

Building from below: subsidiary management's moderation of employment practices in MNCs in China

Yu Zheng*

School of Management, Royal Holloway, University of London, U.K.

(Revised: 01 April 2015)

The international HRM literature has a long tradition of examining the impact of institutional differences on the employment practices adopted by MNCs. The question of how actors make sense of institutional differences, however, has received less research attention. This paper examines the enactment of employment practices as institutional differences are translated, contextualized and mobilized by managers at subsidiaries of MNCs. Based on intensive case studies at two Japanese–Chinese joint-venture manufacturing plants, the paper first shows that distinctive employment practices were adopted to manage the boundaries between employee groups. These distinctions are then explained by the institutional difference between the home country (Japan) and the host country (China) as well as the way that institutional differences were represented by the managers in the process of designing, developing and executing employment practices. The paper therefore argues that country differences are not only assumed spaces, but are also a reservoir of management resources that are moderated, in the case of employment practices, by actors' strategic choices and political actions before they are enacted in the subsidiary.

Keywords: boundaries of employee groups, social agency, subsidiary management in China, power relations in MNCs, political action

Introduction

A key research agenda in international human resource management (HRM) is to understand how ‘country differences’ are reflected in the employment practices adopted by multinational corporations (MNCs). While much research effort has been devoted to conceptualizing country differences from culturalist, institutional and socio-political perspectives, there has been a tendency to play down the role of subsidiary management in making sense of country differences and developing employment practices. This is not surprising, because: (1) national institutions remain resilient in defining employment relations in individual countries despite the rapid internationalization of firms and growing mobility of people (Whitley, 1999; Morgan and Whitley, 2012); (2) headquarters’ (HQs’) dominance in promoting corporate best practices is evident (Ferner, Quintanilla and Varul, 2001; Ferner *et al.* 2013); and (3) subsidiary managers are often in a lower power position and their initiatives do not always reach the top of the MNC (Birkinshaw and Ridderstråle, 1999). However, if we think of employment practices as a management construct that emerges from the political process of decision-making (Child, 1972, 1997), develops through trial and error (Bird, Taylor and Beechler, 1998), and reconciles the interests of management, employees, unions and other stakeholders (Kristensen and Zeitlin, 2005), we then have to take into account subsidiary management as the key *actors*, who internalize country differences into the everyday management of MNCs.

The main research concern here is to extend our knowledge of subsidiary management as a social agency of institutional differences. This paper shares the view that employment practices are subject to social-political construction (Quintanilla and Ferner, 2003; Almond *et al.*, 2006; Edwards *et al.*, 2007; Edwards *et al.*, 2010; Ferner *et al.*, 2012). However, the study aims to add two important and unique arguments.

First, the paper focuses on one particular human resources (HR) issue – managing the boundaries between employee groups in MNCs’ subsidiaries. Based on human capital analysis, existing research suggest that the divisions between employee groups need to be in line with the value of employees to firms’ strategic objectives (Atkinson, 1984; Jackson, Schuler and Rivero, 1989; Lepak and Snell, 1999, 2002). Managing the boundaries between employee groups is within management strategic action (Lepak and Snell, 2002). Observing that MNCs tend to keep jobs with high knowledge intensiveness at home and relocate overseas those that require only generic skills, some researchers suggest that cross-country differences in labour market institutions have envisaged a core–periphery division of labour at the international level (Frobel *et al.*, 1980; Dedoussis and Littler, 1994; Taylor, 2001; Wilkinson *et al.*, 2001; Morris *et al.*, 2009). If we accept the idea that actors from MNCs headquarters can weave segments of global workforces into internal chains of production/service functions, how actors at subsidiaries can use the division of labour in the local workforce to reshape subsidiary functions? We know that subsidiaries can expand their lines of products (Roth and Morrison, 1992), upgrade the technological complexity of production or service provision (Gereffi *et al.*, 2005), and, generate innovations – both firm-specific and subsidiary-specific (Rugman and Verbeke, 2004). Such moves will involve changes in the demand for knowledge and skills from the subsidiaries’ employees. The division of employee groups is therefore potentially the manifestation of subsidiary initiatives to change subsidiary roles in dynamic MNC networks. Studying the management of the boundaries between employee groups in subsidiaries therefore allows us to gain a bottom-up perspective on the spatial division of labour within MNCs.

Second, the paper considers what enables subsidiary managers to establish the practices to manage the boundaries between employee groups. Existing theory has acknowledged that institutional differences allow space for actors' choices of management practices (Forsgren, 1990; Morgan *et al.*, 2003; Heery and Frege, 2006), though the question of how subsidiary management exploits such space remains underdeveloped. Some recent studies start to address the question by considering the power struggle and political sense-making in MNCs (Clark and Geppert, 2011; Ferner *et al.*, 2012; Geppert and Dörrenbächer, 2014). They argue that being able to access and deploy locally embedded resources (Birkinshaw and Ridderstråle, 1999) and mobilize an extended body of stakeholders (such as trade unions, government agencies and business partners) to influence parent-company decision-making (Kristensen and Zeitlin, 2005; Edwards *et al.*, 2007) allows subsidiary management to promote the employment practices that favour subsidiary interests. This paper builds on this line of argument to map out how subsidiary management exploits cross-country differences in workforce composition and labour market institutions as deployable resources. This allows my approach here to incorporate both human capital analysis and social-political analysis in explaining how and why the divides between employee groups were enacted at subsidiary level. Through the lens of subsidiary management, the paper shows the strategic and political implications of managing boundaries between employee groups in MNCs.

From a methodological perspective, the paper reveals 'insider' views' of managing subsidiary employment practices (Cooke, 2009), based on intensive case studies at two Japanese manufacturing plants located in Shanghai, China. Data collected includes company documents, my observation diary, interview notes, meeting minutes and correspondence with my informants. I also conducted interviews

with local labour bureau officials and employment agents, whose insights offered an important triangulation of fieldwork data. My analysis focused on comparing and contrasting the ways that boundaries between employee groups were managed, and why. Using thematic analysis (Braun and Clarke, 2006), I distinguished three types of resources that enable subsidiary managers to advance the preferred employment practices: institutionally-embedded; political; and knowledge-based.

Including the introduction, the paper is presented in six parts. The second section offers a review of the theoretical grounds for managing the boundary between employee groups in MNCs, followed by discussions on management as the social agency of institutional differences. The fourth part explains the research design and the process of qualitative data analysis. The fifth part compares the employment practices used to divide or link different employee groups, with particular attention being paid to the analysis of the institutionally-embedded, political and knowledge-based resources that enable subsidiary managers to advance such employment practices, as noted above. The conclusion summarizes the key research findings and offers suggestions for future research directions.

Literature review

Division of employee groups as a strategic decision in MNCs

Based on human capital theory, some argue that boundaries between employee groups are a reflection of the added value of work performed by employees (Atkinson, 1984). Lepak and Snell (1999, 2002), for example, suggest that the strategic value (which refers to the contribution to the generation of firm-specific competences) and the uniqueness (which means transferability in labour markets) of employee skills mark the boundary between employee groups. They discuss four modes of employment:

knowledge-based; job-based; contract work; and alliances/partnerships. Firms are more likely to adopt long-term and commitment-based employment policies to retain and develop employees who have skills that are unique and of high strategic value. Job-based employment is more likely to be applied to employees with transferable skills, but performing predetermined tasks with a high strategic value. Contract work is used to hire employees to perform standard and repeated tasks, and contracts may be temporary, depending on the scope and duration of tasks to be carried out. Firms are inclined to build partnership with professionals to take on specialized tasks. Lepak and Snell also found that different repertoires of HR policies are used to manage employees with similar skill profiles, and therefore suggest that firm-level HR policies are often managers' strategic decisions. However, they remain vague on how firms actually manage the boundaries or mobility between different employee groups.

For boundaries between employee groups in MNCs, some argue that the functional division of production creates a spatial division of labour within the MNCs (Dedoussis and Littler, 1994; Taylor, 2001; Wilkinson *et al.*, 2001; Morris *et al.*, 2009). MNCs which seek to compete by cost minimization, in particular, would relocate work overseas with standard skill requirements and relatively low strategic value. The level of job complexity and degree of discretion allowed to subsidiary employees therefore differ between the home and the host plants. Employees in the home plants are more likely to be offered generous wage and welfare packages and job security, as well as training and career advancement opportunities within the firm. Meanwhile, employees at subsidiaries are often paid at the local market rate and have fewer opportunities for internal career development.

Such alignment between an international division of production and a home plant–overseas subsidiary distinction of commitment-based and productivity-based

employment practices has often been criticized as being static and simplistic (Edwards and Kuruvilla, 2005). The complexity and changes of labour market institutions at both national and international levels is understated. Cross-country differences in unionization, state control of migration and re-employment support can significantly affect the mobility chances of local workers. Variation in the educational infrastructure in the host country also affects the skill profiles and employability of the local workforce. Employment legislation and administration of employment relations also vary across countries. Such institutions offer political control of labour mobility, which is seldom featured in the human capital analysis of labour mobility. More importantly, this view neglects the fact that being international economic and political agents, MNCs are often engaged in the active construction of local labour market institutions, especially when they relocate to new industrial towns (Elger and Smith, 2005; Li and Sheldon, 2010). In other words, MNCs can be seen as co-producers of labour market institutions in local settings. We therefore need to take into account management as a social agency of institutions to understand employment practices adopted at the workplace level.

Management as social agency of institutions

To understand that subsidiary management acts as a social agency of cross-country differences in labour market institutions, three streams of research are broadly relevant here: the strategic HRM approach, which stresses management's role in the search for the alignment between environment, strategy and employment practices; the power relations approach, which explores the power struggles within MNCs and their impact on employment practices; and the political economy approach, which examines the institutional space allowed for actors to shape employment practices in order to advance their own agendas and interests.

Those advocating the strategic function of HR often see employment practices as being informed and negotiated decisions. They argue that employment policies should be in alignment with MNCs' business strategy (Schuler *et al.*, 1993), attuned according to cross-country institutional differences (Rosenzweig and Nohria, 1994; Taylor *et al.*, 1996; Bird *et al.*, 1998), and enhance firms' performance by improving employee skills and commitment (Huselid, 1995). A comprehensive review of the strategic international HRM literature is beyond the scope of this paper. What is worth noting is the idea that management weighs the available resources and possible restraints in order to design employment policies that address the compelling pressure of 'global integration and local responsiveness'. Coherence between institutional environment, organizational context and management policies is therefore the dominant theme in studying HRM in MNCs. Among the studies that do attempt to bring in the subsidiary perspectives, the alignment between corporate and subsidiary HR strategies seems to underpin subsidiary employment practices. For example, Hannon *et al.* (1995), made the distinction between 'receptive, active and autonomous' strategy, which reflects subsidiaries' degree of responsiveness in the host country. They argued that subsidiaries' fundamental dependence on the resources offered by the headquarters is the key to understanding subsidiary HR strategy.

