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**Prolonged Selection or Extended Flexibility? A case study of
Japanese Subsidiaries in China**

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Prolonged Selection or Extended Flexibility? A case study of Japanese Subsidiaries in China

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Abstract

In this paper, the author considers the role of actors in re-institutionalising employment practices at the subsidiary level. The findings lend support to the argument that actors have considerable space to navigate through institutions, creatively deploy agencies of institutions and manoeuvre employment practices. The research is based on intensive case studies at two Japanese-Chinese joint-venture manufacturing companies. Both subsidiaries play low-cost production functions within the MNCs and develop a core-periphery division of the workforce to enforce labour cost control. However distinctive management choices exist at subsidiary level to manage the boundaries between the core and the peripheral groups of employees.

Keywords: segmented labour market in China, hukou, agencies of labour mobility control, core and peripheral labour, spatial and functional division of production

Subject classification codes: include these here if the journal requires them

Introduction

A key research agenda in international HRM is to understand how “country differences” are reflected in the employment practices adopted by MNCs. While researchers endeavour to conceptualise country differences from culturalist, institutional and socio-political perspectives, there has been a long-standing tendency to play down the role of “actors” in making sense of country differences and developing employment practices, especially at subsidiary level. Some recent studies within a neo-institutionalist perspective have started to address actor-institution dynamism by considering the “space” allowed for agencies of institutions to promote or restrain isomorphism of employment practices (Forsgren, 1990; Heery and Frege, 2006; Morgan *et al.*, 2003). A group of scholars taking the political economy approach has gone further by advocating the power of actors to influence both institutions and the management of MNCs [Almond, *et al.*, 2006; Edwards, *et al.*, 2007; Edwards, *et al.*, 2010; Ferner, *et al.*, (2012); Quintanilla and Ferner (2003)]. Following these developments in the IHRM literature, the author analyses agency-institution dynamism by considering how actors make sense of cross-country variations in labour markets.

Two actors—the state and MNCs—powerfully shape labour markets. Given that the mobility of labour is strongly restrained and regulated by states, the labour market shows distinctive national attributes both in economic and institutional terms. Cross-country variations in labour markets are reflected in the supply and demand of labour, skill levels of the working population and intra-nation labour mobility. Employment legislations and administration, educational and professional training, and, forms of employment relations also show clear national patterns. Such differences, on the one hand, shape the way MNCs allocate economic activities between countries, and hence employment practices associated with the specific modes of production (Morris, *et al.*, 2009). On the other hand, MNCs themselves are powerful labour market institutions. Their internal labour market often extends beyond country borders. Recruitment and selection, transfer of personnel, training and promotion can be done across countries. In this sense, managing the boundary between MNCs’ internal labour market and the external labour market within a country has become a critical HR activity. Agency-institution dynamism can therefore be examined in the development of employment practices, which draw parameters between the internal and external labour market.

A number of reviewers have argued that the dominating *integrative* approach in existing IHRM literature (Bartlett and Goshal’s, 1992; Schuler, De Cieri and Dowling, 1993; Taylor, Beechler and Napier, 1996) is not being able to capture the implications of globalised labour markets for managing HRM in MNCs (Edwards and Kuruville, 2005; Li and Sheldon, 2010). For example, Edwards and Kuruville (2005) argue that studies of IHRM need to be attuned to reflect the dynamics involved in the functional division of production and spatial division of labour within MNCs. Following their suggestions, the author of this paper focuses on the subsidiary level, where the parameter between the internal and external labour markets is redefined. Based on intensive case studies at two Japanese MNCs in China, the author highlights employment duality in order to achieve numerical flexibility – a division between the core and peripheral group among local employees. A closer examination of the employment practices indicates different patterns in managing the boundary between core and peripheral groups:

- (1) Peripheral group as a pool for training and selecting capable and loyal core employees; and,

(2) Peripheral group as an extended pool of low cost and disciplined workers.

Drawing upon the Global Commodity Chain analysis and the Political Economy approach, the author argues that different patterns of duality are directly shaped by the subsidiary's projected position in the stratification of production functions within MNCs, continuous enforcement of labour mobility control by the local state and its agencies, as well as subsidiary managers' preferences to ally with these agencies to control the mobility of labour at the workplace.

The paper aims to extend our knowledge of the emergent and developmental nature of employment practices exercised at subsidiary level. The author chose to study the Japanese MNCs in China in order to examine the implications of relocating from an established labour market to an emerging labour market. Unlike existing research that focuses on possibilities and barriers of transferring established employment practices from mature economies to emerging economies, the author asks the question what if country differences make the idea of transfer unachievable or undesirable. The key issue here is how companies embedded in a relatively homogenous and stable labour market (Japan) develop policies and practice to manage their workforce in a relatively diverse and mobile labour market (China). The paper shifts attention from merely comparing the presence (or absence) of parent employment practices to investigating the differentiation of established employment practices and emergence of new patterns at subsidiary level. The findings of this paper, therefore, shed light on the meaning and functions of employment practices in the subsidiary context, which helps to deepen our understanding of the role of subsidiary managers and "extended actors" (Cooke, 2011) in shaping the employment practices at subsidiary level.

