Universitat Ramon Llull

DOCTORAL THESIS

Title: **INTERNATIONALISATION OF SPANISH FIRMS IN CHINA: AN ANALYSIS FROM A STRATEGIC HUMAN RESOURCES PERSPECTIVE**

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Abstract

The research interest of this thesis is to further understanding of why some Spanish firms perform better than others in China, and in doing so it focuses on the field of international strategic human resources (ISHR). The question addressed is: how can human resources (HR) contribute strategically to firm performance, to strategic management and specifically, to strategy formulation, given the turbulence of global business and the rapid changes in the studied object. After the research interest and structure has been introduced, the research context of Spanish firms in China is presented. This is followed by a literature review of the strategic human resources field. Taking a broad definition of HR, a taxonomy of strategic human resources (SHR) is proposed and specific research questions are formulated. Employing a qualitative comparative case study method, data were collected from comparative cases within two industrial sub-divisions, the consumer goods and non-consumer goods industries. Strategy decision-makers were interviewed, and data were transcribed and analysed using a data-driven thematic analysis approach. The results described are based on two analytical dimensions: general management and international SHR. Each element of these two dimensions is discussed and compared, followed by a case narration within each cluster. The process of HR's contribution to strategy formulation is illustrated through examining structure, leadership, international HR and learning. The thesis then explores the critical function of HR's strategic contribution to firm performance through strategy formulation, and proposes a framework for further research in this area. Finally, limitations are discussed. This thesis is presented in six chapters and divided into two parts, theoretical and empirical respectively.

Contents

Acknowledgements

In 1998, when Santiago Sales, an MBA colleague at ESADE, told me that I must write a book about China I thought it would come one day. But I first had to collect enough data and evidence. After my MBA graduation I threw myself into a demanding professional career, first as a manager with a Spanish multinational, later as an entrepreneur creating a start-up company. My life could have been busy enough keeping involved in different business projects, but consciously or unconsciously, the words of the people in my life influenced my decisions. My father, Delin Zhang, always expected me to receive a higher education and to pursue continuous learning, as did my mother, Qiuju Zhang, whom I love and whom I wish great happiness. My friend, Fabrice Munio, with whom I have had many discussions about differences between west and east; and Jesus del Rio, an anthropologist who introduced me to Capra and the power of analogy. Also many other friends who have placed their trust in me, leading me to believe that I would do something interesting in my life (at least for me).

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"..? ? ? ? ? ? , ? ? ? ? ? ? ? ? ? : ? ? ? ,? ? ? ,? ? ? ,? ? ? ,? ? ? ."

–? ?   Sun Zi

"…The essence of innovation is to recreate the world according to a particular vision or ideal. It is a way of behaving, indeed a way of being, in which everyone is a knowledge worker, an entrepreneur. This approach puts knowledge creation at the very centre of a company's human resources strategy."

– Nonaka, I.

CHAPTER 0

INTRODUCTION

0.1. Introduction

This chapter is labelled 0 because it attempts to give an overview of what this research thesis is about and what you can expect to find here. That is, first I wish to share my research motives; then the research objects (theoretical and empirical) are introduced; next the research aims are made explicit; and finally the thesis structure is described, at the end of the section.

0.2. Research motives

After years of professional experience lived between Spain and China, the issue of how Spanish firms can perform better in China's emerging market aroused my curiosity. This inquiry has driven me to pursue a doctorate, where this question has been converted into a thesis research project. In my experience, the 'people factor' appears to be essential in doing successful business, especially global business. Moreover, we know little about how culture (e.g. forms of thought and ways of being) impacts international business, and how it interacts with business performance. It is true that without people, nothing could be done in terms of business creation, development or implementation. As a practitioner or researcher, the issues of how all involved stakeholders can be managed, and how a firm can be driven to achieve better performance and to sustain competitiveness, remain uncertain. Therefore although other disciplines are also relevant, the twin focus of my research interest is business strategy with people as core parts of that business. This thesis focuses on the internationalization of Spanish firms in China, with reference to underlying theoretical components from the field of strategic human resources.

0.3. Research objects

This study concerns the internationalisation of Spanish firms in China, analysed from a strategic human resources perspective. Therefore its research objects are Spanish firms in China, and strategic human resources.

The choice of the empirical context of Spanish firms in China and case samples has a twofold purpose. First, while the upswing in business interest by Spanish firms in China calls for systematic knowledge of doing business in this market, the short history of their relations (Bregolat, 2007) offers a research opportunity due to relative homogeneity between firms, which provides a better comparative background. This context for research on Spanish firms in China will be detailed in Chapter One. Second, having more than ten years of business experience between Spain and China provides a rich insight and a potential network for data collection and interpretation. An attempt has been made to give this thesis practical implications, coupled with theoretical development in the international management field.

China's economic development and recent global business impact have made it attractive enough for most multinationals, including the Spanish, to incorporate it into their international strategic plans. However, as China is immense and its own culture is strongly rooted in its ancient philosophies, this rapid rate of development is impeded by a lack of systematic knowledge about management in highly variable dynamic contexts (Tsui, Schoonhoven, Meyer, Lau & Milkovich, 2004). Competition is intensifying and the rules regulating it are also changing. These conditions raise fundamental economic, sociological, and organizational questions about management during periods of transition.

In a recent report by the Spanish government (Economía Exterior, 2004), China's market is described as a boom of the Asian giant. However, compared with other European countries, Spain has a very recent history of opening up to the international economy (Mendoza, 2007; Molero, 1998). Numerous conferences and articles have been devoted to Chinese issues in other Asian contexts (e.g. the annual Economic Forum held by Casa Asia [1] and the Sino-Spain Forum, among recent examples). However, few managerial perspectives have been highlighted, and little theoretical, empirical or practical insight offered to allow effective learning for executives and organizations interested in this booming market. In short, Spanish organizations in China at firm level are under-researched and under-analysed.

Under the European context and with emerging business partnerships in China, Spanish firms may catalyze future solid relationships between Europe and China (Serra, 2004), especially following several government promotion plans (e.g. 2007 Spanish year in China). Since Spanish investment in China is very recent - it started in the 1980s - and more than half the investment made was in the last five years (see further details in Chapter One), this provides a certain homogeneity for research, and an opportunity to learn from previous experience. This study may be instrumental in the rapidly growing interest within this context.

As strategy and human resources are at the centre of this thesis, the field of strategic human resources (hereafter SHR) is used as a theoretical ground to develop the theory. The strategic nature of human resources has long been argued to play an important role in gaining and sustaining competitive advantage inside the firm. Thus, SHR is proposed as a key imperative in many parts of the world to explain sustainable competitive advantage in an increasingly intense global competition (Dyer & Reeves, 1995; Schuler, Dowling & De Cieri, 1993; Betcherman & Gunderson, 1990; Lundy, 1994; Truss & Grattan, 1994; Brewster, 1993; Hendry & Pettigrew, 1992).

However, studies on SHR have been diverse, and research focus has varied (see details in Chapter Two). Some queries emerge from the literature review: if there is no agreed framework in the field (Bacharach, 1989; Wright, 2003; Boxall & Purcell, 2003), which model should be adopted for this study, involving a new phenomenon? Besides, there is no clear boundary between strategic human resources and operational human resources, as Baron and Kreps (1999: 30) point out. They argue that SHR is too important to leave in the hands of HR professionals alone, and that considering its strategic importance and interactions with 'the rest of the business', it should be managed by general managers. Furthermore, despite agreement on the added value of human resources to both the firm's strategy formulation and its implementation (Schuler, 1992), the dominant research stream has concentrated on the following aspects: human resources practices, policies, systems or strategies to be aligned with the firm's strategy leading to successful implementation of strategy and superior performance (Becker & Huselid, 2006; Schuler & Tarique, 2007). Little

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[1] Casa Asia means Asian House in Spanish, and is sponsored by the Spanish government and other

attention has been paid to how human resources contribute to the firm's strategy formulation. This thesis attempts to contribute to a better understanding of the nature of strategic human resources.

0.4. Research aims

After introducing the research context and theoretical models and presenting the controversies in the literature review, Chapter Three presents this dilemma within the broader research context of international business and strategic management. The analogical question is revealed in the query of Rogers & Wright (1998): are we looking for the answer in the right place? Current research cannot provide a satisfactory answer to how human resources gain and sustain competitiveness towards achieving superior performance. If this is true, is it because researchers in the field focus on managing human resources and its success in implementing business strategies, rather than by participating in strategy formulation (e.g. Dyer, 1984)? Should we be looking for it in the 'right place', such as strategy formulation?

By positioning strategic human resources in the international context in which Spanish firms operate in China, a theoretical framework of international strategic human resources is thus proposed. While scholars in the internationalization field are also looking for new models for and approaches to emerging global phenomena, the theory of the resource-based view of the firm (RBV – Barney, 1991) has become the most prominent paradigm in strategic management.

public institutions. For more information, please visit: http://www.casaasia.org

In the face of these theoretical and practical challenges, there are many questions but few answers. From the practical perspective, the Spanish government is determined to develop relations with China and to build a better macro environment for investment, including institutional support for financing (see details in Chapter One). Within this context, practically oriented research can offer insight and fuel theoretical development based on the wealth of data from business reality (Hofstede, 1968).

From a theoretical perspective, the paradigm in management theory is changing as business goes more and more global. New internationalization phenomena cannot be captured and explained by traditional theories and models (Johanson & Vahlne, 2003). As regards the process through which SHRM contributes to the strategic success of an organization, achieving sustainable competitive advantage, any attempt to shed more light on these issues needs to be encouraged.

Within this practical context and research framework, a research design based on existing knowledge of Spanish firms in China, to abstract and disseminate this experience, will help further upgrade Spanish management and knowledge on doing business in China. As strategic human resources has been chosen for the theoretical ground, the thesis also addresses the question of how human resources is linked with the strategy formulation process, in particular its involvement in the strategic adaptation process.

0.5. Thesis Structure

The structure of this thesis follows the logic of the research design. It starts with a description of the current state of internationalization of Spanish firms in China as contextual information in Chapter One. Then a literature review on the field of strategic human resources is given in Chapter Two. This is followed by the theoretical framework and the research questions formulated in Chapter Three. Research methods and procedure are addressed in Chapter Four. Results and discussions are presented in Chapter Five. Finally, it concludes with implications, limitations and future research directions in Chapter Six.

PART I

RESEARCH AIMS
AND THEORETICAL FRAMEWORK

CHAPTER 1

CONTEXT FOR RESEARCH: SPANISH FIRMS IN CHINA

The insufficient level of presence in Asia is unsustainable nowadays and clearly contrary to the political, economic and social interests of today's Spain.

-- Spanish Government's Asia Pacific Plan, 2000

Spain as a country is making a strategic mistake in having so little economic presence in all fields in China and the rest of Asia.

-- Eugenio Bregolat, ex-Spanish Ambassador to China, 2004

1.1. Introduction

China's economic development and its impact on global business have recently been identified as significant and of particular interest to organizational researchers and practitioners. The Chinese business context is highly variable and dynamic, which intensifies competition, and the conditions under which business is operated raise fundamental economic, sociological, and organizational questions about its management during periods of transition (Tsui, Schoonhoven, Meyer, Lau & Milkovich, 2004: 134).

On the context of Spanish firms in China, Economía Exterior (2004) describes the Chinese market as the boom of the Asian giant, and Spanish Vice-President María Teresa Fernández de la Vega (in CRI, 2007) during her speech at the inauguration of 'Spanish Year in China' claimed that China is the priority of Spain in Asia. Organizational researchers and managers are attempting to identify successful strategies that can be applied to this context, especially since both the environment and the strategies themselves are so volatile.

Chinese management research has been increasingly involved in developing a better understanding of alternative trends outside the Western approaches. While numerous researchers have testified to the emergent interest in China, most studies employ macro-economic models, highlight political, legal and cultural issues, or associate results with applied economics and managerial strategy. To give some examples, Anderson (2004) argues the sustainability of the dynamic growth of China's economy; Boisot & Child (1996) cover network capitalism; Luo (2006) opportunism in inter-firm exchanges; Liu & Shi (2003) the strategy of transnational corporations for Chinese enterprises; Zeng & Williamson (2003) the globalization of China's brands; Meyer & Lu (2005) the strategy and structure of Chinese firms; Graham & Lam (2003) China's negotiation styles and practices; Takeuchi, Wakabyashi & Chen (2003) Japanese firms in China and Taiwan; and Li (2003) and Braun & Warner (2002) Western multinationals in China.

Existing studies that focus on the emerging success and competitiveness of local firms in China (Zeng & Williamson, 2003) show that strategy and human resources are contributing to the success of firms like Lenovo, Haier, and Huawei (e.g. Chen, 2002; Tang, 2004; Wang & Kang, 2002). As the Chinese multinationals are flourishing, the experience of fast-growing Chinese multinationals may be relevant when competing in this market.

This dissertation looks at Spanish firms in China from the perspective of strategic human resources. Due to their lateness in arriving in the Chinese market, most Spanish firms have little previous experience in operating in this context and this provides certain homogeneity for a comparative study. A few insights into Spanish firms suggest that the latter need to break away from the mimesis of other Western countries if they wish to succeed (Serra, 2004). This is because, on the one hand, Spanish firms have their particularities in the internationalization process (Durán, 2002); and on the other, the complexity of the Chinese context including its richness in culture means that as yet, there are no agreed 'best practices' for Western multinationals. Tsui et al., (2004) argue that a development strategy is needed in order to blend into the unique social, cultural, historical and political mosaic of China. As contextual information is relevant to studying management in China (Tsui, 2006), a context of Chinese management and Spanish firms in China is presented in the following sections. It will also assist in the research design to be described later.

1.2. China and business relations with Spain

Today's Chinese economy is more market-driven than planned, with 95% of its industrial prices based on the market. While the production sector was almost 100% state-owned about 25 years ago, this has now changed dramatically: a third is state-owned, another third in private ownership, and the final third is in cooperative or other ownership (Economía Exterior, 2004). Therefore, it can be concluded that a study of Spanish firms in China will be based on a market-led economy. Amongst the burgeoning Western interest in China, little attention has been paid to the investment of Spanish firms, and there are few studies. However, with the 'Spanish Year' in China in 2007, this study may be addressing a wider audience.

The economic aspect is by its nature the principal interest of Spain in China, but also the least developed (Casa Asia, 2004). For the last quarter century, the importance of a Spanish presence in China has been acknowledged by the Spanish government and the Spanish business world. But Spain's current weak presence in this potential market compared to other Western countries is affecting positive bi-lateral collaboration in terms of business practices and operations.

Proof that Spain recognizes China as an important economic region in the world is that China has been one of the principal receptors of the Aid Fund for Development (FAD) [2] from Spain in recent years. China's entrance into the World Trade Organization (WTO) in December 2001 also favoured its becoming the biggest Asian market for Spain, ahead of Japan (Bustelo, 2006).

Nevertheless, Spain's historic lateness in embarking on internationalization, and its focus on Latin American countries (Durán, 1999; Toral, 2006) when they started international expansion, accounts for the weak Spanish presence in China and in Asia in general (Bregolat, 2004; Cacho, 2006). To give some facts: up to 2003, Spanish exportation to China was only 0.6% of total exports, and Spanish investment was only 0.05% of total Foreign Direct Investment (FDI) in China (Bregolat, 2004). This author indicated furthermore: that there were only some 500 expatriate Spanish residents in China compared with more than 5,000 German, British and French; and some 200 Spanish firms compared with thousands from the other principal countries of Europe, again up to 2003.

Such an under-developed situation is worsened by the absence of big Spanish companies, as these huge conglomerates are often the drivers for the internationalization of industrial groups (Molero, 2005). This absence is compounded by the lack of a strong Spanish industrial image. In fact, some major Spanish multinationals, such as Telefónica, Gamesa and Acciona, have only started to react in this emerging market very recently by buying shares in Chinese enterprises, building up strategic alliances, or setting up factories (Abril, 2005; Europa Press, 2006; Gamesa, 2005).

At the institutional level, not counting numerous high-profile visits including those by King Juan Carlos and President Hu JinTao, several Spanish organizations have been putting effort into a series of actions to sponsor commercial activities in China. Among these, the Plan Asia Pacífico and the Integral Plan for the Development of the Chinese Market[3] have been the most recent attempts to outline actions for the future. Also recently, several institutions met in Santiago de Compostela and agreed to devote one million Euros annually over the next three years to promoting the operation of Spanish firms from the agricultural food and wine sectors in China (Ezquerra, 2007). These include the Instituto Español de Comercio Exterior (ICEX), the Ministry of Agriculture, the Spanish Food and Drink Industry Federation (FIAB), and the organizations for external promotion of sixteen of the autonomous regions.

At firm level, few Spanish firms can ignore China in their future strategic plans. Globalisation and the opening of the Chinese economy are particularly critical for

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[2] Literal translation from Spanish: Fondo de Ayuda al Desarrollo (FAD) - a governmental financial aid fund for developing countries, either for public institutions or private firms. For details, see: http://www.icex.es/icex/cda/controller/page/0,2956,35582_0_1601782_419061,00.html

[3] Literal translation from Spainsh: Plan Integral para el Desarrollo del Mercado Chino.

Spain. On the one hand, the unarguably huge potential market in China with its 1,300 million population is attractive for all multinationals, including the Spanish, to explore; this opportunity has particularly opened out since China joined the WTO. On the other, Spain as an international producer in many sectors (e.g. machinery and services) has been competitive in the worldwide market in recent decades (Durán, 2005); while China is becoming increasingly strong in these sectors, the integration of China into Spanish firms' strategic planning is becoming a matter of survival in these industries.

In recent decades, visionary Spanish entrepreneurs have been taking action in China, directly or indirectly, openly or discretely. As a result of all these efforts, the latest data available from the Spanish Official Commercial Chamber in Beijing indicated that there are now around 400 Spanish firms in China, centred on the services sector and commercial representatives' offices. About 150 have direct production activities in China, with a major presence in Beijing, Shanghai and Guangdong (Ezquerra, 2007).

1.3. The internationalization of Spanish firms and their presence in China

Between 1977 and 1992 the Spanish government gradually eliminated the restrictions on foreign direct investment (FDI) by Spanish firms. As a result, Spanish FDI came to account for an important proportion of this type of investment, with the fifth-largest percentage growth in the world. Besides that, Spanish outflow FDI has grown substantially in a short period of time, and it is also very interesting to observe that it concentrates on two geographic areas: the European Union and Latin America (Toral, 2006). Compared with those two regions, FDI in Asia or China is insignificant as regards its weight in the world economy.

The evolution of Spanish firms in China could be divided chronologically into four phases. The first phase represented their historical presence, which refers to their general existence before 1949, when the People's Republic of China (referred to as China in this dissertation) was founded. The second phase was the initial stage related to the very first contacts of present-day Spanish firms with the Chinese business world. This stage started in 1973 when diplomatic relations between the two countries were established. Since then, some entrepreneurial pioneers have begun their ventures in China, and the very first Spanish investments in China were made in the 1980s. The next phase was the second wave of Spanish investment in China in the 1990s. This phase was characterised by booming investments in different industries, driven by the inspiration of the pioneering experience, the increasingly mature domestic market in Spain, and the eye-catching economic boom in China. The last phase was the current state in the 21st century, when the Spanish government officially called for a strategic movement towards Asia, especially China (CRI, 2007).

1.3.1. Phase I: The historical presence of Spanish firms in China

What can be remarked in this phase is that there was a total absence of Spain in China's history. Before 1949, neither commercial nor any other kind of relations existed between Spain and China. In the 19th century, when the major Western commercial invasion of China occurred through the 'Opium War', Spain was not present in this colonial expansion process due to having its own internal problems

(Cacho, 2006). This translated into a lack of commercial relations and even of mutual knowledge of cultures and general interests in the contemporary period. From a positive perspective, this absence at least left a peaceful history between the two countries.

Some interesting examples of Spanish presence given by Cacho (2006) could serve as a historical background for the development of business relations. In cultural aspects, Diego de Pantoja, one of the closest collaborators of Matteo Ricci in the 16th century, defended the position of seeking a combination of Christianity and Confucianism in the activity of the Company of Jesus. In commercial aspects, Spain had some commercial triangulation with China through the Philippines and Mexico in the 17th – 19th centuries.

1.3.2. Phase II: Initial presence of Spanish firms in China

After diplomatic relations between Spain and China were established on March 9th 1973, economic and commercial relationships increased significantly. This was a qualitative jump, from zero to the twelve million dollars of bilateral commerce registered in 1973 (Xinhuanet, 2005). Besides exportation, several Spanish enterprises made their first investments in China in the 1980s. Técnicas Reunidas, the ALSA Group and The JoyCo Group (formerly General de Confitería of the Agrolimen Group) are some outstanding examples. The Tiananmen incident in 1989 caused many countries to impose economic penalties on China, and many multinationals left the country, considering it a high risk. However Spain maintained the mixed commission for Economic Affairs and Credits to China, and many Spanish firms stayed. The above-mentioned companies are some examples. This commitment to the long term of the local market was well-judged, and many opportunities were facilitated during this period. These pioneers made significant achievements in their business in China. In turn, their experience spread within the Spanish business community and moved the pool of Spanish investments forward to a boom in China in the 1990s.

1.3.3. Phase III: Boom of Spanish investment in China

The current boom and interest in Spanish investment in China occurred in the 1990s. After some early attempts initiated in the 1980s, enterprises such as ChupaChups, Nutrexpa, the Roca Group, the Gallina Blanca Group (part of the Agrolimen Group) and Cedes Logística started their operations and market exploration through investment, production and a platform in China at the beginning of the 1990s. The investment of firms such as Miguel Torres, Indo and the Simon Group among others occurred in the second part of this boom, at the end of 1990s.

After decades of business development, Spanish firms had accumulated enough knowledge and capital to move on to a more global arena (Molero, 1992). On the one hand, this was a sequential movement from an initial investment. Spanish medium-sized enterprises followed up their internationalization strategies by seeking further expansion. On the other, China's economic opening became more pronounced after Deng's visit to the South of China in 1992; more Special Economic Zones were opened with their attractive foreign investment policies. Both this attraction and the impact of Chinese exports persuaded Spanish producers to go for this venture, a boom that coincides with their expansion in Latin America in the same period. The difference is that investment in Latin America was by the big multinationals, concretely the seven conglomerates: Telefónica, BBVA, BSCH, Endesa, Iberdrola, Unión Fenosa and Repsol-YPF (Toral, 2006). Therefore, the amount and scale of the latter investment was much larger.

1.3.4. Phase VI: The current presence of Spanish firms in China

In the 21st century, both government and corporate efforts are driving Spanish firms to considerably increase their presence in China. Even though still weak compared with the other principal European countries, Spanish firms in China are experiencing another milestone in their history. This is partially due to the efforts of constant meetings and visits of high-level governors (Xiahuanet, 2005). Data for 2004 (Table 1.1) indicated that 41.27% of the total accumulated Spanish investment in China occurred in 2002 and 2003 (Economía Exterior, 2004). That meant an increasing and significant Spanish interest in investing in China as a trend. On the other hand, knowledge upgrading is now needed to pave their way to the next expansion phase.

Table 1.1: Principal European countries' investment in China (Accumulated data till 2003, in million of USD)

	Realised Investment Accumulated	Realised Investment 2002+2003 / Accumulated
United Kingdom	11.438,50	14,32%
Germany	8.851,00	20,16%
France	6.147,30	19,19%
Holland	5.063,50	25,61%
Italy	2.545,70	19,38%
Spain	445,80	41,27%

source: Mofcom[4] in Economía Exterior (2004: 58)

1.4. Challenges and perspectives

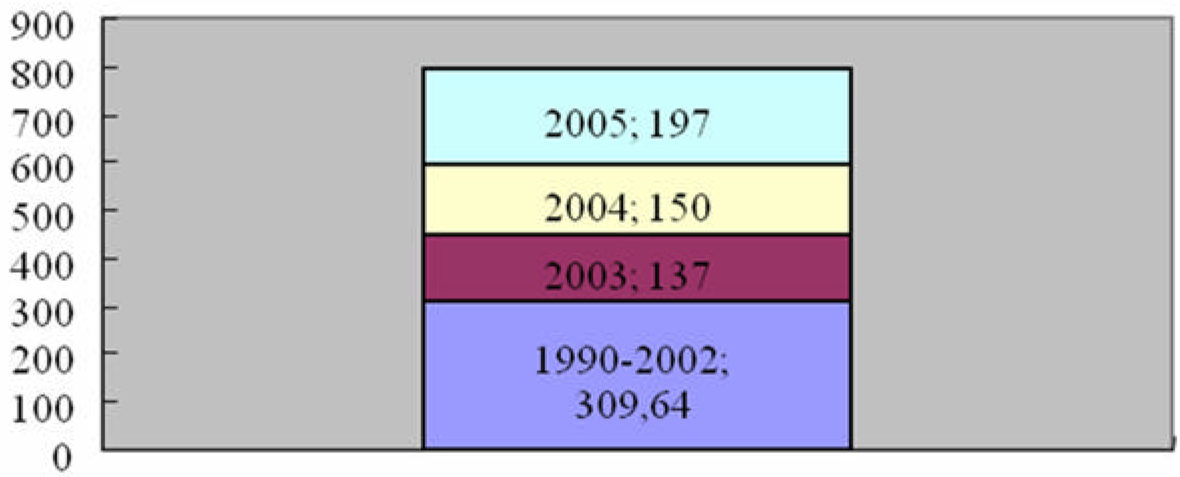
For Spanish firms, as one of world's ten largest investors (Guillén, 2005: the fourth largest in 2004), their investments in China are under-appreciated considering the position they hold in the global scale (Bustelo, 2006; Serra, 2004). As a consequence of this historical absence in the Asian market and their later international expansionist focus on Latin America, Spanish entrepreneurs perceived a geographical and cultural distancing from these Asian countries. The consequence was the lack of a pool of human resources with managerial know-how of business practices and cultural knowledge of both countries.

[4] MOFCOM is the Ministry of Commerce of the People's Republic of China: http://english.mofcom.gov.cn/.

Current Spanish investments in China are dominated by small and medium-sized enterprises (SMEs); most big Spanish multinationals are in the services industries such as banking and telecommunications, which China only started opening very recently to foreign investment (Fanjul, 2003; Serra, 2004). This explains why it was difficult for early Spanish firms to play a major role in China at collective level. Now that China is increasingly opening its markets to foreign investors, especially the services market, major Spanish players such as Telefónica, BBVA, BSCH and others can contribute better to this future development. As Cacho (2006) pointed out in some updated data on Spanish investment in China in Figure 1.1, the total amount for the last three years (2003, 2004, 2005) is much higher than the accumulation during the period 1990-2002, reaching a total of 793.4 million Euros. Spanish exports to China also increased to 1.499 million Euros, accounting for approximately 1% of total Spanish exports in 2005 (Bregolat, 2007).

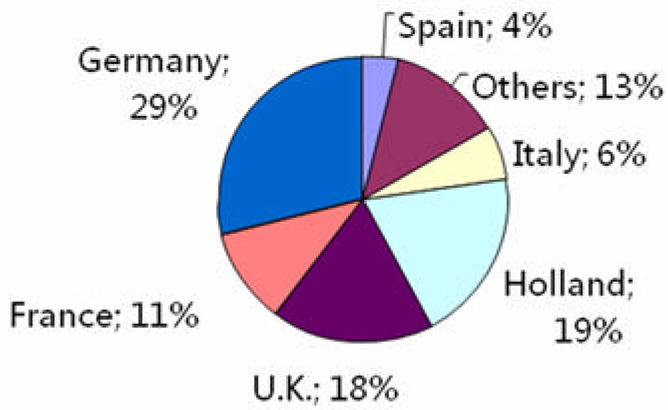
Figure 1.2 indicates that in 2005 Spain was positioning itself as sixth (4%) in Europe in terms of investing in China. Its presence in China has increased, following Germany (29%), Holland (19%), U.K. (18%), France (11%) and Italy (6%).

Figure 1.1: Spanish investments in China (Million of USD)



Source: Mofcom, adapted from Cacho (2006: 115)

Figure 1.2: 2005 FDI precedent from Europe



In fact, this data needs to be interpreted with caution. It is difficult to obtain reliable and complete statistical information about the investment of Spanish firms in China. This bias comes principally from their investment through Hong Kong, which is excluded and considered separately in statistics. Cacho (2006) states this, and gives an example of the investment of Telefónica, who purchased a 4.9% share of China NetCom. This investment was not statistically included in the above data because it was carried out via their Chinese subsidiary listed in the Hong Kong stock market.