While alignment-seeking may be a dominant theme in the existing literature of international HR strategy, coherence is far from capturing the reality of managing people in MNCs. This approach plays down the initiatives of subsidiary management in designing and developing employment practices locally. It has been challenged by research on workplace dynamics, which suggests that conflict and confrontations between employment policies and management are common (Edwards and Bélganger, 2009). At the subsidiary level, empirical evidence suggests that not only production

and service units are embedded locally, but also that subsidiaries develop local strategies, advantages and functions (Brewster *et al.*, 2003). Parent-company HR strategies can be implemented in a way to advance subsidiary managers' interests rather than to serve an intended strategic objective designated by the headquarters (Kristensen and Zeitlin, 2005). My paper moves away from the integrative approach that sees subsidiary HR as a derivative of corporate HR strategy. Rather, the focus is on subsidiary management moderation in developing employment practices that address subsidiaries' interests and goals within the organizational and institutional context in which subsidiaries are embedded.

When it comes to the question of what empowers subsidiary managers, it has often been the structure of MNCs, or headquarters–subsidiary relations that was considered to be critical. Viewing MNCs top-down, Whitley (1999, 2007) suggests that it is headquarters' delegation that empowers actors at different levels of MNCs, ranging from directors at headquarters, the senior management team at subsidiary level, and team leaders, in particular, when employment issues are concerned. Such an ethnocentric approach in understanding MNCs, however, has been criticized by scholars, who often see power as being negotiated rather than simply granted (Birkinshaw and Ridderstråle, 1999; Balogun *et al.*, 2011). In other words, subsidiary managers are not passive in receiving the autonomy allowed by the headquarters, but actively seek to be involved or consulted when subsidiary-related decisions are being made. This opens up space for the collective agency of power within MNCs – political bargaining, lobbying and/or sense-making (Dörrenbächer and Gammelgaard, 2011). Subsidiary managers can choose to take an active or passive approach in power struggles (Bouquet and Birkinshaw, 2008a, 2008b) and the reconstruction of headquarter–subsidiary relations (Balogun *et al.*, 2011).

Some scholars taking the political economy approach in studying HRM in MNCs have gone further by advocating that the enactment of employment practices is a result of actors being able to mobilize the resources embedded in institutions and key stakeholders both within and outside MNCs (Quintanilla and Ferner, 2003; Almond *et al.*, 2006; Edwards *et al.*, 2007; Edwards *et al.*, 2010; Ferner *et al.*, 2012). Making the distinction between administrative and resource-based power, Birkinshaw and Ridderstråle (1999) argue that actors are empowered by both the organizations (administration) and the host country institutions (resources). They see subsidiaries as being dependent on headquarters and host countries for resources. Host country institutions offer viable alternatives to the resources allocated by headquarters. They also contend that in MNCs, subsidiary managers can exchange resource-based power for administrative power, to promote their interests in the organization. By gaining access and mobilizing host-country institutions and developing knowledge creation capacities locally, subsidiary management is capable of exerting influence in the MNCs (Mudambi and Navarra, 2004; Cantwell and Mudambi, 2005). In this sense, actors are not only empowered by institutions, but also themselves empower institutions. This approach is particularly useful in understanding how subsidiary managers are able to manipulate decision-making, even when they are not directly involved in negotiations with their headquarters.

The elements discussed above provide an analytical framework to conceptualize the enactment of employment practices as the outcome of strategic alignment, power struggles and locality empowerment by subsidiary management. This framework allows us to explore subsidiary employment practices beyond a selective reaction to institutional constraints. Rather, the purpose here is to deepen our

understanding of how and why the boundaries between employee groups are managed at subsidiary level by examining subsidiary managers in action.

Research design and methodology

My research was undertaken using a comparative case study approach. Case selection is critical for the construction of research validity in qualitative studies (Yin, 1994) and often involves a series of decisions (Fletcher and Plakoyiannaki, 2011). I followed a ‘theoretical’ sampling strategy (Eisenhardt, 1991; Buck, 2011). Case selection was projected against Morris *et al.*’s (2009) research on Japanese ‘reproduction plants’ in Malaysia. Two Japanese white-goods manufacturers in Shanghai (referred to as WG1 and WG2) were selected. Both can be categorized as reproduction plants: product model design was centralized at the headquarters in Japan; the subsidiaries manufactured standardized models for the local consumer market; and the plants were in the low-cost segment of their parent companies’ global production networks. The subsidiaries shared a range of standard criteria: location, company size, age, level of parent companies’ international experiences, product range, and production model. At the time the companies were visited, both were in the middle of undertaking major business reorientations in the Chinese market. Concurrently, the local labour market was experiencing major changes – details of which are discussed below. Such settings allowed an investigation of the scope that subsidiary managers had to develop subsidiary employment practices.

Mixed qualitative methods were used to collect data: non-participant observations, interviews and archival research. The fieldwork was conducted in two stages. In the first stage, I spent one month at each plant, staying in company dormitories, following the subsidiary managers at work, attending internal meetings and shop-floor inspections, and accompanied staff on external visits. Detailed field

notes were made every day to record my observations. I approached all members in the top management team, heads and deputy heads of departments and group leaders for interviews. A total of 42 formal, semi-structured interviews were agreed and conducted in the interviewees' native language. The interviewees explained how employees were managed in each plant. Additional informal discussions (Briggs, 1986) with the managers and the workers were held at various venues (such as in canteens and dormitories, and during meals), in which the numbers of participants varied between three and ten. I was also allowed access to some company documents, which provided triangulation for my observation diaries and interview notes. I translated the notes and documents from Chinese and Japanese into English, which was back-translated by two independent translators. This approach helped to develop a holistic view of the multiple realities in the field, as well as to allow new research questions to emerge during the research process (Moore, 2011). In the second stage, I revisited the plants a year later to conduct follow-up interviews. Because the role of actors outside the subsidiaries in shaping subsidiary employment practice had emerged as a new research theme after I analysed the data collected from the first stage, ten further semi-structured interviews were conducted with the local government officials and employment agents to further probe the role of these extended actors (Cooke, 2011). The findings revealed in this paper therefore offer detailed documentation of how managers *make sense* of the difference in labour market institutions when developing employment practices at the workplace level.

The data was analysed following the step-by-step guide of thematic analysis (Braun and Clark, 2006). I began by comparing the subsidiary employment practices adopted to manage the boundaries between employee groups. The underlying principle used to distinguish employee groups was their terms of employment

contracts as well as the possibility for them to move between groups. I then focused on the detailed analysis of subsidiary management moderation, which was initially divided into three categories of action based on existing theories: ‘strategic alignment’, ‘power struggle’ and ‘locality empowerment’. As I engaged with the data, developed a detailed understanding of the cases and reflected on the theoretical implications, I created new sub-codes to delineate patterns or mode of actions within the three categories of subsidiary management moderation. I focused on issues with analytical significance for in-depth exploration (Langley, 1999). For example, the sub-coding of ‘strategic alignment’ comes from elaboration on three streams of theories that underpin management actions: prioritization, adaptation and ‘cooperation’ (a newly-coined word – see below). Prioritization refers to the strategic choice in management actions, which means that managers filter institutional pressure, specify organizational objectives and decide management practices in the given institutional contexts (Child, 1997). Adaptation refers to the selection, experimentation, assessment and modification of management policies and practices in reaction to institutional and organizational pressures (Taylor *et al.*, 1996). ‘Cooperation’ was coined to highlight that management actions often involve coping with unintended consequences produced by management interactions (MacKay and Chia, 2013). Likewise, I defined power struggles as tactics adopted by subsidiary management in dealing with parent firms’ influences to decide subsidiary matters. Power struggle is further distinguished by five forms of actions: acceptance, participation, alleviation, resistance and rejection (Bouquet and Birkinshaw, 2008a, 2008b). For locality empowerment, I initially coded empowering resources embedded in locality (Birkinshaw and Ridderstråle, 1999), empowering relational networks (Kristensen and Zeitlin, 2005; Edwards *et al.*, 2007), and empowering local

knowledge (Mudambi and Navara, 2004). As the analysis went on, however, the subsidiary knowledge began to be less salient, because both plants were weak in research intensity and knowledge outflow. Neither of the plants were ‘competence creating subsidiaries’ (Cantwell and Mudambi, 2005). Rather, the way subsidiary managers represented locality stood out as a moderator of country differences in shaping subsidiary employment practices. I therefore introduced the code ‘empowering the knowledge of locality’ and re-engaged with the data for further analysis. The final step in the analysis was to build the narratives, which underpin the link between different labour market institutions, subsidiary management moderation, and enactment of subsidiary employment practices.

Qualitative data are often rich in detail, context-sensitive and likely to embrace subjectivity and ambiguity (Patton, 2002). Methodological challenges involved in dealing with qualitative data therefore extend to the presentation of the research findings. I paid more attention to narrative coherency in the text and use two figures and four tables to illustrate the details. Figure 1 shows the boundaries between employee groups, supplemented by Table 1 explaining the composition of each group. Table 2 summarizes subsidiary management moderation, the primary objectives of this, and the manifestation of it in actions taken by subsidiary managers. However, these actions are by no means discrete or segregated. Nor do the management actions produce only single objectives. Rather, as the discussions unfold, subsidiary management moderations are connected and can lead to multiple consequences, intentional or not. Such dynamics are illustrated by Figure 2, picturing the links between cross-country differences in labour market institutions, subsidiary management moderation and the enactment of boundaries between employee groups.

Findings and discussions

Contrasting employment practices at subsidiary level

The workforce can be divided broadly into four groups, based on the terms of employment within the plants: expatriates from the parent plants; tenured employees; employees with direct and fixed-term contracts with the subsidiary; and temporarily employed workers. Among the employee groups on direct and fixed-term contracts, there are two sub-groups: employees with renewable contracts; and those with non-renewable contracts. Employees on a non-renewable contract will either have to leave the plants or move to another group to continue working in the company. Table 1 shows the composition of the employee groups.