Finally, from the methodological perspective, the paper reveals "insider' views" of managing subsidiary practices (Cooke, 2009). Reviewing current approaches of theorising international HRM, De Cieri, Cox and Fenwick (2007: 283) suggested that "the search for an integrative, all-encompassing theoretical base has led to the neglect of diverse voices". They argued that the ethnocentric approach in interpreting the concept of "HRM" risked the explanatory capacity of existing theoretical frameworks and suggested the need for more contextualised research. In particular, by including voice from subsidiaries, international HRM researchers will be able to "redirect to how and why existing practices and disciplines are adopted and adapted" (ibid: 292). Contrary to studies based on large scale surveys or interviews with the a few key informants, this paper is based on intensive case studies at two Japanese manufacturing plants located in Shanghai, China. The author stayed at the companies and collected testimonies from a wide range of people working in the subsidiaries: expatriates, local managers, office and shop floor workers. They offer important insights of what employment practices exercised in the subsidiaries, how the employment practices function at the subsidiary setting and why. The author also conducted a handful of interviews with local labour bureau officials and employment agents, whose insights offered important triangulation of information.

The paper is organised in six parts: the second section offers a review of existing literature on segmented labour market theory, with an emphasis on implications to MNCs. The third part explains the research methodology. The fourth part introduces context of the study, especially the transitional nature of China's labour market. The fifth part shows the development, function and institutionalisation of different patterns of employment practices used by subsidiaries, with particular attention to the analysis on employment practices applied to manage the boundary of the internal and external

labour markets. The conclusion summarises the key research findings and offers suggestions for future research directions.

Literature Review: Labour market segmentation, international division of labour and HRM transfer

In opposition to neo-classical assumptions of a unified and perfectly competitive labour market, labour market segmentation theorists argue that labour markets are composed of fundamentally different sectors and movement between sectors is highly constrained (Doeringer and Piore, 1971; Atkinson, 1984). Labour markets can be broadly divided into primary and secondary sectors, with each further stratified into different tiers. Jobs in the primary and secondary sectors possess distinct characteristics. Primary jobs offer generous wage and welfare packages, job security as well as training and career advancement opportunities with the firms 'internal labour markets, whereas secondary jobs are often paid at the minimum wage level, are insecure and with limited opportunities for career development in the firm. The level of job complexity and the degree of autonomy allowed to employee discretion also differ between jobs in the primary and secondary labour markets.

Observing that MNCs tend to keep the core functions in the home country and relocate the peripheral functions overseas, some scholars suggest the relationship between the parent plants and the overseas subsidiaries reflects a core-periphery division of labour at an international level (Dedoussis and Littler, 1994; Taylor, 2001; Wilkinson et al., 2001). More recent research conducted by Morris, Wilkinson and Gamble (2009) included an extended sample of MNCs from different home countries, but their findings supported the earlier research and suggested that companies which seek to compete by cost minimisation would rarely transfer established home country employment practices to subsidiaries. These empirical findings suggest that the functional division of production creates a spatial division of labour within MNCs. However, before we accept the idea that the global workforce has been interwoven into segments of MNCs' internal chains of production functions, some critical questions need to be addressed.

One question is how local labour market dynamics influence the division of labour within MNCs. The new international division of labour thesis tends to overstate the homogeneity of national labour markets and play down the dynamics and diversity of local labour markets within countries. In reality, population density, unemployment rates, unionisation and immigration can vary significantly, which all affect the mobility chances of local workers. Variation in the educational infrastructure in the host country affects the skill profiles and employability of local workforce. In geographically large and politically diverse societies (such as China, India and the US) labour laws and their implementation can vary significantly as provincial governments have designated legislative and administrative power over employment issues. More importantly, being international economic and political agents, MNCs are often found to be engaged in the construction of local labour market institutions. In a study of Japanese manufacturing plants in new town, Elger and Smith (2005) showed how clusters of Japanese MNCs coordinated their labour market policies to maintain the supply of a flexible workforce for routine, low-wage jobs. In countries where skill shortage instigate mobility among the local workforce, sourcing and maintaining a stable workforce can restrain MNCs' ability to consolidate a labour market segment favourable to them. Li and Sheldon

(2010)'s study of the foreign invested companies in Suzhou, China reported the poaching of skilled workers challenges firms' efforts to adopt employment practices to build a high-commitment workforce. More interestingly, their study found that foreign companies started to build alliances with the local vocational schools to maintain a steady supply of low-waged and flexible workers. In other words, MNCs can be seen as co-producers of labour market institutions in local settings.

The related question is: can headquarters of MNCs strategically decide subsidiary functions, and consequently the employment practices to be adopted? The establishment of employment practices is often an outcome of struggles between agents of institutions within and outside MNCs. The common ground for many studies of international HRM is their research focus on the corporate headquarters, studying MNCs' rationales of internationalisation, the effectiveness of different organisational structures, and the complexity in managing overseas subsidiaries. Such a headquarter-centred approach plays down the developmental nature of subsidiary HRM and the initiatives of subsidiary managers in the institutionalisation of employment practices at the local level. As recent studies of international HRM indicate, the development of subsidiary employment practices is more than a planned and rationale reaction to the competitive, institutional and corporate constraints facing MNCs. Empirical evidence suggests that not only production and service units are locally embedded but also that they develop local strategies, advantages and functions (Brewster, *et al.*, 2003).