Nonetheless, the above is sufficient to demonstrate that growth of Spanish investment in China as a trend is both evident and rapid. A constructive learning experience based on that of existing firms may be critical for forthcoming success. Creative formulae are called for if Spanish firms are to adapt to the circumstances and explore and facilitate access to the business opportunities offered by China (Serra, 2004; Fanjul, 2004). Spanish institutions are putting great effort into training human capital, promoting cultural exchange and 'country image', commercial and investment promotion, and exchanges in the fields of science and tourism. At firm level, how to bridge the existing strategic gap, with little experience and lack of a human resources pool, is a challenge for their performance in China; this is especially critical when strategy in global business itself is uncertain.

In spite of fierce market competition in China, Nueno (2004) considers that there is still a need for all kinds of products, and demand continues to increase in all areas, with many opportunities. When competing in the Chinese market, the strength of local competencies compared with internationally well-known firms has up to now often not been taken into consideration. Emerging Chinese brands like Haier, Lenovo, Huawei, Galanz, CITIC, ZhongXing, and COSCO (Zeng & Williamson, 2003) are now frequently appearing in international business spots, and calling the attention of scholars to their pursuit of success (e.g. the successful hosting of the IACMR[5] conference in 2006, and numerous international conferences in China and about Chinese management).

Chinese scholars have been concentrating on these lines of research. For example, Chen (2002: 118), after many years of following up the case of Lenovo, one of the most successful Chinese firms, points out that two main factors for its success in the global market are its strategy and its human resources. Levono's corporate culture and assessment system also contribute to its sustainable development. Wang & Kang (2002) and Tang (2004) also describe the case of Haier and Huawei, attributing their success to their management of people. Having spent some years observing Spanish firms in China, and from practical business experience, we believe that using these two factors as the key issues from which our propositions are derived would be a feasible departure point. Therefore, this research attempts to explore a managerial model that is focused on strategy and human resources to achieve better firm performance in an emerging economy in the specific Spanish - Chinese context.

1.5. Spanish human resource management and its implications

While Spanish firms have their own characteristics in the process of internationalization, this is particularly noticeable in the aspect of human resources and China. Knoppen, Dolan, Diez & Bell (2005) in their study of values and culture find that Spanish companies have different particularities in organizational culture and management style from other Western management. While managing human

[5]IACMR: International Association of Chinese Management Research: http://www.iacmr.org

resources internationally is already challenging, to add yet more difficulty, scholars argue that Human Resource Management (HRM) in Spain is still in the development phase (e.g. Cabrera & Carretero, 2005; Knoppen et al., 2005). Therefore, there is as yet no established Spanish HRM model available to be tested.

Even though Spain is part of Western Europe, in terms of HRM its management style differs substantially from the dominant Anglo-Saxon model. Despite the growing use of high-involvement or high-performance work systems in Spanish industrial firms, progress here has not been as rapid and widespread as to be considered the prevailing pattern in Spanish industry. Traditional HRM methods continue to be widely accepted as satisfactory in Spanish firms and coexist with the adoption of global practices (Bayo-Moriones & Merion-Díaz de Cerio, 2001; Cabrera & Carretero, 2005; Dolan, Valle, Jackson & Schuler, 2007).

In addition, managing human resources and other managerial issues in China have been considered a complex matter here, due to the deep-rooted nature of Chinese culture (Stening & Zhang, 2007). Spanish firms may have learned about the merits of leading through the 'inside-out' approach, and learning from the experience of existing Chinese operations may contribute to its further development. So far, HRM and its strategic role are still under discussion and development in the international arena. In the next chapter, a literature review is presented to set out research in the field of strategic human resource management. The characteristics of Spanish firms in China, their management style, including HRM, determine the choice of the research methodology which will be specified in Chapter Three.

CHAPTER 2

LITERATURE REVIEW: STRATEGIC HUMAN RESOURCES

2.1. Introduction:

The practice of doing business in China requires two basic elements: resources (both financial and human), and an ample knowledge with detailed objectives in this market (Arias, 2004). This is part of the historical shortfall of Spanish firms, and they urgently need adequate human resources and their related knowledge, which is scant (Soler, 2003); while financial resources are provided from various sources, such as institutional aids, bank loan and enterprises' own social capital. What is lacking at the current stage is related HR and knowledge, which could bring firms know-how on operations in this market and its trends, both to overcome the myth of China and to define a suitable strategy to take advantage of the opportunities it offers.

In the dynamic, perplexing and complex Chinese market, merely applying traditional internationalization models is insufficient. The existing debate around strategy and HRM among academics adds to the difficulty for practitioners in adopting a clear and agreed framework. In practice too, some professionals and executives are even concerned that there seems to be no sustainable 'strategy' for this market: what was designed years ago may be completely obsolete today (COPCA, 2004). These queries echoed in both academics' and practitioners' work signal our uncertainty about where we are going.

The research field of strategic human resource management (SHRM) has been chosen as the research focus for strategy and human resources in this context due to its prominence in management, and to its nature, by definition, of bridging strategy and human resources in managerial aspects. As a consequence, the consideration of literature on SHRM is taken as a basis of discussion for further theoretical and practical exploration. Since approaches to SHRM vary and there is as yet no clear generally accepted definition (Dolan, Valle, Jackson & Schuler, 2007), a literature review on SHRM was first carried out using the EBSCO Host database. More than 200 published articles in the field are overviewed. Further literatures and readings are extended on the basis of this review. As a result, the definition, evolution and taxonomies of strategic human resources are presented in the following sections.

2.2. Strategic human resources

Losovski (1976), cited in Dolan & Schuler (1995: 44) states that *the domain of Strategic Human Resource Management concept demands the understanding of the notion of Strategy. In fact, this notion is not new at all. In the year five hundred B.C., the Chinese philosopher Sun Tsi*[6]*, the author of Ping-fa, described the art of military strategy as the basis for analysis, calculation and establishment of human resources in the face of the debated confrontations and implied development of the necessary aptitude for strategic actions...*[7]

While it is true that the strategic importance of HR has been widely considered and studied in China over time, and SHRM therefore has strategic roots in Ancient Chinese philosophy, as an emerging research field it is relatively young, being developed from Western organizational theories. As already noted, the domain of SHRM theories emerged in 1980s as a response to uncertainty in HRM (Ulrich, 1987), and this is the context within which this research field is discussed.

A total of 269 articles published in 82 journals over the last two decades have been reviewed following an EBSCO Host database search. Widely disparate concepts and themes have been found to associate with Strategic Human Resources (SHR), exploring different models based on diverse approaches and objectives. The following domain variations associated with SHR appear repeatedly: Strategic human resource management (SHRM) is the most used; others are strategic human resource development (SHRD) and strategic human resource planning (SHRP). Under each domain there are different focuses and streams; besides that, SHR is also interpreted both as the strategic role or approach of human resource management, and the strategic role of the HR function or managers and professionals.

To give some examples of these concepts some selected definitions by scholars are given. These definitions are illustrative rather than exhaustive. SHRM is defined as 'the decisions and actions that concern the management of employees at all levels in the business, relating to the implementation of strategies directed towards creating and sustaining competitive advantage' (Miller, 1987: 6); as 'the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals' (Wright & McMahan, 1992: 4). SHRD is perceived as 'a joint diagnostic relationship between a consultant or planner and various stakeholders in the organization' (Grieves, 2003 in Werner, 2004: 2). And SHRP is 'the bridge between strategy and HR planning to build organizational competitiveness' (Ulrich, 1987; Schuler & MacMillan, 1984).

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[6]'Sun Tsi', or Sun Tsu, is one of the more common ways of spelling the original name, 'Sun Zi', in

Despite the variety in approaches and definitions, the common thread in SHR is to focus on the people factor as a core strategy to gain and sustain competitive advantage, to bridge HRM and strategic management, and to justify the contribution of HRM to the firm's performance. These conceptual variations indicate no essential differences but rather illustrate the relevance of SHRM, SHRD and SHRP to SHR from different and specific viewpoints. Bearing in mind that SHRM is in debt to the notion of 'strategy' in Sun Zi's *The Art of War*, the term Strategic Human Resources (SHR) is used in this thesis hereafter to give a broader meaning and emphasis to the 'strategic' role of human resources in the global business environment, and to explore the relations between human resources and strategic management.

2.3. Evolution of strategic human resources

The appearance of SHR is due internally, to the need to justify the value of the human resource department and externally, to the changing business environment in technology, globalization and diversity. While HRM has grown spontaneously in recent decades, the search for sources of sustainable competitive advantage in the increasingly intense global competition has led to the need for a more strategic approach for HRM. Consequently, SHR has become a major paradigm among scholars and practitioners in many parts of the world (e.g. Dyer & Reeves, 1995; Schuler, Dowling & De Cieri, 1993; Betcherman & Gunderson, 1990; Lundy, 1994; Truss & Grattan, 1994; Brewster, 1993; Hendry & Pettigrew, 1992).

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western countries.

[7] The sentence is translated literally from the French.

The relevance of SHR issues has grown in such an exponential way that research has now spread across various academic disciplines (for example, psychology, sociology and economics), also across diverse geographic regions in recent decades. Even though research has been primarily carried out in the United States and Europe, it is also emerging in the Asian Pacific region and some Arab countries (see Appendix 1: the ranking by countries in search results from the EBSCO Host database).

Nevertheless, this explosion seems not to be making progress in the literature, which is in need of integration and synthesis: different prominent scholars still argue that there is a lack of a solid theoretical framework (Wright, 2003; Boxall & Purcell, 2003). In order to better understand the controversies and dilemmas in the field, a comprehensive overview of the emergence, growth, and uncertainties of SHR is presented here to summarize its evolution.

2.3.1. Emergence of strategic human resources

In spite of the considerable importance of human resources in strategy, the contemporary emergence of the SHR concept has been an initiative of researchers in the HRM field. In fact, we can observe from the list of journals and publications produced that most are HR orientated rather than strategic-focused. The ranking (Appendix 2) presents those that have published most on the theme of SHR in sequential order: International Journal of Human Resource Management (IJHRM) (32), Human Resource Management (HRM) (26), Human Resource Planning (HRP) (18), Human Resource & Management Review (HRMR) (12) and Long Range Planning (LRP) (11). The sum of the publications in these five journals accounts for

36.8% of total samples among these 82 journals and reviews. Therefore, to understand the phenomenon, any description of the emergence of SHR must be grounded on the emergence of HRM, which is described in the following, dividing them into two sections: from personnel management to HM, and from traditional HRM to strategic HRM.

2.3.1.1. From Personnel Management to Human Resource Management:

Compared with the first Personnel Department established in 1902 by the National Cash Register Company (NCR) (Miles & Snow, 1984; Ulrich, Brockband, Johnson, Sandholtz, & Younger, forthcoming) and despite its rapid evolution, HRM as a discipline is relatively young. Since the 1970s, HRM has appeared as a replacement for personnel management, and has changed the boundaries, substance and objectives of the function. Burack & Miller united both terms in their article entitled *The Personnel Function in Transition* early in 1976. These two terms were often referred to as ‘synonymous’, and without ‘fundamental differences in meaning’ in the 1970s and early 1980s (Foulkes and Livernash, 1982; Miller & Burack, 1981).

Legge (1995) in *Human Resource Management: Rhetoric and Realities* presents a thorough review of the similarity and differences between personnel management and human resource management by analysing four models of approach. The change from personnel management to HRM is considered as a strategic movement, grounded on the following key characteristics. First, the increasing pace of innovation and technological shift is forcing and pressurising a function that is subject to vast changes; second, growing institutional size and form is adding complexity to this environmental turbulence and pushing the function towards becoming a comprehensive resource system; third, personnel have shown potential to contribute to the strategic aspects of organization, such as decision making, performance, and accomplishment (Burack & Miller, 1976).

2.3.1.2. From traditional HRM to strategic HRM

In the early 1980s when the strategic importance of personnel or human resource management first came to the fore, a dramatic shift in the field occurred spontaneously. This shift broadened the focus of HR from the micro-analytical research that had dominated the field in the past to a more macro-generic or strategic perspective (Wright & McMahan, 1992), namely strategic human resource management (SHR in this thesis, as explained in the above section). This appearance of SHR, emphasising the integration of human resource planning with the strategy of the organization, departed radically from traditional models (Schuler, 1992; Ulrich, 1987).

Arguably, the birth of the research field of SHR, fuelled by both practitioner and academic concerns, took place with an article entitled *Human Resources Management: A Strategic Perspective* by Devanna, Fombrun & Tichy (1981). Truss & Gratton (1994) distinguished the ‘Harvard Group’ (i.e. Beer, Lawrence, Quinn & Walton, 1984) and the ‘Michigan/Columbia Group’ (i.e. Fombrun et al., 1984; Tichy, Fombrun & Devanna, 1982), both of which had been strongly influencing the academic world and leading developments towards a new wave of interest in HRM.

On the one hand, this shift to SHR was developed to justify HR expenditure and the added value of the HR function in the organization. HR professionals were trying to identify HR departments and programs as elements of the firm's profit equation instead of costs. That is, HR needed to be maximized as a value-adding component for a firm's strategy. As a consequence, HR practitioners and theorists tried to demonstrate the value of the HR function, particularly by demonstrating its impact on the firm's performance (Dolan, 2004; Pfeffer, 1997; Ulrich, 1997).

Besides this internal factor, externally SHR appeared to respond to the ever-increasing global business environment. Intense global competition, technological and product innovation, and volatile market conditions were creating greater competitive pressures in almost every industry (Grant, 2005). Organizations needed a process of SHR to help deal with the rate of 'strategic surprises' that generated the need for flexibility and innovation, developing a culture to harness creativity and enterprise (Kanter, 1983; Baird & Meshonlam, 1988); the adaptation of strategies to create and sustain competitive advantage might provide an answer to these pressures. This contextual change forced managers to reconsider and reinforce the management of all resources within the organization (Barney, 1991), paying specific attention to the effective management of human resources, thus leading to general statements such as "People are our most valuable asset" (Biswas & Cassell, 1996: 20).

Coincidentally both shifts, from personnel management to HRM and from traditional HRM to strategic HRM, were meant to respond to the strategic needs of both external and internal evolutions. This shift from personnel management towards a more sophisticated HRM has been reported so repeatedly and extensively that it has led

HRM to acquire a more strategic role in organizations (Beer, Spector, Lawrence, Mills & Walton, 1985; Guest, 1993; Legge, 1989; Sisson, 1989; Storey, 1989). The shift from traditional HRM to strategic HRM is also intended to attain a more strategic role for HR in organizations, and hence competitive advantage for organizations (e.g. Miller, 1987). With ‘strategic’ as the common thread for the two movements, these two shifts have fuzzy boundaries. The appearance of HRM at the end of the 1970s, and SHR at the beginning of the 1980s, could be viewed as a transitional period for these strategic movements; or arguably the shift from personnel management towards HRM was in fact the starting point of a strategic move of the function inside the firm. Therefore, this is a continuum leading to the appearance of SHR rather than two independent movements.

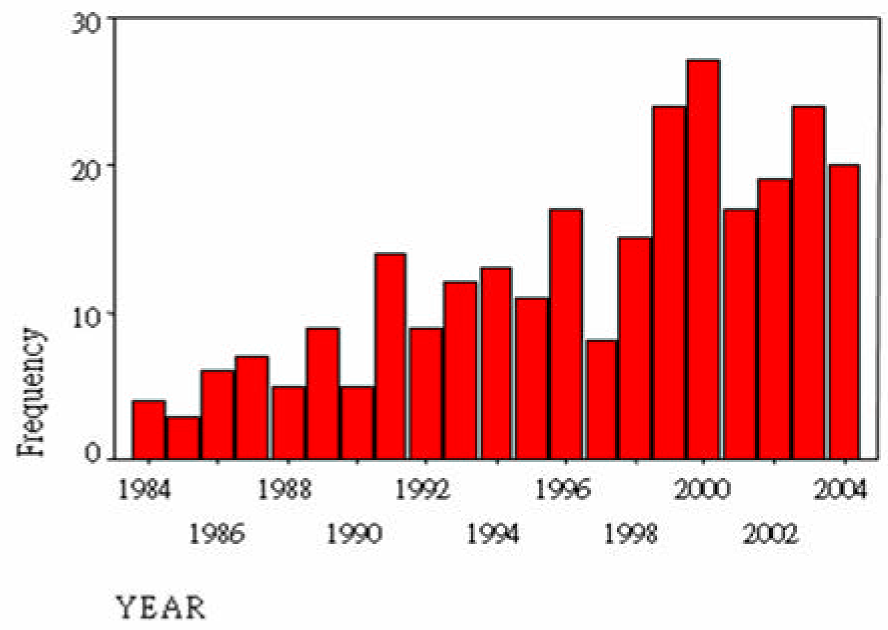
During this emergence period of SHR, case studies were often used as the methodology for justifying a proactive HRM presence at strategic level. The strategic need for and nature of HR is usually demonstrated through criticism of the functional role, in terms of perceived weakness or evidence of environmental pressures (De Santo, 1983; Dyer, 1984; Gehrman, 1981; Kaufman, 1984; Miller & Burack, 1981).

2.3.2. Growth of strategic human resources

Since the mid-1980s, the field of SHR has been growing steadily both as a sphere of management practices and as an important nucleus of research focuses. Growing out of researchers’ desire to demonstrate the importance of HR practices for organizational performance, SHR has been a source of debate among business executives, academics and students as regards what taking a ‘strategic approach’ to

HRM means (Delery & Doty, 1996; Boxall & Purcell, 2000). From Figure 2.1, we can observe the increasing volume of publications on SHR since 1984. Publications between 1999 and 2004 are 48.7% of total accumulated publications. The concentration of SHR publications has therefore occurred in recent years, revealing current concern, preoccupation and interest in this research field. Especially in 2000 (27), 1999 (24), 2003 (24), 2004[8] (20) and 2002 (19), a high volume of publications in the field is revealed.

Figure 2.1: Volume of published papers on SHR per year



Source: own compilation from literature review based on the EBSCO Host database

This explosion of research in SHR has spread worldwide. Truss & Gratton (1994) observed that the number and scale of research projects under way had increased, for example, in the UK, led by Andrew Pettigrew at Warwick and John Storey at

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[8] 2004 publications are counted up to October.

Loughborough, in the US led by Randall Schuler, and in Australia led by Dexter Dunphy.

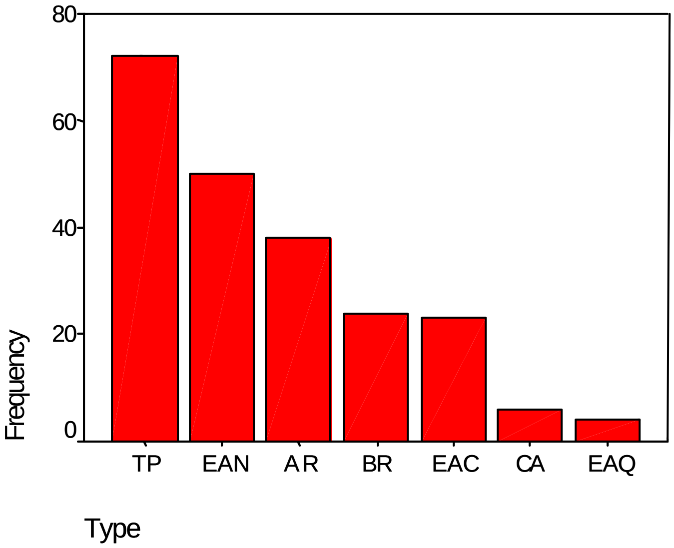
In the mid-1990s, recession brought SHR back to the centre stage of research in the face of a newly defined and highly competitive marketplace. In that period, organizations at all levels were increasingly turning to SHR techniques to pave the way for facing challenges, linking HRM with strategic goals and objectives in order to improve business performance, developing organizational cultures to foster innovation and flexibility, bringing former personnel departments to the forefront of organizational transformation and survival (Truss & Gratton, 1994). This explosive growth served to indicate the underlying vibrancy of this new subject area, even though a careful examination of the published work revealed widely disparate views regarding both the definitions of core SHR concepts and the range of topics and issues discussed within this domain (Swiercz, 1995).

Characterised by case method at the emergence phase, an early review of SHR by Dyer (1985) reported that progress had been made, but that a fully articulated theory of personnel and human resource management had still to appear. Boxall (1991) and Noon (1992) argued that lack of progress was because there was a relative shortage of empirical data to disprove or support any hypotheses made; large-scale surveys were needed to provide a broader sweep of evidence rather than the current emphasis on case-study research. In addition, much research seemed to be descriptive and there was a need to build up models leading to the development of generalizable concepts.

During this period of SHR growth, much research effort was devoted to quantitative research and theoretical development, as indicated in Figure 2.2. The search results of the EBSCO Host database from 1984 to 2004 highlight that most publications on SHR are theoretical development papers (33.2%), followed by quantitative empirical papers (23%), and empirical papers with case methodology (11.4%) ahead of other qualitative methods (1.8%).

This is a paradox. On the one hand, while theoretical papers have been the main stream in publications in the field, scholars continue alleging the lack of a consolidated framework (Wright, 2003); on the other, while publications with quantitative empirical studies have increased during recent decades, they too seem unable to solve criticism in the field.

Figure 2.2: Volume of published papers per type



TP: Theoretical presentations
EAN: Empirical analysis with quantitative method
AR: Articles and others such as conference reports and corporate interviews
BR: Book reviews
EAC: Case method
CA: Conference proceedings abstracts
EAQ: Empirical analysis with other qualitative methods

Source: own elaboration from literature review based on the EBSCO Host database

2.3.3. Uncertainty of strategic human resources

Researchers were sensitive to the criticism of being 'theoretically impoverished' in HR, and attempted to bring order and discipline to the burgeoning supply of SHR interpretations. Nonetheless, there was still disappointment amongst academics that such a significant field had remained vague, with many questions and concerns being raised at the same time. For instance, what were the distinguishing features between SHR and HRM or personal management? How did SHR relate to business strategy? And how should it be constructed and theorised? These questions had been widely argued but remained unresolved. Researchers continued devoting papers and articles to these subjects, with relatively little progress made towards what Boxall (1992) termed '*a new theoretical sophistication*'. Wright & McMahan (1992) stated straightforwardly that there was a crucial need for a strong link between the conceptual literatures that had sprung up on SHR and the empirical research carried out. The lack of this link led to a focus on micro-level issues that did not take account of the broader factors at firm level. Consequently, this piecemeal approach to the field of SHR appeared to lack a guiding conceptual framework (Wright, 2003; Dolan et al., 2007); several calls emerged along the same lines echoing this need.

As with research in the strategy field (e.g. Hoskisson, Hitt, Wan & Yiu, 1999), after the growing pace of quantitative method in the field the research pendulum is swinging back. The use of quantitative methods is being questioned since most studies provide varied results across diverse papers: some confirm the positive correlation between SHR and the firm's performance, while others merely reveal its existence. A number of limitations of existing SHR research have been reported; among others, that it particularly lacks in-depth qualitative studies (Becker & Gerhart, 1996; Boxall, 1996; Colbert, 2004; Khatri & Budhwar, 2001).

2.4. Taxonomies of strategic human resources

Publications over time on SHR indicate several research streams. After briefly describing emergence, evolution and uncertainties in the field of SHR, different schools of thought are presented in order to arrive at an understanding of the state of the art and research trends. First, the behavioural HR and structural HR approaches are differentiated; then the ‘best practices’ and ‘best fits’, and the widely accepted categorization of Universalistic, Contingency, and Configurational perspectives are offered; finally, the Complex perspective and other research lines are described.

2.4.1. Behavioural vs. structural approaches

2.4.1.1. The behavioural SHR approach

The behavioural perspective (Jackson, Schuler, & Rivero, 1989) implies that successful implementation of business strategy relies heavily on employee behaviour. An organization’s strategy has behavioural requirements for success, and the use of HR practices in the organization can reward and control employee behaviour. Therefore, the organization should implement HR practices that encourage employee behaviours consistent with the organization’s strategy. Consequently, the alignment of HR practices with strategy allows the organization to achieve superior performance.

Competitive advantages and the firm's performance have often been used as dependent variables in tests of behavioural SHR. For instance, Garavan, Costine & Heraty (1995) review competitive advantage literature and argue that an organization needs to identify the key elements of its value chain in order to achieve competitive advantage.

In the early 1980s when SHR was beginning to emerge, HR research was centred on a silo behavioural approach to studying HR sub-function: selection, training, compensation, performance appraisal, etc. Due to the prominent influence of strategic management, research appeared that used terms such as 'strategic staffing', 'strategic pay', and so forth, linking individual HR practices to a firm's performance. For instance, there was training (Russell, Terborg & Power, 1985), selection (Terpstra & Rozell, 1993), appraisal (Borman, 1991), and compensation (Milkovich, 1992). Dyer (1983) and Fombrun, Tichy & Devanna (1984) noted that the first attempts at empirical linkages looked at the areas of HRM that had been highlighted by earlier research.

It has been widely accepted that the main features of an HRM network include additional aspects such as welfare, trade unions, assessment, employee involvement and equal opportunities. But the central levels identified by Guest (1993) for HRM are selection, training and rewards. Behavioural HR is sustained by the long tradition of this influence. Some recently published research papers are presented in the following section as illustrative examples.

Siddique (2004) carries out a study that examines the impact of job analysis on organizational performance among 148 companies based in the United Arab Emirates (UAE), extending the findings of HR-performance research pursued in Western countries to a non-Western context. Survey results indicate that a practice of proactive job analysis was strongly related to organizational performance. Findings also suggest that a company-wide policy of job analysis is an important source of competitive advantage in its own right and merits the attention of HR professionals, line managers and top management.

Duffus (2004) studies SHR with a focus on the personal strategic plan (PSP). PSP is a personalised version of a strategic marketing plan which outlines the time-related details for achieving the career expectations of an individual in the context of satisfying the dynamic and strategic human resource needs of the organization. The advantages and disadvantages of PSP are discussed, with a 6-step outline for creating such a plan.

Baruch & Peiperl (2003) test the career systems typology of Sonnenfeld as strategically important for firms. Despite the wide acceptance of this prominent model in career theory, it has never been tested empirically. An empirical study is conducted by the authors to test the model by surveying 194 British firms. Findings support the strength of one dimension - supply flow - in terms of reliability and validity, but provide less support for the other dimension - assignment flow.

As an anecdote, Harrison (1993) even observes that in training and development, many trainers initially find the phrase ‘strategic human resource development’ difficult to accept, preferring 'softer' phrases such as 'employee development', or 'training and development'. But it now has considerable international currency, and is widely used in HRD literature (e.g. Beaumont, 1993; Storey & Sisson, 1993; Wilkenson, Marchington & Ackers, 1993) to mean the planned learning and development of people as individuals and as groups for the benefit of business as well as themselves. Consequently, it has become normal for organizations to have a business-led approach to training and development (Sparrow & Pettigrew, 1988; Harrison, 1993).

2.4.1.2. The structural SHR approach:

The ongoing international debate over SHR has been strongly influenced and supported by the view that HRM constitutes a new organizational paradigm (e.g. Tichy, Formbrun & Devanna, 1982). This argument develops the postulate that HRM is both a logical evolutionary response to changing organizational needs and an important strategic response to the intense competitive pressures generated by an increasingly global economy. Butler, Ferris & Napier (1991) observe that HRM theorists such as Walton (1987) and Kochan & Dyer (1993) propose a structural approach to the kinds of organizational change. In fact, this perceived need is a function subject to growing awareness of the increasing pressures of market contingency shaped by structural changes in the international economy (Williams, 1994).

Delery (1998) argues that the growing body of research on SHR shows that the methods used by an organisation to manage its human resources may have a substantial impact on many organizationally relevant outcomes. Many scholars attempt to structure different HR items and link them with dependent variables such as firm's performance. For example, Arthur (1994) links HR practices with turnover; Huselid's (1995) work links an index of HR practices to both financial, market outcomes and firm value; Delery & Doty (1996) link HR practices with financial returns; Welbourn & Andrews (1996) with the firm's survival; Ichniowski, Shaw & Prennushi (1997) and MacDuffie's (1995) studies link bundles of HR practices to productivity and quality, exemplifying a progression towards examining the link between systems of HR practices and performance.

2.4.2. Universalistic, contingency and configurational perspectives

The categorization of 'universalistic, contingency and configurational' (UCC) perspectives (Deley & Doty, 1996) is one of the most widely cited taxonomies. Research papers on SHR are classified into three, according to this typology, with or without the recognition of the original authors. These three types are built upon the relations between HRM and firm's performance. Depending on the construct of HRM linked with firm performance, these are known as the universalistic, contingency and configurational approaches.