(Table 1)

In both plants a small number of expatriates were employed directly by the corporate headquarters, including a handful of local managers (two in WG1 and one in WG2). Employment practices applied to this group were similar to those applied in the headquarters, which are closest to knowledge-based employment (Lepak and Snell, 2002: 520). Employment practices applied to the tenured employees in WG1 and those on permanent contact in WG2 with sophisticated, firm-specific and multiple skills also showed elements of knowledge-based employment (see ‘core group’ in Table 1), offering employees an above-market-average pay package, biannual appraisal, job security and career development support. A key differences between tenured employees in WG1 and employees on permanent contact in WG2 are the career prospects beyond the subsidiary level and breaching the so-called ‘rice-paper ceiling’ (Kopp, 1994). By introducing an integrative regional HR policy, it was possible for tenured employees in WG1 to be relocated within China or overseas. In WG2, as will be explained in detail later, HQ’s attempt at HR integration was rejected by the local management. Expatriates (including locally recruited inpatriates) and

local employees were covered by separate HR systems. Employment practices adopted to manage these two groups also entail elements of knowledge-based employment, with some variations.

Employment practices applied to the fixed-term employees showed features of job-based employment. However, boundaries between the fixed-term and tenured employees were relatively fluid in WG1, but in WG2 these two employee groups were segregated by the terms of employment, despite their sharing significant similarities in their skill profiles, and performed core tasks. Both companies also increased the use of contract work by allying with employment agencies (local universities, vocational schools in WG1's case, and a variety of employment agents in WG2's case). Employees on temporary contracts generally worked on the assembly lines, with a few exceptions being assigned office work. WG1 often recruited from among the temporary employees, whereas WG2 made no effort to hire from this group of workers.

(Figure 1)

The key difference in managing boundaries between employee groups indicates WG1's and WG2's different approaches to workforce internalization. WG1's approach indicated the inclination to build an internally-trained core employment group with developed critical skills. Recruitment policies favoured young graduates and school leavers. The majority of entry level employees were channelled through the 'Young People's Training Centre', set up in conjunction with the local vocational schools to provide pre-employment training, with the aim of building supply lines from which to select employees. On completion of the internship, those who had performed well would be offered a fixed term contract (normally for a year). Such an internship system therefore played both a sourcing and

a selection function. University graduates were also brought in to fill the shop-floor team leader and some junior manager positions. A management internship programme was introduced in 2006, which aimed to develop firm-specific knowledge and skills among the young (hence less experienced) employees, with the purpose of selecting potential leaders, engineers and managers. Based on their performance at work, these managerial candidates could be promoted to senior positions as tenured employees. A pay-for-the-job-scale was adopted to specify the connection between positions, though promotions were rarely reported. Performance-based pay, seniority-based benefits and family allowances were offered to all employees apart from the student interns, which indicated the subsidiary's inclination to encourage employees to stay on with the company. Training and selection were stretched over a number of years, which, the managers believed, allowed them to pick out employees who showed aptitude for the work to be 'members of the company'. In this sense, a prolonged selection process marks the boundaries between the core and peripheral employee groups.

In contrast, WG2's recruitment targeted experienced workers and mid-career managers to form the core employee group. Most senior positions were filled by managers and engineers, who used to work in state owned enterprises (SOEs). These employees were on permanent contracts and offered relatively generous salaries and bonuses linked to the financial performance of WG2. At the same time, WG2 chose to recruit directly experienced group leaders, line managers and supervisors, who would lead the workers in the workshop. They were on renewable contracts and paid at slightly above market salary. Young graduates were also often hired to be team leaders, line managers, junior engineers, and office and production line workers. Replacements were easy to find and WG2 had put in limited effort to retain or

promote this group of employees. WG2 also allied with three local employment agencies to source temporary employees, who were expected to join and leave the plants in a 'just-in-time' manner. The segmentation between employee groups in WG2 coincided with that in the wider labour market, where moving between segments had been difficult (Lee and Friedman, 2010). Boundaries between employee groups indicated extended flexibility in the subsidiary workforce.

Divisions among employee groups often indicate the way that subsidiaries bridge an internal and external labour force to maintain the flexibility of the workforce, control labour turnover at a reasonable level, and retain employees who had skills that were critical to the company (Stewart, 1997). For the subsidiaries, in which the manufacturing of standard products was the core function, securing a stable yet flexible supply of employees was critical for their survival. On the one hand, workforce stability was important to ensure product quality, timely delivery and long-term relations with local clients, while on the other, a flexible workforce was employed to accommodate the fluctuations caused by production cycles and changes in consumer demand. The observation corresponds broadly with Silver's (2003) definition of a 'lean-and-dual' production regime, as reported in other industries in China (Zhang *et al.*, 2010). However, the scale, scope and duration of work performed by employees under distinctive terms of employment were significant. Furthermore, the subsidiaries shared an industry sector, production mode and product range. Yet they showed sustained differences in managing the boundaries across different employee groups. We therefore need to assess further how local labour market institutions leave 'space' for subsidiary management to create and maintain such differences.

The labour market institutions and boundaries between employee groups

Different employment practices adopted to manage boundaries between employee groups can be explained in part by the unbalanced, mobile and segmented character of the Chinese labour market compared to Japan. Local labour markets had a surplus of unskilled and semi-skilled labour, comprising industrial workers laid-off by SOEs, migrants from rural areas, and university graduates and school leavers. Many of these workers were in temporary employment and some were ‘marginalized’ – moving from one temporary job to another with limited skill development (Lee and Friedman, 2010). Such labour market institutions translate into high labour turnover, especially among migrants. At the same time, those with scarce skills, trained technicians, engineers and managers are difficult to source or retain (Ross, 2007; Howard *et al.*, 2008). China’s largest head hunter conducted a survey of 26 Chinese cities in 2007. The results indicate that annual labour turnover was highest among shop-floor workers (31.5%), followed by line managers (27.6%) and office clerks (25%) (51Job, 2007). Enduring skill shortages also reinforced endemic ‘poaching’ of skilled workers by employers (Li and Sheldon, 2010). Some local managers commented that commitment-building was unrealistic in China, a frustration shared by many MNCs (*ibid.*). Employment practices exercised in Japan were seen as being inadequate. As summarized by one of the Chinese HR managers:

It is not that we do not want to use retention measures. But the [Japanese] parent company don’t really have any. In fact, they don’t really need to have retention policies. Their measures used to reward loyalty are not relevant here. (HR manager, Chinese, male, 37, WG2)

Labour market liberalization in China is accompanied by some established institutions remaining relevant and strong (Knight and Song, 2005). The state continues to control internal migration through the *hukou* (the residency registration system, which

decides individuals' places to live/work and entitlements to social benefits), but job-seeking has become more down to individuals. Structural imbalance in the local labour market remains significant. New institutions emerge to connect people to jobs. For example, employment agencies have played more active roles in the labour market in recent years. Meanwhile country differences in labour market institutions give rise to new and hybrid forms of employment practices (Tempel and Walgenbach, 2007). As such, actions taken by the subsidiary managers were critical in understanding the subsidiaries' HR approaches.

The following sections focus on how subsidiary managers seek out the employment practices that serve the purpose of repositioning subsidiary functions, direct or redirect tension between stakeholders to retain power over employment issues, and mobilize tangible and intangible resources to advance the desired employment practices. My objective here is to capture managers in action, to understand how and why different ways of managing boundaries between employee groups were introduced, tested and applied in the workplace. The discussions below will focus on relating local managers' actions to subsidiary employment practices. A detailed categorization of these actions, and examples of where they were exacted from the original data are summarized in Table 2, 3 and 4, which I will refer to as the analysis of each type of management action unveils.

Strategic alignment

It is evident from the interviews that subsidiary management recognized the profound value of employment to achieve their subsidiary strategy. WG1 and WG2 were semi-automated assembly factories set up in the mid-1990s to explore the growing Chinese consumer market. Throughout the 2000s both subsidiaries faced severe competition from local white goods manufacturers. The subsidiaries were pressed to reduce

production costs, upgrade their product profiles, and provide more individualized products to cater for the rising middle class in China. In the meantime, the headquarters launched restructuring plans to consolidate their global production networks. This added to the pressure on subsidiaries to try to move away from being low-cost, standardized production plants, which might face closure. In this sense, corporate-level restructuring triggered subsidiary management's attempt to reposition within the MNC, and to review subsidiary employment policies accordingly.

As China was becoming an increasingly important product market, subsidiary management focused on expanding the lines of products, taking over more technically sophisticated production, and potentially developing new products independently of the headquarters. In fact, both WG1 and WG2 had been successful in upgrading their product profiles. In the interviews, subsidiary management emphasized that gaps between a new model being launched in the parent plants and at the subsidiary had been shortened. They stressed the variety of products assembled at the plants, and hence their technological complexity. Market-wise, WG1 began to supply the USA, which was celebrated by the subsidiary as recognition of the technological sophistication and high quality of their products.

The HR challenges that the repositioning might bring were well acknowledged, with the local managers referring to the 'quantity' (by which they meant the supply of employees with adequate qualifications and skills) and 'quality' (which referred to the employees' ability to apply skills and learn at work, and commitment and discipline) of the workforce in company documents, slogans and speeches. The importance of effective employment practices to the future of the subsidiaries was expressed repeatedly in the interviews. But this 'future' was *projected* differently in the two cases.

(Table 2)

WG1 prioritized becoming one of the leading assembly plants outside Japan and to expand their international markets. The subsidiary managers explained that they aimed to further shorten the unit production time, match quality standards and improve the product profiles. This led to a reliance on the headquarters in terms of technology upgrading, marketing, international distribution and customer services. To ensure that the production processes were in line with the product specifications and quality standards set out by the international distributors, it made sense to internalize and integrate employment: to recruit inexperienced workers, take time to train and develop employees' firm-specific skills, and hope that the competent and loyal ones would stay.

WG2 gave priority to enhancing its designing capacity during corporate restructuring. The plant began to make product model modification and production prototypes in the early 2000s. When the HQ announced structural decentralization in the mid-2000s, local managers saw the opportunity to undertake research and development (R&D) locally ('To become an innovative business unit, we have to act now') to speed-up the development of new products, tailor these to local clients, reduce the cost of new product design, and enhance subsidiary profitability. The general manager described their aims as making WG2 an 'all-in-one' plant.

Accordingly, local management focused on developing employment practices to attract competent and experienced employees designated to technology modification and the development of new models. The knowledge and skills embodied in the workforce were not necessarily firm-specific or unique, but WG2's policy of separating employee groups allowed them to source the workforce from different segments of the local labour market. The boundary between expatriates and

local workers is symbolic of the relative independence from the HQ. This gives space for subsidiary management to decide where and how to source a workforce with desirable skills. A 'flexible' workforce with 'updated' knowledge and skills, as suggested by the HR manager, was 'the key to the destination of technological excellence'.