In their seminal work on why independent companies chose to join in an MNC production networks, Kristensen and Zeitlin (2005) show that parent company's HR policies are often implemented in a way to advance subsidiary managers' interests rather than to serve the intended strategic objective designated by the headquarters. Since subsidiary managers' actions are purposeful, their view on the competitive advantage of existing employment practices makes institutionalisation of such practices in subsidiaries a selective, political and emergent process (Gamble 2010). Following such a "bottom-up" view of MNCs, the research focus of this paper is the action and choice of subsidiary managers in managing the division of labour. In particular, subsidiary managers' perspective and interests in "upgrading" subsidiary's function within MNCs will have a strong influence on their choice of subsidiary employment practices.

Research design and research methodology

Taking a case study approach with a mixture of qualitative research methods, the author was able to develop a comprehensive understanding of how and why subsidiary employment practices were formed, as well as the role of actors in the formation of subsidiary employment practices. The fieldwork was conducted in two stages. At the first stage, the author spent one month at each plant. Data was collected through detached-observation, interviews and archival research at two Sino-Japanese joint venture plants in Shanghai, China. Detailed notes were made to record the author's observation and reflections on the employment practices at each plant. Semi-structured interviews were conducted with the subsidiary managers, who were key actors in developing subsidiary employment practices. A number of informal discussions (Briggs, 1986) with the managers and the workers were held at various venues (such as canteens, dormitories and meals). This approach helped to develop a holistic view of the multiple realities in the field, as well as to allow new research questions to emerge during the research process (Moore, 2011). At the second stage, the author revisited the

plants a year later to conduct follow-up interviews. Because the role of actors outside the subsidiaries in shaping subsidiary employment practice had emerged as a new research theme after the author analysed the data collected from the first stage, semi-structured interviews were also conducted with the local government officials and employment agents to further probe the role of these “outsiders”. The findings revealed in this paper, therefore, offer detailed documentation of how managers *make sense* of the difference between home and host country labour markets in developing employment practices at the workplace level, .

Case selection is critical for the construction of research validity in qualitative studies (Yin, 1994) and often involves a series of decisions (Fletcher and Plakoyiannaki, 2011). Given that the aim of this research was to explore how subsidiary managers make sense of the segmentation of production functions within MNCs and local labour market institutions in developing subsidiary employment practices, the author followed a “theoretical” sampling strategy (Eisenhardt, 1991; Buck, 2011). Case selection was projected against Morris et al.’s research on Japanese ‘reproduction plants’ in Malaysia, which examined how work and employment was organised in the electronic goods commodity chain. Two Japanese white-goods manufacturers in China (referred to as WG1 and WG2) were selected. Both of the companies can be categorised within the low cost segment of their parent companies’ global production networks, manufacturing standardised models for the local consumer market. Since model design was centralised in the headquarters in Japan, there was on average a 6-month lag between any new models being launched in the Japanese market and those being produced in the Chinese subsidiary plants. The subsidiaries shared a range of standard contingencies: location, company size, age, level of parent companies’ international experiences, product range, and production model. At the time the companies were visited, both were in the middle of undertaking major business reorientations in the Chinese market. Both were battling to integrate more product design functions and upgrade the profile of products manufactured in their plants. Alongside this the local labour market experienced major changes - details discussed below. Such settings enabled the author to investigate the scope subsidiary managers had to develop employment practices to accommodate their operations in China.

The Chinese context: the dynamics of a transitional labour market

China’s labour market has been in a dramatic transition since the Chinese government deepened the market-oriented reform in the early 1990s (Brooks and Tao, 2003; Knight and Song, 2005). On the one hand, the state has retreated from owning firms and those that are still owned have departed from the dominant *danwei* (or work unit) system, which had offered employees lifetime employment and all social welfare. Companies have adopted temporal employment contracts to specify the rights and responsibilities of employers and employees. The government monitors (often loosely) the labour market through legislation and administration of employment laws. A social insurance system, whilst as yet under-developed, is expected to provide employees with social benefits that used to be covered by the *danwei*. The Chinese state no longer employs the majority of the working population. However, the state’s control over labour movement through the *hukou* (residence registration) system—a system that divides the rural and the urban households by the way social welfare, healthcare, housing assistance and education are provided—remains strongly embedded (Liu 2005; Chan and Buckingham, 2008). *Hukou* based labour movement controls have in turn led to

structural imbalances in the local labour market and segmentation between employee groups (Knight and Song, 2005; Zhang, *et al.*, 2010).