2.4.2.1. Universalistic perspective

The universalistic perspective asserts certain independent–dependent variable relationships crossing whole populations of organizations. This means that some HR practices are always better than others, and that all organizations should adopt these

(Miles & Snow, 1984; Pfeffer, 1994). Under a universalistic approach, 'strategic HR practices' are those found to consistently lead to higher organizational performance, irrespective of an organization's strategy.

The universalistic perspective is the simplest form of theoretical statement in SHR literature because it implies that the relationship between a given independent variable and a dependent variable is universal across organizations. Developing universalistic predictions requires two steps: first, important strategic HR practices are identified; second, arguments that relate the individual practices to organizational performance are presented (Delery & Doty, 1996).

Many universalistic arguments seem reasonable, and universalistic predictions are supported by many scholars. Theorists adopting a universalistic perspective posit that greater use of specific employment practices will always result in better or worse organizational performance. For instance, Leonard (1990), Abowd (1990) and Gerhart & Milkovich (1990) find respectively that organizations having long-term incentive plans for their executives have larger increases in return on equity over a four-year period than do other organizations; the degree to which managerial compensation is based on an organization's financial performance is significantly related to future financial performance; and the pay mix is related to financial performance. In combination, these studies indicate that organizations with stronger pay-for-performance norms achieved better long-term financial performance than organizations with weaker pay-for-performance norms.

Other examples are the well recognised high-commitment model of labour management and high performance work practices. Pfeffer (1998) summarizes his (1994) sixteen most effective practices for managing people (such as participation and empowerment, incentive pay, employment security, promotion from within, and training and skills development) into seven, which result in higher productivity and profit across organizations: employment security; selective hiring; self-managed teams or team working; high pay contingent on company performance; extensive training; reduction of status differences; and sharing information. Osterman (1994) also argues that a number of innovative work practices (such as teams, job rotation, quality circles, and total quality management) result in productivity gains for all American organizations. There are other HR practices that might also affect organizational performance, for example, Schuler & Jackson (1987a) have presented a very comprehensive list of HR practices. In general, the practices identified by these authors have been labelled ‘high performance work practices’ or simply ‘best practices’.

2.4.2.2. Contingency perspective

The contingency perspective goes beyond the simple, linear and causal relationships explored in universal theories. It allows interaction effects and varying relationships depending on the presence of a contingent variable, which is often a firm’s strategy (Fombrun, Tichy, & DeVanna, 1984; Gomez-Mejia & Balkin, 1992; Schuler & Jackson, 1987b).

Contingency perspective is more complex than universalistic because it implies interactions rather than the simple linear relationships incorporated in universalistic theories. This means that contingency theories posit that the relationship between the relevant independent variable and the dependent variable will be different for different levels of the critical contingency variable. The organization's strategy is often considered as the primary contingency factor in the SHR literature. This perspective requires a researcher to select a theory of firm's strategy and then specify how the individual HR practices will interact with this strategy to result in organizational performance (Delery & Doty, 1996). Contingency theorists have attempted to show how a number of HR practices are consistent with different strategic positions and how these practices relate to firm performance (Balkin & Gomez-Mejia, 1987; Schuler & Jackson, 1987a).

Miles & Snow's (1978) theory of strategy, structure and process is one of the most cited both as contingency (e.g. Zajac & Shortell, 1989) and configurational perspectives (Doty, Glick & Huber, 1993; Delery & Doty, 1996). It has been shown to be a relatively powerful predictor of organizational effectiveness (Doty et al., 1993); and Miles & Snow explicitly state that the theory had implications for an organization's HR policies.

In contingency predictions, the relationship between the use of specific employment practices and organizational performance is posited to be contingent on an organization's strategy. Interpreting Miles & Snow's (1978) theory as a contingency theory requires a researcher to identify a single variable that differentiates the alternative strategies specified in the original theory. For instance, Zajac & Shortell

(1989) note rate of product, service, and market innovation as the central contingency variable. Firms that are highly innovative are considered prospectors, firms that are moderately innovative are considered analyzers, and firms that are rarely innovative are considered defenders. Thus, the strategic positioning of all firms can be characterized by a single contingency variable: innovation.

2.4.2.3. Configurational Perspective

The configurational school in organization studies differs from universalistic and traditional contingency theories by following a holistic principle of inquiry and concern on how patterns of multiple interdependent variables relate to a given dependent variable. Usually, configurational theories are based on typologies of ideal types, and explicitly adopt open systems assumptions of ‘equifinality’ (Delery & Doty, 1996; Meyer, Tsui, & Hinings, 1993; Miller & Friesen, 1984).

Configurational theory is a more sophisticated theory than the others, in which business strategy is seen as a ‘Gestalt’ of critical and interdependent elements. These elements include such vital areas as sectoral choice, competitive strategy, suitable technology, structure and necessary levels of finance and human capital. It is likely that there will be some subtle interactions among strategic variables. For example, it is probable that the effect of competitive strategy on HR strategy, at least in manufacturing, will be affected by the dominant technology used in the firm; or that very careful staff planning will often be valuable in capital-intensive firms (Boxall, 1999; Snell & Dean, 1992).

The theories of this approach draw on the holistic principle of inquiry to identify configurations, or unique patterns of factors, that are posited to be maximally effective (Doty et al., 1993; Meyer et al., 1993; Miller & Friesen, 1984; Venkatraman & Prescott, 1990). These configurations represent non-linear synergistic effects and higher-order interactions that cannot be represented with traditional bi-variate contingency theories. The assumption of equifinality is incorporated, posting that multiple unique configurations of the relevant factors can result in maximal performance. These configurations are assumed to be ideal types that are theoretical constructs rather than empirically observable phenomena. As a consequence of these differences, configurational theorists working in SHR need to theoretically derive internally consistent configurations of HR practices or employment systems that maximize internal fit, and then link these employment systems to alternative strategic configurations to maximize external fit (Delery & Doty, 1996; Doty & Glick 1994; Meyer et al., 1993).

A priori typology of effective HR systems and linking the performance of HR systems to firm strategy is also attempted. Delery & Doty (1996) give examples: Miles & Snow (1984) and Arthur (1992) develop multiple equally effective combinations of HR practices and argue that different sets of practices are suited to different firm strategies. Configurational ideas have been incorporated in empirical SHR studies where researchers attempt to identify configurations of HR practices that predict superior performance when used in association, or the correct strategy, or both. Examples are: Arthur (1992) argues that there are two prototypical employment systems or groups of HR practices. The more closely an organization's HR practices resemble the correct prototypical system for its business strategy, the greater the performance gains. Similarly, MacDuffie (1995) derives specific configurations or 'bundles' of HR practices that enhance firm's performance; Ichniowski, Shaw & Prennushi (1994) attempt to test the hypothesis that combinations of HRM practices have greater effects on productivity than the sum of the component effects due to individual practices.

Authors such as Delery & Doty (1996), Doty et al., (1993) and Doty & Glick (1994) also interpret Miles & Snow's (1978, 1984) strategic typology as a configurational theory. That is, the typology is the set of organizational types which identify the configurations of contextual, structural, and strategic factors that maximize fit, which results in effectiveness (Doty & Glick, 1994: 235). Firms that resemble these three ideal strategic types (the prospector, the analyzer and the defender) appear to be more effective than firms resembling the reactor type.

The prospectors are characterized by their constant search for new products and markets. They continually experiment with new product lines and venture into markets. These organizations are the creators of change in their markets and are the forces to which competitors must respond. As such, prospectors are more concerned with searching for new opportunities and are probably not as efficient as defenders. Analyzers have characteristics of both defenders and prospectors. They operate in both stable product domains (like defenders), and new changing product domains (like prospectors). They are usually not initiators of change (like prospectors), but follow change much more rapidly than defenders. Defenders have a narrow and stable product-market domain and seldom make major adjustments in its technology or structure. The emphasis is on better and more efficient ways to produce a given product or service and on defending a market. Defenders do little research and development, so they import technology from outside the organization when pursuing new products.

Reactors have inconsistent and unstable patterns of adjustment to the environment. In Miles & Snow's (2003: 81) words, this type of organization lacks a set of consistent response mechanisms that it can put into effect when faced with a changing environment. The latter is not always included in empirical testing or theoretical development (e.g. Delery & Doty, 1996; Miles & Snow, 1984).

In the empirical study of three modes of theorizing in SHR, Delery & Doty (1996) use Miles & Snow's (1978) strategic typology to identify three ideal strategic configurations to test configurational predictions. The theoretically derived internationally consistent configurations of HR practices, or employment systems, maximize horizontal fit, and then these employment systems are linked to alternative strategic configurations to maximize vertical fit. Drawing from the works of Kerr & Slocum (1987), Osterman (1987) and Sonnenfeld & Peiperl (1988), two types of employment systems are used to approach configurations: market-type system and internal system (Table 2.1).

For Delery & Doty (1996), the market-type system is similar to the prospector, and the internal system is similar to the defender. Specifically, prospectors are constantly changing, therefore will not be able to look inside their current organizations for necessary skills and will have to hire from outside to acquire the talent to keep performance high. Consequently, there will be little emphasis on long-term commitment, and a result-oriented appraisal system that measures performance on bottom-line measures will be needed. Because defenders concentrate on efficiency in current products and markets, effective employment practices should emphasize long-term commitment to the organization. Special skills and knowledge will be valued and enhanced through formal training, well-established career paths within the organization, performance appraisal and feedback systems that foster employee development rather than short-term result. These practices should create an environment that fosters long-term commitment to the organization and gives high employment security and a voice.

Table 2.1: Characteristics of Employment Systems

HR practices	Market-Type System	Internal System
Internal career opportunities	Hiring almost exclusively from outside the organization; Very little use of internal career ladders	Hiring mainly from within the organization; Extensive use of well-defined career ladders
Training	No formal training provided; Little if any socialization taking place within the organization	Extensive formal training provided; great amount of socialization within the organization
Result-oriented appraisals	Performance measured by quantifiable output or results-oriented measures; Feedback in the form of numbers and evaluative	Performance measured by behaviour-oriented measures; Feedback more for developmental purposes
Profit sharing	Profit sharing used extensively	Few incentive systems used; very little use of profit sharing
Employment security	Very little employment security given	Great deal of employment security among those who make it through the initial trial period; Extensive benefits to those 'outplaced'; formal dismissal policies
Participation	Employees given little voice in the organization	Employees likely have access to grievance systems; Employees more likely to participate in decision making
Job descriptions	Jobs are not clearly defined; Job definitions are loose	Jobs very tightly defined

Source: Delery & Doty (1996: 809)

2.4.3. ‘Best-practices’ vs. ‘Best-fits’:

The ‘best practices’ vs. ‘best fits’ theory by Boxall & Purcell (2000) is a typology close to the UCC perspectives. In fact, the terms ‘best practices’ and ‘universalistic perspective’ or forms thereof are often alternated in different contexts. ‘Best fits” include horizontal and vertical fit, connecting to contingent and configurational perspectives but differently structured.

The *‘best-practices’* school argues that organizations should adopt ‘best practices’ irrespective of context. In other words, all firms will improve their performance if they only identify and implement ‘best practices’. Overall, aspects of ‘best practice’ are widely acknowledged by researchers and practitioners, as is the universalistic approach. Legge (1978) recognizes that the idea of ‘best practices’ is a major theme in personnel management literature, even though it remains unresolved.

Giving some examples, Terpstra & Rozell (1993) posit five ‘best’ staffing practices and find that the use of these practices has a moderate, positive relationship with organizational performance. Huselid (1995) identifies a link between organizational-level outcomes and groups of high-performance work practices. Instead of focusing on a single practice (e.g. staffing), the author assesses the simultaneous use of multiple sophisticated HR practices, and concludes that the HR sophistication of an organization is significantly related to turnover, organizational productivity, and financial performance.

The *'best-fits'* school includes horizontal fit (internal fit) and vertical fit (external fit). Originally, these two strategic fits represented the following: external fit is the units' structure, systems, and management practices needed to fit the organization's stage of development; and internal fit is the units' structure, systems, and management practices needed to complement and support each other (Miles & Cameron, 1982; Miles & Snow, 1984).

Later, Baird & Meshoulam (1988) developed and implemented HR strategies incorporating both external fit and internal fit. As an organization grows and develops, changes are needed. By understanding how an organization changes as it grows, one can understand how its HRM needs change. HR activities, like structure and systems, need to fit the organization's stage of development. That is 'external fit' or 'vertical fit'. Under this theory, this means an informal, more flexible style of HRM for start-up firms; and a formal, professionalized style for firms when they become more mature and increase the number and range of employees.

Hence, Baird & Meshoulam (1988) use four models to explain organizational growth and development: life-cycle and hierarchical models, evolutionary models, stage models, and metamorphosis models. In terms of 'internal fit', or 'horizontal fit', this implies the need to cope with complex tensions between decentralization and coordination when large firms diversify, and the need to ensure that individual HR policies are designed to 'fit with and support each other'. Based on these four models and the internal fits, an HR strategic matrix is developed to answer the following questions of HR practices: How should HR be managed? How can HRM be responsive to an organization's needs? Where should HR managers begin? How should the HRM function be organized? What type of training should HR professionals receive? These are combined to form the HR Strategic Matrix.

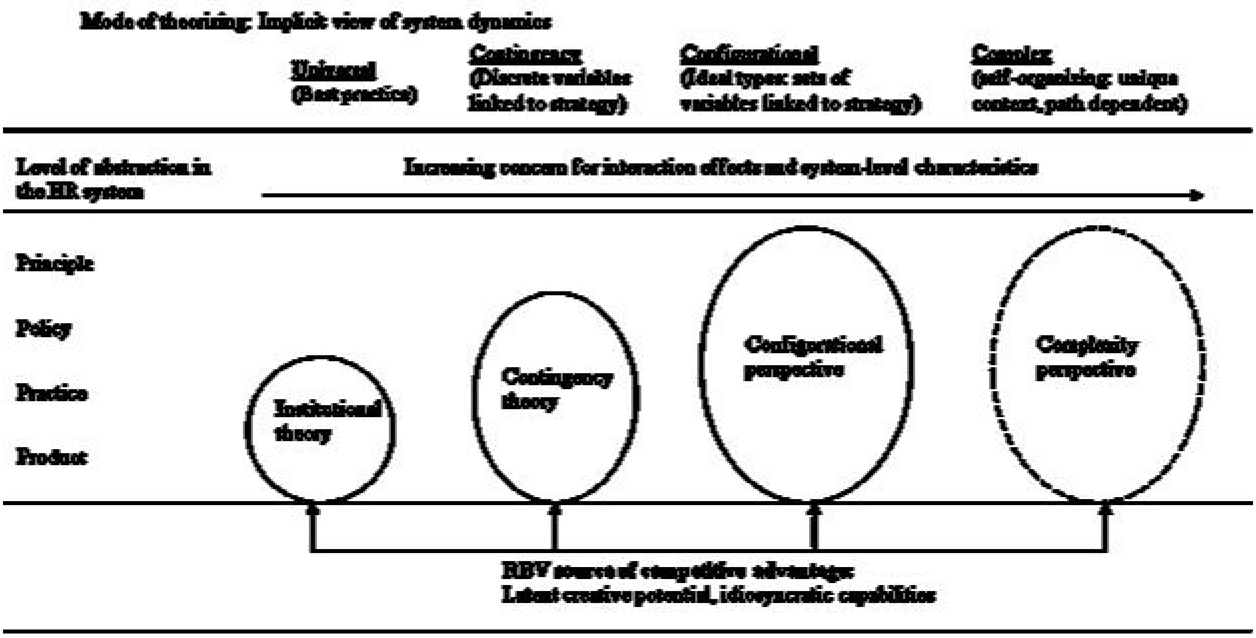
However, the most influential ‘best-fit’ model has been one in which external fit is defined by the firm’s competitive strategy rather than its stage of development. In this model, the basic recipe for SHR involves bringing HR strategy into line with business needs (Boxall & Purcell, 2000). Schuler & Jackson’s (1987a) formula argues that HR practices should be designed to reinforce the behavioural implications of the various ‘generic strategies’ defined by Porter (1985); and implies that a firm’s performance will improve when HR practices mutually reinforce the firm’s predetermined choice of cost leadership, differentiation or focus as its competitive posture.

SHR research also deals with the internal consistency and complementarities of HRM practices: internal fits - particularly how HRM practices work together as a system to achieve organizational objectives. This horizontal notion of fit shifts the focus from individual HRM practices to the entire HRM system (Delery, 1998). The basic assumption is that the effectiveness of any practice depends on the other practices in place. If all the practices fit into a coherent system, the effect of that system on performance should be greater than the sum of the individual effects from each practice alone (Ichniowski et al., 1997). Many scholars take this line, including Dolan, Mach & Sierra (2005).

2.4.4. Complexity Perspective:

Based on the increasing concern for interaction effects and system-level characteristics, Colbert (2004) extends UCC perspectives with the complexity perspective (Figure 2.3). Complexity is not one unified theory, but denotes a wide-ranging body of work built on such fields as chaos theory (Gleick, 1987; Lorenz, 1963), cybernetics (Ashby, 1956; Weiner, 1948), and dynamic systems theory (Jantsch, 1980; Kauffman, 1992; Prigogine & Stengers, 1984). It includes, but is not limited to, the study of complex adaptive systems (CAS) – systems characterized by networks of relationships that are independent, interdependent, and layered (Holland, 1975; Langton, 1989; Zimmerman, Lindberg & Plsek, 1998).

Figure 2.3: Dimensions of theory in SHRM with the addition of a Complexity Perspective



Source: Colbert (2004: 352)

CAS describes a system in which the component agents operate with some measure of autonomy, as well as independently and interdependently in relation to other system components; each agent and the collective system actively responds to whatever pushes them, and works to turn events to its advantage and survival; an 'alive' kind of dynamism arises from many linear and nonlinear interrelationships among system agents (Colbert, 2004).

Difficult to concisely define, but easy to recognize (like organizations), complex systems are generally characterised by these two features: a large number of interacting agents, and the presence of stable, observable emergent properties – the appearance of patterns due to the collective behaviour of the components of the system (Morel & Ramanujam, 1999). Order emerges as the system under observation evolves and adapts within its contextual environment. Such living systems are integrated wholes whose properties cannot be reduced to those of smaller parts. Their essential or 'systemic' properties are properties of the whole, which none of the parts have. Systemic properties are destroyed when a system is dissected into isolated elements (Capra, 1996: 36). Although CAS reflects on business realities, it has difficulty in abstracting, theorising or testing methodologically. Often, simulation and case methods are used for studies of the complexity perspective.

2.4.5. Other facets of SHR:

The emergence of SHR and its prominence in managerial research has greatly extended its influence, despite all the disagreement about a solid theoretical framework. As well as the approaches described above, there are diverse developments of SHR that take different theoretical perspectives, such as cybernetic models, agency and transaction cost theory, power and resource dependence models, and institutional theory (Wright & McMahan, 1992).

Some other facets are highlighted by different authors. For instance, a distinction between European and American approaches to SHR is made by Boxall & Purcell (2003) and Stavrou, Brewster & Charalambous (2005). The authors consider that most researchers in the United States adopt an implicitly managerialist approach, focusing on how HR can benefit shareholders, while researchers in Europe emphasize the importance of balancing the interests of multiple stakeholders such as employees, unions, governments and society. While the European view tends to emphasize the importance of context; the US view emphasizes ‘best practice’.

SHR also links with quality management and diversity management, revealed by the EBSCOHost database of this literature review. For instance, Simmons, Shadur & Preston (1995) argue the similarities and complementary contributions of SHR and Total Quality Management (TQM), relating to performance appraisal and performance-based pay and the issues of standards-based controls. Snape, Wilkinson, Marchington & Redman (1995) review the HR implication of TQM, demonstrating that HR issues are central to its implementation. Maxwell, Watson & Quail (2004) analyse the nature of, and relationship between, a quality service initiative and the concept of SHR development using the case study method.

Examples in diversity management include: Tung (1993, 1995), who studies diversity management as a strategic challenge for SHR in the area of HR and industrial relations by classifying it into two categories: cross-national and international. Wright

(1998), who proposes three areas of inquiry, highlighting the need for proper HR practices to maximally gain the value that comes from people when they live in different cultural, economic and political circumstances. Singh & Point (2004), who study diversity management in European companies, for their challenge of multicultural, multilingual, and multiethnic populations.

Another dimension of SHR focuses on the strategic role of HR managers. For instance, Gorman et al., (2003) study the competencies needed by HR managers, using the case of the local governments of Los Angeles County; Huselid, Jackson & Schuler (1997) to evaluate the impact of HR managers' capabilities on HR management effectiveness and the latter's impact on corporate financial performance to distinguish technical and strategic HRM; Truss & Gratton (1994) and Tyson (1997) define SHR as the linking of the HR function with strategic goals and objectives of the organization in order to improve business performance and develop organizational cultures that foster innovation and flexibility.

2.5. Controversies in strategic human resources:

Back to the main streams of the SHR research body, the abundance of research papers published in the field have added to the complexity in SHR taxonomies beyond what is currently synthesised, despite the earned currency of Delery & Doty (1996) and Boxall & Purcell's (2000) typologies in SHR literature. For instance, the original work of Lengnick-Hall & Lengnick-Hall's (1988) SHR typology proposal echoes the strategic role of human resources, reviewing two types of SHR research: one focuses on specific HR areas, and the other examines a broader scope of HR strategies. Based on their discussion, the authors suggest a typology of interdependence based on the corporate Growth-Readiness matrix: development, expansion, productivity, and redirection. The proposed perspective on business strategy and HR strategy interdependence provides a holistic view and analysis of multidimensional process.

Probably certainty and uncertainty must coincide in approaching SHR from different perspectives. The key constructs and central debates in SHR have grown from the above questions: best practices versus fit (Becker & Gerhart, 1996), horizontal and vertical fit (Schuler & Jackson, 1987a), fit versus flexibility (Wright & Snell, 1998), control-exerting versus creativity enhancing aspects of HR systems (Snell, Youndt & Wright, 1996), univariate and multivariate effects (Doty, Glick & Huber, 1993), and appropriate theoretical frames (Delery, 1998; Delery & Doty, 1996, Lepak & Snell, 1999; Wright & McMahan, 1992).

What is common in all these works is a focus on the links between HR practices (HRM), the pool of human resources (people), and organizational outcomes (performance). These essential research questions have been examined using a variety of perspectives drawn from organization theory, including institutional theory (e.g. Wright & McMahan, 1992), contingency theory (e.g. Lengnick-Hall & Lengnick–Hall, 1988), configurational approaches (e.g. Doty et al., 1993), transactional cost analysis (e.g. Jones, 1984), behavioural perspectives (e.g. Schuler & Jackson, 1987b), and organizational learning (e.g. Snell, Youndt & Wright, 1996). Some of these approaches are used centrally and frequently, and others more tangentially and infrequently. The most common perspective is to bring in the RBV of the firm (Barney, 1991, 1992; Barney & Wright, 1998, Lado & Wilson, 1994; Snell, Youndt &

Wright, 1996; Wright, McMahan & McWilliams, 1994), often applied in conjunction with other frameworks.

Controversies are presented in this part of the literature review in the SHR research field, showing the complexity in existing models and the disparate research interests and directions. These differences in approaches and controversies make it difficult to bring one single model to test in the context mentioned. The issue is also raised that in a changeable environment such as China's emerging market, Western models including SHR may not necessarily apply (Tsui et al., 2004). What contribution can these new business phenomena make to theory development in the field of SHR? More theoretical argument will be developed in the next chapter for further research design.

CHAPTER 3

THEORETICAL FRAMEWORK AND RESEARCH QUESTIONS

"What are you doing?" inquired the policeman of the drunk crawling on the pavement under the glow of a lamppost. "I am looking for my quarter," came the reply. "Where did you lose it?" asked the officer helpfully. "I dropped it over there by that payphone." retorted the drunk. Incredulous, the officer asked, "Then why are you looking in the middle of street?" "Because there is more light over here," he replied with his nose nearly to the ground.

-- Rogers & Wright (1998: 311)

3.1. Introduction:

Contemplating this story written by Rogers & Wright, should strategic human resources, try to bridge HR with strategic management by finding its answer in traditional HRM theory, since there is more 'light' there? Or should it look where the question was dropped, from a strategic perspective such as that of the Resource-Based View of the firm, taken from strategic management theory, even though there might be less 'light' in this 'black box'?

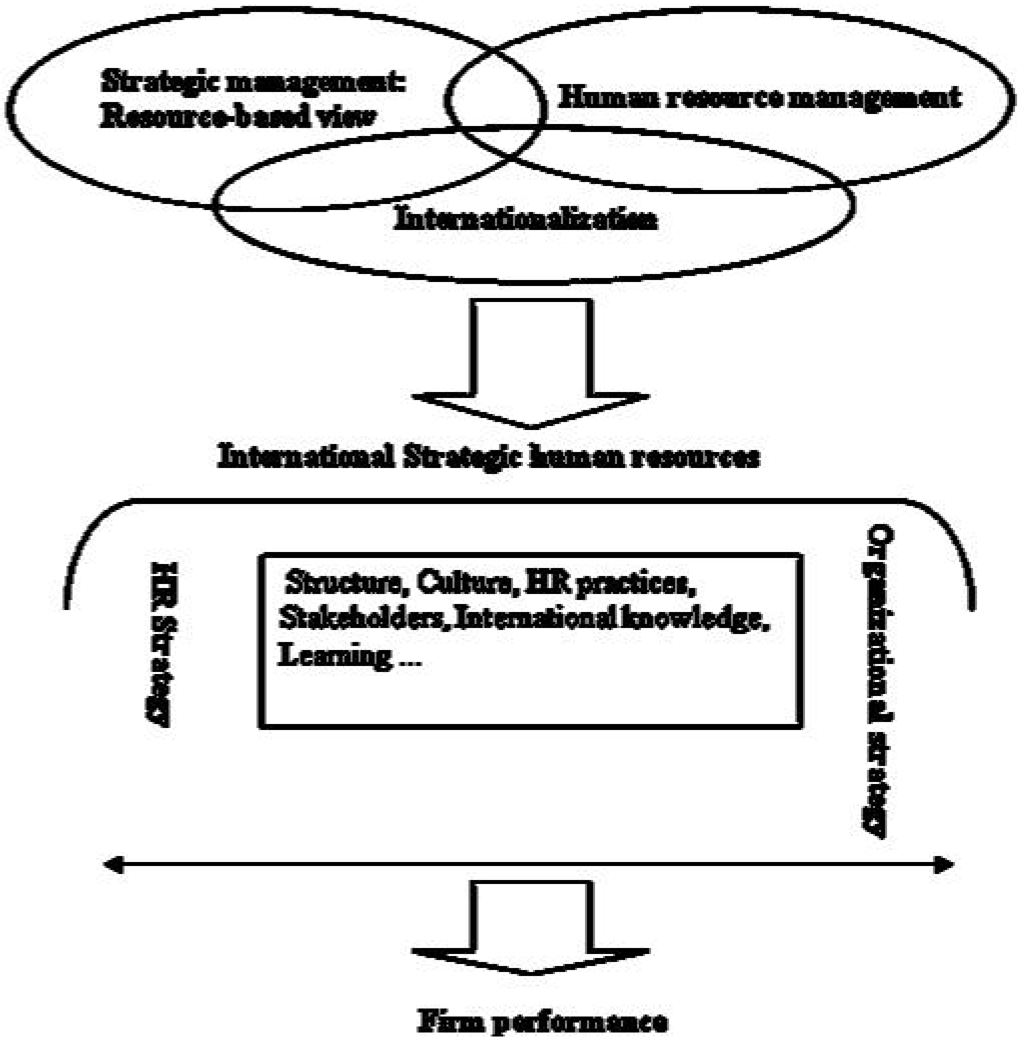
In this chapter, more theories on international business and strategy are incorporated into international strategic human resources (ISHR) in order to identify the existing theoretical gap and propose a typology for the empirical study. The following sections present ISHR, including contents of internationalisation, strategic management, and strategic human resources. The definition of firm performance is then introduced; next, the issue of SHR in international business is addressed and a typology proposed; finally, the research objectives and questions are given.

3.2. International strategic human resources

Like the models and controversies presented in Chapter Two of the literature review of SHR, there is an ongoing need to explore further theory as a challenge to changing global business. In an international context, the importance of sustaining competitive advantage is becoming a cardinal issue if firms are to compete and survive. In an emerging market, particularly in a transitional economy, the business environment is turbulent and uncertain, characterised by both high insecurity for institutions and organisations and strategic choice (Peng & Sue, 1996), along with increasingly intense global competition. The Resource-Based View of the firm (Barney, 1991) has provided theoretical grounds for many studies of SHR (e.g. Colbert, 2004). That is, human resources have been considered rare, imperfectly imitable and not substitutable, and therefore a source of competitive advantage for competing in this environment (Becker & Gerhart, 1996; Boxall & Purcell, 2003).