These findings may seem to echo previous research based on analysis of the 'transfer' of Japanese employment practices to China (Bird *et al.*, 1998; Ma, 1998; Hong *et al.*, 2006). However, both subsidiaries examined employment practices through trial and error. Boundaries between employees are often emergent, rather than all being derived from careful strategic planning. The introduction of employment contracts in WG1, for example, encouraged local employees to explore their 'market value' and seek promotions externally. Subsidiary management were forced to respond to employees by acknowledging tenure and clarifying job rankings, and establishing structures that addressed internal mobility. Likewise, in WG2's case, it is not that attempts to integrate different employment groups were missing. A pilot HR policy introduced in 1998 to recruit and promote university graduates instigated major disputes and confrontations among the local workforce, which led to the policy being abandoned in 2001.

These findings support the idea of a crucial link between subsidiary employment practices and subsidiary functions (Medcof, 2008), and the human agency in constructing such link (Edwards *et al.*, 2013). My findings suggest that the way subsidiary managers reposition subsidiary functions is as important as the functions assigned by the headquarters at the time the subsidiaries were set up. Institutional differences, as reflected in the established HR repertoire (developed in the corporate headquarters, host countries or third countries), were judged as a

repository for managers to tap into. The ‘pick and mix’ or selective approach, as suggested by the hybridization literature, will have to take into account how the subsidiary managers perceive and assess labour market institutions to address HR concerns.

Power struggle

The analysis of management actions indicates a constant power struggle over employment issues. In WG1 and WG2, local managers were in charge of HR in both subsidiaries. Headquarters were seldom involved in the development of employment practices directly, which indicated strong decentralization in HR. However, consistency in employment policies was always on the headquarters’ agenda of global HR. Local managers in both subsidiaries found the HQ’s attempts at implementing a more integrative HR system across the organization as a ‘threat’ to their centrality in deciding subsidiary matters. The distinction between WG1 and WG2 lies in the approach taken by the local managers to deal with such a ‘threat’. By categorizing power struggles in the forms of *acceptance, participation, alleviation, resistance* and *rejection*, it became clear that local managers of WG1 had chosen a more *collaborative* approach, whereas managers from WG2 had taken a more *defensive* approach.

(Table 3)

It was also evident that the approach subsidiary managers took to maintain or regain power had driven subsidiary employment practices in different directions. I shall illustrate this point by focusing on the management probationary programme initiated by the HQ to ‘expand the pool of local talent’ and ‘build a cadre of competent and locally trained Chinese managers’.

In WG1, the 'fast-track managerial candidacy programme' was introduced to build a new generation of local managers: recruited centrally, well-trained and loyal to the company. The programme was executed initially through the Chinese regional headquarters (RHQ), which established a liaison with several Beijing-based universities to carry out centralized recruitment and selection. The Chinese RHQ also conducted pre-appointment training before each candidate was assigned to one of the firm's subsidiary plants (including WG1). The candidates were given a non-renewable fixed-term contract. This meant that they needed to gain a renewable fixed-term or tenure-tracked contract. Otherwise, they would have to leave the company.

The programme was only partially successful. More than 50% of the fast-track managerial candidates chose to leave WG1 after completing their first one-year contract, because of not being able to cope with the intensive shop-floor work pressures, and the difficulty of fitting into the work teams, or because they found better employment opportunities. A perceived high turnover among the young managerial candidates gave support to local managers' claims that centralizing recruitment and training led to inefficiency. They persuaded the China centre to agree on a provisional plan that candidates for the fast-track programme should include those from Shanghai-based universities (with which local managers of WG1 had strong links), that interviews for the programme should be held at the subsidiary level, and that factory orientation, training and assessment should be designed and conducted by the subsidiaries. Through these actions, local managers ensured that subsidiaries were involved in HR planning, at least at the regional level, and regained power over the selection of subsidiary employees.

Here we see that local managers in WG1 have used 'collaboration' as the primary tactic to retain power at the subsidiary level, despite their expressed concerns

regarding the introduction of the ‘fast-track managerial candidacy programme’ and considered that the role played by the Chinese RHQ ‘undermined’ their authority in subsidiary management. They acknowledged the parent company’s influence, distributed through the Chinese RHQ. They accepted the ownership advantage of the headquarters over local employment policies. They chose to participate in the headquarters-initiated change in the employment process, but alleviated its impact by moderating the specific execution that was within the range of their control. While they questioned the procedures and outcomes of the intervention of the headquarters in subsidiary employment practices, complete rejection, such as dismissing personnel assigned by headquarters, was extremely rare. Consequently, the boundaries were open, to allow space and flexibility to accommodate parallel employment practices that headquarters, the RHQ and subsidiary initiatives, which did not necessarily always coalesce (see WG1 in Figure 1). It was also in the local managers’ interests to keep open the boundary between expatriates and the core local employee group, which extended their own career prospects.

Local managers at WG2 were found to be more defensive in power struggles against the headquarters. While they acknowledge the technological advantages of the parent firm, local managers in WG2 insisted that marketing, sales and HR had to be highly localized. While the use of expatriates was a common practice, and local managers acknowledged technological and some managerial expertise brought by expatriation, they rejected the headquarters’ chosen candidate on a number of occasions – mainly because the local managers insisted that expatriate managers should have the knowledge and experience to ‘bridge’ the differences between the Japanese and Chinese employees. They agreed to participate in an ‘inpatriation–repatriation programme’ introduced by the Japanese headquarters, which originally

intended to promote young managers from WG2 to take part in the programme. WG2, however, rejected the proposal, arguing that such internal selection would cause ‘turmoil’ among the existing managers and might trigger group resignations (which, as they argued, had happened in other Japanese plants nearby after they had introduced similar programmes). Eventually, four young graduates were selected to join the pilot programme. They were assigned to on-the-job training in the Japanese parent plants for three years and then sent to various Chinese subsidiaries to fill mid-management positions. WG2 accepted one of these repatriated managers, who found herself ‘stuck in between’ the Japanese and the Chinese management teams. As managerial positions remained dominated by experienced Chinese managers, she found it difficult to establish her authority. Local managers maintained authority over subsidiary matters, by ruling out employment policies that might allow expatriates (the in-patriated manager) to move into the core local management team. A strong and stable local management team thus facilitated the creation and reinforcement of the relatively clearly defined boundaries between the other four employee groups (see WG2 in Figure 1).

These findings raise the question of what constitutes such contrasting approaches in power struggles. Potential explanation is the social identity of managers and their cultural values. Well documented by the existing literature, they are important factors shaping subsidiary managers’ decisions, choices and actions (Ferner and Quintanilla, 1998; Brannen and Salk, 2000; Sackmann and Phillips, 2004; Björkman *et al.*, 2007; Primecz *et al.*, 2009). In fact, both Japanese and Chinese managers refer repeatedly to ‘country condition [*guoqing* in Chinese and *kokujou* in Japanese]’, ‘cultural differences’ and ‘nature of the workforce’ explicitly when asked

about the reasons for the way they deal with headquarters intervening in local employment issues.

What was further highlighted in the local managers' testimony was that differences in their approach were incubated within the subsidiary environment. The structure of local managers' managerial careers and the prospect of progression with subsidiary development underpinned the preferred tactics that local managers adopted in the power struggle. The majority of local managers from WG1 joined the subsidiary as graduates, developed their managerial skills through on-the-job training and were promoted internally. They were closer to what is described by Caprar (2011: 620) as 'the converted employees'. They were familiar with the parent firms' power structure as well as power transitions associated with strategic change at the corporate level. Hence they were more inclined to manoeuvre within the system. Managers from WG2, in contrast, were more independent of the parent firm. Their managerial experiences were accumulated through on-the-job training, working in local firms and professional development. Most of them had been through business downturns and financial difficulties with WG2, and progressed to become senior managers by defending the subsidiary successfully during these crises.

These findings echoed Caprar's (2011) study of diversity in workplace identity among employees working in MNCs, and challenged the treating of 'locals' as a 'culturally homogenous' group in international business research. Unlike Caprar's, my study did not find tenure to be significant in determining local managers' identification of, and association with, the social values advocated by the parent MNC. The majority of local managers in both subsidiaries were recruited at the time the subsidiaries were set up, or shortly after. It is tentative to conclude that local managers' actions are embedded in the primary organizational environment (in this

case being the subsidiary) and shaped by the structure and process of subsidiary–headquarters interaction.

Locality empowerment

Finally, I assessed whether and how managing boundaries between employee groups was subject to locality empowerment. Existing research has shown that subsidiary managers' proximity to 'locally embedded resources' does not always convert to their power in deciding subsidiary matters or their influence over headquarters' decisions to be advanced in favour of subsidiaries (Andersson *et al.*, 2007). Managers' ability to mobilize local resources, gain access to local business networks and deploy local stakeholders will largely be a result of their level of control and influence over employment issues (Ferner *et al.*, 2012, 2013).

WG1 and WG2 were still performing primarily a production function, and relied on the HQ for technological resources. Managers in both subsidiaries reckoned that managing mobility among the local workforce was a critical resource in developing employment practices that are deemed to be desirable. In both cases, subsidiary access and relations with local employment agencies were found to be critical to enable managers to sustain existing employment practices, which involved contracting work on a large scale to perform an extended range of core tasks.

The differences, however, were that local managers from WG1 developed a *reactive* mode in locality empowerment, whereas WG2's local managers chose a *proactive* mode to empower locally embedded resources.

(Table 4)

To address workforce stability and flexibility, the parent firm favoured employing fresh graduates. Adopting a similar policy would make sense in the context where the mobility of graduates was restrained because of the lack of work

experience, which is the case in China (Rena *et al.*, 2011). Alliances with vocational schools and universities were initiated by the HQ and developed through the RHQ. Local managers in WG1 responded by facilitating the building local alliances and ensuring that the outcome of the alliances would allow WG1 access to a pool of trained labour. They identified a university in WG1's vicinity, strengthened the tie by legitimizing a WG1-endorsed 'certificate of training', and maintained the alliances over a relatively long period.

WG1 was also able to influence local vocational schools and universities to expand Japanese language training, partly as a result of the increased demand for pre-employment trainees and partly because more students were being attracted by the post-training certificate and the opportunity to secure a job at WG1. In this way, WG1 was able to reinforce their preferred generic skills among the local workforce, whereas firm-specific technical skills could be compensated by the pre-employment training and later training on the job. Local managers played a complementary role in mobilizing the locally embedded resource.

In WG2's case, local managers were found to be more proactive. Local management gained access to abundant, flexible and low-waged labour through building an alliance with a number of Chinese employment agencies when they gradually emerged as a result of the liberalization of the local labour markets. Predicting that any major shifts in headquarters employment policy would add uncertainty to WG2's local employment practices, local managers sought to enhance the 'Chinese' influence. They invited the Chinese parent firm to match the investment increase initiated by the Japanese parent firm. They built collaborative partnerships with a couple of sister plants, in which the Chinese parent firm had investment shares.