On the one hand, there is a huge surplus unemployed population in China: according to the National Statistical Bureau, the total unemployed urban population was 71.9 million and total unemployed rural population was 297.3 million by the end of 2009 (NSBC, 2010). This means that 26.3% of the urban population and 61.3% of the rural population remain unemployed. On the other hand, many companies in China have reported difficulty in sourcing and retaining skilled workers, engineers, and managers (Howard, *et al.*, 2008). There is high turnover among local employees, especially migrants and those with scarce skills (Ross, 2007). China's largest head hunter company conducted a survey of 26 Chinese cities in 2007. The results indicate that annual labour turnover is highest among shop floor workers (31.5%), followed by line managers (27.6%) and office clerks (25%) (51JOBS, 2007).

The *hukou* system has important implications for the segmentation of employment groups in the local labour markets. Downsizing of the SOEs created the "40/50" group, who were laid off in their 40s or 50s with some redundancy compensation. Total numbers of industrial workers employed by the SOEs went down from 149.08 million (59% of total the employed) in 1995 to in 64.20 million (21%) in 2009 (NSBC, 2010). This group of employees were trained, disciplined and keen on finding work again in the rising urban sectors. Their urban *hukou* status meant that they enjoyed some unemployment compensation and reemployment assistance offered by the state. The state policy prioritised relocating the "40/50" group to urban employment by restraining rural migration into cities (Knight and Song, 2005). Long years of employment in the SOEs meant that employers had difficulty training these employees to gain new skills or to fit into a different company culture. Hence, this group often found themselves in an unfavourable position because non-state owned employers preferred younger workers, who were more adaptable and cost-effective (Lee, 2007).

The second employee group are "peasant workers". Thirty percent of the peasant workers work in the township and village enterprises and the majority of them moved to the urban areas for jobs (Chan and Pun, 2010). While peasant workers were often referred to as "migrant workers", to many of them, especially the young generation, moving back was not an option because the farm allocated to their rural home could not support the whole family. They move between jobs, expecting to settle in cities eventually (Chang, 2008). With few qualifications, these migrant peasant workers often take up those marginal jobs with low skill requirements in the manufacturing, service and construction sectors, which are often characterised by job instability and high labour turnover (Chan and Pun, 2010). Once a job is secured, migrant workers can apply for temporary urban *hukou* sponsored by their employer. However, their permanent *hukou* remains non-urban, which means they are not entitled the social welfare benefits and employment assistance available to the urban *hukou* holders.

The last group of employees that forms the urban workforce are young graduates. The legacy *hukou* system under a planned economy is still evident in the *hukou* arrangement of the university students. When registered as a full-time student, he/she is supposed to transfer the household *hukou* to collective *hukou* at the university. Having a collective *hukou* means students do not need a temporary urban *hukou* to take on internships or temporary employment in cities. After graduation, the collective *hukou* can also be transferred to the employers, who are allocated annual *hukou* quota by the state (normally public sectors or SOE). Otherwise, graduates have to move their *hukou*

back to their household. Since the expansion of universities has outpaced the demand for graduates in urban areas, some graduates find it hard to secure a job that match their qualifications and have to take on low-grade jobs. Some university graduates, originally from rural areas, choose to dwell in cities, take on low-end jobs, and try advance their career by accumulating work experiences.

This threefold segmentation is a key feature of the Chinese labour market, with important implications for MNC HR at the workplace level, as we now go on to discuss.

Contrasting patterns of employment practices at subsidiary level

The two Japanese MNCs selected for this study are highly successful white goods manufacturers and have built up extensive global production networks since the early 1980s. The Chinese subsidiary plants, WG1 and WG2, are semi-automated assembly lines set up in the mid 1990s to explore the growing Chinese consumer market. Throughout the 2000s both subsidiaries were facing major price competition in the local white goods market. They were pressed to both reduce production costs and upgrade their product profiles. Price competition also forced the companies to reconsolidate their “compete by quality” strategy to cater for the rising middle class in China. Faced with the unbalanced, mobile and segmented local labour market, the subsidiary managers’ main HR concerns were how to maintain workforce flexibility, lower production costs and control labour turnover at a “reasonable” level.

In terms of job design, shop floor work was, overall, highly routinized with rather limited skill requirements from the workers. From observations of the work in the two plants, the argument that both subsidiaries were playing a low-cost standardised production function was confirmed, which meant they were less likely to adopt high-cost employment practices. However, “commitment-based” employment practices were not completely absent from the subsidiary. Only a core group of employees (including repatriates, senior local managers, technical engineers and workers with sophisticated and multiple skills) were offered above-market-average pay, mid- and end-of-year appraisal, job security and career development support. The rest of the employees were recruited on a short-term contract basis. The contract length ranged from 3 months to 1 year. Wage levels were slightly above the local average and monthly bonus tied with individual productivity. Training was elementary and had no clear career advancement implications. These results correspond with Silver’s (1997) definition of a “lean-and-dual” model of labour control. Figure 1 and Figure 2 show the segments of employee groups in WG1 and WG2. However, further scrutiny of employment practices applied to different employee groups suggests distinctive patterns of division between core and periphery employee groups at subsidiary level. Table 1 summarises the employment practices adopted by the subsidiaries and the strategic meaning of these practices at subsidiary level.