As the focus of this thesis links strategy and human resources in international business, the research theoretical framework combines three fields: internationalisation, strategy, and human resources, placing the study at the intersection of these disciplines, namely international strategic human resources (ISHR) (See Figure 3.1). In an attempt to bridge HR management and organisational strategy in international business leading to firm performance, ISHR posits itself in a complex context containing numerous variables and concepts. This will be explained in subsequent sections.

Figure 3.1: Intersection of theoretical framework



3.2.1. Internationalisation:

In the research field of internationalisation, some case studies of international ventures show that traditional internationalisation models (one classical example is Johanson & Vahlne, 1977) and others pertaining to the internationalisation process of the firm do not capture some important phenomena in the modern international business world. This changing global business therefore calls for new theories (Johanson & Vahlne, 2003).

In an echo of this statement, scholars approach the new internationalisation phenomena variously from angles of timing, stages, strategy, learning and network. For example, Malhotra, Ulgado & Agarwal (2003) study the different entry modes; Chang (1995) the international expansion strategy of Japanese firms; Luo & Peng (1999) learning in the international economy; Li (1995) strategic choices in the international market; Barkema, Bell & Pennings (1996) foreign entry, cultural barriers and learning; and Luo (1999) time based international expansion.

Many international business researchers (e.g. Bartlett & Ghoshal, 1987; Prahalad & Doz, 1987) specify characteristics of global industries and associated managerial approaches to address the structure–strategy–environment fit. That is, being subject to varying degrees of economic, competitive and technological pressures drives organisations toward different internationalisation strategies (Prahalad & Doz, 1987); International business strategy is further extended into four types according to Bartlett & Ghoshal's (1987) categorisation: global firms, multinational firms, international firms and transnational firms. In accordance with each strategy, different structures are developed.

Among other studies on international business, some show that small and medium-sized enterprises (SMEs) specifically need to respond in their efforts to overcoming resource-competence deficiencies in areas such as finance and human resources, 'contingent' on the levels of resources that the firm has at its disposal (Woodcock, Beamish & Makino, 1994; Yeoh and Jeong, 1995). In any particular foreign market, one critical consideration is the compatibility between a firm's existing resources and those needed in the market; and knowledge of both is required (Madhok, 1996, 1997). The latter has been called internationalisation knowledge by Eriksson, Johanson, Majkgard & Sharma (1997); this knowledge is often based on mangers' perception and past experience.

The lack of experiential knowledge about international ways of working, organisation and decision-making, and particular needs regarding goods and services, is problematic for internationalising firms. With increasing experiential knowledge of the organisation, the market and the demand situation, firms become more able to perceive opportunities in foreign markets, thereby reducing uncertainty (Kogut & Singh, 1988). With experiential knowledge, firms develop a position in a particular market, and their engagement gradually increases; having a production base in this market also has a positive impact on subsequent penetration of that market (Davison, 1983). Arguably, SMEs' firm performance in international business is the result of a series of managerial actions based on the international knowledge of their managers.

Cultural issues are also widely observed and studied by international business researchers (e.g. Hutchings & Weir, 2006). This often refers to the intercultural effectiveness of international managers in their managerial behaviours, such as decision making or managing their human resources in subsidiary operations (Tung, 1988). That is especially pertinent when there is a substantial cultural distance between the managers' nation of origin and the subsidiary nation in which they work (Kaye & Taylor, 1997).

3.2.2. Strategic management: Resource-based view of the firm:

Strategy involves dealing with two issues (Kase & Jacopin, 2007): corporate strategy, and competitive or business strategy (Grant, 2005). The latter includes the issue of how the company should compete in a particular business, which is the focus of this study of Spanish firms in China.

In the research field of strategic management, the competitive position of the firm in an industry had been dominant until the 1990s (McGahan & Porter, 1999), when this external explanation for strategy shifted to the intra-organisational perspective of recent years. The Resource-Based View of the firm (RBV) has gained prominence in management research, in an introspective search to explain sustainable competitive advantage for the firm (Barney, 2001). Based on Penrose's (1959) vision of a firm as a bundle of resources and an assumption of the heterogeneity of resources, RBV theory relates material and human resources to firm performance (Grant, 2005). This theory is not only gaining influence in strategic management, but also in international business literature (Peng, 2001), as well as in International HRM (Wright, Dunford & Snell, 2001; Khanna, 2004).

RBV regards the firm as a unit, with heterogeneous assets created, developed, renewed, evolved and improved over time (Vivas, 2005). The theory gives special attention to the factors that cause performance to vary between one firm and another (Grant, 1991; Mahoney & Pandian, 1992). It refers to organisational capability for self-renewal of resources, routines, capabilities and core competencies (Collis, 1994).

Learning both at individual and organisational levels (Teece, Pisano & Shuen, 1997; Zollo & Winter, 2002) shapes dynamic capabilities of organisation, enabling the creation of new process to respond to changing external conditions. Based on Grant's (2005) classification of the firm's resources, human resources are revealed to be among its dynamic resources, creating organisational capability and thereby contributing to sustainable competitive advantage. The equilibrium between exploitation and exploration (March, 1991) of human resources may further an organisation's development.

In a changing and dynamic environment, organisations are not only defending their positions, they also need to attain and build on their competitive advantage. The knowledge-based view (KBV) of the firm has emerged from RBV to suggest that knowledge is a core competence of the firm. But while knowledge is developed, sustained and protected in the firm and considered as a strategic asset (Grant, 1996), coupled with a dynamic approach to the organisational learning process (Vivas, 2005), this very emphasis on knowledge distracts attention from its embedded object: the "knowledge worker" (used by Nonaka & Takeuchi, 1995 in *Knowledge Creating Company*). A similar concern is addressed by Khanna (2004), that multinationals may worry that their intangible assets, the source of their competitive advantage, will walk out the door with their employees.

While research on SHR issues has grown significantly in volume and scope, the absence of a generally accepted definition and solid theoretical framework still characterise the field (Boxall & Purcell, 2003; Wright, 2003). The 'black box' of how the management of human resources can contribute to strategic management and superior firm performance in the international business arena is as yet not well understood (Becker & Huselid, 2006).

3.2.3. Strategic human resources

One thing that may be agreed by most scholars in the field of SHR is that SHR links HR with strategy implementation, and this probably reflects the emphasis of most scholarly work in the field, like Schuler & Tarique (2007: 723) who state, "(SHR) covers research intended to improve our understanding of the relationship between how organisations manage their HR and their success in implementing business strategies".

From the above sections it can be observed that while the human factor is recognised by business as an important asset to contribute to firms' effectiveness, it remains poorly dealt with in parallel theoretical developments applied to the issue of the international strategic human resources perspective. To start with, how is human resources defined? Ulrich et al., (forthcoming) classifies the term HR as referring to five subjects: the HR profession, the HR department or function, HR practices, HR professionals, and the broader issues related to management of people and organisations. In this thesis, HR and the associated concept SHR respond to the latter broad definition, largely relating to the management of people and organisations.

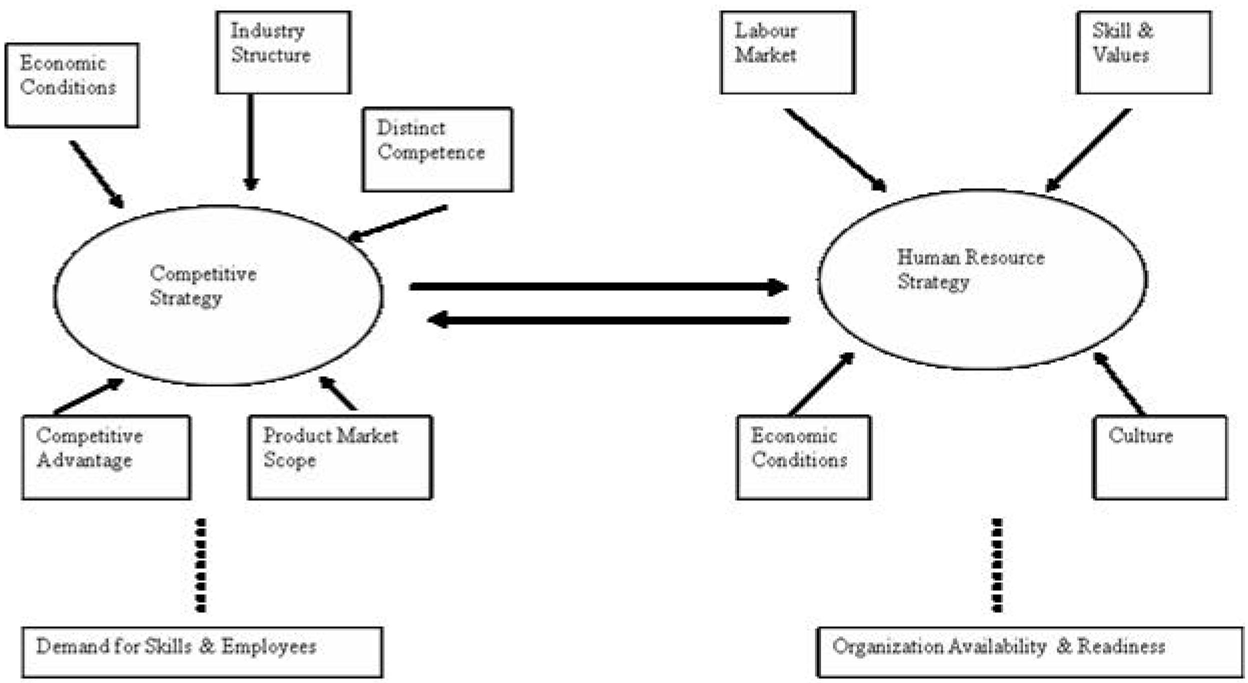
Most recent publications on SHR conclude that recent research on strategic international HRM has been focusing particularly on fitting human resource strategy with firm strategy (e.g. Baruch & Altman, 2003; Becker & Huselid, 2006; Schuler &

Tarique, 2007). Thus, HR may also contribute significantly to strategy formulation (Dyer, 1984; Schuler, 1992). In their classical model of SHR, Lengnick-Hall & Lengnick-Hall (1988) argue that the search for good SHR models in a turbulent environment is constantly shifting with parallel shifts in goals and the environment. Therefore, if strategic choices are dictated by the environment in a reactive manner, chances for long-term survival will be reduced (Miles, Snow, Meyer & Coleman, 1978). Similarly, if SHR choices are dictated by strategy in a reactive manner, chances for a firm's long-term HR survival will also be reduced. Today's internationally performing firms are under this constant pressure of a changing business environment.

The classical interdependent model proposed by Lengnick-Hall & Lengnick-Hall (1988) presents an interactive relationship between competitive strategy and human resources strategy (see Figure 3.2). This reciprocal interdependence is underlined and seen as a composite outcome because in both, there are many functions, events, and relationships that influence organisational results. The crucial interaction is between multidimensional demand and multifaceted readiness – each is an input to and a constraint on the other (p467). The authors call for a merging of those two academically independently developed areas to better understand these two complex processes.

As critiques and controversies go on in the field of Strategy and HR, the research stream has moved on from an industrial to a firm resources focus. As concern for interaction effects and system-level characteristics increases, the process principles reflect a complexity perspective that can be prescribed, and policies, practices and products will 'self-organise' in the context of the HR system architecture (Colbert, 2004). A wide array of questions for research is addressed in the contribution of human resources (people) and HRM (practices) to organisational effectiveness. These questions are especially critical at general management level: What is the effect of HR practices on the development of a firm's human resources? Which HR practices lead to greater organisational performance? To what degree does that depend on firm strategy? How does a firm ensure that its HR practices 'fit' with its strategy? How does a firm ensure that its individual HR practices fit with one another, or does fit even matter in HR practices? Must the attributes of a firm's base of human resources always align with an a priori strategy? Or can its stock of skills, knowledge, and interaction drive strategic direction? (p342).

Figure 3.2: A perspective on business strategy and human resource strategy interdependence



Source: Lengnick-Hall & Lengnick-Hall (1988: 467)

3.2.4. International strategic human resources

This particular research concentrates on contemporary issues, on multinationals (MNEs) with a production base in a foreign subsidiary, and specifically on Spanish firms in China's emerging market. More than rhetoric (see Legge, 1995), international SHR, with features of international uncertainty and cross-cultures, is added to the managerial process. Within the context of Spanish firms in China, issues like resource limitation, cultural barriers and international knowledge of the designated market may be particularly relevant for the strategic decision-making process, as most firms are SMEs (Fanjul, 2003). More variables could be incorporated into bridging between strategic HR and organisational strategy, leading to firm performance. For example, Brewster (1993) takes a stakeholder approach from a European perspective; an array of HR practices is aligned with a priori strategy (e.g. Baird & Meshoulam, 1988; Delery & Doty, 1996)); and learning is also put forward as a key factor (e.g. Fernandez, 2003; Kang, Morris & Snell, 2007). Instead of adding a long list of variables, particularly since the business and characteristics of Spanish firms in China has not been much studied, an open structure is preferable (Yin, 2003) in order to fully explore the phenomenon, which will be detailed in Chapter Four.

Related questions could be raised in addition to the variables already identified, such as: Should international business focus on the shareholder or give a wider stakeholder perspective? Should structure follow strategy or strategy structure? Should multinationals adapt to local culture or implement global corporate culture? How could firms transfer local knowledge to headquarters or vice versa? Could expatriates learn the local business quickly so as to contribute their knowledge effectively to the local context? All these questions address issues of strategic importance to firm performance; but one critical issue related to the current trend of SHR research is: Should the attributes of a firm's human resources base always align with a priori strategy, or should it drive strategic direction? (Colbert, 2004)

Whilst Lengnick-Hall & Lengnick–Hall (1988) and Colbert (2004) raise this crucial issue for interactive relations between business strategy and human resource strategy, these questions by their nature are particularly important for the strategic aspect of human resources. In essence, they are related to whether HR always needs to align with a priori strategy, and how it can do so if strategy itself is uncertain in a turbulent market. This raises a fundamental question for the current research direction of SHR. In response, Colbert (2004: 343) highlights two keys of transforming SHR, tying HR as a resource characteristic to organisational outcomes. First, how does a firm ensure that resources are aligned to supporting current strategies, adaptable to new strategies and able to influence new strategic directions? Second, how does a firm actively build and continuously renew its SHR and other organisational resources, to fuel competitive advantage in its strategy? While the first part of the question one addresses the most current research issue in SHR, aligning with business strategy and its implementation, the second part of question one and question two focus on the integration of human resource strategy into business strategy and its formulation.

Within the international context, the environment is much more uncertain and complex. The Chinese market, as an emerging market and planned economy in transition, has many aspects that are new for most multinationals. Faced with this kind of business environment, competitive strategy is unclear in an evolving market, since industry structure, economic conditions, product and market scope and other determining factors are constantly changing. Even though labour market, skill, values, and culture are also in dynamic evolution, and therefore dictate human resource strategy in different ways during this evolutional process, the latter occurs at a slower pace and with certain stable characteristics. Within the interdependence schema of Lengnick-Hall & Lengnick-Hall (1988), the interactive effects between human resource strategy and business strategy function reasonably in this market.

3.3. Firm performance

Firm performance as the final goal of many managerial activities adds to the difficulty of international strategic human resources since there is no consensus on what the term ‘performance’ actually means. Stavrou, Brewster & Charalambous (2005) extensively explore the use of performance definitions in human resources. The conclusion reached is that there is an absence of any widely accepted measure of firm performance. In addition to the difficulty in finding an agreed HRM practices construct, this absence makes it hard to compare findings across studies (Rogers & Wright, 1998).

Some questions that concern performance are: should an organisation’s own measures be accepted rather than some measure of employee or public good (Marchington & Grugulis, 2000). Theory is often limited by the use of the simple measure of financial terms, whose reliability has been questioned in the cases of Enron, Worldcom, and similar scandals. Studies across national boundaries complicate this even further: in some countries, accounting standards are still emerging, making accounting difficult to compare (Fey & Denison, 2003); in others, no centrally collected financial information is available. Added to this, firms may have diverse goals, so organisations may be less fundamentally concerned with profit in some situations (e.g. losing profits to gain market share). Some financial experts also show that high profits appear in countries where the stock market is strong (Randlesome, 1994).

Dyer and Reeves (1995) suggest a combination of financial measures (including market-based measures) and non-financial measures (including output, productivity, and attitudinal measures such as employee satisfaction). Delery and Doty (1996) and Huselid (1995) use organisational performance including profitability, productivity and service quality. In some disciplines, benchmarking measures by combining different indicators such as productivity and profitability have provided superior results to traditional one-dimensional performance assessment methods (Sherman, Young & Collingwood, 2003). One of most complete measurements related to SHR is that of Bird and Beechler (1995). In their SHR study of Japanese firms in the USA, performance measurements are set for both human resources and firm aspects. HRM-related outcome measures are levels of employee morale, level of average employee tenure, rates of employee promotion, and rates of employee turnover. Firm performance measures are profits, sales growth, level of performance on parent-company prescribed objectives, overall performance, and performance relative to competitors.

3.4. A proposed theoretical typology

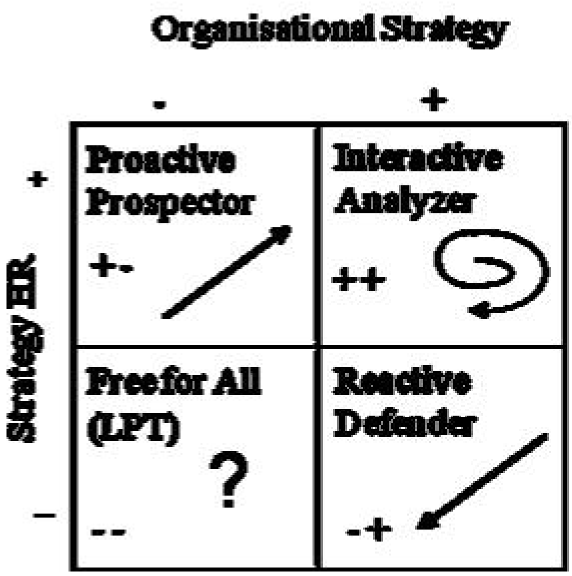
After the explanation in the above sections, a framework is now proposed to relate the role of HR to strategy, based on the query of Colbert (2004) on the fundamentals of SHR. As in Figure 3.1 of Section 3.2., an interaction between strategic HR and organisational strategy is leading to the concern of SHR with firm performance. Taking Dyer's (1983) division of strategic management process into strategy formulation and strategy implementation, an SHR typology of the relationship between strategy HR and organisational strategy is proposed in Figure 3.3.

Strategy is about being unique, and it provides competitive advantage. Miles & Snow's (1978, 1984), as one of the most widely cited models (e.g. Delery & Doty, 1996; Dolan et al., 2007), divides strategic typology into three: the prospector, the analyser and the defender. Providing that analogy is a valid means to bridge RBV and SHR (Colbert, 2004), SHR may possess all these characteristics of prospector, analyser and defender as its very nature is to be 'strategic' and dynamic.

Depending on whether HR strategy or organisational strategy drives the other more (+) or less (-), SHR can be divided into four modes, taking Miles & Snow's (1978, 1984) classification. SHR prospectors react proactively toward organisational strategy and participate in its formulation; SHR defenders' attitude towards organisational strategy is reactive and follows its implementation; SHR analysers combine both strategy formulation and implementation interactively; a fourth SHR is 'free for all' (LPT: Libre Por Todo) without any clearly defined strategy or direction. In this way, the contribution of Strategy HR toward organisational strategy may involve interactive, proactive, reactive and free for all (LPT) as the proposed typology of strategic human resources.

The characteristics of different types of SHR are deduced from the description of Miles & Snow's (1978, 1984) three types of strategic behaviours and supporting organisational characteristics. SHR prospectors are characterised by their constant search for product and market opportunities and their regularly experimenting with potential responses to emerging environmental trends. They are more concerned with searching for new opportunities and may not be as efficient as defenders in a matured market. SHR defenders have a narrow and stable product-market domain and seldom make major adjustments. Their emphasis is on better and more efficient ways to produce a given product or service and on defending an existing market. SHR analysers operate in both stable and innovative areas. They are usually not the initiators of change like prospectors, but follow changes much more rapidly than defenders.

Figure 3.3: A proposed SHR typology



In the proposed model, a reactive mode of SHR is a typical follower HR strategy. HR strategy follows what is defined by firm strategy, and tries to achieve defined objectives. A proactive mode means that HR anticipates, or participates actively in, the strategy formulation process of the firm, and hereby contributes the firm's final results. An interactive mode is a balance and combination of both directions; and LPT occurs when there is no strategy at all.

Without underestimating the benefits of defender SHR, a proactive prospector SHR approach may be particularly advisable in an uncertain environment when organisational strategy itself is unclear. In this thesis, the latter will be argued and tested in the empirical study. Scholars such as Tsui et al., (2004) have already noted that the uncertainty of increasingly changeable global business is so intense that even the strategy for operating in an emerging market such as China is now unclear; therefore, a model that fits with firm strategy may not achieve advantages in performance. Moreover, a common phenomenon in emerging markets like China such as the lack of human resources may simply abort strategic proposals or make strategy implementation difficult. Therefore, bringing SHR into strategy formulation is relevant, particularly in the case of emerging markets, where new and different institutional and environment aspects need to be explored.

3.5. Research objectives and questions:

SHR research has given much more attention to the role of HR in strategy implementation (a defender mode of SHR) than strategy formulation, even though both have been addressed as relevant by Schuler (1992). The focus on strategy implementation, a reactive SHR defender, may be efficient in a matured market. However, in an emerging market, when neither the market nor the organisation are well structured, efficiency in operations is not the priority; hence an SHR prospector may contribute better to firm performance. While market and organisation are evolving, the contribution of SHR to both the formulation and implementation of firm strategy (an interactive analyser SHR model) is desirable to achieve better performance.

The research questions are next addressed on the basis of the earlier argument. As this thesis attempts to explore the insight of Spanish firms' performance in China, the opportunity is taken to unfold the contribution of human resources to their strategic management. Given that some China-based Spanish subsidiaries perform better than others, the following research question is posited: How does strategy-making and human resources influence achievement of superior performance among established Spanish firms in China? The research question is further elaborated as follows, emphasising the role of HR in the strategy formulation process:

(1) How are human resources linked with the strategic management process, especially the strategy formulation process? Given the proposed SHR typology,

(1.1) Do any of four types of SHR exist in the context of Spanish firms in China? If so, which? And how are they connected to firm performance?

(1.2) Given that the Chinese market is volatile and strategy is uncertain, do firms with proactive SHR, that is prospector and analyser modes, have superior performance?

(1.3) What are the principal variables considered in the SHR process within the context of Spanish firms in China?

Dyer (1984) suggests that around 70% - 80% of all organisational strategies are formulated through strategy adaptation as the informal way to strategy formulation (the author classifies strategy formulation into strategy planning and strategy adaptation). That is because during the course of the decision-making process, many critical decisions have already been made before the formal planning process is reached. Because of the turbulent and changeable nature of a transitional economy, the contribution of SHR to strategy adaptation may be critical for firm performance and constitute a large part of the strategic formulation process. Therefore, based on the premise that China's market is highly dynamic, strategy formulation will imply frequent strategic adaptation. So,

(2) How are human resources involved in the strategic adaptation process? Some sub-questions are:

(2.1) Does a strategy adaptation process exist in Spanish firms in China? If so, has it been a relevant element?

(2.2) Given that some Spanish firms perform better than others in China's market, what are the distinctive features of these superior performers in this adaptive process compared with other performers?

(2.3) How do the different SHR types perform in this process?

Part II:

EMPIRICAL RESEARCH, METHODS AND RESULTS

CHAPTER 4

RESEARCH METHODS AND PROCEDURE

4.1. Introduction:

This chapter presents research methods and procedure in detail. First, the use of qualitative methodology in empirical research is discussed in comparison with the quantitative approach, justifying the choice of case research as the right methodology for the current study. The research design is next addressed, and a later section is dedicated to the implementation procedure of this empirical study: case selection, case site approach, sub-sample division, data collection and data analysis procedure. Finally, the research ethics applied during the research process are indicated.

4.2. Qualitative methodology

The different ways of approaching empirical studies, using quantitative or qualitative methodologies, have long been debated in the academic community. Management is no exception. Before detailing the design and implementation of the research practices, this section will de dedicated to clarifying some propositions of the current research. Valverde & Ryan (2006) differentiate these features at several levels: anthropology, methodology, method and technique. It is at the level of methodology that it is posited in this section.

As a very recent phenomenon in the social science (Fernandez, 2001), qualitative research is often misunderstood. But the fact is that this methodology can be traced back to an eighteenth-century upheaval that affected the fortunes of quantitative research (Denzin & Lincoln, 1994) [9]. Moreover, reflecting on the current diversity in research methodology, Richardson (1991: 173) argues that "in the contemporary age, it is doubtful that any discourse, any method or theory has a privileged place, a universal and general claim to authoritative knowledge." That is, to claim equality of relevance of qualitative and quantitative methodology.

Identifying the five historical moments[10] in which qualitative research has operated, Denzin & Lincoln (1994: 1) reach the conclusion that "qualitative research is a field of inquiry in its own right". In contemporary research, the work of the 'Chicago school' in the 1920s and 1930s established the importance of qualitative research for the study of human group life in the field of sociology. In anthropology (see Rosaldo, 1989: 25-45) and other social science disciplines including education, social work, and communications, qualitative research soon found its place. This field of inquiry cuts across disciplines, fields and subject matters, including the traditions associated with positivism, post-structuralism, and many qualitative research perspectives and methods connected to cultural and interpretive studies.

Echoing the legitimacy of qualitative methodology, Rynes (2007) described the enthusiasm for qualitative methodologies at the 2006s annual Academy of

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[9] The most notable innovators were René Descartes (1596-1650) and Immanuel Kant (1724-1804). Descartes' work, notably *Discourse on Method (1637)*, founded the quantitative research field. The following two centuries were as much an epoch of high controversy as an era for the dissemination of Cartesian absolutism. Stimulated by the writings of Hume, Kant reworked earlier thought and published the *Critique of Pure Reason (1781)*, unpacking a range of fundamental ideas.

[10] These five historical moments are: traditional (1900-1950), the modernist or golden age (1950-1970), blurred genres (1970-1986), the crisis of representation (1986-1990), post-modern or present moments (1990-present).

Management meeting in Atlanta. Also, the *Academy of Management Journal* (AMJ) has taken the lead among major journals in spotlighting alternative methods that take advantage of rich empirical data (Eisenhardt & Graebner, 2007). It refers, in particular, to some recent essays on qualitative methodologies presented in the AMJ by authors such as Eisenhardt & Graebner (2007), Siggelkow (2007) and Weick (2007), sharing their insights on conducting and writing qualitative research.

The relevance of qualitative research in management has been revealed by well-known examples, as exposed by Eisenhardt & Graebner (2007). There are classic scholars (e.g. Chandler, 1962; Whyte, 1941), authors of highly regarded AMJ papers (e.g. Dutton & Duckerich, 1991; Sutton & Raphaeli, 1988), some frequently cited pieces in the AMJ (e.g. Eisenhardt, 1989a; Gersick, 1988), some recent AMJ Best Article Award winners (e.g. Ferlie, Fitzgerald, Wood, & Hawkins, 2005; Gilbert, 2005) who use this methodology. Papers that build theory from cases are often regarded as the 'most interesting' research (Bartunek, Rynes & Ireland, 2006).

In conclusion, qualitative methodology not only has a long tradition, but has also gained ground in contemporary managerial studies. This is particularly based on its methodological nature involving inductive and theoretical generalisation.

4.3. Research methods reasoning

Following the logic of qualitative methodology, the multiple case research method is considered to be advantageous for the current research. In this section, this choice is argued and justified with three lines of reasoning.

First of all, the empirical line, as since the interest of studying Spanish firms' business activities in China is a given, the nature of the contexts suggests the appropriateness of a qualitative case method to provide a holistic view of these activities. Focusing on the analysis level of the firm, Spanish firms have not yet formed a clear model either for doing business in China, or in terms of their human resources model. Therefore, it will be difficult to test or contrast any existing established models.

However, it has also been suggested by numerous scholars that overcoming methodological challenges when conducting management research in China is desirable. This particularly refers to the pitfall of generalising the culture of the research context. For instance, it is arguable that Chinese thinking takes a more holistic line which differs from the analytic approach adopted by westerners (e.g. Fang, 2006; Lowe, 2001). Chinese management as a role has a distinctive form of rationality that has been largely ignored by researchers (Redding, 2003). Von Glinow & Teagarden (1998) state that the assumption that HRM concepts used in the west will be just as meaningful in China would be very naïve, and overlook an array of important differences. Therefore, Stening & Zhang (2007: 126) suggest that "a more holistic, integrative, relational perspective might make more sense in examining and interpreting what is really going on".

