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Localized poaching and skills shortages of manufacturing employees among MNEs in China☆

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ABSTRACT

Using a mixed-method approach, we examine the experiences and responses among foreign-invested enterprises (FIEs) of employee poaching and skills shortages in a prominent Chinese electronics manufacturing hub (Suzhou Industrial Park). This highlights strategic challenges MNEs face in Asia Pacific economies as more advanced subsidiaries outgrow their earlier low-cost, low-skill vocations. In examining poaching empirically, we also extend the field by introducing a local labour market perspective into the study of HRM in China. Third, we advance theorization of employee poaching beyond mainstream Western approaches to capture the interactions between internal and local labour markets that increasingly mark FIE manufacturing in fast developing economies.

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1. Introduction

Multinational enterprises (MNEs) have greatly increased their levels of foreign direct investment (FDI) in Asia-Pacific countries. This is particularly so for China (UNCTAD, 2009, p. 20). The early impetus was to take advantage of abundant, cheap labour for low-cost, simple, manufacturing for global supply chains (Whalley & Xin, 2010). Over time, foreign-invested enterprises (FIEs) have gradually reshaped host environments through interacting with them. Host governments have sought to foster FIE knowledge transfer that raises local technological and economic profiles. These processes also shift FDI patterns of technological complexity and subsidiaries' positions in supply chains. More advanced, complex FIEs located in more developed areas outgrow earlier low-cost, low-skill missions in favour of higher quality, sophisticated products and complex manufacturing technologies (Huggins, Demirbag, & Ratcheva, 2007; Lau & Bruton, 2008).

Three sets of data are illustrative. One is rising levels of FDI in research and development (R&D). The Asia Pacific, especially China and India, attracted more than half of global R&D FDI between 2002 and 2005 (Huggins et al., 2007, p. 442). Second, MNEs have greatly increased the number of R&D centres in China: from fewer than 50 in 1997 to around 1200 in 2009 (Freeman, 2006, p. 131; Ministry of Commerce, 2010). Third, there are the changing sectoral FDI shares. According to China's National Bureau of Statistics (2006, 2010),[2] the share of FDI in manufacturing fell from 61% to 56% between 2005 and 2009, doubled in the information technology and computer sector and increased in higher-level services. These FDI shifts to high-end manufacturing and services suggest concomitant labour market effects.

Local authorities compete to attract new FIEs and to foster expansion of existing ones. This, together with changing strategies of FIEs, structurally underpins rising demand for more skilled manufacturing labour (hereafter 'skilled workers') in advanced localities. China's vocational education and training (VET) system however receives criticism for not supplying sufficient workers with appropriate skills: an important supply-side cause of skill shortages (Hutchings, Zhu, Cooper, Zhang, & Shao, 2009; Li, Sheldon, & Sun, 2011). Employers face a vicious circle within these local labour markets (LLMs) as demand outstrips supply and central government residency policies constrain labour market adjustment through internal migration.

Skilled workers benefit from having more labour market choices and the rising wages accompanying skills shortages and high turnover. For FIEs though, these phenomena pose major challenges, especially in advanced areas like the Pearl River and Yangtze River Deltas where there are vast numbers of manufacturing FIEs clustered into specialized economic zones, often dedicated to a single sector. These function as LLMs (ADB, 2010; Chen, 2007;

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[2] Calculated by the authors based on National Bureau of Statistics of China data accessed 22 December 2010 at: http://219.235.129.58/reportView.do?Url=/xmlFiles/ad13ac25bcb74007826887538994396 5.xml&id=e58c6bdb559-b4560ad10305fddf1def8&bgqDm=20090000.

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Li, Sheldon & Morgan, 2011). High turnover from FIEs is particularly prevalent in these tight LLMs. This reflects territorial FIE clustering as a proxy for advanced development (Lau & Bruton, 2008; Li & Sheldon, 2011) and FIEs' knowledge transfer roles. Some firms respond by poaching labour from their neighbours, intensifying LLM competition.

Poaching is 'targeting a competitor's pool of employees as part of a systematic recruiting effort' (Gardner, 2002, p. 228). The prevalence of poaching discourages firms from investing in training that could redress their skill shortages, reinforcing negative links between external and internal labour markets (AmCham, 2009; Cooke, 2005; Jiang, Baker, & Frazier, 2009). We examine poaching amid localized skill shortages in Suzhou Industrial Park (SIP), a high-end, Yangtze River Delta park (in Jiangsu Province) for leading manufacturing FIEs.