[Insert Table 1 here]

Prolonged selection – management of the peripheral group in WGI

WG1’s recruitment and selection policies favoured a younger workforce: the average age of employees was 25. The employees were mainly recruited directly after they

finished vocational schools or graduated from universities. Vocational school students formed the peripheral group of labour and performed semi-skilled jobs. Recruitment of the group, however, was by no means done randomly or by recommendation from existing workers as in other foreign invested factories in China (Smith, 2003). Most employees were channelled through the “Youth Training Centre”, which was set up in alliance with the local vocational schools for internship training. These trainees worked side by side with contractual workers and become a marginal group. Upon completion of the internship, those who performed well would be offered a fixed term contract (normally a year) in WG1. Such an internship system hence played both sourcing and selection functions. Alongside the technical school students, university graduates were brought in under the “managerial candidate” programme to mainly fill-in the shop floor team leader and junior manager positions. Based on their performance at work, these managerial candidates could be promoted to mid-level positions after working in the company for 2 to 3 years. Pay-for-the-job-scale was adopted to specify the connection between positions, although reported promotion opportunities were rare. Performance-based pay, tenure benefits and family allowance were offered to all employees apart from the student interns, which indicated the subsidiary’s inclination to encourage employees to stay on with the company. A core-periphery divide functioned as a *prolonged selection* process from which the competent and loyal employees were retained.

For WG1, an alliance with vocational schools and universities helped connect the firm with an extended pool of candidates, who were inexperienced but systematically trained by both the vocational schools/universities and the plant. Such an alliance allowed WG1 to pre-select those “competent” recruits to be integrated into the firm’s internal labour market.

[Insert Figure 1 here]

Extended Flexibility – management of the peripheral group in WG2

In sharp contrast, WG2’s core-periphery divide served more a cost-control function, with employment policies clearly favouring those with experience. The core employee group was formed by workers, managers and engineers who were laid-off from a state owned company, which used to be WG2’s parent company. This group of employees were on permanent contracts and offered relatively generous salary and bonuses linked to the financial performance of WG2. The shop floor workers group was mainly migrants, who were given 3-month renewable contracts and would not build tenure in the company. During the peak season, more than 80% of the shop floor workers were short-term migrants, who were recruited through a number of local employment agents. They worked in WG2 on a temporary basis and performed simplified tasks: welding, assembling, painting and packing. Very limited training was given to these workers and the pay was largely based on their daily output. As the short-term migrant workers would return to the agent after short-term services at WG2, the company was not entitled to pay any social insurance benefits for this group of workers, which normally made up 37% of the employers’ salary bill. At the same time, WG2 chose to recruit experienced group leaders, line managers and supervisors, who formed a core group to lead the migrant workers on the workshop. No HR policies were available to clarify internal promotion policies or to support the migrant workers to gain a permanent position. Salary for more experienced employees was not significantly higher than that for migrants, but job security was guaranteed for those with experience.

In WG2's case, it was the local employment agents that played a key role in securing abundant, flexible and low-waged labour. Sourcing migrant workers and controlling turnover among this group has been reported a challenge to foreign invested companies in China (Howard, *et al.*, 2008). The local employment agents are normally connected to the regional labour bureaus and collect information of the migrants. They also offered discipline training, covering basic insurance and worker grievance handling, which allowed WG2 to externalise these employment functions. As the demand for agency workers increased, WG2 signed up long-term contracts with a number of job centres in order to maintain the numerical flexibility in the firm. As explained by the local managers, using different employment agents expanded the source of workers and avoided migrants forming alliances based on their hometown. In the Chinese context, hometown alliances are common and a key source of solidarity and integration for workers (Perry, 1996). Here, an alliance with the employment agents enabled the exclusion of migrant workers from WG2's internal labour market.

[Insert Figure 2 here]

Managing core workers

In terms of managing the "core" group of employees, the two subsidiaries showed more similarity in terms of employment policies and practices. Supporting Li and Sheldon's (2010) observation that enduring skill shortage instigate "poaching" of skilled workers, both companies reported concerns over losing competent employees and managers to their major competitors.

"There seems to be a routine among the employees. They will join us after working for a Korean or a Taiwanese company for several years. Staying here for a while, then they move on to European companies." (Management and Accounting Department, WG2, female, Chinese, 33)

"There are some engineers we really want to keep. But they seem to believe that they could realize better developments in the European or American companies... Maybe this will be counted as our contribution to Chinese society?" (HR Department, WG1, male, Chinese, 35)

As a short-term resolution, WG1 increased the number of expatriates after a trial of promoting local managers. They assigned several expatriates subordinate roles to "support" the local managers. WG2 introduced an "in-patriation-repatriation" programme aimed at developing a cadre of "systematically trained" local managers.

