Talent management of western MNCs in China: Balancing global integration and local responsiveness

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ABSTRACT

Since the beginning of its market economy and open-door policy in 1978, China has extensively promoted foreign direct investment. Consequently, many western MNCs have entered the country in search of new business opportunities. Today, one of the greatest challenges facing these organizations is finding talented people who are needed to run their businesses. Although the strategic importance of talent management has been acknowledged in recent years, few studies analyze the talent management of western MNCs in China. Building on qualitative data from seven case studies, our paper therefore seeks to explore how western MNCs in China identify, develop and retain their talented employees. The paper shows that MNCs transfer their talent management practices to China without many changes, focusing specifically on the development of talented employees and the creation of an organizational culture. Nevertheless, the results also indicate that integrated and strategic talent management strategies have not yet been fully implemented.

1. Introduction

Organizations worldwide have come to realize that the knowledge, skills and abilities of their talented employees represent a major source of their competitive advantage (Collings & Mellahi, 2009; Lewis & Heckman, 2006) Despite this realization, they are faced with a growing shortage of talented people (Burke & Ng, 2006). In China, for example, one of the fastest growing economies in the world, the shortage of talented employees is predicted to be one of the greatest barriers to current and future growth (Ma & Trigo, 2008; Taylor, 2007). The talent scarcity in China is due to the fact that, since the beginning of its market economy and open-door policy in 1978, China has extensively promoted foreign direct investment (FDI) (Gamble, 2006; Zhang, 2008). In 2002 alone, China received $ 46.4 billion in FDI, making it the recipient of the largest amount of foreign capital in the world, ahead of the USA (Farley, Hoening, & Yang, 2004; Walsh & Zhu, 2007). Nowadays, over 50,000 multinational companies (MNCs) enter the Chinese market every year, attempting to find, recruit and retain the talented people they need to run their businesses (Björkman & Lu, 1999; Taylor, 2007; Zheng, Soosay, & Hyland, 2008).

Although paradoxical at first sight, world-class talent is limited in China. The skills shortage is especially severe in the managerial sector, where estimates forecast that China will need over 75,000 qualified managers in the next ten to fifteen years. However, only 5000 are currently available on the labor market (Farrell & Grant, 2005). Multinational companies, which Chinese employees have traditionally preferred as employers, now find themselves competing against restructured national companies. For this reason, they now need to develop effective talent management strategies (Cheung, 2008; Ma & Trigo, 2008). Under these circumstances, talent management has become a major concern for western MNCs operating in China (Taylor, 2007).

In this article, we examine the talent management of western MNCs in China, and explore which institutional and/or cultural talent management practices influence the transfer of talent management practices from the headquarters to the foreign subsidiary. The research topic is motivated by two key factors.

First, talent management has become an important issue for organizations worldwide in recent years (Collings & Mellahi, 2009; Lewis & Heckman, 2006). Although it has been widely acknowledged that the management of talent represents a major source of sustainable competitive advantage, most of the research into talent management does not take national differences into account. By analyzing the talent management of western MNCs in China, we respond to calls for more national talent management research. As such, we provide an interesting research opportunity, since the range of mechanisms that influences the implementation of local human resource management (HRM) practices is not

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yet well understood (Björkman, Smale, Sumelius, Suutari, & Lu, 2008; Bousseebaa & Morgan, 2008).

Second, when transferring HRM practices from the head-quarters to foreign subsidiaries, western MNCs typically need to counterbalance globally standardized HRM practices while simultaneously responding to local demands (Björkman et al., 2008). In order to assess the successful transfer of HRM practices from the home office to a foreign subsidiary, Björkman and Lervik (2007) propose three dimensions: the degree to which practices are implemented, internalized and integrated in the recipient unit. With regard to the integration of HRM mechanisms, Kim, Park, and Prescott (2003) differentiate between four global integration modes – centralization, formalization, information and people-based. For China, Smale (2008) showed that MNCs apply all four integration mechanisms to achieve the desired level of global consistency and local sensitivity.

