

# “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

Edwards & Ferner (2000)

# 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 & 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 & 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