Business and management research has largely developed and tested theory in a Western context. Already in 1986 however, Adler, Doktor, and Redding (1986) argued that the Pacific Basin's rapid economic growth made imperative cross-cultural examination of cognitions in managerial behaviour. They wanted (p. 300) a shift from a non-self-reflective focus on 'occidental' cognitive maps – that tend, among other things, to separate 'the organization from its environment' – to awareness of 'oriental' ones. Despite China's emergence as economic power and management research site since then, 'deductive theory testing using theories developed in the West' (Tsui, 2009, p. 4) remains dominant. Debates over theory and context posit a choice between developing a 'theory of Chinese management' and a 'Chinese theory of management' (Barney & Zhang, 2009). The former means applying and refining Western theories against Chinese empirical experience – to make those theories more universal; the latter, understanding particular Chinese phenomena uniquely in their Chinese context, thereby abandoning any search for universality.

Our approach differs. It draws on Adler et al.'s (1986) call to contextualize research in ways sensitive to context. China's enormous size and population and its internal geographic and historical diversity suggest that research should be sensitive to context but also context specificity (Whetten, 2009). Using this type of approach, we seek to refine and improve Western-originated theories while also contributing insights into factors that make Chinese situations particular.

In this case, the mainstream (Western) approach to poaching concerns itself with the high occupational end of high technology sectors in advanced economies. 'Competition' is defined by product markets or by area of applied knowledge and poaching involves raiding scarce and valuable *product market* or *intellectual property* knowledge from a competitor (Freedman, 2000; Gardner, 2002, 2005a). It is a 'war for talent' and for the intellectual property embedded in those people.

The phenomenon examined here is different. SIP's skilled workers do not fit that literature's notions of 'scarce' or 'valuable', and hence, would not be worth poaching (Lepak & Snell, 1999). China, as a cheap labour-surplus country, attracts manufacturing FDI as (advanced economy) MNEs relocate production, not scarce and valuable labour. However, once in China, FIEs facing local chronic skill shortages face more constrained choices, the effects of which clearly differentiate localized poaching from that in the literature.

First, this poaching operates primarily against *LLM competitors*. Second, product market competition matters little as the firms involved are mostly assembly or production segments of global supply chains. Finally, the human capital embedded in any one employee is relatively low but highly transferable; that is other employers can easily make use of it (Stevens, 1996). Poachers aim to meet their immediate *quantitative needs* for appropriately skilled workers.

There is a particular need to investigate this topic. Employers aggravate skill shortages by poaching and their unwillingness to invest in training, choices that make sense given LLM realities. While common elsewhere, China's size and rapid development make the issue much more dramatic. Table 1 shows average rates of skill shortages among different skill categories in 119 Chinese cities. The higher the skill category, the greater is the skill shortage. As cities display different levels of development and labour market dynamism, these averages mask more intense skill shortages and poaching in highly developed localities.

This article contributes in three main ways. First, it furnishes exploratory research on significant HRM challenges facing FIEs in China's advanced areas, with likely applicability to FIEs in similar Asia-Pacific localities. This exploration responds to the following empirical questions: What are employers' experiences of skills shortages and poaching?; How do they choose to respond?; and Which factors influence their responses? These, our starting questions, responded to those significant, emerging HRM challenges. Yet, case study findings from our exploratory work contradicted important assumptions underlying the dominant approaches to HRM in China. By confronting those assumptions through our findings, we embarked on a process of 'contribution to theory' via 'observation informing theory' (Whetten, 2009, p. 35).

Table 1
Gaps between supply and demand for skilled employees in 117 cities: for year 2011.

Category	Comparison of demand and supply for labour				
	1 Demand (D) (number)	2 Demand (%)	3 Supply (S) (number)	4 Supply (%)	Ratio D:S (column 1:3)
Level					
Qualification L5 (junior skill level)	4,090,877	19.8	4,218,938	21.6	1.45
Qualification L4 (secondary skill level)	2,072,339	10.0	1,966,128	10.1	1.54
Qualification L3 (senior level)	847,373	4.1	691,702	3.5	1.71
Qualification L2 (technician)	435,368	2.1	312,832	1.6	1.88
Qualification L1 (senior technician)	165,634	0.8	130,037	0.7	1.76
Position					
Assistant engineers	2,182,286	10.6	2,094,088	10.7	1.53
Engineers	1,161,773	5.6	1,036,492	5.3	1.60
Senior engineers	260,627	1.3	140,416	0.7	2.34
No qualif'n specified	–	–	8,972,672	45.9	
No specification of skill levels	9,464,286	45.8	–	–	
Total	20,680,563	100.0	19,563,305	100.0	

Source: Adapted from the website 'China Labour Market', under the supervision of the Ministry of Labour and Social Security, http://www.lm.gov.cn/DataAnalysis/content/2012-03/06/content_699309.htm (accessed on 6 June 2012).
Note: The ratio of labour demand to labour supply for each category equals the sum of labour demand in that category and ('labour demand with no specification of skill levels' multiplied by the ratio of the volume of labour demand in that category to total labour demand), and then divided by the volume of labour supply in that category.

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