That is, theories and practices developed by management scholars are primarily derived from observations of formal organisations in highly developed western economies, especially in the United States, Canada and Western Europe (Boyacigiller & Adler, 1991), Tsui et al. (2004: 134) argue that findings from such a vantage point would not necessarily be transferable to understanding management and organisations in (less developed, emerging) economies such as China. This is because in the contexts of economies which are in the process of emerging to global competition, it is difficult to explain and predict firm behaviour, particularly when the transition from a centrally planned economy to a market economy continuously challenges the political social and economic system.

The second line of reasoning comes from the field of strategic human resources. Colbert (2004) ultimately brings complexity theory into SHR to extend the understanding of its system and architecture to firm performance. While complexity theory has the advantage of better reflecting the real business world instead of oversimplified constructs, empirically testing or employing complexity theory is challenging. The author thus suggests exploring propositions by selecting comparative companies and collecting qualitative data. A similar conclusion is drawn by some other scholars (e.g. Becker & Gerhart, 1996; Boxall, 1996; Khatri & Budhwar, 2001), reporting the lack of in-depth qualitative studies as one of the critical limitations within existing SHR research. Analogically, Hoskisson et al. (1998) also conclude that the research pendulum in the strategic management field is moving back from quantitative to qualitative methods and to exploring intra-organisational factors of firms.

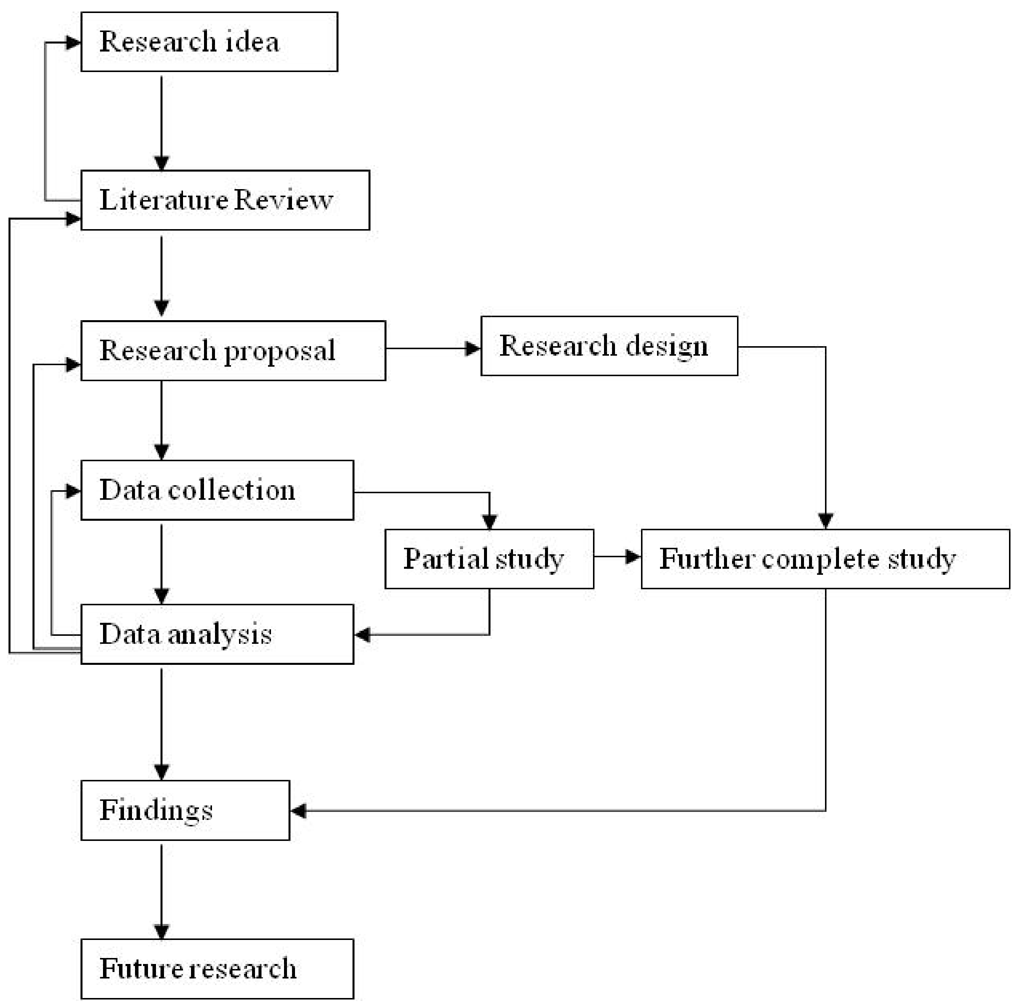
The third line of reasoning is based on the research questions formulated. As the research questions are directed at exploring insights on Spanish firms in China, to discover how HR contribute to strategic management, case study is considered to be an adequate and even advantageous research strategy compared to other options (Yin, 2003). Building theories from case studies is a research strategy that involves using one or more cases to create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence (Eisenhardt, 1989). Even though one single case may, from the methodological standpoint, be sufficient, justifiable and even preferable for some authors (e.g. Siggelkow, 2007; Stake, 1995). Multiple cases typically provide a stronger base for theory building (Eisenhardt & Graebner, 2007; Yin, 2003), as this is better grounded, more accurate, and more generalisable with the analogy to a series of laboratory experiments. Multiple cases are discrete experiments that serve as replications, contrast, and extensions to the emerging theory, enabling comparisons that clarify whether an emergent finding is simply idiosyncratic or consistently replicated by several cases (Eisenhardt, 1991; Yin, 2003).

In summary, since the current international phenomenon needs to be captured (Johanson & Vahlne, 2003), it is better to open up and expose oneself to the contextual environment and capture what is going on (Fontana & Frey, 1994). Inductive qualitative method can provide deeper understanding, full contextual information on the phenomena studied ’inside out’ (Tsui, 2006). And in addition, it lays the foundation for more complete theory development (Berg, 1998; Eisenhardt, 1989; Purcell, 1999; Hunt & Boxall, 1998). Given China’s unique context with its useful blend of historical, political, cultural, social, and legal changes which is rare in contemporary societies, Tsui et al., (2004) raise the issue that one might expect to find different structural or dynamic characteristics of firms as compared to organisations in developed western economies, rather than applying largely existing paradigms to understanding firm and individual behaviour in the Chinese context.

4.4. Research procedures design

The criteria of construct validity, internal validity, external validity and reliability (Yin, 2003) have been adopted for the research procedure design. This consists of an iterative procedure of research idea, literature review, research design, data collection and data analysis to reach a final exhaustive result for the research issues raised within the context studied (See Figure 4.1).

Figure 4.1: Research project procedure:



Qualitative case study is a forward and backward process that involves interconnection between theory, method and analysis (Eisehardt & Graebner, 2007; Yin, 2003). As case study contains subtle information that needs to be detected, the sensitivity of both Spanish and Chinese culture and the practitioner background of the researcher provide an advantage in research procedure, as Denzin & Lincoln (1994) require: speaking from a particular class, racial and cultural community perspective. This applies not only for data collection and data analysis, but the researchers' sensitivity to both cultural contexts has also been engaged in the research design and data interpretation, as suggested by Stening & Zhang (2007).

As shown in Figure 4.1, the research start with the emergence of the research idea, the curiosity of the researcher in seeking an answer for the performance of Spanish firms' internationalization in China. It is followed by a literature review, focusing on the field of strategic human resources. After the existing theoretical gap is identified, research is proposed, with research questions formulated for further theoretical and practical contribution.

In line with the research objective, the research is designed with appropriate methodology and implementation methods. In accordance with the proposal and the design, data are collected from selected case sites. A preliminary analysis and result is performed from the pilot cases, and incorporated into improving the research design. New literature is added in research when the data inspire and demand new elements for ongoing research; eventually this incorporation changes the research idea, modifying the research proposal and design.

Further study is carried out following this continuous data collection and analysis process. The final conclusion is drawn following completion of thorough research after this cyclic process (Yin, 2003). This flexibility is desirable for qualitative case study and borne in mind by the researcher from the beginning of the study. The procedure is structurally designed but kept open for possible changes once the data emerges from the process, if required.

Therefore, the writing of the earlier chapters on research context, literature review, and research aims are the result of continuously updated versions. Only the final synthesised version is presented here in order to achieve a better reading. In the following section, the research implementation procedure is described, emphasising the case selection, data collection data and analysis.

4.5. Research implementation procedure:

4.5.1. Case selection

After the research procedure diagram had been developed, cases were selected for the purposes of the study. Although Stake (1994) argues that cases are received rather than chosen, great rigour and relevance within the limitations and criteria were attempted when selecting cases. The limitations faced in case selection were availability and accessibility, while the criteria employed were complexity and relevance.

As regards availability and accessibility, not all the relevant population was available since they may not be registered in official sources. There was difficulty in obtaining reliable and complete statistical information about investment by Spanish firms in China (Cacho, 2006). Therefore, the database of the Spanish Chamber of Commerce in China (SCCC) was used to obtain samples for its originality, consisting of 150 companies. In order to avoid potential sample bias due to the small number of registered organisations, the director of SCCC Beijing office was interviewed to investigate the reason. This revealed that many Spanish firms prefer to maintain a certain discretion, and therefore are not included in this public list. By adding a list of Spanish companies in China provided by the Spanish Embassy in China and other media sources collected over time, a list of the target population was obtained that allowed an accurate vision of potential case samples. A team of experts was invited to safeguard the case selection process by employing selection criteria, which will be detailed below.

The criteria for selecting sample cases included elements of complexity and relevance in order to maximise the advantage of cases for exploration. As regards complexity, the size, stage, and seniority were set as a filter for case selection. That is, only subsidiaries (joint ventures with more than 51% of shares or wholly foreign owned capital) with more than 30 employees (criterion adopted from Takeuchi, Wakabyashi & Chen, 2003) and more than five years in existence were considered for the study. Cases were pre-selected based on the information provided by public institutions, with any uncertain information as well as the relevance of the cases judged by a team of experts.

This team of experts contained four members with academic, consultant and practitioner backgrounds. Their average business experience between Spain and China was eleven years. In an informal dynamic group setting, they were asked to draw up a list of Spanish firms with a presence in China, which they considered as relevant and influential in this context, with the criteria of complexity. After the list of firms had been exhaustively scrutinised, the comprehensive list was displayed and compared and it was checked to see if any relevant company had been omitted. As a result, a list of 16 firms was drawn up on considerations of their relevance and complexity.

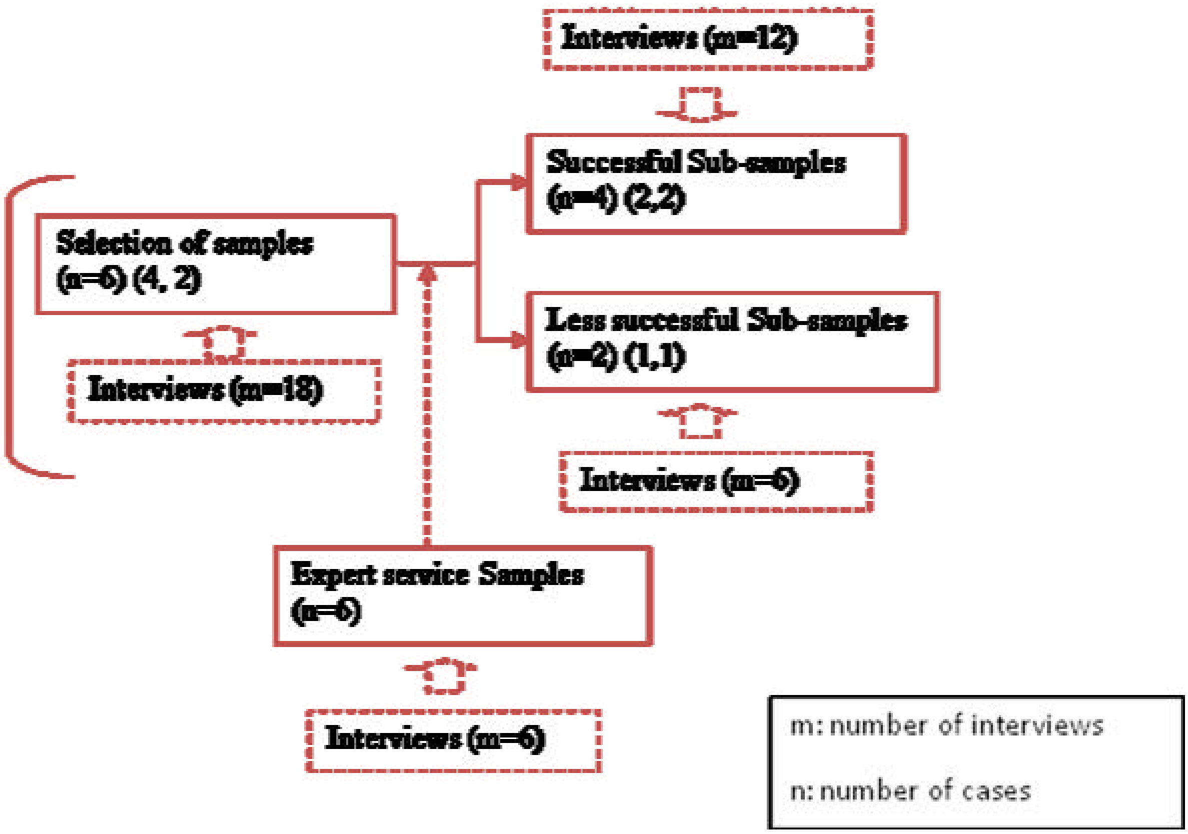
4.5.2. Case site approach

As partly explained in Chapter Two, most Spanish firms investing in China are not publicly listed but small and medium-sized enterprises (SMEs), characterised by a family business style (i.e. many are still controlled and managed directly by family shareholders). This caused difficult in approaching them and getting research collaboration accepted, as well as in access to their information such as economic financial data.

According to other research experience with Spanish firms (e.g. Dorse, 2006), once Spanish firms accept research collaboration, managers are quite open and honest in answering the questions asked. That is, once the target firm accepts collaboration, the data collected from interviews should be highly reliable. Therefore, great efforts were made to access target firms and get them to accept research collaboration. Contacts from friends, managers and colleagues from personal and professional networks were used to approach target firms within this context.

After firms were contacted as referees, nine out of the sixteen accepted collaboration both at their Spanish headquarters and in the Chinese subsidiaries, with an agreement of confidentiality. As research progressed, three could not collaborate further at their Chinese sites. These three cases were discarded from the data analysis in the current study due to the impossibility of data triangulation detailed in the section on data collection. Therefore, the total number of qualified cases for this study was six out of sixteen listed firms. As is shown in Figure 4.2., the data were collected within two sub-sample groups. Details are described in the following sections.

Figure 4.2. Comparative cases selection and interviews:



4.5.3 Sub-sample division based on firm performance

In order to have better comparability between studied cases, Boyatzis (1998) suggests dividing them into two sub-samples. In this case, the division was based on firm performance. These six cases were divided into two comparative sub-samples: superior performers and other performers.

Assessment of their performance was carried out by the team of experts, based on collected media data and their own knowledge. These were submitted for testing with the further data collected inside the companies, in accordance with the criteria of performance measurement of Bird and Beechler (1995), as stated in Chapter Three. These measurements were added to one further measure, taking Kaplan & Norton's (1996) strategic assessment into consideration. That is, employing the level of achievement of the initial established goal, which could be financial, or commercial or other, depending on the original strategic definition by the firm.

As a result of the predefinition of their performance judged by the expert team with subsequent checking in the data collection, four 'superior performers' and two 'other performers' sub-samples were generated. They fell into two industrial sub-groups (consumer goods industry and non-consumer goods industry), to control industrial bias and to improve comparability in a similar context. The inequality of case numbers for different performers was due to the difficulty of attracting low performers to collaborate in the research. Consulting experts regarding the drop-out of the selected firms, it seemed that these firms were probably facing uncertainty in their operations in China at that moment, and that this explained why they stopped collaboration in the middle of the research process, due to their distrust of future outcomes.

4.5.4. Data collection procedure

Data were collected following the rationales of multiple sources of evidence, in-depth interviews and observations. Boxall (1996) notes that most SHR studies have collected data from HR managers. This limits information sources and ignores other stakeholders in the organisation. Considering the ‘strategic’ factor in this study, strategic decision-makers were incorporated as principal interviewees. These were Chief Executive Officers (CEO), General Managers (GM) at headquarters, and in subsidiaries, strategy planners, HR Directors, or Directors of International Operations, as well as other Operational Managers involved in the internationalisation process.

For multiple sources of evidence, data were collected from three parties to triangulate between them. They were: one from top managers at Spanish headquarters, another from top managers at Chinese subsidiaries, and the third from the expert moderators, journals, internal documents, corporate websites, and on-site observations. The expert moderators were different interviewees from those on the team of experts. They were academics, consultants, diplomats or independent observers who had close relations with the firms studied and their context.

Multiple interviews were carried out for each case to explore different viewpoints between headquarters and subsidiaries. A construction of a full company picture was provided by these different perspectives from Spanish and Chinese case sites. Expert moderators and secondary data triangulated these qualitative data collected from case sites, providing better objectivity (Strauss & Corbin, 1992; Knoppen, Dolan, Diez & Bell, 2005).

Specifically, qualitative interview data were collected by the following procedure: when the company was contacted for the first time, the person in charge of Chinese business was asked for. Another interview followed sequentially with the initial interviewee's suggested manager (Yin, 2003), who had best knowledge of the internal structure. The process continued and a minimum of two interviews for each case (one each for headquarters and subsidiary) was required in order to validate the data triangulation. For that reason, the three cases which dropped out as stated in the earlier section were not qualified for consideration in the analysis.

Interviews took place face to face in the working locations of interviewees except on some rare occasions due to scheduling factors. Language issues were also taken into account. Interviews in both Spanish and Chinese case sites were carried out in their native language, as language has been classed as a sensitive issue in both qualitative and quantitative research (Stening & Zhang, 2007). Semi-structured questions were used to guide the interviewing process, but the questions did not necessarily strictly follow any order, rather being open to maximally reflect on the vision of interviewees. Keeping the focus of the study in mind, questions were kept open in order not to influence the answers of interviewees by pre-conception. A typical question would start "Please tell me about your company and the business in China". Other qualitative techniques such as Fontana & Frey's (1994) interviewing and Adler & Adler's (1994) observational techniques were combined in the data collection process. Interviews were recorded for further analysis and interpretation except if there was explicit objection or difficulty due to the circumstances.

As shown in Figure 4.2., the result of data collection included a total of 18 recorded interviews from the six sample cases and 6 recorded interviews from expert moderators, in addition to 6 unrecorded interviews, due to the reasons stated above. Only recorded interviews were submitted for transcription and further formal data analysis. Six selected cases gave a total of 18 interviews, in addition to another 6 interviews with experts who were familiar with the studied firms. Case number was n=6, with interview number m=18, and expert interview number n=6. Among these, the number of superior performer sub-samples was n=4 in two industrial divisions (2, 2); with the number of interviews m=18. The number of other performer sub-samples was n=2 in two industrial divisions (1, 1), with the number of interviews m=6.

4.5.5. Data analysis Procedure

Yin (2003) emphasises that linking data with the criteria for interpreting collected data is particularly problematic as one of principal components for case research. To set criteria for interpreting the findings, the data-driven code development of Thematic Analysis (Boyatzis, 1998) was displayed to provide a foundation, due to its advantage in bridging qualitative data and systematic analysis procedures to overcome this challenge.

Recorded data were transcribed and analysed in the two industrial sub-groups. A preliminary analysis was first performed with one sub-group, containing a set of sub-samples of one industrial group: two superior performers, one other performer and three expert moderators. Later analysis of another set of sub-samples was incorporated for further cross-divisional comparison. Specifically, the transcribed qualitative data in different sub-samples underwent the theme and code development process as described by Boyatzis (1998): reducing the raw information by marking relevant information; identifying themes in each case; comparing themes across cases, and creating a code; determining the reliability of the code within the sub-sample; and applying codes to another sub-sample for comparing themes across sub-samples.

In greater detail, this meant that relevant raw information was first selected and marked with a unit of coding for sentence and paragraph, which reduces the raw information to a shortened 'outline' form easier for comparison across units of analysis. To detect and articulate potential themes present in a sub-set of Spanish firms in China, different themes were identified in accordance with qualitative data collected in the sub-samples, with concern for recording any sign of themes or patterns in the sub-set. This procedure was carried out at both manifest and latent level. At the point when the researcher felt the potential themes within each sub-set of Spanish firms in China were exhausted, the lists of themes were examined to look for relationships between them; the researcher then wrote and rewrote these potentially differentiating themes.

At this stage, reading and rereading the original qualitative data was critical for accuracy and honesty in the process of developing an inductive code. The code created identifies themes within the same concept, and labels that group to differentiate one code from another. The conceptualisation of the code (label) was not generated until all themes in the group had been gathered (clustering themes). To test the reliability of the code, qualitative data were distributed to forty Masters students in International Management who had previously received thematic analysis training. The code development process was repeated among eight teams until a consensus was reached.

Once the results of the first set of sub-samples were achieved, these results of abstracted themes and codes were then applied to the second set of sub-samples of another industrial group. The results were compared and confirmed in this second phase of analysis to complete the study, generating final clusters for the codes. Other materials such as unrecorded interviews and secondary documents were used as complementary data, especially in the process of latent level analysis, to further understand the behaviour and insights of the firms studied. This was an iterative process involving going back and forth between the ‘picture’ and the ‘data’ (Whetten, 2002) carried out to achieve a reasonable approximation of the data and articulate the logic underlying the linkage between clusters and codes.

4.5. Research ethics

The four principles of ethical issues in qualitative research (Denzin & Lincoln, 1994) were respected during the data collection, analysis, and result writing process: mutual respect, non-coercion and non-manipulation, the support of democratic values, and the belief that every research act implies moral and ethical decisions.

Translating these into action, this implied transparency in explaining research objectives to interviewees, the promise and fulfilment of a confidentiality agreement, and openness in the data collection process to avoid manipulation in the process of interview. This meant that the interviewer should not express or indicate his (or her) disapproval of statements made by the informant or indicate any of his (or her) own values that might intrude on the situation (Dean & Whyte, 1958: 36).

The same was required for honesty in the data analysis and interpretation process. In practice, professional codes and sound advice may not be very clear or unambiguous in the field setting, with all its complexity and fluidity (Punch, 1994: 94). Moral and ethical decisions are, in fact, contextual (Denzin & Lincoln, 1994). The contexts of interviewees were taken into account in the interpretation for research accuracy. At situational and interactional levels, there is unavoidably a certain degree of economy with the truth. Therefore, acting in good faith is the way to deal with much of this and to provide clean research (Punch, 1994).

CHAPTER 5

RESULTS, DISCUSSIONS AND CONCLUSIONS

> The theory is emergent in the sense that it is situated in and developed by recognizing patterns of relationships among constructs within and across cases and their underlying logical arguments.
>
> - - *Eisenhardt & Graebner, 2007: 25*

5.1. Introduction:

In this thesis, challenges are presented not only in comparison with the quantitative methodology used for multiple qualitative case studies, but also with other qualitative methods. Unlike large-scale hypothesis-testing research, there is no 'sure-to-please' standard template for writing emergent theory in theory-building qualitative research, since different readers may have their own preferences (Eisenhardt & Graebner, 2007; Yin, 2003).

As Eisenhardt & Graebner (2007) state, it is challenging and unfeasible to present rich qualitative data in a relatively complete and unbroken narrative in multiple-case research. This happens particularly when the number of comparative cases increases to more than two. If the narrative of each case is related, then the theory is lost and the text inflates. Therefore, the challenge in writing multiple-case research is to stay within spatial constrictions, conveying both the emergent theory that is the research objective and the rich empirical evidence that supports the theory. This becomes particularly challenging since readers may expect the extensive narratives of single-case research.

The sections below are organised as follows to present case data and results: first, the performance of the cases studied is presented together with a brief description of each case. Then results and discussions are given with their descriptions, quotes and extensive tables, summarising the related case evidence and demonstrating the underlying empirical support and the richness of case data for the theory. Finally, conclusions are stated, accompanied by visual devices.

5.2. Case analysis results

5.2.1. Firm performance of studied cases

As stated in Chapter Four, the firm performance of each case was estimated by the expert team a priori, to define the comparative cases studied. The results of the final analysis of their performance are displayed in Table 5.1, confirming the predefined performance of these firms for further comparison.

Measures of performance on financial, human resources and strategy aspects were incorporated and assessed in a combination of the same proportion. Performance is not the focus of this study, nor was it considered as a dependent variable to correlate with independent variables of the strategic human resources system. The measures were simplified to classifications of high, moderate and low to determine whether the overall evaluation of each case was ‘superior performer’ or ‘other performer’.

Among all the measures, rate of employee turnover has an opposite value to the others. Hence it was counted as high in the overall evaluation if it was valued as low, and conversely, it was counted as low if valued as high, while if moderate it was valued as same. The same weight was given to each measure and values are rounded up. That means that cases A, B, C, and D were superior performers with more than 70% of these measures valued as high; while cases E and F were other performers with no more than 30% of high values, and a high proportion of measures valued as moderate and low.

5.2.2. Results of thematic analysis

The results of thematic analysis of the qualitative interview data collected from two sets of sub-samples, a total of 21 themes based on manifest and latent level coding, are exhibited categorised into 7 codes and 2 clusters (see Table 5.2).

The code table illustrates the relationship of strategic management and human resource management in two facets: general strategic management architecture, and factors pertaining to international SHR constructs at firm level. These two facets by which a firm manages its international business via SHR are identified in China's emerging market with the following codes: in the general strategic management dimension it includes corporate principles, strategy and tactics; and in the ISHR dimension it includes elements of structure, leadership, international human resources, knowledge and learning.

Definitions and examples of superior and other performers at the level of general strategic management are exhibited in Table 5.3. That is, in China's emerging market, stakeholder vision, people-oriented culture, and practice of corporate values are

Table 5.1: Summary of Performance Evaluation of the Firms Studied

Consumer goods industry	Case A		Case B		Case C	
Performance Evaluation[1]	**Superior Performer**		**Superior Performer**		**Other Performer**	
- profit	- High	High: 90%	- High	High: 80%	- Low	High: 20%
- sales growth	- Moderate	Moderate: 10%	- High	Moderate: 20%	- Low	Moderate: 50%
- level of performance on parent-prescribed objectives	- High		- High		- High	Low: 20%
		------------------		------------------		N/A: 10%
- overall performance	- High	Total: 100%	- High	Total: 100%	- High	------------------
- relative performance to competitors	- Leader (High)		- No 2 (High)		- N/A	Total: 100%
- level of employee morale	- High		- High		- Moderate	
- level of average employee tenure	- High	------------------	- Moderate	------------------	- Moderate	------------------
- rate of employee promotion	- High	Overall evaluation:	- High	Overall evaluation:	- Moderate	Overall evaluation:
- rate of employee turnover[2]	- Low (High)	Superior performer	- Moderate	Superior performer	- Moderate	Other performer
- level of achievement of the initial established go al	- High		- High		- Moderate	
Non-consumer goods industry	Case D		Case E		Case F	
Performance Evaluation[1]	**Superior performer**		**Superior Performer**		**Other Performer**	
- profit	- High	High: 80%	- High	High: 70%	- Low	High: 30%
- sales growth	- Moderate	Moderate: 20%	- High	Moderate: 30%	- Low	Moderate: 30%
- level of performance on parent-prescribed objectives	- High		- High		- High	Low: 40%
- overall performance	- High	------------------	- High	------------------	- High	------------------
- relative performance to competitors	- Leader (High)	Total: 100%	- No 3 (High)	Total: 100%	- Low	Total: 100%
- level of employee morale	- Moderate		- Moderate		- Moderate	
- level of average employee tenure	- High		- Moderate		- Moderate	------------------
- rate of employee promotion	- High	------------------	- High	------------------	- High	Overall evaluation:
- rate of employee turnover[2]	- Low (High)	Overall evaluation:	- Moderate	Overall evaluation:	- Moderate	Other performer
- level of achievement of the initial established goal	- High	Superior performer	- High	Superior performer	- Low	

Notes:
[1]Ooverall performance is evaluated based on the equal moderation of ten indices. A case is considered as a superior performer when more than 70% of indices are valued as high and there is no index valued as low. Any case not matching this qualification is considered as other performer.
[2]Rrate of employee turnover is counted conversely. This means: counted as high in performance evaluation if the rate is low, but counted as low if the rate is high, while moderate stays at the same value.

revealed as important for the principles of a firm's management. As regards strategy, superior performer Spanish firms have taken into consideration an integral business model, gradual business development, and long-term planning; and flexibility, adaptability and excellence are their tactics for strategy execution.