Knowing the high mobility among the managerial and engineering employees, subsidiary managers made use of some retention measures, which were used to generate long-term commitment and to exert direct control over the local employees. For example, WG2 provided apartments to managers before they purchased their own property. This differs from the provision of company housing in the old SOE in the sense that it was short-term, contract-based and the company was under no obligation to provide accommodation to all the employees. Neither was this policy consistent with the parent company practice where company accommodation was considered a form of compensation for *young* employees on low wages. Instead, dormitories not only helped retain the managers but also extended their working hours as they were generally expected to work voluntary (unpaid) overtime. The workers would leave the premises when the 8-hour work shift was over. The managers, by contrast, would normally stay

longer and might be called back when there is something that required urgent attention. In fact, WG2 did not enforce any policy to persuade staff who had purchased their own apartment to move out of the company accommodation. This shows that company accommodation served the purpose of providing convenience to managers with additional after-work duties rather than compensation to the young low-paid employees. One manager's comments confirmed the different meaning of company accommodation between the parent company and the subsidiary:

“We might be the only [Japanese] company in China having a company housing system like an old state owned company... Our company dorms in Japan are for single employees and they are very small and they are 1 hour away by train. The employees will normally move out of the dorm after 2-3 years. But here, I don't think anyone would move unless they are forced to do so.” (Manager in Accounting and general management department, WG2, female, Chinese, 33)

Besides accommodation, some parent company management practices were also applied to control mobility and absenteeism of the managers. WG2 used company mobile phones to keep a record of the movement of local managers:

“The company will retain the list of calls of all the company mobile numbers. We sometimes detect that someone applied for sick leave and he/she used the mobile in other regions. The 'sick leave' then won't be verified and the person will get a deduction.” (Clerk in Administrative Department, WG2, Chinese, female, 36)

Subsidiary managers explained that these practices took the same form as those of the parent companies but were given different interpretation by subsidiary managers. In view of the difficulty in cultivating commitment in the local labour market with much higher mobility, direct control was presumed to be a viable alternative to the indirect control through forming social relationship between employees and the company.

Distinctive patterns of the core-peripheral divide were also reflected in the route through which local managers were promoted. WG1 displayed a strong intention to build an internally trained and selected local management team. There was a clear statement in the corporate policy to increase the number of local managers in the subsidiary management team. A few Chinese managers were promoted to senior positions. At the same time, WG1 centralised training of local technical engineers and local managers to the China centre in Beijing. A liaison with several Beijing-based universities ensured the supply of “high-quality graduates” to join the company management trainee programme, which aimed to build a cadre of competent and locally trained managers. However, 50% of managerial candidates chose to leave WG1 after finishing the first one-year-contract due to not being able to cope with the intensive shop floor work pressures, difficulty in fitting in the work teams or finding better employment opportunities. Nevertheless the general principle of hiring fresh graduates and promoting internally trained managers remained at the heart of WG1's promotion policy. As explained by the general manager, WG1 were “determined to build a workforce that shares the values of the company”. Here, again, an alliance with higher education institutions was used to extend the pool of employees into the firm's internal labour market.

WG2 relied heavily on experienced workers and mid-career managers to form the core employee group. More than 70 per cent of the new recruits were in mid-career, either from the Chinese parent company or the external labour market. The local

managers explained the rationale of the HR policy as a reaction to the mobility associated with different groups of workers:

“We understand that it is faster for the fresh graduates to learn and adapt to our company. And we do have some wonderful young graduates working here. But they leave soon for better personal development. I think the average length young graduates worked for our company is about 2 or 2.5 years. This is not good enough for the company. We need our employees to be more responsible and be willing to connect their personal development with that of the company, people who believe in the company at its prosperity and its setbacks. I think my Japanese colleagues agree with me at this point.” (Deputy General Manager, Chinese, 49, male)

The local senior managers argued that a stable and loyal mid-management team had been the key to WG2’s past success. In fact, the turnover among the core group of employees was 3%, way below the local average. Once there were vacancies, WG2 tended to recruit directly from the local labour market and experienced team leaders, salesmen, and managers, who were perceived to be more mature and serious employees. Many of them had a background of working in SOEs and shared a view of work with the senior Chinese managers. Fresh graduates (mostly young migrants) were more likely to start with clerical jobs, which were described as “repetitive” yet “stressful”. In this sense, segmentation in the local labour market facilitated the solidarity among the core group, but also a divide between the *experienced* urban workers and *young and inexperienced* migrants, and consequently, the latter being excluded from the firm’s internal labour market.

An exception to this pattern was the “in-patriation-repatriation programme”, introduced by the Japanese parent company in the late 1990s. The programme allowed WG2 to recruit competent young Chinese graduates to join long-term (3 years in WG2’s case) on-the-job training in the Japanese parent plants. These trainees were then despatched back to various Chinese subsidiaries to fill in mid-management positions. Only very limited numbers of employees had participated in the programme and managerial positions remained dominated by experienced Chinese managers.

In summary, employment practices observed at subsidiary level reflected different patterns of linking the firm’s internal segmentation of labour to the local labour market. The comparison between WG1 and WG2 suggested that distinctive HR policies and practices were subsidiary-specific and highly contextual to the management team. Subsidiary employment policy and practices were advanced in such a way to reflect subsidiary managerial initiatives of labour control. Segmented local labour markets, supply and mobility opportunities of different labour market segments and the way subsidiary managers interact with the local agencies of labour mobility control were found to have enabled such distinctive patterns in dividing (and linking) the core-peripheral groups of labour at subsidiary level.