These findings are consistent with existing research suggesting that managers' subjective intervention gives meaning to employment practices (Brannen 2004; Gamble, 2010; Gertsen and Zølner, 2012). My observations showed that boundaries between employee groups also reflected the way subsidiary management addressed the concerns of the institutional agent's agenda. For example, the fluid boundary between student interns and the fixed-term contracted employees reflects the vocational school's interests in building their reputation of being an educational institution offering practical employability training and help for graduates seeking responsible employers.

These findings indicate that the locally embedded resources were often latent and could be activated in different ways. A comparison between WG1 and WG2 suggested that distinctive employment practices were subsidiary-specific and highly contextual to the management team. Subsidiary employment practices were advanced in such a way as to reflect subsidiary managerial initiatives to address employment mobility and skill acquisition, as suggested by the existing literature (Lepak and Snell, 2002). However, segmented local labour markets, and supply and mobility opportunities of different labour market segments, were filtered through the subsidiary managers' interaction with the local institutional agencies, enabling such distinctive patterns in the division and mobilization of the workforce at the subsidiary level.

Conclusions

This paper shows that management actions, or human agency, at lower organization levels is critical to converting institutional differences (macro-level structure) into employment practices (micro-level structure). This has been explored by assessing how the international division of production functions within MNCs has influenced

(but not determined) the way subsidiaries manage the boundaries between employee groups. I compared the way boundaries between employee groups were managed in two Japanese subsidiaries in China. What emerged from the cases is that different groups performed tasks with similar strategic value to the firm. Their skill profiles are not substantially different. They work side-by-side, but their employment relations with the firms varied. These findings suggest that HR policies designed to address strategic value and mobility is only part of the story about the division of labour in MNCs. A supply of diverse groups of workers in the segmented local labour market was found to be relevant for the development of such different subsidiary employment practices. Emerging labour market institutions (employment agencies, for example), also played a central role in structuring the subsidiary employment practices in managing boundaries between employee groups. Subsidiary management moderation, being the social agency of institutional differences, shaped employment practices through strategic and political actions. Analysis of the cases also shows that non-strategic actions are equally important in shaping a subsidiary's employment practices. Subsidiary employment practices emerge from subsidiary moderation, which involves strategic alignment, power struggles and locality empowerment. Subsidiary managers, being agents of foreign-invested employers in the local labour markets, are able to exploit political and knowledge-based resources, to ally with the emerging agents of local labour market institutions, and legitimize such alliances in the subsidiary context in order to advance employment practices, which offers a further explanation as to why subsidiaries employed *distinctive* policies and practices to manage the boundaries between employee groups. These strategic, non-strategic and political actions underpin subsidiary employment practices.

(Figure 2)

What, then, are the implications of these results for the study of international HRM in MNCs?

Firstly, this paper suggests that local labour markets can be linked to MNCs' production functions in many *different* ways. Adding to some recent research in understanding MNCs as decentralized networks, the findings here lend some support to the argument that a firm's local competitive strategies strongly influence subsidiary employment practices (Yao and Wang, 2006; Takeuchi *et al.*, 2009). The results suggested that subsidiary managers actively formulated new policies and reshaped existing employment practices in order to address their own strategic concerns, which stemmed from subsidiaries being part of an MNC as well as being a locally embedded business unit. On the one hand, subsidiaries can strengthen their leverage within the MNCs by performing functions with higher added value (as demonstrated by WG1). On the other hand, subsidiaries could take up the opportunities offered by corporate restructuring and seek to become a relatively independent entity (as demonstrated by WG2). Whatever function the subsidiary pursues requires subsidiary managers to organize effectively a workforce whose knowledge specificity, skill profiles and values differ from the company's.

Second, the fact that the MNCs were relocating production functions from relatively homogenous and mature labour markets (Japan) to where external institutional patterns remain fluid and immature (China) made the development of new employment practices more pressing in the local settings. The findings lend some support to the view that subsidiaries performing standardized production will employ low-cost employment practices and target workforce flexibility. Increasing use of contract work and establishing partnerships with employment agencies reflect such flexibility, as suggested by human capital analysis (Lepak and Snell, 2002). However,

boundaries or mobility between employee groups with similar skill profiles remain as a management choice. Human resource deployment is largely at the subsidiary's management's discretion. Employment practice development at the subsidiary level is a social-political process. Distinctive patterns of management actions can influence the outcome of this process significantly.

Finally, the results offer further evidence that the impacts of institutional differences on employment practice is a subject of subsidiary management moderation. By analysing subsidiary managers' roles in strategic alignment, parent–subsidiary power struggles and locality empowerment, this paper suggests that subsidiary managers may develop distinctive employment practices under *similar* external contingent constraints. For example, contrary to the idea that the *hukou* system will *automatically* create a core and peripheral division of labour in the workplace (Knight and Song, 2005; Lu, 2006; Zhang *et al.*, 2010), the findings of this paper suggest that segmentation in the local labour market was a result of interaction between managers and institutional agencies, from both within and outside the workplace. In particular, by building alliances with the agencies of local labour market institutions, subsidiary managers were able to extend human resources to secure a sustainable supply of labour, and to exercise some control over its mobility. However, as pointed out by the existing literature, management choice, decision and action do not always entail a pre-specified strategic or political agenda (MacKay and Chia, 2013). In other words, different patterns of employment practices were *co-produced* by the agencies: actors, MNCs and local institutions. Employment practices within the subsidiary were seldom the direct manifestation of institutional, industry sector or organizational pressures faced by the subsidiary (Smith, 2005, 2008).

Rather, differences in subsidiary employment policies and practices were locally constructed and reflected strong subsidiary initiatives and interactions.

This paper was based on two case studies of Japanese MNCs in China, and the findings may therefore have certain contextual limits. As with other research using qualitative methodology, the generalizability of the findings needs qualification. What I have hoped to achieve is to show the continued importance of subsidiary management moderation, with a focus on the strategic and political actions, and to reveal a bottom-up perspective on the institution–strategy–HRM link in MNCs. As a result, I was not able to include systematically the voices of many other actors. The voice of the headquarters was heard through the parent company’s agents, such as expatriates. Actions of the workforce were presented as being subject to management. The active roles employees played in constructing management practices will have to be explored in a separate paper (Zheng and Smith, 2014). Finally, to highlight managers in action, some soft attributes such as managers’ cultural values, social and occupational identities and career orientation has been paid less attention. These attribute may well be affected, and shaped by, management actions (Brannen and Salk, 2000; Gertsen and Zølner, 2012), which is a direction that warrants future research.

References

- 51Job China Salary Survey (2007-2008) Retrived from <http://www.docin.com/p-42322538.html>
- Almond, P., Ferner, A., Colling, T. and Edwards, T. (2006). 'Conclusions', in P. Almond and A. Ferner (Eds.), *American Multinationals in Europe: Managing Employment Relations Across National Borders* (pp. 341–352). Oxford: Oxford University Press.
- Andersson, U., Forsgren, M. and Holm, U. (2007). Balancing subsidiary influence in the federative MNCs: a business network view. *Journal of International Business Studies*, 38(5), 802–818.
- Atkinson, J. (1984). Manpower strategies for flexible organisations. *Personnel Management*, August, 28–31.
- Balogun, J., Jarzabkowski, P. and Vaara, E. (2011). Selling, resistance and reconciliation: a critical discursive approach to subsidiary role evolution in MNCs, *Journal of International Business Studies*, 42(6), 765–786.
- Bartlett, C. A. and Ghoshal, S. (1992). *Managing Across Borders: The Transnational Solution*. Boston, MA: Harvard Business School Press.
- Bird, A., Taylor, S. and Beechler, S. (1998). A typology of international human resource management in Japanese MNCs: organizational implications. *Human Resource Management*, 37(2), 159–172.
- Birkinshaw, J. and Ridderstråle, J. (1999). Fighting the corporate immune system: a process study of subsidiary initiatives in multinational corporations, *International Business Review*, 8(1), 149–180.
- Björkman, I. and Lu, Y. (1999). The management of human resources in Chinese–Western joint ventures. *Journal of World Business*, 34(3), 306–324.
- Björkman, I., Stahl, G. K. and Vaara, E. (2007). Cultural differences and capability transfer in cross-border acquisitions: the mediating roles of capability complementarity, absorptive capacity, and social integration. *Journal of International Business Studies*, 38(2), 658–672.
- Björkman, I., Smale, A., Sumelius, J., Suutari, V. and Lu, Y. (2008). 'Changes in institutional context and MNC operations in China: subsidiary HRM practices in 1996 versus 2006. *International Business Review*, 17(2), 146–158.

- Bouquet, C. and Birkinshaw, J. (2008a). Weight versus voice: how foreign subsidiaries gain attention from corporate headquarters. *Academy of Management Journal*, 51(3), 577–601.
- Bouquet, C. and Birkinshaw, J. (2008b). Managing power in the multinational corporation: how low-power actors gain influence. *Journal of Management*, 34(3), 477–508.
- Brannen M. Y. (2004). When Mickey loses face: recontextualization, semantic fit, and the semiotics of foreignness. *The Academy of Management Review*, 29(4), 593-616.
- Brannen, M. Y. and Salk, J. E. (2000). Partnering across borders: negotiating culture in a German–Japanese joint venture. *Human Relations*, 53(4), 451–482.
- Braun, V. and Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77-101.
- Brewster, C., Carey, L., Dowling, P., Grobler, P., Holland, P. and Warnich, S. (2003). *Contemporary Issues in Human Resource Management: Gaining a Competitive Advantage* (2nd ed.). Cape Town: Oxford University Press.
- Briggs, C. L. (1986). *Learning How to Ask: A Sociolinguistic Appraisal of the Role of the Interview in Social Science Research*. Cambridge: Cambridge University Press.
- Buck, T. (2011). Case selection informed by theory, In R. Piekkari and C. Welch (Eds.), *Rethinking the Case Study in International Business and Management Research* (pp. 192–209). Cheltenham: Edward Elgar
- Cantwell, J. and Mudambi, R. (2005). MNE competence-creating subsidiary mandates. *Strategic Management Journal*, 26(12), 1109–1128.
- Caprar, D. V. (2011). Foreign locals: a cautionary tale on the culture of MNC local employees. *Journal of International Business Studies*, 42(5), 608–628.
- Child, J. (1972). Organisational structure, environment and performance: the role of strategic choice. *Sociology*, 6(1), 1–22.
- Child, J. (1997). Strategic choice in the analysis of action, structure, organizations and environment: retrospect and prospect. *Organization Studies*, 18(1), 43–76.
- Clark, E. and Geppert, M. (2011). Subsidiary integration as identity construction and institution building: a political sensemaking approach. *Journal of Management Studies*, 48(2), 395-416.