Definitions and examples of superior and other performers at the level of international strategic human resources are exhibited in Table 5.4. In the aspect of structure, flat organism, active headquarters and subsidiary interface and good work infrastructure are emphasised. In the aspect of leadership, both headquarters and subsidiary leadership are highlighted: active involvement of leaders from headquarters in subsidiaries; the integrative, supportive, and self-realising character of the subsidiary leader; and their abilities to identify opportunities, break barriers, and embrace judgement.

For international human resources, three levels of human resource implications are identified: the individual, dyadic and organisational levels. At individual level, avoiding stereotyping, being motivated and positive, being patient and persevering are noted. At dyadic level, mutual respect, mutual trust building, and intervention of bridge persons are observed for superior performance. At organisational level, excellence in human resources and integrity, personnel training, commitment and retention are distinguished in the analysis. While as regards knowledge and learning, market orientation, the extent to which headquarters practices are applied to the subsidiary, and continuous learning and knowledge updating are stressed.

5.2.3. Findings on SHR taxonomy:

Table 5.2: Code Table Summary

CLUSTERS (Codes)	THEMES
General strategic management:	
Principles	• Stakeholder vision • People-oriented culture • Practice of corporate values
Strategy	• Integral business model • Gradual business development • Long-term planning
Tactics	• Flexibility • Adaptability • Excellence (aspiration)
International strategic human resources:	
Structure	• Flat organism • HQ and subsidiary interface • Work infrastructure

Leadership	• Involvement of HQ leaders in subsidiary
	• Characteristics of subsidiary leader
	    • Integrity
	    • Supportiveness
	    • Self-realisation
	• Abilities of subsidiary leader
	    • Identifies opportunities
	    • Breaks barriers
	    • Embraces judgement

International human resources	• At individual level
	    • Stereotype avoiding
	    • Being motivated and positive
	    • Being patient and persevering
	• At dyadic level
	    • Mutual respect
	    • Mutual trust building
	    • Intervention of bridge persons
	• At organisational level
	    • Excellence in HR and its integrity
	    • Personnel training
	    • Commitment and retention

Knowledge & Learning	• Market oriented • Applicability of HQ's practices in subsidiary • Continuous learning and knowledge updating

The proposed SHR taxonomy exists in these six observed cases. Among them, cases A and B are identified as interactive analysers: here, strategic human resources followed initial corporate strategy implementation for internationalisation in China; learning over time and leadership strengthened the structure and human resources systems in the subsidiary and its interface with headquarters; and SHR contributed to further strategy formulation for sustainable development over time. HR contributed interactively to both strategy implementation and formulation.

Cases D and E are identified as proactive prospectors: both failed in their first strategy implementation, as the strategy itself was proved wrong. With a proactive leadership, learning from the market and context and restructuring soft and hard aspects of structure and human resources, they reformulated strategy and turned business into a success in the subsidiary.

Cases C and F are identified as reactive defenders: following the strategy formulated by the team at HQ, SHR was devoted to implementation of strategy. Little initiative was taken from an SHR perspective to participate proactively in strategy formulation. The latter was not observed in these two cases, except for the initial investment period in Case F.

A brief description of the six observed cases is presented in Appendix to give basic background information for further understanding and discussions of this study.

5.3. Discussions

Given that Cases A, B, D, and E are superior performers and Cases C and F are other performers, their data in the above two dimensions were compared in the following section, with corresponding illustrative examples, to address the issue of strategy-making and human resources influence in achieving their performances. In order to synthesise reading, discussions are presented to compare these cases with current literature. Then cases follow in a structured way in accordance with the codes in each dimension to further illustrate the discussions.

5.3.1. General strategic management (see Table 5.3):

Dolan et al (2006) consider that while values are words and relatively simple structures of thought, they encompass complex ideas about the reality desired. Principles include vision, cultural values, and their practice in a corporation. Values and cultures reflect more concrete things that allow one to begin to 'read' an environment (Siegel, 2001), aspects of artefacts that are visible in organisational structures and processes (Schein, 1999) and transcend the perception of existence to enable people to conceptualise a strategic vision of the future.

In the context of Spanish firms in China, a stakeholder vision and a people-oriented culture are what characterise superior performers. Since the Chinese market is in transition, a holistic vision provides an integral business model, considering different stakeholders. This coincides with international HR trends of enhancing the experience of multiple stakeholders in the global environment (e.g. Schuler & Jackson, 2005; Sparrow & Brewster, 2006).

The people-oriented culture of superior performers is reflected in their emphasis on developing people. Nonetheless, it is also important that statements written in the value manual should be practised. These parameters are either absent or only minimally found in cases labelled ‘other performer’. The organisational culture of the ‘other performer’ case is more control-oriented, and what is said and what is done are not aligned.

The path from corporate principles to strategy in this changing market needed an integral business model, gradual business development and long-term planning. The consonant path from value to strategy was a gradual process requiring consensus among stakeholders (Dolan et al., 2006). On the other hand, the corresponding strategy process was gradually developed among the superior performers, while a drastic implementation of pre-planned strategy in one ‘other performer’ made for significant losses due to being unrealistic about market, goals and its strategy, with corresponding implications.

Ultimately, while strategy often referred to long-term planning of the big picture, tactics created and exploited opportunities when they arose. Strategy flexibility, adaptability and excellence were pursued by superior performers while little indications of this showed in other performers. Managing tactics permits an active learning, which may contribute to the strategy process at its formulation and its value and vision. This process is similar as what Argyris (2004) termed as double-loop learning. The interaction between strategy and tactics could also be distinguished as two interconnected features: strategy formulation and implementation, which were

Table 5.3: Strategic management case illustrations

CLUSTERS (Codes)	Themes	Superior performer examples	Other performer examples
General strategic management: The ability to formulate and implement strategy for sustainable competitive advantages and superior performance.			
Principles: A personal or specific basis of conduct or management	Stakeholder vision: The ability to see and plan into the future for any party that has an interest in an organisation, including stockholders, customers, suppliers, employees, and so forth.	Strong. "A project must be of interest to both parties. If not, there is no sense. Alone (we) can go nowhere." "Not only is the relation with shareholders considered, but also with employees, with distributors, and others."	Some. "It requires much attention to all that surrounds you; not only to the employees seen every day, but also to ways of talking to the government and others."
	People oriented culture: The behaviours and beliefs characteristic of focusing toward the concerns and interests of people.	Yes. "It is very important to develop people along with the development of company".	Little or N/A. "The objective is to be competitive in cost and new product launch at international level."
	Practice of corporate values: Habitual and customary performance and operation of defined corporate values.	Yes. "There is statement of corporate value, but what is more important is that we practise them, it's not only dogmatism."	Little. "There is a corporate manual of vision and mission which applies to the whole corporation. Maybe middle level managers are aware of that, but line operators don't care much."
Strategy: A process of planning that could forecast success or failure in obtaining a specific goal or result.	Integral business model: A complete, entire consideration of business model combination.	Yes. "Starting with selected core business, the company expands to related sectors."	Little or N/A. "Exportation from China to other Asian countries was forbidden by headquarters."
	Gradual business development: Business advancing and progressing at an even and modest pace.	Yes. "The company reinvests in business development every year."	Little or N/A. "The local team laughed at the initial business plan because it was just unrealistic and such a drastic implementation was impossible."

Table 5.3: Strategic management case illustrations

CLUSTERS (Codes)	Themes	Superior performer examples	Other performer examples
	Long-term planning: Thinking of a scheme a long time beforehand.	Yes. "It is indispensable to work with a long-term mentality. The time of maturation, negotiation and project development n China is long."	Little or N/A. "We work with a three-year budgeting system."
Tactics: A procedure or set of manoeuvres engaged in to achieve an end, an aim, or a goal.	Flexibility: The capability of being elastic and withstanding stress without injury and figuratively, to what can undergo change or modification.	Yes. "If it doesn't reach what is expected, rectify it. The plan is not rigid but needs to be flexible to adjust over time in accordance with development."	No. "The market was small and exportation had more weight. The high cost charge of own production made it difficult to compete while purchasing from local suppliers was forbidden."
	Adaptability: The ability to adjust oneself readily to fit changed circumstances.	Yes. "What differentiates our company from others is an open mind to adaptation: knowing how to adapt to the local environment, to adapt products, to get people who know means understanding the market's characteristics."	Little. "The factory started to work well when headquarters accepted the adapted model. But the business could have gone much better if the sales in China and in Asia had been allowed to continue."
	Excellence: The quality of being superior in achievement, and making more successful effort than others, beyond a standard.	Yes. "Lots of efforts have been dedicated to sales, production, and administration, to achieve successful performance at times of difficulty."	Little. "Headquarters control most things, leaving little autonomy to the subsidiary."

flexible and adapted in superior performers during the process of achieving better performance from subsidiaries.

CASE A

Principles:

The company was strongly aware of the involvement and importance of the different stakeholders. At the beginning of its creation, it made full use of the local state partner to take advantage of its low-cost raw material and distribution channel covering the whole country. Through its local state partner, it maintained good relations with local government. This vision was not only about local partners and local government, but also people orientation. It was very clear to headquarters that the company came to China partly to help the country and its people to develop and not with the sole idea of making money. For that reason, organisational culture was development-oriented, offering opportunities for employees to develop along with the growth of the company. This was not only a statement on paper giving corporate values, but a reality in daily practice. There were many examples of people growing and developing their careers within the firm. For instance, one managing director had been a translator at the early stage of the business; and one secretary became a product manager.

Strategy:

Based on existing distribution channels provided by the Chinese partner, the first product was launched successfully. The company then reinvested in more production centres to expand its horizontal and vertical business lines in order to continue growing. Its investment gained the trust of local government, and this was particularly critical for its long-term development, since after 1989[11] many other foreign investors had withdrawn their operations from China. Its long-term commitment to the country was well-received, and the principle of developing the people and countries invested in became the strategic planning behind management decisions.

Tactics:

Flexibility is indispensable in China, according to the GM of one Chinese subsidiary. One of the examples given was the following: the company had been considered as one of the most successful JV models of foreign investment in China. But negotiations became tough when HQ went global. This worldwide consolidation of corporate image included change of corporate name, logo and so forth. In comparison with the three months taken in Spain, one year was needed when it came to the Chinese subsidiary. The Chinese partner rejected the operation since it had benefited from the honour of the appearance of its regional name within the company name.

After negotiation, agreement was reached to keep the original company name and only change the logo. This flexibility took into account the prestige and pride of local government administrators. While benefiting from worldwide image consolidation, this demonstrated a compromise with the local context and reflected a continuous adaptation to the evolving market. Another example was the fact that its most profitable brand in China was created and used only in Chinese and for China,

[11] This refers to the Tiananmen Incident on 4th June 1989 in China.

without any western precedent. It was so well adapted to Chinese consumers that many customers did not even perceive it as a foreign company but simply a brand that they liked. These tactics of flexibility, adaptability and seeking excellence helped smooth relationships between HQ and the subsidiary and the execution of strategy. Doing good work was important throughout this process, combined with flexibility and adaptability so as to achieve superior performance.

CASE B

Principles:

For Spanish headquarters, the choice of a local partner to form a JV was not just enforced by regulations but was a preferred option when entering an international market in general. The principal selection criteria to consider were commercial policies and the philosophy of dealing with customers. For the Chief Executive Officer (CEO) at headquarters, the essence of a business in international markets was to find someone who shared similar values to those of his or her company and to create the business together. Transfer of organisational culture from headquarters to the management team in China was viewed as a critical factor for its success, as the Chinese General Manager (GM) in the subsidiary confirmed.

At the current stage, to further consolidate business within the highly competitive Chinese market, an integrative cultural development program was in transformation. In spite of the existence of a formal corporate value statement the Chinese GM stressed that the most important thing was what people in the organisation did in practice, as dogmatism would get them nowhere. To emphasise this cultural consolidation some examples were given: the Chinese distributors were invited to visit Spanish headquarters for its 90th anniversary. The objective was not mere Customer Relationship Management (CRM), but principally to better sense their corporate culture.

Strategy:

Even though there was a variety of product groups, the company selected some core products to start off in the Chinese market. Based on the success achieved product lines were expanded by extending to other series, with reinvestment in production and factories to meet market demand. The business plan was long-term oriented, visualising achievement in five to ten years. It also had short-and mid-term plans to achieve. The CEO at HQ stated that the payback period of industrial investment in China was very long, therefore any investment in China needed to be a long-term commitment. Like the company's philosophy of development, entrance into the Chinese market was handled carefully and gradually in order to have a steady and consolidated pace of growth instead of seeking quick profit.

Tactics:

The company was adaptable in its processes of implementing and formulating strategy. This differentiated it from many others. It was not only about simply familiarising itself with the market, but knowing how to adapt to the local environment, to adapt its products, and to help people learn how to understand and adapt to the characteristics of the market. In these respects the firm was flexible, and did well to achieve excellence in the process. For instance, new product catalogues were designed especially for the Chinese market, adapting to its particular needs. This excellence in every detail to achieve better performance was partly a result of training

Chinese technicians at headquarters, exchanging innovative experiences and learning how things were done at headquarters.

CASE C

Principles:

Since its initial business relations with China in 1980s, the company had been observing and comparing different options for entering Chinese markets. The investment was finally made in 2001 although an earlier JV agreement had been made with a local partner. The new manufacturing base was built up for better cost efficiency and new product launching. Spanish expatriate managers working in China perceived that much attention was required to all surrounding issues, since most of these were new. That is, not only to employees, but also to the government and other stakeholders. Principally, cheap labour was taken advantage of to reduce costs, with full respect paid to labour regulations. According to the headquarter President, this represented a higher cost in comparison to some other local competitors who did not fulfil their legal obligations. As regards the market, it was considered not yet mature enough for them to participate in.

Strategy:

Aware of the fierce competition in the Chinese market, the company was very prudent in launching its investment and commercial plan. Its production at the time was very much limited to serving international demand through headquarters, combining the Research and Development (R+D) centre, which made possible a ten-fold speeding up of new product launching. This investment was a commitment, as the manufacturing base was located in one of highest-cost regions in China, with more qualified workers and better protection of legal regulations. Through their contacts in China, more factories were built to expand relocation of their production to China. Nevertheless, in market terms, sales in China were still irrelevant for HQ. A strong market entrance was expected on an uncertain timescale, taking into consideration that once costs were reduced significantly price would become much more competitive with local firms.

Tactics:

In the relatively short history of its Chinese subsidiary, the company had come with the intention of building a cost-efficient factory, following the industrial pattern of headquarters. In order to prevent turbulence from regulations and difficulty in their application, the company attempted to build high-quality products with lower cost and also to protect its intellectual property. The location of these manufacturing bases facilitated bringing over qualified expatriate managers to work in the subsidiary. According to the HQ President and Spanish expatriate manager the particular segment of their product niche did not yet exist in China, and therefore needed to be created once purchasing power in the market was high enough to do so.

CASE D

Principles:

Local partners were critical for the company when dealing with Chinese governments, especially on administrative and licence issues relevant for the business it operated. Personal and family-style relationships were also considered very important for working in the company, according to the subsidiary President. This philosophy was intended to be transmitted within the subsidiary since it was felt that what differentiated a company was the quality of its people. This was dealt with by a combination of treating people well and using good materials.

Strategy:

As a leading foreign company investing in the service industry, the company offered integral services along with its core business. Unlike many MNEs who were under pressure from the stock-market, its family-style business allowed a long-term vision and commitment in this market, making a more long-term oriented business plan which might require sacrifice of short-term profits. According to the subsidiary President, working with a medium- and long-term mentality in China was indispensable, because time of maturation, negotiation and project development were long-term. The growth pace of its business had been gradual. Starting with one JV in the south of China the company now extended to 12 JVs in the territory of China, counting its presence in Beijing, Tianjin, Shanghai, and many other major cities.

Tactics:

For the subsidiary President, it was important not to be rigid but to be flexible in adjusting its plan for China over time. If expectations were not realised, then this would need to be rectified. Depending on evolution of the environment, the market, and the firm's capability, this adaptation would be different in the different stages. Examples were given earlier, for example, entering China's market in a non-core business area but establishing the company. This flexibility helped to build up knowledge of the market and facilitate later installation once the opportunity emerged.

As one of the few foreign companies in the sector, it was leading a sectorial revolution by changing the business concept in China.

CASE E

Principles:

Current business success had benefited surprisingly from the initial JV created ten years before with a Chinese partner. Without that earlier investment, the formation of the current business as a distributor would have been almost impossible in terms of licensing from the government. In this luxury goods industry, the product and business culture was important. Due to the fact that there were few or almost no existing Chinese managers who had a strong culture or experience in the product, business and industry, training was foreseen to enable them to handle the business independently over the next seven to ten years. In practice, not only were foreign managers from third countries recruited to strengthen the high standing of the product's cultural image, but also local sales staff were sent to Spanish headquarters to receive training and become more knowledgeable about corporate culture.

Strategy:

By switching from a producer to a distributor focus in their business in China, the company continued looking for further opportunities to rebuild production once sales increased to a significant level. By positioning in a luxury goods segment, it incorporated multiple brands into its portfolio and targeted different channels in its commercial activities. For the current GM in China, these positive results would have been impossible if headquarters had not allowed flexibility in timing for achieving objectives. As uncertainty was high in China, a narrow and quick-result focus going for profit would have been a mistake that resulted in potential failure. Starting again from almost nothing when its business model changed, the company gradually grew from the structure of an initial five employees to its current one hundred.

Tactics:

The change from producer to distributor was a drastic shift of strategic focus on a new business opportunity, made possible by the permission of HQ. In the execution of the initial strategy, sales through an external distributor could not achieve the targeted objective. They had to seek alternatives, otherwise the subsidiary would have been subject to an extreme decision such as closure. This adaptability was not only part of a flexible attitude but was also due to the process of seeking excellence and achieving better performance instead of restricting mindsets. Searching for excellence was a part of corporate culture, and excellent performance was sought using flexible means. This resulted in forming a company-owned distribution channel, the right business model for the potential Chinese market. The General Manager in the subsidiary viewed the change in his enterprise as a good example of how China had been changing over time. When these changes occurred, the company had to adapt rapidly. Even then, he considered that the market often got ahead of the firm’s capacity for reaction.

CASE F

Principles:

The local partner played an important role during the initial phase of business creation and development of the JV. Its contact with the local administration and experience in the Chinese market helped initiate commercial activities in China. However, the decision to turn the Chinese subsidiary into a mere production centre led to a drastic withdrawal from the market. As a member of the Global Compact[12] it has a corporate manual that states the mission, vision and objectives of its human resource strategy. Nevertheless, the Corporate Human Resource Director recognised that each subsidiary had its autonomy despite homogenous global requirements. According to the Industrial Director who was responsible for the Chinese operation, Chinese middle-level managers may be aware of these corporate values, but operators at lower levels do not know or care about their existence.

Strategy:

Partly to satisfy the shareholders' wish to enter into a Chinese potential market with a 1.3 billion population the initial market study and investment were totally unrealistic, exaggerating market demand and leading to investment producing over-capacity production. This was solved by doubling exportation, to generate enough orders and save the newly inaugurated factory in the east of China. But after marketing efforts prospered, the allocation of high costs from headquarters made it difficult to sustain a valid business equation. By the time the GM in China by that time planned to turn to partial production outsourcing to Chinese suppliers to reduce cost he was not allowed to, since that would have changed the core business of the firm. Meanwhile, exportation for international orders increased and therefore a final decision to stop commercial activities in China was reached by headquarters, considering them insignificant. The lack of a long-term commitment led the company to lose the potential opportunity when the market started to grow.

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[12] The Global Compact is a social responsibility agreement initiated by the United Nations. For details

Tactics:

Flexibility and adaptability appeared to function well as tactics in the period of the first GM in the subsidiary. They helped the subsidiary to overcome the crisis of shutting down the factory base. However, to a certain extent rigidity in adapting the business model in this context reduced possibilities of business development. While an autonomous business model was proposed by the subsidiary to maintain commercial activities for self-sufficiency and to increase sales in the Chinese market, this was perceived by headquarters as nonsense since it would turn the subsidiary into a trader rather than a producer, the latter considered to be its core business. After the decision was made to end commercial activities in China, there was no room to be flexible and adapt to the local market. When the market started to grow and HQ wanted to re-enter it, all previous market experience and knowledge had vanished.

5.3.2. International strategic human resources (See Table 5.4.):

These four elements pertaining to ISHR (structure, leadership, International HR, and learning), interact and influence each other reciprocally. Structure and leadership are often first decided and selected by the parent company. The first of these, structure, is the sequence of firm creation and development, as well as the prescription for initial strategy and other ISHR elements. As regards leadership, the characteristics and abilities of current leaders in Chinese subsidiaries are a result of the firm's development as well as an indicator for future development. This influences the sub-process of International HR to create and design a learning environment, which in

see http://www.unglobalcompact.org/

turn eventually provokes changes in the structure. The cycle continues until an interruption occurs.

The structure of superior performers is a flat organism with higher independence of their subsidiaries from headquarters. The interface between headquarters and the Chinese subsidiaries is multi-faceted and multi-leveled. Conversely, 'the other performer' case is more dependent on its headquarters, and communication is limited and hierarchical rather than interactive. The work infrastructure includes both soft and hard aspects, which may contain features of operation systems, information flow, financial system, working environment including work atmosphere. In general, it appears that this is good in superior performers, and poor in other performers.

On the aspect of leadership, the involvement of leaders from headquarters in the subsidiary and the characteristics and abilities of subsidiary leaders distinguish between superior and other performers. Leaders from the headquarters of superior performers are actively involved in the Chinese subsidiaries. This is shown in their structure and in the fact that leaders participate frequently and closely in activities of the subsidiaries. In the leaders of Chinese subsidiaries, superior performers place emphasis on the characteristics of integrity, supportiveness and self-realisation. In terms of abilities to operate in China this translates into identifying business opportunities, breaking down barriers and embracing good judgement.

Moving on to IHR, a leader's mental schema influences decisions on international human resources. In turn, the existence of international human resources may dictate features of leadership. Three levels of international human resources can be identified that integrate aspects of cross-cultural international HR practices. These are individual, dyadic, and organisational levels which acquire special weight in international management.

At individual level, stereotype avoidance, being motivated and positive, and being patient and persevering is notable in superior performers. Due to the relatively short business history of relationships between Spain and China, psychological barriers still impeded many operations and interfere with taking the right decisions. As quoted by some superior performers, we human beings are in fact similar: there are many kinds of people in every country, and we are increasingly escaping from stereotypes. Cross-cultural management at national level has been gaining prominence in organisational theory since Hofstede (1980). While it has helped international managers to understand variations in culture and so better adjust to an international context, there are many other dimensions that need further exploration. For instance, Dolan, Díez, Fernández, Martín & Martínez (2004) argue the importance of culture at regional level and whether culture needs to be studied at national or national level, and that the boundary between cultural differences is unclear.

These features at individual level relate to others at dyadic level. Individual attitudes help to create mutual respect and build mutual trust. If the cultural gap is between the two parts is wide, the intervention of bridge person(s) is important to pave the way for a smooth dyadic interaction. In turn, a positive dyadic relation may have a corresponding effect at individual level. That is, the understanding and trust built up help to avoid stereotyping and to be more positive and persevering.

At organisational level, excellence in HR and integrity, international personnel training, commitment and retention are outstanding in superior performers. 'Superior performers' integrate a policy of HR excellence into practice, while HR in 'other performers' perceives it as job fulfilment rather than striving towards excellence. International personnel training in China is no easy task (Björkman & Lu, 1999). In practice, this is not only a way to have more qualified employees, but receiving training at headquarters may be an effective vehicle for transferring cross-cultural aspects and learning ways of doing that help strategy formulation in subsidiaries. As high rates of turnover in Chinese executives are a constant worry for international firms (Leininger, 2004) and companies in China struggle to train and retain qualified managers (Wozniak, 2003), training conducted at headquarters is perceived as recognition and status, apart from acquisition of technical skills. It is also an indication of alignment of values, and as such is key to motivating and retaining executives. Economic conditions and the working environment as a whole are no longer the main motivators for Chinese executives (Leininger, 2004). In fact, personal growth and self-realisation are becoming increasingly important motivators for managers and executives. As key managers carry knowledge of the firm and the market, their commitment and retention in the organisation is vital for strategy formulation and adaptation.

To sum up, 'superior performers' stand out for avoiding stereotyping, being positive and patient and displaying perseverance, mutual respect, building trust and cultural bridges at individual and dyadic levels of cross-cultural international human resources, with training, commitment and retention at organisational level. An adapted acculturation process at multiple levels throughout the organisation helps managers understand each other better, gain respect and avoid stereotyping. 'Superior performers' have mastered this process and become much more confident in their operation and proficiency in communication, making it easier to build trust and further this positive cycle of the acculturation process. This adapted acculturation process also develops people more capable of helping bridge the two cultures by leveraging cultural similarities. 'Superior performer' cases also show that being positive and patient and exercising perseverance help in this acculturation process.

On aspects of knowledge and learning - market orientation, applicability of practices from headquarters in the subsidiary, and continuous learning and knowledge updating - are notable in superior performers. An international market study is especially important to realistically define the market. While our data show that 'superior performers' engage in gradual business development, overcoming any initial strategic errors and succeeding in initial tasks, 'other performers' are production-oriented, resulting in a move away from or unease in access to the market.

Superior performers also show a high level of independence in their subsidiaries' HR policy designs, while admitting that Chinese and European HR policies are becoming more and more similar. The dilemma between globalisation or standardisation and localisation in managing human resources has been extensively discussed by Björkman & Lu (1999) and Zeng, Wang & Ye (2005). The extent to which global corporate practices should be adapted to working in China needs further exploration to achieve an equilibrium.

Due to constant change in the global environment, constantly updating knowledge through learning is vital in sustaining a firm's competitiveness. Developing organisations with a capability to learn seems to be a natural response for management in times of rapid change (Huysman, 2000) so as to be able to survive and gain competitive advantage (Garvin, 1993; Marquardt, 1996; Pedler, Burgoyne & Boydell, 1991; Senge, 1990; Swieringa & Wierdsma, 1993). Our data show that superior performers are continuously learning and updating their knowledge, which enables them to quickly evaluate and adapt strategy to the changing environment in China.

CASE A

Structure:

As the company grew, it became more and more structured. In order to maintain its dynamism in the subsidiary, the Country Manager often intervened in the hierarchical structure. To overcome bureaucracy and be closer to market reality, headquarters built up an independent representative office to deal horizontally with partners and the local administration. This also served as a regional corporate office, advising local managers and coordinating other activities in Asia. In parallel, managers in the subsidiary communicated directly with their corresponding departments in headquarters for technical assistance or coordination. Effective soft (work environment) and hard (information system) work infrastructures were established to ensure a fluent communication flow. Its mindset was reflected in some traditions and equality measures. For example, high-level managers had lunch in the same area and space as line operators, and under the same conditions: the same trolley,

Table 5.4: International strategic human resources case illustrations

CLUSTERS (Codes)	Themes	Superior performer examples	Other performer examples
International strategic human resources: The ability to contribute human resources to sustain a firm's strategic competitive advantages in international business.			
<u>Structure</u>: A complex system composed of parts arranged together to form an organism.	<u>Flat organism</u>: A horizontal system lacking any complex hierarchical structure.	Yes. "The company is little bureaucratized, very flat, without many levels. It is a flat structure with few departments, but very active and very flexible."	N/A. "There is a structure and we have all the usual areas of a company: general director, controller, R+D, quality, finance, and personnel."
	<u>HQ and subsidiary interface</u>: The communication and interaction between headquarters and subsidiary.	Diverse. "There are frequent interactions between the teams at headquarters and subsidiary. Above all, it is in the area of commercials and marketing, as well as in R+D, industrial and etc."	Limited. "The industrial director of headquarters is also the genera l manager of the subsidiary. He is the principal link between them.
	<u>Work infrastructure</u>: The basic facilities, services, and installations for the functioning of an organisation.	Good. "There is high transparency in information. Even though it is not necessary to approve operations, headquarters could access all information instantaneously via the computing system."	Poor. "During one period, we had to be self-financed and even borrowed money from a Chinese union to pay salaries."
<u>Leadership:</u> The capacity and ability to lead.	<u>Involvement of HQ leaders in the subsidiary:</u> The relationships of close involvement of leaders of headquarters in the subsidiary.	Active. "The president flies to China a couple of times every year. They (the executive board) are the first to be interested in seeing all the changes happening in China."	Some or N/A. "It is important to show the face of the 'big boss' in China, similar to in Japan. I go there sometimes and am interested in knowing what people think there."
	<u>Characteristics of subsidiary leader:</u> *Integrity:* Adherence to moral and ethical principles, honesty and entireness.	Strong. "There are more temptations than in the west. The risk is not inferior, especially for foreign investors, in all fields: labour relations, taxation, environment, etc. A strict and consistent ethical attitude always gives good result in long term.	Weak or N/A. "You never know to what extent the Chinese cost would be lower." "It was workers who asked to work on Sunday in order to earn more."