Conclusion

The paper has explored how the international division of production functions within MNCs has influenced (but not determined) the way subsidiaries manage the boundary between internal and external labour markets. Both case studies engaged in labour intensive production and were highly cost conscious. Both divided employees into core and peripheral groups as a measure to control costs. However, segmentation had different management objectives in the two cases. In WG1, the peripheral group

(student interns and management trainees) were used as an extended pool of candidates, from which the core group (regular employees) was selected. In WG2, however, a divide was drawn between employees and agency workers, (migrants) who were marginalised and excluded from firm's internal employment system. The young graduates (mostly migrants) were also marginalised, if not completely excluded from the firm's internal labour market. Addressing why subsidiaries developed such different patterns of core-peripheral divisions of labour, the author compared the composition of employee groups in the subsidiaries and the relationship between subsidiaries and local labour supply and development institutions. A supply of diverse groups of workers in the segmented local labour market was found relevant for the development of such different subsidiary employment practices. Local labour market institutions also played a central role in structuring the firm's internal labour market and the local labour market segments.

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

Firstly, the research findings offer a critique of the existing international HRM literature by considering the implications of global division of production functions to managing employee at the subsidiary level. The findings lend some support to the view that subsidiaries performing standard production will employ low-cost employment practices. However, this paper also shows more complexity to employment practices developed at the subsidiary level. There was no evidence that subsidiaries were converging to a standardised low-cost model. While being in low-end production has pressed subsidiaries to extend the use of the peripheral employee groups, the boundary between the core (internal) and peripheral (external) labour markets was managed to ensure flexibility of the workforce and to retain skills to some extent. Importantly, subsidiaries employed *distinctive* policies and practices to manage different employee groups. What is also noteworthy is that some new employment policies and practices emerged to accommodate the local labour market institutions. The fact that the MNCs relocating production functions from relatively homogenous and mature labour markets (Japan) to where external institutional patterns remain fluid and immature (China) makes transferring of established employment practices less relevant, and the development of new ones more pressing in the local settings.

Secondly, the results also offer further critique to the contingency approach, which suggests that subsidiary management practices should reflect multiple pressures faced by MNCs in the internationalisation process. Analysis along a contingency approach focuses on the forces within and outside MNCs which shape or direct subsidiary management practices. However, the findings of this paper suggest that the subsidiary can develop distinctive patterns of employment practices under *similar* external contingent constraints. For example, contrary to the idea that the *hukou* system will *automatically* create a core and peripheral division of labour at workplace (Knight and Song, 2005; Lu 2006; Zhang *et al.*, 2010), the findings of this paper suggest that segmentation in local labour market was by and large *enacted* by actors from within and outside the workplace. In the two cases subsidiary managers ended up targeting different segments of the local labour market, developing varied recruitment policies to maintain a relatively stable source of labour, employed contrasting reward packages and adopted different measures to control the mobility of the local workforce. More importantly, by building alliances with the agencies of local labour market institutions, subsidiary managers were able to extend the resources to secure a sustainable supply of labour and to control the mobility of labour. In other words, different patterns of

employment practices were *co-produced* by the agencies of MNCs and local institutions. Employment practices within the subsidiary were seldom the direct manifestation of institutional, industry sector or organisational pressures faced by the subsidiary (Smith, 2005, 2008). Rather differences in subsidiary employment policies and practices were locally constructed and reflected strong subsidiary initiatives.

Finally, the results of this paper are significant because they suggest that local labour markets can be linked to MNCs production functions in many *different* ways. While exploring the impact of MNCs global strategy on the different patterns of dividing local labour force is beyond the scope of this paper, the findings here lend some support to the argument that a firm's local competitive strategies strongly influence subsidiary employment practices (Yao and Wang, 2006; Takeuchi et al., 2009). Further research is recommended to consider how upgrading of product models may affect the contrasting patterns of subsidiary HR policies and practices reported in this paper. In particular, researchers need to consider the implication of China's transition from an export-led economy to a consumption-led economy for MNCs stratification of production functions into the country and management of employment practices at the subsidiary level.

The author is aware that the study is based on two case studies of Japanese MNCs in China and the findings cannot be over generalised. Also, due to resource constraints, the author was not able to visit the companies' Japanese headquarters. The voice of the headquarters was heard through the parent company agents, such as expatriates. Instead, the paper revealed the continued importance of subsidiary initiatives, thus highlighting the real need for more workplace based case studies to understand the social reality and diversity of employment relations in contemporary China.