- Cooke, F. L. (2009). A decade of transformation of HRM in China: a review of literature and suggestions for future studies. *Asia Pacific Journal of Human Resources*, 47(1), 6–40.
- Cooke, F. L. (2011). The role of the state and emergent actors in the development of human resource management in China. *The International Journal of Human Resource Management*, 22(18), 3830–3848.
- Dedoussis, V. and Littler, C. R. (1994). Understanding the transfer of Japanese management practices: the Australian case. In T. Elger and C. Smith (Eds.), *Global Japanization? The Transnational Transformation of the Labour Process* (pp. 175–95). New York: Routledge.
- Dörrenbächer, C. and Gammelgaard, J. (2011). Subsidiary power in multinational corporations: the subtle role of micro-political bargaining power. *Critical Perspectives on International Business*, 7(1), 30 – 47.
- Edwards, P. and Bélganger, J. (2009). The multinational firm as a contested terrain. In S. Collinson and G. Morgan (Eds.), *Images of the Multinational Firm* (pp. 193–216). Chichester: Wiley
- Edwards, T. and Kuruvilla, S. (2005). International HRM: national business systems, organizational politics and the international division of labour in global value chains. *International Journal of Human Resource Management*, 16(1), 1–21.
- Edwards, T., Colling, T. and Ferner, A. (2007). Conceptual approaches to the transfer of employment practices in multinational companies: an integrated approach. *Human Resource Management Journal*, 17(3), 201–217.
- Edwards, T., Ferner, A., Marginson, P. and Tregaskis, O. (2010). Multinational companies and the diffusion of employment practices: explaining variation across firms. *Management International Review*, 50(5): 613–634.
- Edwards, T., Tregaskis, O., Collings, D., Jalette, P. and Susaeta L. (2013). Control over employment practice in multinationals: subsidiary functions, corporate structures, and national systems. *Industrial and Labor Relations Review*, 66(3), 670-695.
- Eisenhardt, K. M. (1991). Better stories and better constructs: the case for rigor and comparative logic. *Academy of Management Review*, 16(3), 620–627.
- Elger, T. and Smith, C. (2005). *Assembling Work: Remaking Factory Regimes in Japanese Multinationals in Britain*. Oxford: Oxford University Press.

- Ernst, D. and Kim, L. (2002). 'Global production networks, knowledge diffusion and local capability formation. *Research Policy*, 31(8–9), 1417–1429.
- Ferner, A. and Quintanilla, J. (1998). Multinationals, national business systems and HRM: the enduring influence of national identity or a process of 'Anglo-Saxonization'. *International Journal of HRM*, 9(4), 710–731.
- Ferner, A., Edwards, T. and Tempel, A. (2012). Power, institutions and the cross-national transfer of employment practices in multinationals. *Human Relations*, 65(1), 1–25.
- Ferner, A. Quintanilla, J. and Varul, M. (2001). Country-of-origin effects, host-country effects, and the management of HR in multinationals: German companies in Britain and Spain. *Journal of World Business*, 36(2), 107–127.
- Ferner, A., Bélanger, J., Tregaskis, O., Morley, M. and Quintanilla, J. (2013). U.S. multinationals and the control of subsidiary employment policies. *Industrial and Labor Relations Review*, 66(3), 645–669.
- Fletcher, M. and Plakoyiannaki, E. (2011). Case selection in international business: key issues and common misconceptions. In R. Piekkari and C. Welch. (Eds.), *Rethinking the Case Study in International Business and Management Research* (pp. 171–191). Cheltenham: Edward Elgar.
- Forsgren, M. (1990). Managing the international multi-centre firm. *European Management Journal*, 8(2), 261–267.
- Fröbel, F., Heinrichs, J. and Kreye, O. (1980). *The New International Division of Labour: Structural Unemployment in Industrialised Countries and Industrialisation in Developing Countries*. Cambridge: Cambridge University Press.
- Gamble, J. (2010). Transferring organizational practices and the dynamics of hybridization: Japanese retail multinationals in China. *Journal of Management Studies*, 47(4), 705–732.
- Geppert, M. and Dörrenbächer, C. (2014). Politics and power within multinational corporations: mainstream studies, emerging critical approaches and suggestions for future research. *International Journal of Management Reviews*, 16(2), 226–244.
- Gereffi, G. (1999). International trade and industrial upgrading in the apparel commodity chain. *Journal of International Economics*, 48(1), 48–70.

- Gereffi, G., Humphrey, J. and Sturgeon T. (2005). The governance of global value chains. *Review of International Political Economy*, 12(1), 78–104.
- Gertsen, M. C. and Zølner, M. (2012). Recontextualization of the corporate values of a Danish MNC in a subsidiary in Bangalore. *Group & Organization Management*, 37(1), 101–132.
- Hannon, J. M., Huang, I. and Jaw, B. (1995). International human resource strategy and its determinants: the case of subsidiaries in Taiwan. *Journal of International Business Studies*, 26(3), 531-554.
- Heery, E. and Frege, C. (2006). New actors in industrial relations. *British Journal of Industrial Relations*, 44(4), 601–604.
- Hong, J. F. L., Easterby-Smith, M. and Snell, R. S. (2006). Transferring organisational learning system to Japanese subsidiaries in China. *Journal of Management Studies*, 45(5), 1027–58.
- Howard, A., Liu, L., Wellins, R. S. and Williams, S. (2008). *Employee retention in China 2006–2007: the flight of human talent*. DDI and the Society for Human Resource Management. Retrieved from http://www.ddiworld.com/pdf/employeeRetentioninChina2007_es_ddi.pdf
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38(3), 635-672.
- Jackson, S. E., Schuler, R. S. and Rivero, J. C. (1989). Organizational characteristics as predictors of personnel practices. *Personnel Psychology*, 42(4), 727–786.
- Knight, J. B. and Song, L. (2005). *Towards a Labour Market in China*. Oxford: Oxford University Press.
- Kopp, R. (1994). *The Rice-Paper Ceiling: Breaking through Japanese Corporate Culture*. Berkeley, CA: Stone Bridge Press.
- Kristensen, P. H. and Zeitlin, J. (2005). *Local Players in Global Games: The Strategic Constitution of a Multinational Corporation*. Oxford: Oxford University Press.
- Langley, A. (1999). Strategies for theorizing from process data. *Academy of Management Review*, 24(4), 691–710.
- Lee, C. K. (2007). *Against the Law: Labor Protests in China's Rustbelt and Sunbelt*. Berkeley: University of California Press.

- Lee, C. K. and Friedman, E. (2010). Remaking the world of Chinese labour: a 30-year retrospective. *British Journal of Industrial Relations*, 48(3), 3–17.
- Lepak, D. P. and Snell, S. A. (1999). The human resource architecture: toward a theory of human capital allocation and development. *Academy of Management Review*, 24(1), 31–48.
- Lepak, D. P. and Snell, S. A. (2002). Examining the human resource architecture: the relationships among human capital, employment, and human resource configurations. *Journal of Management*, 28(4), 517–543.
- Li, Y. and Sheldon, P. (2010). HRM lives inside and outside the firm: employers, skill shortages and the local labour market in China. *The International Journal of Human Resource Management*, 21(2), 2173–2193.
- Liu, Z. (2005). Institution and inequality: the hukou system in China. *Journal of Comparative Economics*, 33(3), 133–157.
- Lu, X. Y. (2006). Paying attention to research and resolve the problems related to mingong. In Research Office of China State Council (Ed.), *Survey Report on the Problems of Rural Migrant Workers in China* (pp. 487–92). Beijing: China Yanshi Press.
- Ma, Z. (1998). What to learn from the Japanese? the process of Japanese-style management transfer to China, in R. Strange (Ed.), *Management in China: The Experiences of Foreign Businesses* (pp. 118–131). London: Cass.
- MacKay, R. B. and Chia, R. (2013). Choice, chance, and unintended consequences in strategic change: a process understanding of the rise and fall of NorthCo Automotive. *Academy of Management Journal*, 56(1), 208–230.
- Medcof, J. W. (2008). The organizational influence of the chief technology officer. *R&D Management*, 38(4), 406–420.
- Milliken, F. J. (1987). Three types of perceived uncertainty about the environment: state, effect and response uncertainty. *Academy of Management Review*, 12(1), 133–143.
- Monin, P., Noorderhaven, N., Vaara, E. and Kroon, D. (2013). Giving sense to and making sense of justice in postmerger integration, *Academy of Management Journal*, 56(1), 256–284.

- Moore, F. (2011). Holistic ethnography: studying the impact of multiple national identities on post-acquisition organisations. *Journal of International Business Studies*, 42(5), 645–671.
- Morgan, G. and Whitley, R. (Eds.) (2012). *Capitalisms and Capitalism in the Twenty-First Century*. Oxford: Oxford University Press.
- Morgan, G., Kristensen, P. H. and Whitley, R. (2003). *The Multinational Firm*. Oxford: Oxford University Press.
- Morris, J., Wilkinson, B. and Gamble, J. (2009). Strategic international human resource management or the ‘bottom line’? the cases of electronics and garments commodity chains in China. *The International Journal of Human Resource Management*, 20(2), 348–371.
- Mudambi, R. and Navarra, P. (2004). Is knowledge power? Knowledge flows, subsidiary power and rent-seeking within MNCs. *Journal of International Business Studies*, 35(5), 385–406.
- National Bureau of Statistics of China (2001) *China Statistics Year Book 2001*. Retrieved from <http://www.stats.gov.cn/english/statisticaldata/yearlydata/YB2001e/ml/indexE.htm>
- National Bureau of Statistics of China (2010) *China Statistics Year Book 2010*. Retrieved from <http://www.stats.gov.cn/tjsj/ndsj/2010/indexeh.htm>.
- Patton, M. Q. (2002). *Qualitative Research and Evaluation Methods*. (3rd ed.). Thousand Oaks, CA: Sage.
- Perry, E. (Ed.) (1996). *Putting Class in Its Place: Worker Identities in East Asia*. Berkeley, CA: Institute of East Asia Studies of UC Berkeley.
- Primecz, H., Romani, L. and Sackmann, S. A. (2009). Cross-cultural management research: contributions from various paradigms. *International Journal of Cross Cultural Management*, 9(3), 267–274.
- Quintanilla, J. and Ferner, A. (2003). Multinationals and human resource management: Between global convergence and national identity. *International Journal of Human Resource Management*, 14(3), 363–368.
- Rena, S., Zhub, Y. and Warner, M. (2011). Human resources, higher education reform and employment opportunities for university graduates in the People’s