Table 5.4: International strategic human resources case illustrations

CLUSTERS (Codes)	Themes	Superior performer examples	Other performer examples
	Supportiveness: Furnishing encouragement, assistance and support.	Strong. “One of the general weaknesses Chinese managers have is lack of initiatives. I had to encourage them, and help them to improve (their capability).”	Some. “At professional level it is hard as we are obliged to make a series of efforts that we had forgotten. That is, to show capacity to listen and attention to what surrounds us.”
	Self-realisation: The fulfilment of one's potential capacities.	Strong. “This is an opportunity for me to develop and self-realise in the company.”	Some. “I am grateful because besides learning, there is never giving up learning, but also viewing things from different view point.”
	Abilities of subsidiary leader: *Identify opportunities:* To recognize an appropriate circumstance for advancement or success.	Strong. “There are big opportunities in our market.” “One of the objectives is to identify business opportunities.”	Some. “The Chinese market is very attractive. It is evident that with time it will fall on its feet. We could not waste that.”
	Break barriers: To overcome the resistance of any natural or immaterial obstacles.	Strong. “We saw there was limitation with the previous business model…we transformed the business by ourselves.”	Some. “It is difficult at the moment when everything is unknown. Simply, in this sense, it is unawareness.”
	Embrace judgment: To take in the mental ability to understand, assess situations shrewdly and draw sound conclusions.	Strong. “An expatriate manager needs to gain credibility in China. Do not follow or reject something just because others say so. It is about understanding, experimenting and finding equilibrium.”	Some. “There is a good book of doing business with Chinese. But the longer I am in China; the more difficult I feel it is to understand them.”
International human resources: The capability of people management in international business at individual, group and organisational level.	At individual level: *Avoiding stereotyping:* To avoid an oversimplified conception.	Strong. “The more time goes by, the more I escape from stereotyping. The Chinese are this and that; the Indians are this and that; but in fact there are many kinds of people.”	Some or weak. “At the beginning, I did feel there were many cultural differences. But when time passed by, I lost this feeling of difference.”

Table 5.4: International strategic human resources case illustrations

CLUSTERS (Codes)	Themes	Superior performer examples	Other performer examples
	Being motivated and positive: The existence of being provided with motives and inducement, and being constructive and confident.	Diverse. “Economic conditions are not always the best motivator. We listen to Chinese managers’ opinions and let them express their ideas.”	Limited or N/A. “A part of salary is in function with the objectives of employees, linking with different indicators.”
	Being patient and perseverant: Being steadily diligent in spite of difficulties, obstacles or discouragement, and constant in effort to accomplish things.	Yes. “All says that one must be patient in China. That is working hard everyday, having a vision and objective, and drawing it. Then one day it will be achieved, without imposing a concrete date.”	N/A. “During some years, it tried to sell in Chinese market. But it was difficult and there was no immediate solution, so the headquarters decided to give it up.”
	At dyadic level: *Mutual respect:* A reciprocal willingness to show consideration or appreciation.	Strong. “Look for tolerance, respect and transparency. This type of language could be practically understood in any part.”	Some. “Chinese are hard working, much more than in Spain.”
	Mutual trust building: To establish or strengthen mutual confidence in the goodness.	Yes. “I believe that the trust placed by the headquarters on the Chinese management team since it creates a good cycling.”	Some. “All the difficulties that I have are to start to gain trust of people, to see how things are structured and change them in function with what I think that is better.”
	Intervention of bridge persons: To involve someone who spans two cultures and consciously seeks to facilitate an exchange between the two for further development.	Strong. “We had problems in the conception of business plan. Spanish part wanted something very European, and Chinese part wanted to continue doing what they had. That is when we intervened very personally in the business. Now we are in the advisor board of the company.”	Weak. “In the project development phase, a Taiwanese Chinese with Spanish background was involved to deign and build the project.”

Table 5.4: International strategic human resources case illustrations

CLUSTERS (Codes)	Themes	Superior performer examples	Other performer examples
	At organisational level: *Excellence in HR and its integrity:* Qualified people, good work teams and their capability as a whole.	Yes. "What differentiates a company is the quality of people. We look for and try to have the best."	Some. "I believe that there always needs to be a Spanish controller. With a local industrial director this is a good combination."
	International personnel training: Activities to coach and lead employees to skilled behaviour in the international context.	Yes. "Technological development, mentality evolution and training of personnel have been determinant factors for the change."	Some. "We have some training programmes for our Chinese employees. Sometimes we send technicians to learn at headquarters."
	Commitment and retention: Capacity to commit employees and retain them within an	Strong. "The turnover of middle and high-level managers is zero. If they are well treated and things are going well, people do not need to change (their jobs)."	Weak. "There are always many movements of workers. Higher payment from another company easily removes personnel. At
Knowledge & Learning: The sum of what is known and gaining it by study, instruction, experience, exposure to example, or the like	Market oriented: To focus on, make familiar with, and be adjusted to market facts.	Strong. "China has been changing (over time). When these changes occur, you have to go on adapting them very rapidly and often, the market gets ahead of your capacity for reaction."	Weak. "We have been focused on production. The Chinese market is interesting but purchasing power is still too low for our quality products."
	Applicability of HQ practices in subsidiary: The extent to which the practices of headquarters are applicable to matters in the subsidiary.	To a certain extent. "You cannot apply exactly the same as you do in headquarters. There is space for recommendation." "It is becoming more and more similar to the Europeans."	Strong or N/A. "As part of a member of the Global Compact, that applies to all subsidiaries."
	Continuous learning and knowledge updating: To continuously acquire knowledge and to bring what is known up to date.	Strong. "We made mistakes in the initial market study, but we noticed that the first day when arriving in China. We had to start with a different business format at the beginning."	Some. "The domestic sales project should not have involved what we went along with: walking in the street, visiting clients and learning."

the same food and the same canteen payment system. This tradition had existed since the company was first founded.

Leadership:

In order to ensure strong relations with the Chinese business set-up a senior manager from headquarters was sent to the regional office in China as Country Manager in a career development move, although daily business was managed independently by a management team led by a Singapore Chinese. Moreover, the HQ President was on the board of the Chinese subsidiary for monitoring purposes. The Country Manager was happy to acknowledge any mistakes in his decision making. He reckoned, "there is no perfect way except always doing your best..." As structure in the Chinese subsidiary was somewhat hierarchical, he helped the managerial team by promoting their initiatives and improving flexibility. For him, his Chinese experience was a good opportunity for international career development as well as self-realisation.

One of his objectives was to identify business opportunities. Therefore cultural and other psychological barriers needed to be broken down in order to see the underlying business issues. That is, in his own words, "As an expatriate manager, you need to earn credibility in China. Do not follow or reject ideas just because others say so. It is not a matter of changing yourself into a Chinese or imposing your original style, but trying to understand, to experiment and to find an equilibrium."

International human resources:

As the Country Manager said, avoiding believing that "in China it just works like this" is important. Going for first-hand information, getting to know what others want, and giving it to them once identified, are motivating and key things for managing the business. His Chinese counterpart often talked, took notes and gave responses two months later. Business was also done outside the office or meetings, to keep up with what was going on and to influence the process. Trust was an important factor for headquarters-subsidiary relations - for example, trusting local people because they were very reliable. “They say, ‘this needs to be done in that way’; and it is done exactly like they say; and also their information is trustworthy”. Overseas Chinese were used in the top management team since they possessed both western business culture and Chinese culture as well as language skills. Excellence in human resources was important for the company. One of the most valued initiatives was sending employees for overseas training. This not only provided them with better skills it also brought a certain prestige. On retention, a series of intangible benefits including housing policy and other family benefits were provided to top professionals to increase their loyalty to the company.

Knowledge and learning:

All business is about being close to the market and it was known that market study, distribution and branding were crucial for a company’s success in the Chinese market. China is said to be especially distinctive in this respect, much more so than other countries. As a foreign manager, it is difficult to come in with a set recipe, applying it exactly as it has been applied in the home country. There is room for HQ to make recommendations but it needs to gain credibility. There is a continuous process of learning and knowledge updating. When a new principal product is to be launched there is often concern that it will not work in China because the country is so distinctive. So there should be tests first using a secondary product. If sales increase dramatically in the experiments, the same promotion can be applied to the rest. This example was given by the former Country Manager.

CASE B

Structure:

In the opinion of the CEO at HQ, the company should not be over-structured. It was his concern that companies ought to be elastic, depending on the environment, size and need for control. Here, as well as having a flat structure and bi-directional communication, its information flows went through different channels. For instance, an international operations team from headquarters visited the subsidiary every month, and local managers and engineers often received their training or met at headquarters. But the local management team, all of Chinese origin, were delegated full responsibility for daily operations. All information was transferred to HQ and the subsidiary. As a consequence, even if the monthly costs added up to millions of Euros, the local team needed no approval from headquarters.

Leadership:

The corporate Managing Director was in on the project set-up for China. He participated actively in the initial phase of project establishment by visiting potential partners, negotiating, and creating the management team. Once the JV was created, it was the Chinese General Manager who dealt with daily business operations, with supervision and cooperation from an International Operations Team from headquarters. The management team in China was totally local. The succeeding

General Manager believed that consolidation of the corporate culture would contribute to future success. Aware of his own and his collaborators' advantages, he learned from previous professional experience and integrated the two cultures to support and delegate team responsibility. In his view, "the most difficult thing for a company is to find talent with integrative vision and match it with corporate culture". The challenge provided him with a chance for growth and self-realisation. As the market was constantly changing, he felt that attracting and retaining talent and consolidating corporate culture were critical to foster future development and sustain competitiveness.

International human resources:

"I increasingly try to escape from stereotypes - 'The Chinese are this or that, the Indians are this or that'. There are all kinds of people. Look for tolerance, respect, and transparency. This kind of language can be understood practically anywhere", stated the Corporate CEO, "It is also important not to go in with a sense of superiority". Mutual understanding of each other's mentality had been the main problem encountered since the start of business development. It was solved by building up mutual respect and trust through cultural intermediation. "There were Spaniards talking with Chinese, additional geographical problems (i.e. constant travel)…Misunderstanding is produced by cultural difference as we take it for granted that other people will behave in a specific manner", commented the consulting firm who advised them in the business process.

The trust that HQ deposited in the Chinese management team created a virtuous circle in their operations, according to the Chinese CEO at the subsidiary.

Excellence in HR was a firm belief of the corporate CEO, “What makes the difference for a company is its human team. It is easy to have the best computer, but a good human team needs time to work in and a lot of persistence”. That is why many training programmes were offered at the Chinese subsidiary for all employees who reached minimum requirements. Growth of the company and its offering transparency, trust and professionalisation meant there was room for personal development and self-realisation. There was high rotation of salesmen although the general retention rate was decreasing.

Knowledge and learning:

According to the Chinese CEO, the Chinese market was becoming more and more competitive. “It was always difficult and now it is even more difficult”, so it was extremely important to do the homework (market study) before launching an international project in China. While recognising the difference between Chinese and headquarters HR policy, the corporate CEO considered that in the end, Chinese employees were looking for the same as their European peers: “Feeling good and a fair wage”. However, they did learn from the initial conflicts, and this experience had been positive in general, since people who knew the Chinese market and culture had been incorporated, which had helped the learning process to be fluent. Chinese managers felt that they had learned a lot from headquarters, which contributed to later knowledge generation in the Chinese market for further business development.

CASE C

Structure:

The HQ president viewed the Chinese subsidiary as still at an unconsolidated phase, so in structural terms the GM and controller needed to be Spanish expatriates. Once it grew to the development phase, no GM would be needed and a controller and industrial director would be sufficient. This structure was a replica of the HQ factory. Interface between headquarters and subsidiary was mainly through connections between expatriate managers and travel by high-level corporate managers. The President was concerned about the working and living condition of workers in the subsidiary, which he stated needed to match certain basic standards and meet the labour regulations.

Leadership:

It was clear that for the corporate CEO, "the big boss showing his face is culturally important for many Asian countries, including China". He often travelled to China in order to take high-level meetings. For him, one of his main roles there was public relations. And once he learnt some basic Chinese, the world seemed to change, since activities were no longer boring. He gave one example: once he was invited to visit an area on a potential business investment; it turned out that he had to go alone to deal with all the Chinese delegates without translators. Even with his basic Chinese, they managed to communicate. This was fruitful not only for that particular case, but also later because he had earned a reputation with his Chinese counterparts. As regards the factory in China, he was worried about the living condition of the workers as well as the application of the main ethical codes. His thoughts found a response in the management team of the Chinese subsidiary, who agreed that a balance of quality control, cost reduction and social policy should be implemented for further competitiveness.

International human resources:

"To a certain extent the Chinese have Latin characteristics, or vice versa. Comparatively, it is more comfortable for a person of Latin origins to be in China in many respects," it was claimed by the corporate CEO. However, according to the expatriate manager in the Chinese subsidiary, "Patience is absolutely basic. There is no need to lose your temper, which could make things worse". For him, the most difficult things at work were starting to gain peoples' trust, seeing how to structure things, and changing them if that was believed to be a better solution. It had been hard for the company to retain first- and second-level managers, "as other investors come along and attract managers at no cost. But in the end it is not only the economic package that counts but the work itself", stated the corporate CEO.

Knowledge and learning:

The market study had revealed a negative result for purchasing capacity of Chinese consumers, according to the corporate CEO. Consequently, marketing actions were held back pending a change in the target segments' economic purchasing power. For the moment, the focus was kept on production, to maximise cost reduction and make the final products more competitive. According to the expatriate controller for general affairs, headquarters practices were quite often applied in the subsidiary using a very similar model even though the Chinese situation did not allow identical implementation. As regards learning, this aspect was mentioned at personal level but seldom at organisational level. Both the corporate CEO and the expatriate manager felt that learning in the Chinese context was challenging and interesting. The latter in particular clearly mentioned personal and professional growth due to working in China.

CASE D

Structure:

The company had a flat structure, with few departments, but quick and flexible in responding to changes emerging from the environment. Except for the subsidiary President and two other Spanish expatriate managers, the rest of the employees were local Chinese, including the general managers of most JVs. Even though the corporate headquarters for China and the other Asian countries was in Hong Kong, the Chinese JVs operated with a high level of independence. With its systematised information, the company led the change of systematisation in the sector. Its transformation meant that competitors felt forced to improve their own systems, to reduce their obsolete structures and to change their ways of management and service to clients in order to seek results that allowed them to survive in the new competitive environment.

Leadership:

It was the President of the corporation who showed most belief in the development in China. A member of the corporate executive board, he was appointed as President of the Asian subsidiary, with regional headquarters in Hong Kong, China. He not only travelled frequently between Spain and China, but had also learned Chinese ways, including Chinese traditions and culture such as Confucianism. According to him, this provided creative ideas for adapting to the changing needs of the market. Learning from the very first strategic mistake made, he was open to and supportive of new ideas, which were driven to results through processing accurate information. The achievement in China was partly due to the personal inspiration of the President. Therefore, he felt great fulfilment at both personal and professional levels. Over time, the business model was changed in accordance with the environment, especially because operations in the industry relied heavily on permits issued by government and investment legislation. “Easy business doesn’t exist”, according to the President, “…experiencing new things is not easy. However, such difficulties are neither huge nor insuperable”.

International human resources:

“Due to a different conception of time, large doses of patience and perseverance are required to navigate in the complex Chinese bureaucracy”, said the President of the Chinese subsidiary, but “trust Chinese managers. [Many firms in Spain have the misconception that Chinese are not trustable.] I have got to know more than one type of person wherever I am…Don’t go by first impressions”. He considered that “development of technology, evolution of mentality and training of local personnel have been the determinant factors for change.” In other words, “what differentiates a company is the quality of its people. We look for and try to get the best.”

Knowledge and learning:

Recognising their initial mistake in the market study, the President for Chinese business celebrated that at least they hadn’t made mistakes in management. To be attracted by the 1,300 million potential market, the HQ expected an easy and quick-increasing market share and profit in accordance with the initial business study carried out before entering into China. Realising it’s unrealistic, that was down to learning from the first day after arriving in China. Over time, the company observed more of the things happening in China and learnt from the Chinese to adjust its strategies and policies. He even concluded that five years would be the break-even point when they would start to be integrated and adapt to China. With respect to the applicability of headquarters policies to the subsidiary, he considered that it would be an error to use Spanish instruments in China.

CASE E

Structure:

Changes being generated were so unforeseeable that it was impossible to have a very fixed structure, according to the subsidiary GM. With a very flat structure and freedom to outline its own objectives and define when and how to be profitable, the subsidiary was expanding its infrastructure, personnel, and distribution channels to fulfil increasing market demand. There were multiple origins among employees: Spanish, Italians, Russians, overseas Chinese and local Chinese among other third-country expatriates. This diversity created multiple channels for communication with international and local clients and suppliers and interaction with HQ.

Leadership:

The owner of the group business and his family frequently flew to China to gain first-hand information about the business. They were the first to be interested in the changes that occurred in China. According to the current General Manager of the Chinese subsidiary, “that makes it easier to understand us and make decisions”. It was stressful to work in China, but also challenging due to market dynamics. He considered this was “a very interesting moment for me, for my life” because participating in business in such a unique environment was an exciting experience. He identified several critical moments for the business which had helped the transformation of the business model during the period, making the business profitable.

International human resources:

On IHR, the GM of the Chinese subsidiary commented, "…in the end, all human beings are racist and jealous…the more people are educated, the less racist and more open they become." Even in an aspect like consumer behaviour in China, stereotypes needed to be avoided due to rapid change. Patience in China was also interpreted as working hard, "it just means working hard every day, having a vision and an objective and outlining it: one day the result will be achieved if no timing is forced." Frankness and transparency were promoted in the company between employees from different backgrounds. The company represented various well-known brands, which meant that the subsidiary was trusted. In HR, new staff dedicated to employee training were joining. Training was very much appreciated in general and was considered a motivator for retaining qualified employees.

Knowledge and learning:

One example of learning was how the company changed strategy from production to a market focus in China. Despite initial investment in production, the company found that sales were hard to build. Distribution was not well-established and was controlled by only a few companies. A change of business model from producer to distributor gave dynamics to the company in China and became the protagonist in its business. After years in the market its brands were rooted in the minds of target consumers, which was more important than the image of country of origin. The current GM in China said that was because strategic decisions were made by headquarters and subsidiaries together, “they (HQ) view China from the outside and we see it from the inside”. Managerial and HR actions in China were quite independent from HQ although HQ intended to train overseas Chinese to delegate higher responsibilities. What was seen as ‘romantic’ was learning how Chinese consumers changed their perception of the product over time. Given previous international experience by HQ, a pattern could be foreseen including HQ commitment to growth of the market.

CASE F

Structure:

With a structure similar to headquarters, the company was hierarchical despite its limited size. Currently the Industrial Director at headquarters was also responsible for the Chinese subsidiary, and travelled to China every two weeks. His role in China was equivalent to General Manager. Besides that, another expatriate was based there for purchasing. Interface with HQ was through a few channels at top level. An Enterprise Resource Planning (ERP) system was used to report data, but the subsidiary had limited functions. Following the initial investment, it was now just one more manufacturing centre, after the drastic decision to cease its commercial activity.

Leadership:

In the process of evolution, the former General Manager in China managed to break down cultural barriers and initiate proposals for a realistic business formula. One example was negotiating with unions to collaborate in production planning. As the first strategic planning before landing in China was unrealistic in terms of market and production, there was excess production capacity. The option of headquarters was to fire employees, but the GM succeeded in negotiating with union representatives and reached an agreement that employees would work half-time for the first year, and extra hours in the second year to recover production when sales increased. This meant that the workers' union was so grateful and collaborative that they even lent the company cash to cover workers' salaries not paid by HQ during a period of financial crisis. The current GM was also Industrial Director at headquarters and flew to China twice a month to control production.

International human resources:

On IHR, there was a difference between the former and the current GMs in China. The former GM believed in Chinese management, "if you treat people well, things will go well." The proof was that trade unions helped finance the company's payments temporarily when it was in crisis due to a delay in collection from HQ. The current GM was more sceptical. For example, he doubted that purchase price in China represented the real price, as it appeared that lower prices could always be reached. In fact, distrust of the Chinese commercial manager led to his dismissal, and to the end of product commercialisation in China. The constantly negative response from HQ had disappointed the former GM, and eventually led him to leave the position. In addition, a training programme for engineers had a contract binding them to work for the company for five years. Two of the first five engineers to receive the training left the company after the contract ended.

Knowledge and learning:

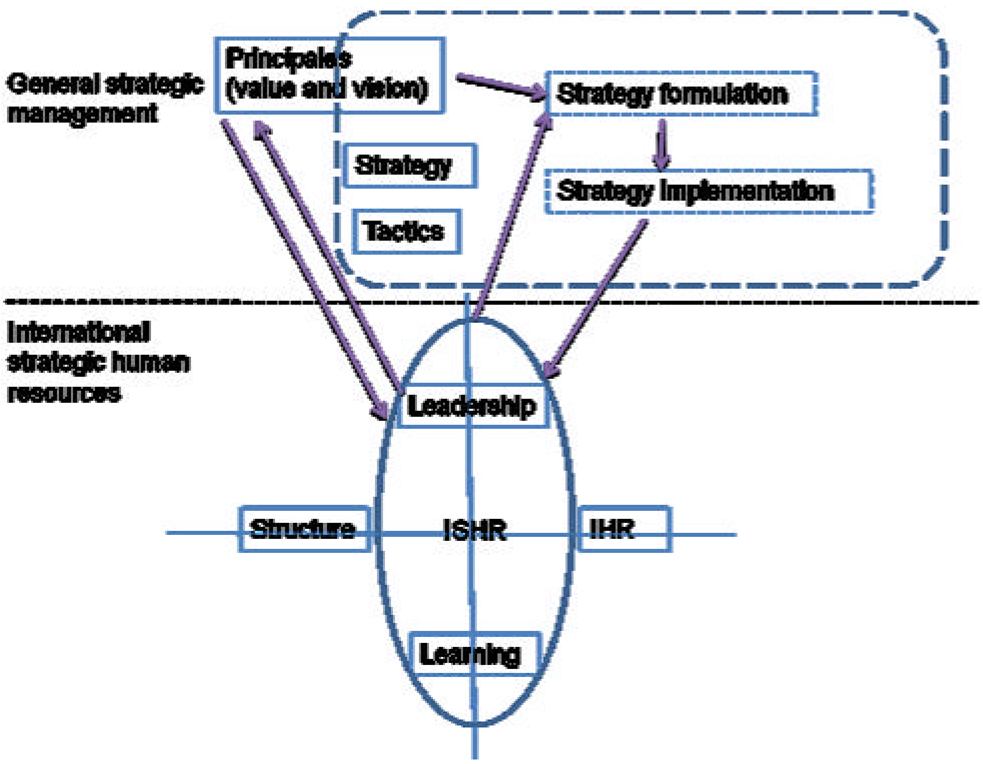
The former GM in China claimed that more homework (a market study) should have been done. They should not have had to learn on the street by visiting clients and distributors. But this early learning experience helped the subsidiary to be self-sufficient. However, strict application of policy from HQ discouraged the GM from continuing in China. As a result, learning and knowledge transfer was interrupted. In the current situation, the corporate industry director (the current GM in China) suggested that HR in China was very different from at HQ, while under the corporate HR manager a unified HR strategy and policies were applied across all subsidiaries.

5.4. Conclusions:

In this section, conclusions are drawn based on the earlier results and discussions. Specifically, answers are given to the research questions raised earlier on the role of HR in the strategic management process. Some further discussions are presented sequentially.

First, based on familiarisation with the data and identified codes, a figure (Figure 5.1) was constructed to aid visualisation, with boxes for observable constructs, circles for unobservable or mediating constructs, and arrows for connections between constructs (Whetten, 2002).

Figure 5.1: Interrelation of international strategic human resources and strategic management



Regarding the addressed research questions:

(1) How are human resources linked with the strategic management process, particularly in the strategy formulation process? Do any of the four types of SHR exist in the context of Spanish firms in China? If so, which types? Do firms with proactive SHR, that is prospectors and analysers, have superior performance? What are the principal variables considered in the SHR process within the context of Spanish firms in China?

As revealed in the thematic analysis of the cases studied, the relationship of HR with the international strategic management process is through management in four dimensions (structure, leadership, international human resources, and knowledge & learning) - the factors pertaining to international SHR - to achieve performance. Particularly in the strategy formulation process, strategic decision makers know that to succeed in the changing Chinese market, they need to adapt strategy to the environment. For Spanish firms, uncertainty in strategic management is high, above all in the phases of entry and development. That is, strategy has to change at a fast pace within a volatile context. In this situation, it is difficult for implementation to keep up with a constantly changing strategy. This is particularly so in relatively stable aspects of HR and structure, mainly because most HR models are static.

The incorporation of the elements of learning and leadership add dynamic dimensions to HR, making it able to contribute better to strategy formulation and to be proactively strategically important. The dynamic properties of these two elements have dynamic properties influence the two elements with more stable properties (structure and international human resources) over time.

As it is discussed in the results part, that the SHR taxonomy exists in the six observed cases. That is: Cases A and B as interactive analysers; Cases D and E as proactive prospectors; and Cases C and F as reactive defenders. Even though the path between interactive analysers and proactive analysers in the observed cases are distinct, among others, these four containing elements of dynamic SHR and driving strategy formulation are these who perform better. This suggests a potential relation between the dynamic SHR and firm performance under the rapid changing business context in China.

No existence of the LPT type of SHR is identified in the cases studied. Based on years of business experience in Spain and China and conversations with other specialists, the researcher speculates that LPT-type firms may not have superior performance.

Moreover, it is possible that the failed cases were LPT-type. As the failed cases exited the market, disappeared or were acquired, it is almost impossible to trace back their history and reconstruct to recover their experience. Even though some may have survived, they may feel uncomfortable with their performance, and it was more difficult for them to accept research collaboration. For instance, the firms who collaborated in the first phase of the study at Spanish headquarters and dropped out from the second phase were very probably non-superior performers, who were not yet clear which strategy to implement, nor will they have any SHR perspective to reformulate a new strategy. It may be too much to speculate that they are LPT-type due to lack of data, but it could be argued that they are facing challenges in seeing clearly where they are going, and as a consequence they preferred to stop collaboration in the middle of the research process.

(2) How are human resources involved in the strategic adaptation process? Does strategy adaptation exist in Spanish firms in China? If so, has it been a relevant element? What are the distinctive features of these superior performers in this adaptive process compared with other performers? How do different SHR types perform in this process?

As a fact of Spanish firms in China, most of these strategic changes (especially in Cases D and E) took place through an informal adaptive process. This was when the initial formal strategy planning could not bring a positive contribution to take account of China's situation. As stated by the GM in the Chinese subsidiary in Case E, China's market is changing so rapidly that reaction is often far behind change. Even though formal meetings for strategic control are organised frequently, such as bimonthly board meetings in Case B, in fact,critical decisions have often already been made, as suggested by Dyer (1983), and sometimes strategy meetings are more of a formal process or strategic control evaluation to gain official recognition.

As the results of the analysis reveal, human resources are involved in the strategic adaptation process, in the shape of the above four elements. These are leadership and learning, which play dynamic roles in the strategy adaptation process, integrating the evolutionary process into SHR and its related management. The characteristics of leaders and learning capacity are the engine of this process.

As regards the aspect of leadership, there may be no substitute for having executives "so highly sensitised to human resource issues that they are automatically considered whenever strategic issues are addressed" (Dyer, 1983: 268). From the observed cases and thematic analysis, the following are revealed as important. The involvement of HQ leaders in the subsidiary depends on an active interface between HQ and the subsidiary in informal strategic decision-making, for support, discussion, and participation. The characteristics of leaders in the subsidiary (integrity, supportiveness, and self-realisation) create a fair and friendly soft structure and an HR policy for organisational learning and knowledge management. These abilities to identify opportunities, break barriers, and embrace judgements are identified as critical elements to help in each advance or success of an adaptive strategic process.