Table 1 Comparing employment practices adopted by WG1 and WG2

	WG1		WG2	
	Employment practices	Strategic meaning to the subsidiary management team	Employment Practices	Strategic meaning to the subsidiary management team
Recruitment and selection	Mainly technical school, colleague and university graduates and some experienced engineers	HR Cost control (Training is shortened and replacements are easy to find)	Mainly mid-career managers and experienced workers University graduates for the “inpatriation-repatriation” programme	Control of employee mobility; implementation of bureaucratic control
Training and development	Training centres offering technical qualification training,	Extended selection process; In-house skill development	Not much training has been given to the mid-career managers.	Market-based skill development

	<p>Basic training, mainly in-house on-the-job training, company funds for selected managers to attend professional training programmes</p>		<p>Young graduates joining the “in-patriation-repatriation” programme receive long term on-the-job training in Japan.</p>	
<p>Performance assessment and appraisal</p>	<p>Pay-for-job grade system tailored on the basis of the Japanese parent company.</p> <p>Semi-annual performance assessment.</p> <p>Assessment criteria are based on tenure, merit and performance.</p> <p>Top-down assessment</p>	<p>Clarification of promotion route</p>	<p>Pay-for-job grade system tailored on basis of the Chinese state owned parent company.</p> <p>Merit-based assessment</p> <p>Paternalist, top-down assessment procedure with deputy general manager making all the decisions on regular</p>	<p>Separation between core and contingent groups of employees</p>

	procedure with senior managers deciding subordinates' performance results		employees' performance results	
Retention and dismissal	Job security with internal promotion opportunities, non-redundancy policy, In-house transfer or demotion for underperforming employees, some tenure-base compensation and company welfare	Building long-term employment relations	Monetary and other material rewards (such as company housing) In the process of developing dismissal policies	Numerical flexibility

Figure 1 Segments of employee groups in WG1

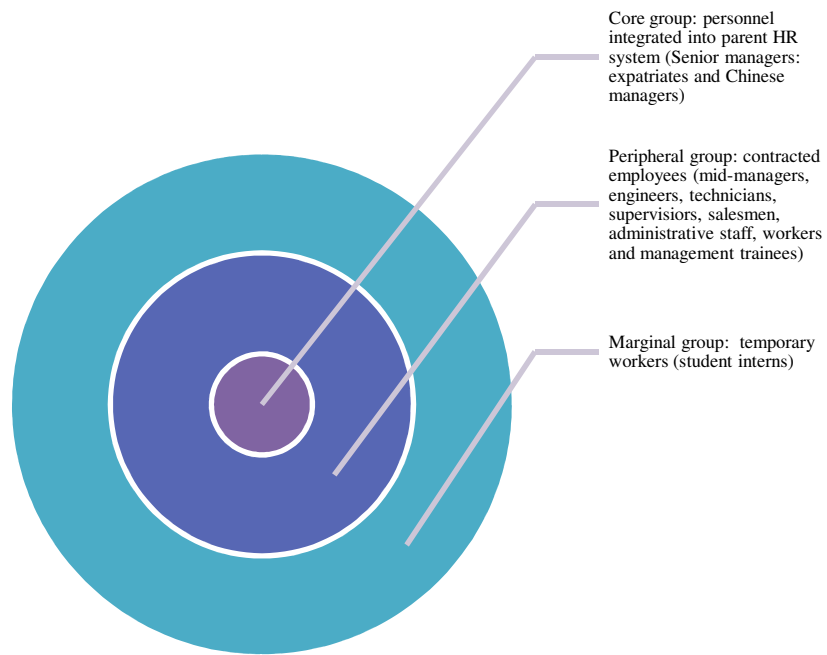
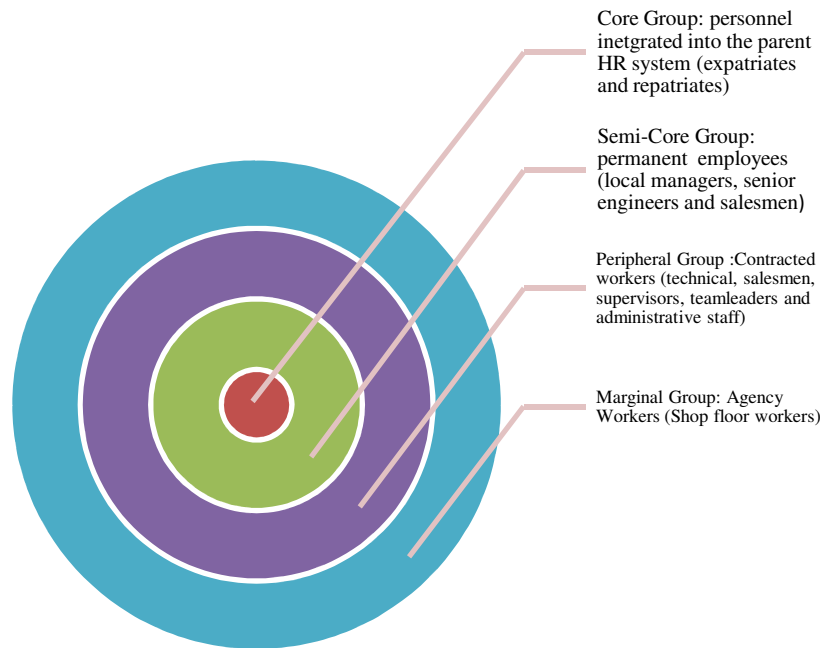


Figure 2 Segments of employee groups in WG2



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