- Republic of China. *International Journal of Human Resource Management*, 22(16), 3429–3446.
- Ross, A. (2007) Outsourcing as a way of life? knowledge transfer in the Yangze Delta. In C. K. Lee (Ed.), *Working in China: Ethnographies of Labour and Workplace Transformation* (pp. 188–208). New York: Routledge.
- Rosenzweig, P. M. (2006). The dual logic behind international human resource management: pressures for global integration and local responsiveness. In G. K. Stahl and I. Bjorkman (Eds.), *Handbook of Research in International Human Resource Management* (pp. 36–48). Cheltenham: Edward Elgar.
- Rosenzweig, P. M. and Nohria, N. (1994) ‘Influences on human resource management practices in multinational corporations’, *Journal of International Business Studies*, 25(2): 229–51.
- Roth, K. and Morrison. A. J. (1992). Business-level competitive strategy: a contingency link to internationalization. *Journal of Management*, 18(3), 473–487.
- Rugman, A. M. and Verbeke, A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35(1), 3–18.
- Sackmann, S. A. and Phillips, M. E. (2004). Contextual influences on culture research: shifting assumptions for new workplace realities. *International Journal of Cross-Cultural Management*, 4(3), 370–90.
- Schuler, R. S., Dowling, P. J. and De Cieri, H. (1993). An integrative framework of strategic international human resource management. *Journal of Management*, 19(2), 419–460.
- Silver, B. (2003). *Forces of Labor: Workers’ Movements and Globalization since 1870*. Cambridge: Cambridge University Press.
- Smith, C. (2003). Living at work: Management control and the dormitory labour system in China. *Asia Pacific Journal of Management*, 20(3), 333–358.
- Smith, C. (2005). Beyond convergence and divergence: Explaining variations in organisational practices and forms. In S. Ackroyd, R. Batt, P. Thompson and P. Tolbert (Eds.), *The Oxford Handbook of Work and Organization* (pp. 602–625). Oxford: Oxford University Press.

- Smith, C. (2008). Work organisation within a dynamic globalising context: A critique of national institutional analysis of the international firm and an alternative perspective. In C. Smith, B. McSweeney and R. Fitzgerald (Eds), *Remaking Management: Between Global and Local* (pp. 25-60). Cambridge: Cambridge University Press.
- Stewart, T. (1997). *Intellectual Capital*. New York: Doubleday-Currency.
- Takeuchi, N., Chen, Z. and Lam, W. (2009). Coping with an emerging market competition through strategy–human resource alignment: case study evidence from five leading Japanese manufacturers in the People’s Republic of China. *International Journal of Human Resource Management*, 20(12), 2454–2470.
- Taylor, B. (1999). Patterns of control within Japanese manufacturing plants in China: Doubts about Japanization in Asia. *Journal of Management Studies*, 36(6), 853–873.
- Taylor, B. (2001). The management of labour in Japanese manufacturing plants in China. *International Journal of Human Resource Management*, 12(4), 601–620.
- Taylor, S., Beechler, S. and Napier, N. (1996). Toward an integrative model of strategic international human resource management. *Academy of Management Review*, 21(4), 959–985.
- Tempel, A. and Walgenbach, P. (2007). Global standardization of organizational forms and management practices? what new institutionalism and the business-systems approach can learn from each other. *Journal of Management Studies*, 44(1), 1–24.
- Wilkinson, B., Gamble, J., Humphrey, J., Morris, J. and Anthony, D. (2001). The new international division of labour in Asian electronics: work organization and human resources in Japan and Malaysia. *Journal of Management Studies*, 38(5), 675–695.
- Whitley, R. (1999). *Divergent Capitalisms: The Social Structuring and Change of Business Systems*. Oxford: Oxford University Press.
- Whitley, R. (2007). *Business Systems and Organizational Capabilities: The Institutional Structuring of Competitive Competences*. Oxford: Oxford University Press.

- Yao, X. and Wang, L. (2006). The predictability of normative organizational commitment for turnover in Chinese companies: a cultural perspective. *International Journal of Human Resource Management*, 17(6), 1058–1075.
- Yin, R. (1994). *Case Study Research: Design and Methods* (3rd ed.). London: Sage.
- Zhang, M., Nyland, C. and Zhu, C. J. (2010). *Hukou*-based HRM in contemporary China: the case of Jiangsu and Shanghai. *Asia Pacific Business Review*, 16(3), 377–393.
- Zheng, Y. and Smith, C. (2014). Chicken and duck talk: resistance embedded in language training at a Japanese manufacturing plant in China. *OS Summer Workshop 2014 and Special Issue on Resistance*, Corfu, Greece.
- Zhu, H., Moe, T., Eoyang, C., Wang, H. and Bei, B. (2011). *Hukou* reform: a mid to long term goal, picking up pace. *Equity Research, Goldman Sachs Global Investment Research Series*.

Figure 1. Boundaries between employee groups in WG1 and WG2

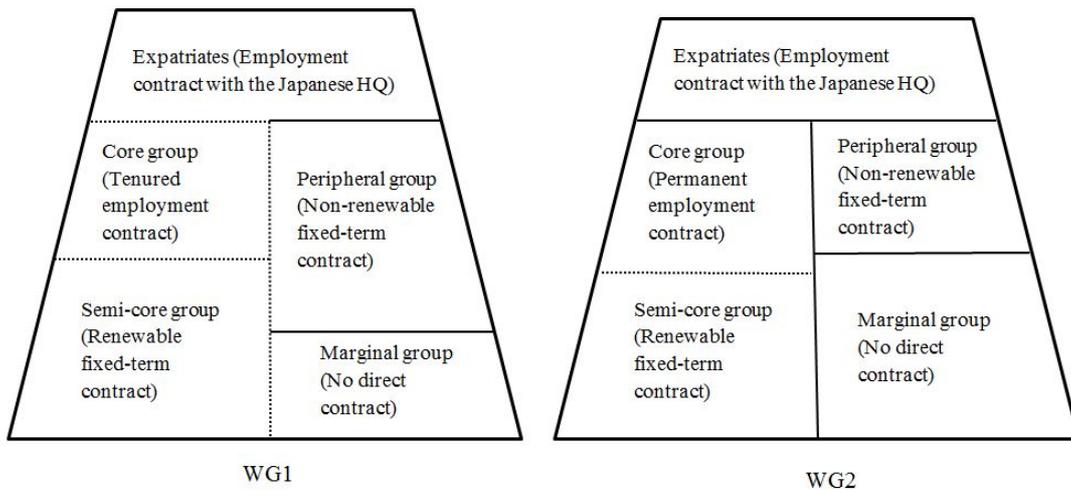
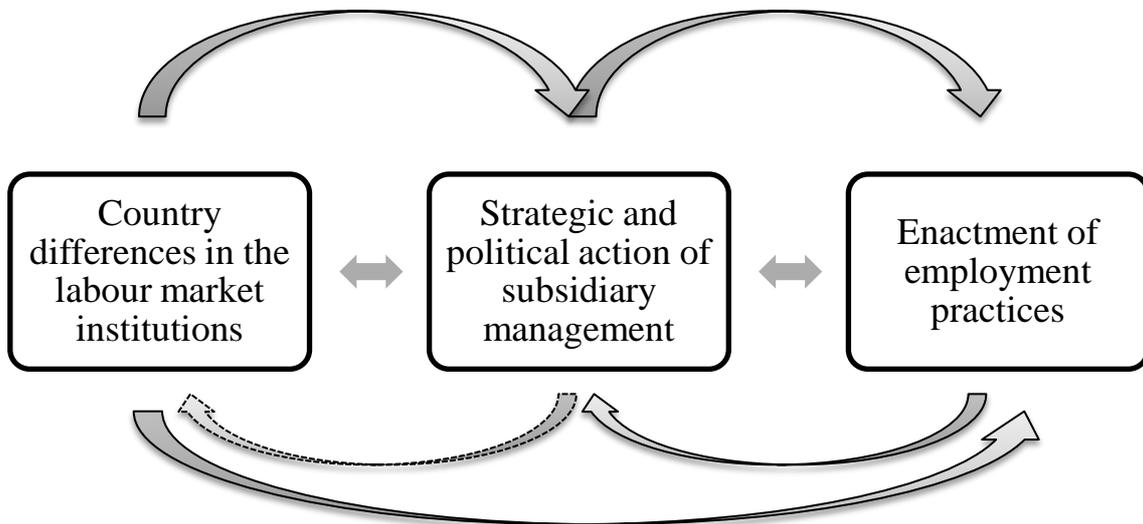