As regards knowledge and learning, in fact every employee is a knowledge worker and entrepreneur; the firm needs to take the knowledge creation approach to the very centre of a company's human resource strategy (Nonaka & Takeuchi, 1995). From the cases studied, market orientation, balance in applying corporate practices to the subsidiary and learning as a continuous process for knowledge updating are revealed as important. As the Chinese market is extremely turbulent, up-to-date knowledge of the market is essential for business decisions. Insisting on applying corporate strategy or practices dogmatically is rigid, and contradicts the flexibility required in an informal process for this changeable market. The way to turn this around is to consider how good practices at HQ or other subsidiaries could be applied in a way that is adapted to the subsidiary's situation. As in Case B, a higher level of abstraction about product knowledge is transferred to managers from the subsidiary in a way that ensures its application implies adaptation rather than dogmatism. As the differences between the two countries are huge, including many uncertainties in the Chinese context, constant learning in this sense is also required, in order to update knowledge and transfer it to HQ for better interaction.

Firms with different types of SHR perform differently in this studied context. Both interactive analysers (Cases A and B) and proactive prospectors (Cases D and E) are superior performers, even though the processes which they have gone through have been very different. Both reactive defenders (Cases C and F) are other performers, which are neither superior nor failures. Even though these processes are not identical, some patterns could be observed from their SHR processes that may lead to their actual performance.

A typical route (as illustrated in Figure 5.1) is for corporate principles (value and vision) and formal strategy planning to drive investment and planning in the Chinese subsidiary (this formal strategy plan could be modified during the informal adaptive process). According to this plan, strategy is implemented during the process, involving all ISHR dimensions and the involvement of all these four factors may follow a different order. In general, but not necessarily, a leader in HQ will have assisted the creation of structure in the subsidiary, including selection of the subsidiary's leader and dealing with international HR; or the IHR may come before the creation of structure, and participate actively in structure building. Among the four elements of ISHR, leadership and learning act as the dynamic engine to fuel a lively SHR process. With these as the driving force, strategy is formulated or reformulated to include a formal and adaptive strategic process, and corporate principles (value and vision) assume important roles in influencing international SHR via participation of leaders from HQ and other processes. In exchange, ISHR may eventually influence corporate principles over time, especially if the subsidiary is in a country with a strong tradition and value system.

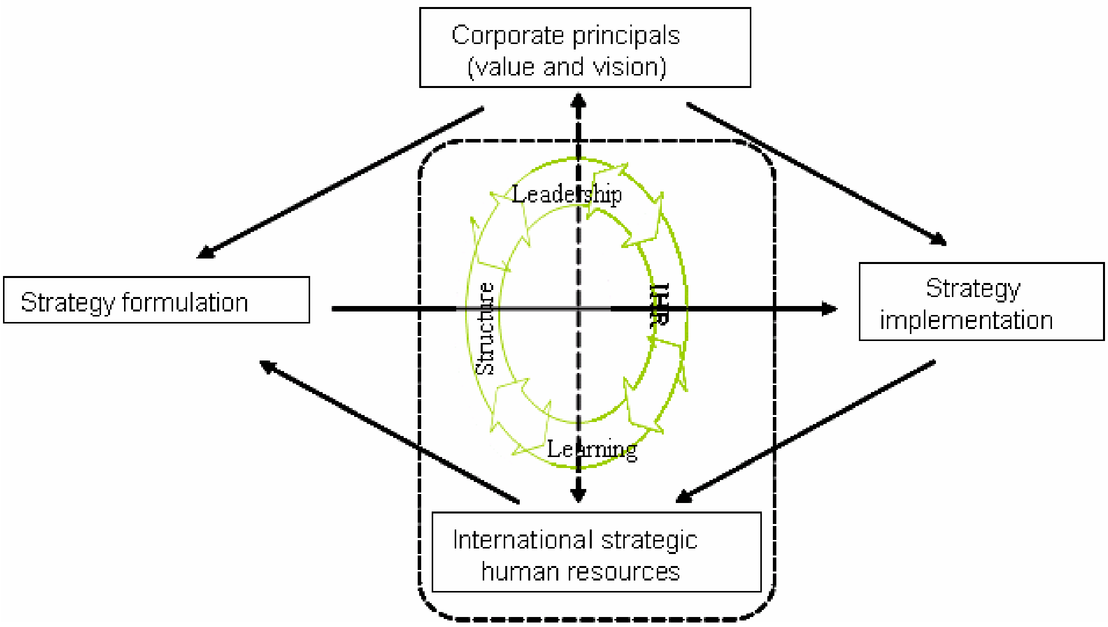
Within their limitations (see Chapter Six), some conclusions are attempted in this section, using figures to better illustrate the relationships between human resources and strategic management for international strategic human resource management.

In the comparative study of the Spanish firm in China, the dynamic property of ISHR is revealed as important to achieving superior performance, with value and vision at general management level and leadership and learning at ISHR level standing out as core variables binding SHR into this dynamic process. As most research and articles on strategic human resources have been dedicated to the national level in the western matured market, this empirical research contributes to understanding the dynamic nature of strategic human resources in the international context (i.e. ISHR). This chosen context reflects on one of the most (if not the most) uncertain and dynamic markets (i.e. China) in today's global business, and one of the least studied western contexts (i.e. Spanish firms in China). This offers a unique insight into possible theory building opportunities emerging from the data.

The study highlights the importance of HR's contribution to strategy formulation in the international context, made more significant by market uncertainty and an unknown culture. As an improved version of Figure 5.1, stressing the inherently dynamic nature of international strategic human resources, Figure 5.2 indicates the dynamic flow of this process. It posits that corporate value and vision influence strategic management (strategy formulation and implementation); they draw attention to the interaction between a firm's strategic management and its international strategic human resources, as well as the reciprocal influence among the four elements pertaining to ISHR (structure, leadership, IHR, and learning).

Leadership and learning play a dynamic driving role in this process, influencing bi-directionally both structure and international human resources. The latter are both relatively stable elements that move at a slow pace. The order of these four factors does not necessarily follow the current state of art, as it varies in every circumstance. What can be concluded are the interactive effects, both between them and with elements at general management level. As the role of leadership and learning has already been extensively explained, here emphasis is given to structure and international human resources, particularly the latter. Also, brief reference is made to value and vision, since they are strongly embedded in human resources.

Figure 5.2: Dynamic international strategic human resource process



On the aspect of structure, given the nature of studying international business, the interface between HQ and the subsidiary is revealed, as is a flat organism for flexibility in an uncertain and changeable market, to be able to react rapidly to change in the market. The work infrastructure refers to both soft and hard aspects. It is especially sensitive in the soft work environment, since international cultural differences may affect the definition of a good or excellent work environment and atmosphere. The structure aspect often reciprocally influences the definition of the leadership element, and may be affected by learning and international human resources.

The aspect of international human resources is sub categorised into three levels: individual, dyadic and organisational. In addition, emphasis is given to the influence of other elements such as learning, leadership and structure. At individual level, emphasis is given to avoiding stereotyping, associated with cross-cultural management in international business, and motivation to be positive, as well as patience and perseverance. These latter two are attitudes and behaviours particularly recommended for doing business in the Chinese market, although they may not be so necessary or relevant for other international markets, due to their different characteristics. At dyadic level, mutual respect, trust building and intervention of a bridge person are seen. These three factors are strongly linked with cross-cultural management to ensure better communication between two different cultural parties.

At organisational level, excellence in HR and integrity, personnel training, commitment and retention are focused on. That is, in the cases studied, other performers are observed to have certain difficulty in trusting local HR, which is reflected in their covertly discriminative HR policies. To give comparative examples, both other performers occasionally say that only Spanish expatriates can be principal decision makers in the subsidiary, and that controllers need to be Spaniards too. Conversely, all superior performers are open to this issue, and widely employ local managers in key positions such as GM and controller. Finally, training, commitment and retention have been commonly agreed to be the most important issues in organisation. This is also related to the cross-cultural factor, given the difference between labour markets in these two countries, and it is difficult to understand which are most relevant for the Chinese market, and how to proceed.

In the four superior cases, corporate values and identities are observed to have strongly influenced management in the subsidiaries, not only in the formal corporate statement but also in practice. The family style of orientation towards people is a core part of this value system that drives the management team to stand united and to commit to the growth of the firm. Despite cultural differences between the two nations, corporate leaders with superior performance emphasise the common ground of humanity: trust, respect, transparency, equality and learning for management. These superior performers escape from stereotypes and focuses on the fundamentals of human resource philosophy. These corporate principles interact with international strategic human resources, through their structure and human resources, with leadership and learning, to dynamically change the capacities required. The dynamic strategic human resources that they possess eventually influence the long-term evolution of corporate value and vision.

This vibrant process of human resources involved in strategy formulation and its characteristics are what mark the difference between superior performers and other performers. Superior performers have continuity in the strategic adaptation process, where SHR contributes to informal strategy formulation, while other performers have no observed - or an interrupted or discontinued - strategy adaptation process.

Most scholars have approached SHR by focusing on the static nature of human resources, which makes it difficult to explain performance achievement in international business. The results of this study underline the strategic role of human resources particularly in strategy formulation, involving its dynamic properties. That the choice of strategy is open to be reformulated is a premise of this dynamic international SHR model. While interaction within and between the two facets of general strategic management and international strategic human resources is dynamic, their mutual cause and effect relationship is not definitive but suggested, based on observation. These cause-effect relationships are ambiguous and often bi-directional.

In summary, the study satisfies the initial objectives of this research. On the one hand, a dynamic international strategic human resources model is suggested, based on the results of thematic analysis and interpretative cases. On the other, the proposed SHR typology is confirmed with the study of Spanish firms in China, and insights are observed in their process. The research demonstrates that the principal elements of ISHR in a turbulent emerging market are critical to achieving superior performance.

CHAPTER 6:

IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

6.1. Introduction:

Concluding with results from this study is not an end in itself. In fact its results, with their embedded limitations, involve many more implications, possible contributions to theories and practice, and future research opportunities. This chapter is dedicated to these aspects: implications, limitations and future research directions. By doing so, the researcher is trying to convey the message that this dissertation is not an end, but a starting point for an academic journey.

6.2. Implications:

Zedeck & Cascio (1984: 463) state that, “HRM issues are part of an open system, and research is theoretically bankrupt unless placed in the broader context of organisations”. Therefore, this study has both theoretical and practical contributions and implications, as proposed in the first chapters. Based on the results it draws, Table 6.1 exhibits some comparable theoretical and practical implications of this study.

6.2.1. Theoretical implications:

For a long time, HR has been the centre of research in organisational studies. But this has been so under the constraint that HR was not considered sufficiently strategically important to affect business and its performance. Even though the increasing importance of HR in the knowledge era is unquestionable, the role of HR, its function and its managers all need better theory if they are to improve their competitiveness (Dolan, 2004).

Because strategy as a concept still attracts no common agreement among scholars, and strategic management is considered a relatively new research field (Kase, 2007), strategic human resources, bridging strategy and human resources, is at risk of building on two unconsolidated fields and so being fragile. However, in spite of this, if it is considered as a research opportunity from the real business world it may still be able to construct a solid base for future theoretical activity, and contribute to further theoretical work. The result of this study may serve in such a function.

Table 6.1. Theoretical and practical implications of the study

Theoretical implications	**Practical implications**
➢ The importance of the role of HR is readdressed in SHR literature, focusing on strategy formulation.	➢ Benchmark is established for SMEs to internationalise in complex emerging market such as China.
➢ The existence of four types of SHR depends on driving forces between HR and organisational strategy.	➢ HR functional managers may need corresponding training to improve their capability to help better strategy formulation.
➢ Identification of four components for the dynamic ISHR model.	➢ Identification of characteristics and abilities of subsidiary leaders helps the selection and training of leadership.
➢ Incorporation of leadership and learning into the ISHR model to obtain dynamic property.	➢ A learning-oriented organisation is needed to pave the way for the international SHR process.
➢ The relevance of cross culture plays in international HR at multi-levels	➢ Suggestions at multi-levels help corporate HR managers to improve their effectiveness in international business.
➢ Interrelation with corporate principles and strategy process	➢ Emphasis needs to be given to conveying corporate culture to the subsidiary through the interaction of HR with different levels of strategy process.

Conclusions from the study reveal that the dynamic role of human resources appears to be important in strategy formulation involving leadership, structure, IHR and learning in international business performance. This has two implications. First, proof of the existence of an SHR typology highlights the fact that the contribution of HR to strategy formulation is under-researched. This may explain why HR research has not yet convincingly leveraged its strategic importance.

Second, HR is part of business, and in order to be strategic, it needs to focus on the broader business context (Ulrich & Brockbank; 2005). Scholars have been attempting to align HR with business strategy to satisfy this purpose. However, the traditional language of HR cannot fully satisfy changing aims in a dynamic international business environment. The identification of four components of ISHR builds the base for extending HR's strategic roles. This means that HR will have to transform its focus to include business-friendly language and to fully explore structure, leadership, learning, and HR international dynamism. It is particularly in its incorporation of leadership and learning that gives a dynamic flavour to the ISHR model, and cross-cultural aspects of international human resources at multi-levels are helping a better adaptation in this process.

Third, in the firms studied, superior performers achieved continuity in a dynamic strategic human resources process which sustained ongoing growth. Even though this does not necessarily mean that firms with dynamic strategic human resources will have superior performance, it is reasonable to say that dynamic firms are more likely to succeed in turbulent international business environments. It is particularly in their internal and external interactions with corporate principles and the strategy process that this continuity helps.

The results of this study have important implications for the research fields of international and strategic human resources. One the one hand, it calls for more research into the strategic contribution of human resources to strategy formulation; on the other, it suggests that creative international human resources models are needed if human resources are to be strategically important in the internationalisation process. If not, the latter will be very much limited in the field of functional HR studies to the likes of recruiting, training, expatriation and others, without implying that these are not also strategically important.

6.2.2. Practical implications:

One purpose of this study is to give benchmarking responses to the current phenomenon of Spanish investment in China, and to provide better knowledge. This relatively new phenomenon perplexes business executives, despite their accumulated experience in many other international markets. There is no doubt that China is one of the most complex markets for international competitors. Looking at the aspect of culture alone this complexity can already be sensed.

As stated by a consultant who has specialised in this market and successfully implemented many projects, “They (international managers) are very experienced, but some cultural stuff slips away from under their hands and they cannot manage to close deals”. Cultural differences may be a critical issue for the study or not, as stated by another Spanish CEO, “There were cultural shocks at the beginning, but at the end of the day, people are looking for the same thing: fair wages and being happy in the workplace”.

As the theoretical ground for this study is strategic human resources, and given the research purpose stated in the earlier chapters, cultural aspects are only incorporated as ISHR sub-elements. However, the results of this study have built up a reference guidebook for Spanish managers investing in China or approaching its market, including cultural aspects in the model. Within its limitations, the code table therefore serves as a reference point to reflect on the strategic planning process and to compare its evolution over time.

These implications are important for managers in both general and human resources. At general management level, corporate CEOs, HR Directors and International Directors will gain a better understanding of the distinctive features of business operation in China as regards human resources aspects. This is particularly so for Corporate HR Directors, who can extend their capability into a more broadly defined SHR conception, and so contribute more to their firm’s strategy process.

At corporate and local HR management levels, understanding this process may help improve competitiveness in the internationalisation process. One the one hand, some practical results may help corporate and local HR managers to do better functional HR work. For example, the characteristics and personalities of leaders in the subsidiary could be used to better identify and select a future subsidiary GM. On the other, and more critically, corporate HR managers often stated in interviews that they were not participating very much in the internationalisation process, or that their roles in the process had been strictly limited to expatriate recruitment or selection. This was partly due to their lack of knowledge and the low capability of HR managers in international strategies for business. In this sense, an understanding of HR's possible contribution and influence from the dynamic perspectives of SHR may cultivate its potential, giving it a more strategic position. Training HR functional managers in these aspects may help improve their corresponding competency.

A continuing research project to study these four ISHR elements may further this contribution. For example: How to improve the learning process through HR in the organisation and make for smoother relations between headquarters and subsidiaries? Does excellence of HR mean the same in different cultural contexts? How could a flat organism be well implemented in a supposedly hierarchical cultural context? After outlining the limitations of the current research, the section on future research directions is given over to this issue.

6.3. Limitations:

Like many other research projects, this project has its own limitations.

First, bearing in mind the nature of qualitative methodology, the study does not pretend to generalise its results to universal level. The inductive conclusion is merely suggestive and pending further submission of quantitative testing with a larger sample size.

Second, the study context has been limited to Spanish firms in China as of initial research interest. As described in Chapter One, most Spanish firms in China at the current stage are small and medium-sized enterprises. This characterises the nature of the firms studied. Extension of the theory to other types of firm needs to be tested. For instance, as one CEO said, "…we cannot apply the format of big companies such as IBM".

Third, as the researcher chose to look at the phenomena from the angle of strategic human resources, the unconsolidated theoretical framework in the field may limit the explicative power of theory for the phenomena. Even though the limitation of the theory makes it a research opportunity to generate a potential model for the field, business managers may be disappointed at not having a better model to guide their internationalisation planning.

Fourth, since the research is focused on exploring this specific object, the study does not attempt to translate these definitions into strategic human resource practice, partly due to the lack of active participation of corporate human resource managers (most considered that their participation in the internationalisation process in China was minimal).

Fifth, in this study access to failed firms and some other performers has been impeded. Despite some insights from external professionals and ex-managers to ensure control of sample bias, and the focus of the study being to identify factors comparing superior and other performers, further research with accessibility to these firm samples may be relevant, to provide a better contrast.

Given that research is a gradual process, and can be taken as ‘half full or half empty’ depending on the epistemological standpoint (Spini, 2004), the researcher can conclude the study at current state of being.

6.4. Future research directions:

It is challenging to unfold and list all the possibilities for a future research agenda since so many research opportunities have arisen from this study. Below some of the principal research interests with a possible relevant contribution are described, in suggestive rather than exhaustive terms.

In general, as the research is carried out within the specific context of Spanish firms in China, a comparative study could be feasible and desirable to strengthen theoretical development. This comparison could be within the context of either other western firms in China or Spanish firms in other emerging markets. Another opportunity is to submit the proposed international strategic human resources model to quantitative testing in the same context, given the increasing number of target firms due to the Spanish government’s backing for entering the Chinese market. Besides the general research opportunities, the following also present other chances to deepen theoretical understanding of management, international strategic human resource management and Chinese management.

First, in the arena of general strategic management, a firm’s corporate values and vision determines its strategy (formulation and hence implementation) and tactics. Their sub-elements present opportunities for further research under each section. For instance, Sparrow & Brewster (2006) and Schuler & Jackson (2005) indicate international HR trends of enhancing the experience of multiple stakeholders in the global environment. A study could be directed at understanding how the stakeholder perspective can be incorporated into corporate strategy at empirical level in an emerging market such as China, and its implications.

Dolan, Garcia & Richley (2005), Schein (1999), and Siegel (2001) consider that values are words and relatively simple structures of thought that encompass complex ideas about the reality desired by people, reflecting aspects of the artefacts that are visible organisational structures and processes, or the most apparent things that allow you to begin to 'read' an environment. Given that China has its own strong tradition in cultural values, research questions may be raised addressing whether its rising economic power is correlated with these root cultural values. In fact, Hofstede and Bond (1988) have considered the rise of East Asian countries as a case of cultural synergy, so it is probable that Chinese economic success is rooted in its cultural values. While organisational culture is entering into an era of complexity coming from the age of the culture-free and cultural relativism (Hofstede, 1992), how does it involve and combine with national culture as a challenge for both strategic decision makers and international human resource managers?

Second, at the level of international strategic human resource management, several research opportunities can be presented for a future agenda. Leininger (2004) claims that a positive work environment contributes to employees' commitment and retention of highly qualified managers. The study's results also suggest that superior performers have a good soft work infrastructure, intensive HQ-subsidiary interaction and a flat organism. Would that conflict with hierarchical Chinese traditional culture? Research could be directed to HR practices that help to solve this potential conflict, especially when retention of qualified employees is one of the critical issues in Chinese HR.

Involving leaders from headquarters in the Chinese subsidiary may be good tactics for multi-level benefits such as communication, corporate value transportation, and networking. However, to what extent, and how intensive does this need to be? Lieberthal & Lieberthal (2003) suggest that each different stage of development of a firm demands changing characteristics in Chinese leaders. The study's results on characteristics and abilities of current leaders in Chinese subsidiaries show that they are very entrepreneurial. Is this because most studied companies were still at the development stage? Or is it a requisite for doing business in China, since there are many competitive Chinese entrepreneurs? There are many business opportunities emerging in this transitional market, therefore even a small or medium-sized enterprise could aspire to be a leader and succeed in an identified market niche. Even though the optimal pattern of traits and skill may vary depending upon the prevailing business strategy and organisation (Gupta & Govindarajan, 1984; Szilagyi & Schweiger, 1984), some special skills are probably useful in all leadership positions (Yukl, 1989). Research could be directed at identifying whether the study results constitute more generalisable managerial characteristics in an emerging economy.

International human resources that connect headquarters and subsidiary people management are not merely a process for applying corporate HR policies in subsidiaries, but vary their function at the different levels. Literature shows that human resource management differs significantly in emerging markets including

China. For instance, (Warner, 1995) discovered that the psycho-technical test only filters 20% of candidates in China, while it works for 50% in a western context. Human resource management in China is under development, and there is a need to further the study of the applicability of western theories. Cross-cultural aspects present a great deal of room for this research opportunity. For instance, Hofstede and Bond (1988) also considered that East Asian countries present an 'opportunity' that may help managers of multinational corporations to recognise that the culture of their own country may not necessarily be superior to others. Is cultural equality necessary for western multinationals to succeed in Chinese or other emerging contexts? How does the Chinese context present differences in terms of HR in international and local management?

In terms of continuous learning and updating of knowledge to sustain a firm's competitiveness, Zhang, Zhang & Yang (2004) found application of the learning organisation concept proposed by Watkins & Marsick (1993) in the Chinese State Owned Enterprises context. Chen (2005) analysed nine different organisational learning subsystems of foreign firms in China and Chinese firms. The proposed management practices overlapped with characteristics identified in this study. For instance, the theme of total customer satisfaction and teaming for excellence to facilitate innovation, that overlaps with market orientation and excellence in human resources in the current study. Developing organisations with the capability to learn seems to be a natural response for management in times of rapid change that require constant innovation, proposing ways of turning organisations into continually learning arenas (Huysman, 2000). Within today's turbulent environments, only learning organisations are able to survive and thus gain competitive advantage (Garvin, 1993;

Marquardt, 1996; Pedler, Burgoyne & Boydell, 1991; Senge, 1990; Swieringa & Wierdsma, 1993). China as a model may serve as a reference for many developing countries (Fanjul, 2004), as Hitt, Li & Worthington (2006) suggest, using the emerging market as a learning laboratory to provide a base from which to catalyse future research.

Ulrich (1998) pointed out that the challenge that HRM has to face relates to outcome. It is as much about what HR delivers, or its contribution to the overall organisational outcome. Bell, McNaughton, Young & Crick (2003) suggest that traditional firms tend to adopt a more ad hoc, reactive and opportunistic approach to internationalisation. However, the results of the study emphasise that a systematic proactive approach involving SHR might contribute to better strategy definition and superior performance. More research on the deliverability of HR is needed to strengthen theories on international business.

Although the primary goals of theorist-researchers and practitioners may differ (Dubin, 1976), a stronger theoretical model has great value for both. Practitioners are primarily concerned with the accuracy of prediction of a theoretical model in order to guide their decision making in conditions of uncertainty. Theorist-researchers, on the other hand, have greater concern for understanding the why behind the prediction. For them, the sign of a well developed theoretical model is that it can be tested and, based on these tests, revised to increase its accuracy (Wright & McMahan, 1992: 2). It is the interest of this research to bridge theory and practice, to fuel understanding of the real business world, and to contribute to better management in the real world.

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APPENDIX

Brief description of cases

CASE A

This is a corporation in the food industry which has been operating in China for 19 years. Its business in China was one of the first successes in its international expansion, with the highest profit rate among international subsidiaries.

Since it was profitable from the first year onwards, this company was a successful model of a Sino-foreign joint-venture (JV) in the 1990s in China. The JV format was the only mode allowed by the Chinese government at the time of its entrance. Shares were acquired from Chinese partners in 1998, when wholly foreign-owned companies were permitted.

As the leader in its Chinese market, it has an annual turnover of 80 million Euros, with a steady growth rate. It employs 2,000 employees in total including several commercial teams and has three factories in the south of China.

CASE B

This subsidiary has been installed in East China for 8 years with a Chinese partner to produce and commercialise mass consumer goods. It has been profitable since its second year, reaching an annual turnover of 18 million Euros, with an annual growth rate of between 20% and 60%.

As the second-biggest producer in the Chinese market, the company has 1,800 employees in its two factories and 35 commercial delegations. With more than 70 patented inventions, the company is planning its third factory to meet increasing market demand.

Giving its rapid growing pace in a relative short time period, the company is currently under cultural reform to integrate European corporate culture better into this Chinese subsidiary. This transition is viewed as relevant for transforming the company from a still-Chinese way of management to a more international high-standard management.

CASE C

The Spanish parent company invested in China 5 years ago although its first commercial activity in China started in the 1980s. The company built two factories in the south-east of China with different formats: one as a single investor and another as a JV with a Taiwan Chinese partner.

With 1,270 employees, it has achieved its established goals of production efficiency and new product launchings. The latter has been especially successful since it has speeded up the new product-launching process to ten times faster and at much lower cost. However, in the market sector in which its core business operates it is viewed as difficult to achieve an adequate positioning.

Currently, the parent company is the principal client of the Chinese subsidiary. With a turnover of 6 million Euros, the company is still seeking ways to enter China's potential mass market and aiming at broader targets.

CASE D

This is one of the very first Spanish companies to enter the Chinese market 23 years ago. As foreign investment was not allowed in the service sector in which it operated at the time, the company established a joint venture with a local partner in a related sector. It entered its principal sectors over time, when China opened these markets.

Currently it is a leading foreign company in the industry, with 1,600 employees in 12 joint-venture subsidiaries in the principal Chinese cities. The company is fully integrated into China's economy, according to the subsidiary's President.

That is, its growth rate is similar to Gross Domestic Product (GDP) growth in China: between 8% and 10% annually, reaching an annual turnover of 40 million Euros.

CASE E

This Spanish subsidiary has been operating in China's luxury goods sector for 10 years. Starting with a joint venture mode, it specialised in production and outsourced commercial activity to its distributors. However, the business did not succeed in this mode, and it switched to being a distributor in 1999.

It was then that the company restructured its whole business model, process and strategic direction. It started to grow and be profitable, becoming the third most important distributor in its market. With a sales growth rate of 45% per year, it is incorporating more and more employees as required by its continuous growth.

Currently employing 85 collaborators, and with an annual turnover of 4 million Euros, the subsidiary is now even exporting its experience and practices to headquarters, and this is being incorporated and diffused into other operations at headquarters and other international units.

CASE F

This Spanish firm started its project in China 11 years ago, as a joint investment in east China with its Chinese partner. Being in a light industry, it managed to enter the highly competitive Chinese market and passed its break-even point in one year within this business unit.

However, when production for exportation to the parent company increased significantly, its slow growth in the Chinese market was not enough to satisfy headquarters. This led to the decision to discontinue commercial activities in China in 2001. It is currently counted merely as a low-cost production centre, with 250 employees and 2 million Euros' turnover according to internal transfer prices.

While headquarters recently tried to re-enter the Chinese market, it was perceived as difficult, in addition, the current pool of talent possessed by the subsidiary could not meet this demand.

Abbreviations:

AMJ: Academy of Management Journal
CAS: Complex Adaptive System
CEO: Chief Executive Officer
CRI: China Radio International
ERP: Enterprise Resource Planning
FDI: Foreign Direct Investment
GDP: Gross Domestic Product
GM: General Manager
HR: Human resources
ISHR: International strategic human resources
JV: Joint-venture
KBV: Knowledge-based view of the firm
LPT: Libre por todo
NCR: National Cash Register Company
MNCs: Multinationals
MOR: Management and Organization Review
PSP: Personal strategic plan
RBV: Resource-based view of the firm
R+D: Research and development
SCCC: Spanish Chamber of Commerce in China
SHR: Strategic human resources
SIHRM: Strategic international human resource management
SHRD: Strategic human resource development
SHRP: Strategic human resource planning
SMEs: Small and medium-sized enterprises
UCC: Universalistic, Contingency and Configurational

Tables and Figures:

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