Besides internal organizational factors, the transfer of HRM practices is also influenced by external contextual factors (Gomez & Sanchez, 2005). In order to transfer HRM practices from home country operations to China, both institutional factors and cultural differences have been purported to influence the adaption and responsiveness of HRM practices (Gamble, 2003). With regard to the institutional environment, the new intuitionalism provides explanations for the behavior of organizations in their external host-country environment. DiMaggio and Powell (1983) distinguish between coercive, mimetic and normative isomorphism, which describe three behaviors of organizations within their institutional environment. For China, Björkman (2003) suggests that "mimetic isomorphism" – the adoption of the successful behavior of other organizations in the local context – influences the implementation of the HRM practices of MNCs in China. This view is in line with previous research, which observed the attempt of MNCs to introduce globally consistent practices to their Chinese subsidiaries (Björkman et al., 2008; Braun & Warner, 2002; Gamble, 2006). Besides differences in the institutional context, numerous Chinese cultural characteristics influence the implementation of HRM practices of MNCs in China. These include, for example, respect for elders and those positioned further up in hierarchies, the significance of "saving face" and harmony, and the importance of personal relationships ("guanxi") between different members of the same group (Björkman & Lu, 1999; Gamble, 2003; Lockett, 1988; Wong & Slater, 2002). With regard to implementing HRM practices, several studies argue that cultural demands hinder the total transfer of HRM policies and practices from the home country operations to China (Björkman & Lu, 1999; Easterby-Smith, Malina, & Lu, 1995; Li & Scullion, 2006; Lockett, 1988).

In this article, we provide in-depth company-level insight into the talent management of western MNCs in China, with a specific focus on internal talent pools, as proposed by Collings and Mellahi (2009). In particular, the paper aims to answer the following two research questions: *How do western MNCs in China identify, develop and retain talented employees? Do institutional and/or cultural influences lead to the adaptation of talent management practice to the focal subsidiary in China?*

The paper is structured as follows. The next section reviews previous literature on talent management and endeavors to clarify the concept of "talent management." We then introduce our underlying research framework, followed by the research methodology. The results section provides findings from seven case studies. The paper concludes with a discussion and conclusion section in which our results are summarized, including managerial and theoretical implications and limitations, and suggestions for further research.

2. Conceptual background of talent management

The term "talent management" became prominent around ten years ago, when the management consulting firm McKinsey reported that employers face a "war for talents" and find it hard to recruit talented employees due to tight labor markets (Collings & Mellahi, 2009; Zheng et al., 2008). Since then, the topic of talent management has increased in importance and has gained attention in both the literature and in business practices. It has been claimed to be "more critical than ever to organizational strategic success" (Boudreau, 2005) and a "fast gaining top priority for organizations across countries" (Bhatnagar, 2008).

Although the term "talent management" is widely used, academic research into talent management is rather fragmented. It includes various aspects of strategic HRM (Bhatnagar, 2007; Collings & Mellahi, 2009). In a review about the concept of talent management, Lewis and Heckman (2006) identify three distinct research streams: (1) talent management as a collection of typical HRM practices, (2) talent management as a general classification of employees into different talent groups, and (3) talent management as a concept of internal talent pools. More recently, Collings and Mellahi (2009) discovered a fourth emerging research stream which highlights the identification of key positions that have a significant impact on a company's competitive advantage. The four different streams of thought will be presented briefly in the following.

The first perspective on talent management focuses primarily on the "collection of typical HRM practices, functions or activities" (Lewis & Heckman, 2006, p. 140). Researchers of this stream have a broad view of talent management. Talent management can be distinguished from traditional HRM by being more strategic and future-oriented, as well as in line with the overall corporate strategic goals (Blackman & Kennedy, 2008; Lewis & Heckman, 2006; Schweyer, 2004). In general, this perspective on talent management is relatively close to the thoughts of the strategic human resource management literature (Collings & Mellahi, 2009).

The second perspective on talent management views talented employees as valuable goods ("high potentials"), which need to be sought after, irrespective of the specific needs of an organization. Researchers of this stream typically classify employees into top, middle and low performers (also labeled a-, b-, and c-performers) and suggest that developmental activities should concentrate solely on top performers (Michaels, Handfield-Jones, & Axelrod, 2001; Smart, 2005). A typical argument put forward by this perspective on talent management is that "an organization is only as strong as its top talent" (Walker & LaRocco, 2002, p.12). This approach has also received a great deal of attention in practice. Its applicability must be questioned because it is not desirable to fill all positions in an organization with top performers (Collings & Mellahi, 2009).

The third perspective on talent management, which concentrates on the job flow of employees within an organization, is also known as "succession or human resource planning" (Barlow, 2006; Groves, 2007; Jackson & Schuler, 1990; Lewis & Heckman, 2006). This approach focuses on the internal rather than the external labor market, and typically starts with the identification and mobilization of internal talent pools (Boudreau & Ramstad, 2005; Bryan, Joyce, & Weiss, 2006).

The fourth perspective, which was added more recently by Collings and Mellahi (2009), emphasizes the identification of key positions that have the potential to have an impact on the competitive advantage of an organization. This perspective argues that talent management should start with the identification of pivotal positions rather than of talented employees *per se*. Talented employees are subsequently identified and developed to fill the previously identified pivotal talent positions. An overview of the