Figure 2. Country differences, strategic action and employment practices



Appendix 1. Composition of employee groups in WG1 and WG2

WG1	WG2
<p>Expatriates: these employees are recruited by the HQs. Their assignment, training and appraisal are integrated into the parent companies' HR system. The group includes expatriates from the HQs and the Chinese managers promoted to the regional HQs with the possibility of being assigned to overseas posts.</p> <p>Core group: these employees are recruited by the subsidiaries. They are on fixed-term contracts, which are renewable. The tenure of this group of employees is acknowledged in their employment contract. The majority of them joined the plant when it was set up, or shortly afterwards. They are paid at above-the-market rates and receive additional tenure-based benefits. They have attended long-term or short-term training on the job in parent plants. Appraisal is conducted by the subsidiary. There is the possibility of this group of employees being promoted to the HQs or RHQs. It is very unlikely they will be dismissed by the plant, unless the plant itself faces closure. The group includes all top managers, senior engineers, regional sales representatives and a number of 'star workers' (about 15% of the shop-floor workers).</p> <p>Semi-core group: these employees are recruited by the subsidiaries. They are on fixed-term contracts, which are renewable. They do not have security of tenure. Training and appraisal are co-ordinated by the subsidiary. They are generally paid at the market rate for similar jobs. Promotion to senior positions is possible. Pay increases are sometimes used as compensation for a lack of vacancies for senior positions. This group includes heads and deputy heads of divisions, departments and sub-sections, accounting and administration staff, engineers and technicians, workshop supervisors, salesmen, some office staff and shop-floor workers.</p> <p>Peripheral group: these employees are recruited either by the regional HQs or the subsidiary. They are on non-renewable fixed-term contracts. Their pay is slightly higher than the market rate for similar jobs. They fill supporting positions. At the end of their contracts they may be retained to become tenured employees or be offered a renewable contract. Most employees in this group are university graduates. Some are recruited through the 'fast-track management candidate' programme, co-ordinated by the RHQs. Training and appraisal is co-ordinated jointly by the subsidiary and the regional HQs.</p> <p>Marginal group: these employees are shop-floor temporary workers, including mainly student interns (a couple of cleaners are also on part-time temporary contracts). They work side by side with workers on fixed-term contract and perform similar tasks. The plant issues a certificate to all interns endorsing the completion of training.</p>	<p>Expatriates: these employees are recruited by the HQs. Their assignment, training and appraisal are integrated into the parent companies' HR system. The group includes expatriates and re-patriates from the HQs.</p> <p>Core group: these employees are recruited by the subsidiary on permanent basis. Most of them joined the company when, or shortly after, the subsidiary was set up, but there are exceptions. Some were sent from the Chinese HQ (the general manager of the plant, the deputy head of the accounting department and the head of HR) and some were recruited directly (a number of senior engineers). The plant offers financial subsidies and study time for this group of employees to seek professional training. Appraisal is conducted by the subsidiary. Pay is decided individually. Firm-specific benefits are offered (e.g. company apartments). It is very unlikely that this group of employees will be dismissed. It is also unlikely that this group would be promoted to the HQ. The group includes the local management team, senior engineers, senior salesmen, half of the production lines, and some experienced workers (around 10%).</p> <p>Semi-core group: these employees are recruited by the subsidiaries. They are on fixed-term contracts, which are renewable. They do not have security of tenure. Training is rudimentary and co-ordinated by the subsidiary. They are entitled to unpaid leave for professional training. Their pay is slightly higher than the market rate. Promotion is rare but not impossible. The group includes engineers, technicians, sales representatives, shop-floor supervisors, line managers, shift and team leaders, senior shop-floor workers and some office staff.</p> <p>Peripheral group: these employees are recruited by the subsidiary on fixed-term contract. They are paid the market rate for the entry-level jobs they perform. While the renewal of contracts can be negotiated, the majority of this group leave the plant when their contracted term ends. Most of the employees in this group are junior engineers, technicians, office staff, shop-floor leaders and workers. Training offered to this group of employees is rudimentary. None of the employees at either junior or senior managerial position were promoted from this group of employees.</p> <p>Marginal group: shop-floor temporary workers recruited through employment agencies. This group comprises up to 80% of the shop-floor workforce during the peak season, and 40% during the at non-peak times. They work side by side with the workers on fixed-term contracts. They are dismissed when their contracts end. Pay and benefits are arranged by the employment agencies. Under labour law, the company is not obliged to pay social insurance benefits for this group of workers, but accident insurance has to be covered by the company. Very limited training is given to these workers and their pay is largely based on their daily output. So far, no employees from this group have become contracted employees.</p>

Appendix 2. Examples of subsidiary management's moderation: strategic alignment

Primary objective of subsidiary management moderation	Subsidiary management moderation reflected in subsidiary managers' actions	WG1: to become a core manufacturing base	WG2: to become an 'all-in-one' business unit
Repositioning subsidiary function	Prioritization	<p>Prioritize local and international expansion (extracted from interview notes with the senior managers)</p> <p>Prioritize stability over flexibility (repeatedly stated and implied in a number of interviews)</p> <p>Prioritize firm-specific skill building (interview notes from GM, HR manager at RHQ and local HR managers, and some shop-floor employees)</p>	<p>Prioritize incorporating higher-value added subsidiary functions (extracted from interview notes with the senior managers)</p> <p>Prioritize flexibility over stability (interviews and observation) Prioritize attractiveness to potential employees (interview notes from HR manager, some office staff and shop-floor employees)</p>
	Adaptation	<p>Reinvent existing management practices</p> <p>Postpone expatriate employees attending training programmes at the parent plants in an attempt to pick out employees with competence and commitment</p> <p>Elaborate on workplace rules and regulations and introduced behaviour-based performance measures, which were used to decide contract renewal and promotion (company documents and interview with the local HR manager)</p> <p>'Turnover is high in the area. Our neighbours sometimes have a quarter of their workforce changed over a year. Our annual labour turnover is at about 10%. This is a result of HR's careful design, testing and adjustment of our policies over the years to get to know the employees, and let them know what is expected of them. So those we keep are those who want to stay.' (HR manager on internal selection)</p>	<p>Re-align parent and subsidiary employment practices</p> <p>Experiment with periodically reviewing the graduate programme, which was abandoned after running for 3 years (company documents and HR manager's account)</p> <p>Revise workplace rules and regulations (company documents, production manager and quality control staff's recount);</p> <p>Reinvent management practices by changing benefits into control measures: 'The company will retain the list of calls from all the company's mobile numbers. We sometimes detect that someone has applied for sick leave and then he/she used the mobile in other regions. The "sick leave" would then not be verified and the person would receive a deduction from their pay.' (office clerk on adapting management practices)</p>
	'Cope-ration'	<p>Cope with unintended consequences of subsidiary management moderation: 'We have introduced employment contracts, which were inconsistent with local labour law. Ideally, contracting reflects the value of the employees. They adopted one of contract format approved by the local labour bureau. Individual employees' terms didn't change. Salary, benefits, working hours etc., remained unchanged. But many see it as a move to write off their tenure with the company. Within a short time, we lost some very loyal employees.' (HR manager on the introducing of an employment contract in 1999)</p>	<p>Deal with the aftermath of management errors: 'We used to have Japanese and Chinese managers, both as the heads of divisions. Theoretically, it helps with building mutual understanding, learning and integration. In practice, it proved to be chaotic ... There was loads of confusion and corruption. The factory was on the verge of closure and our Chinese parent company had to step in.' (Director of HR on the lack of integration)</p>

Appendix 3. Examples of subsidiary management's moderation: power struggles

Primary objective of subsidiary management moderation	Subsidiary management moderation reflected in subsidiary managers' actions	WG1: a collaborative approach	WG2: a defensive approach
Gaining centrality in deciding subsidiary matters	Acceptance	Acknowledge parent company influence Employment policies translated and distributed by the RHQ (from observation). 'This is a Japanese company inside-out.' (shop-floor worker commenting on the displays of quality standards in the workshop)	Acknowledge the technical superiority of parent company 'We welcome expatriates. Their know-how is critical for the success of this company. But some expatriates just don't have a clue of how factories work' (HR manager on subsidiary's preference for parent company personnel)
	Participation	Promote subsidiary personnel to regional headquarters; take part in the regionalization of HR (interviews with the Deputy GM and HR manager from the RHQ)	Agree to be pilot subsidiary to take part in the parent company's inpatriation–repatriation programme (company documents and interview with the Japanese GM and the inpatriated Chinese managers)
	Alleviation	Use ambiguity in HR policy implementation: 'It is unclear how the promotion of the graduates recruited under the fast-track management candidate programme differs from that of other graduates. The HR manager explains promotion is performance-based and they used 360-degree appraisal. The latest appraisal shows that the high-performers are local recruits. Those sent by RHQ on the fast-track management candidate programme did not score as well on leader, peer and subordinate assessment.' (extracted from fieldwork notes) 'In the end, we all do the same job. But, performance is decided by team leaders. Who do you think they will rate highly? Us or their own picks?' (interview with a graduate on the fast-track management candidate programme)	Slow down the implementation of HR integration with other Chinese subsidiaries: 'Well, the restructuring has been going on since I could remember. There are always new orientations, policies, implementation guidelines – one after another. As time passes, they [the HQ] will change policies again, and new policies replace the old ones. We might be better off not to rush' (Head of MG's office, on HR reform)
	Resistance	Question the efficiency of HQ or RHQ co-ordination of subsidiary HR (extracted from interviews with HR managers, employees recruited under the 'fast-track management candidate programme', and team leaders)	Single out subsidiary from sister plants and other functional units within the MNCs group: 'We are the only subsidiary that has independent suppliers, distribution and sales networks, and customer services divisions. The factory is unique and so is our HR system.' (Chinese GM on subsidiary competitiveness) 'Yes, we have people who carried their old contract [with the Chinese parent company]. They are our assets and our legends.'
	Rejection	Dismissal of employees sent from the RHQ	Block expatriation: 'Our message was very strong: don't send the ones that had no guts to face confrontations between management and employees. [It] happens here every day. Don't send anyone who would perpetrate segregation between Chinese and Japanese. We had enough of it

			<p>from the previous ones. And don't send anyone who needs to be trained. We are a profit-making factory, not a baby incubator.' (Interview with the head of the GM's office)</p> <p>Protest against symbolic superiority of expatriates (e.g. the GM ordered the removal of a room divider in the factory canteen, which was used to screen a separate area for the expatriates)</p>
--	--	--	---

Appendix 4. Examples of subsidiary management's moderation: locality empowerment

Primary objective of subsidiary management moderation	Subsidiary management moderation reflected in subsidiary managers' actions	WG1: a reactive mode	WG2: a proactive mode
Enhancing the subsidiary management influences	Empowering embedded resources	I found limited evidence that the Chinese managers were gaining resources, financing, research collaboration or new distribution alliances locally. Either the Japanese parent firm is so resourceful that the local managers' ability to seek resources independently is undermined, or they are so integrated into the system that they are not willing to go and find alternative resources (author's field notes)	Invite the Chinese parent company to increase investment: 'We found out that our Japanese parent company wanted to increase their investment here, which we welcomed. However, doing this would mean that the Chinese parent company will become a minority participant. So we enquired if the Chinese parent also wanted to increase its investment to retain the ownership structure.' (General Manager on the increase in investment)
	Empowering relations with local stakeholders	Win support from key stakeholders: setting up trainee centres in the plant with the endorsement from the local government and education bureau, build alliances with local schools and universities (extracted from company documents, interviews with the students interns, interviews with the local HR manager)	Gain consent from key stakeholders Alliance with employment agencies, which are spin-offs from the local labour bureau; increase the proportion of temporary employees with the consent of the local labour bureau (interviews with HR managers and local labour bureau officials)
	Empowering the knowledge of locality	Selective and contextual translation: 'One of the officials from the economic development zone (in which the subsidiary was registered) introduced us to [the] university. In the meeting with this official and the representatives from the university, the head of HR from our Chinese headquarters kept naming all the officials he knew in Beijing. I didn't translate his statements, but he said how important the alliance was to them. He might think that his personal connection with higher-level officials would help to build new relations with the local officials. This might work in Japan. But here, bragging about the big names you know surely won't be appreciated by the ones in charge.' (interview with the head of GM's office)	Use Chinese as the official language (company documents and observation at company meetings) Emphasize the relevance of the plant's history (repeatedly stated in the interviews by local managers and employees)