“Best Practice” Diffusion in Chinese MNCs: Motivation, Facilitation and Limitations

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“Best practice” diffusion

- MNCs major vehicles for global dissemination of “best” management practice
- Research concentrated on forward diffusion
- **Reverse diffusion**: “the process by which practice developed by foreign subsidiaries is captured by the centre of a firm, and diffused into other subsidiaries”
  
  (Tony Edwards, 1998)
- A relatively unexplored concept
Conditions for reverse diffusion

• Subsidiaries operate in economically advanced environment

• Need for business integration between subsidiary and home firm

• Financial support, no short term profit targets for subsidiaries

• Time to learn & diffuse

Chinese MNCs in the UK

• New entrants in global markets with no experience of market competition

• Internationalising fast through inward & outward investment

• Outward investment through subsidiaries of SOE’s e.g. in the UK

• Mission to further Chinese government policy of “international borrowing” (jiejian)

• Absorption localization: a strategy to acquire advanced management knowledge and techniques
Cases: 5 leading Chinese MNCs

- Stage 1: 1999-2001, 6 subsidiaries in London UK
  200 Interviews – all CEOs and managers, most middle managers, and senior staff leading diffusion activities

- Stage 2: 2003-05 Three home firm/HQs in China
  Interviews with managers-at top, branch and department level

- Corporate and HR data

- All in finance or trading, attracted by London’s advanced knowledge and status in this area
Learning central to corporate strategy

• The subsidiaries were established/expanded in the UK in order to learn the UK management system, and help the internationalisation of a whole company

• One of main responsibilities of the top managers is to diffuse UK management practice to the home firm

• Strong financial support and direction from the Chinese Government

• Initially, no pressure from short term profit targets

• Learning and diffusion a priority
Extensive “absorption” localisation

• Significant localisation of management practice in the subsidiaries

• Achieved largely by using high proportions of local managers

• Chinese expatriates at the top and local managers in the middle levels- provides the opportunity for learning and diffusion

• Diffusing activities have a wide remit and include “best” UK practice beyond that adopted in the subsidiaries
Diffusion activities

• All subsidiaries take home firm managers as trainees

• Three companies provide formal training courses, and one company has a training centre

• Two companies send UK managers to home firms to establish new practice and train staff in their use

• Two companies hold conferences not only for the managers of home firms but all Chinese companies

• Expatriate informal network and meetings

• UK trained expatriates seconded to other subsidiaries
Diffusion process

• As an important part of corporate strategy, diffusion is initiated and controlled by the parent company/HQ

• Parent companies decided the extent of localisation and diffusion activities

• The subsidiaries report directly to parent companies rather than via a regional HQ

• Some lateral diffusion through expatriate network and training

• Most diffusion dependent on expertise of local managers
Impact on home firm

• Over 500 UK trained home managers are working in the top and middle levels of the home firms in China

• The practices they have imported are mainly in general management areas: work organisation and process, and HR techniques: staff assessment and motivation

• Only one company changed their business and management system as a result of diffusion

• In most companies, little impact at top managerial level, company structure & decision making processes
The constraints on diffusion

- Great cultural, social, economic, political, and cultural differences persist, especially in SOE’s.

- Motivation and competence of home managers.

- Experience of small subsidiaries not appropriate to the very large home firms.

- Little business integration home/subsidiary.

- Subsidiaries now concentrating on survival with more competition at home and less state financial support.
New strategies for change are emerging:

- One company recruits expertise overseas to replace home managers at the top level

- Overseas subsidiaries of two companies are planning to set up new branches in China

- One overseas HQ plans to exploit the Chinese government’s preferential treatment of foreign investors and establish subsidiaries in China as a foreign company
Discussion and conclusion (1)

• Chinese MNCs’ use localisation & reverse diffusion to learn advanced management practice

• Diffusion activity significant, particularly in the earlier stage of their internationalisation process

• Diffusion is reverse, but also lateral & nation-wide

• Diffusion activity directed by parent company in China—a top-down process

• Facilitated by close alignment with corporate and political strategies for economic development
Discussion and conclusion (2)

- Impact on home firm is wide but not substantial
- Largely confined to general management area
- Constrained by culture of SOE’s, organisational size, and lack of business integration
- Stage of internationalisation
- New international learning strategies emerging
- Implies that “best practice” transfer can take different forms