drivers. The policy and practice decisions are influenced and constrained not only by the objective environment of the parties, but by their subjective perception and enactment of the environment.

### Testable propositions and implications for research agenda

From the above modelling, we can begin to develop a firmer basis (and testable propositions) for evaluating multiple contributors to the derivation of IHRM practice in the Sino-foreign joint ventures.

Proposition 1 :The relative authority of partners and the autonomy of the joint venture are a function of the difference drivers in the areas of competency, consistency, power and experience.

Proposition 2: Parties with greater relative authority will decide HRM practices in accord with their subjective construction of the environment and their objective circumstances.

Proposition 3: HRM practices that emerge will reflect differentiated levels of standardisation (reflecting MNC patterns and practices) and localisation (reflecting local national patterns and practices).

Given that the propositions are concerned with HOW the factors are constructed and interact, comparative case studies of IJVs and the funding partners appear to be the most appropriate research tool (Yin, 1994). This will permit the existing operationalisations of standardisation and localisation to be explored in depth while also permitting rigorous cognitive mapping (see, eg, Simpson & Wilson, 1999) of the perceived strategic environment and difference drivers between the three organisations. Issues of relative strength on the difference drivers are a critical parameter for investigation.

Currently, models and analysis of Sino-foreign HRM practices are derived largely from western academic research and practitioner's observations involving a comparatively small number of cases. This has led to a Euro-centric emphasis on MNC prerogatives and expertise in the construction of international HR practice. To "internationalise" IHRM a broader perspective that recognises host country management issues and cross-cultural diversity is required. Further, an acknowledgement of power differences and managerial expectations and assumptions would enrich the current emphasis on homogeneous considerations of national and industry contexts. These are critical to HRM in the Sino-foreign joint venture, and for the development of one of the world's largest and fastest-growing economies.

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