



# International Strategic Human Resource Management: A Comparative Case Analysis of Spanish Firms in China

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**ABSTRACT** This study examines the role of human resources in strategy formulation processes in China's emerging market. Employing a qualitative data driven thematic analysis, we present evidence collected from six comparative case sites of Spanish firms in China. Our findings suggest that high performing firms use a dynamic adaptive logic while lower performing firms use a static structural logic. A dynamic adaptive model of strategic human resource management is identified, emphasizing a fluid and informal process between strategy, human resources and international management.

**KEYWORDS** China, human resources, international business, Spain, strategy

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## INTRODUCTION

Strategic human resources (SHR) is proposed as a key imperative in many parts of the world in achieving sustainable competitive advantages in an increasingly competitive global market (Brewster, 1993; Hendry & Pettigrew, 1992; Truss & Gratton, 1994). Human resources can also be positioned in terms of the resource based view of the firm (Barney, 1991): being rare, imperfectly imitable and not substitutable is a source of competitive advantage. Nonetheless, despite agreement on the added values of human resources to both a firm's strategy formulation and its strategy implementation (Schuler, 1992), the latter has been considered central to SHR (Becker & Huselid, 2006), while the former has been less explored. The strategic role of human resources management (HRM) in the strategic formulation process may be particularly important for multinationals operating within a dynamic business environment, such as China's emerging market. This study examines the strategic role of human resources in gaining and sustaining competitive advantages within the context of Spanish firms in China.

In this emerging market, human resources (HR) can influence the firm's alignment with local conditions. SHR adds value to strategy formulation in multinational corporations (MNCs) by helping to better address local issues and to upgrade knowledge about local conditions. This study investigates HR's contribution to strategy formulation in an international business context. Specifically, the question we explore is how do strategy making and human resources influence performance among Spanish firms in China? We aim to uncover why some firms outperform others and the role of SHR practices in strategy formulation and local adaptation.

The paper is organized as follows. First, we review theories on strategic human resources management with reference to international business; this review highlights the lack of a clear and unified theory concerning the contribution of human resources to strategy formulation in MNCs or to firm performance. We then pose our research questions for Spanish multinationals' subsidiaries in China and explore them by employing a qualitative methodology. Finally, we present our findings and discuss the implications, limitations and areas for future research.

## CONCEPTUAL BACKGROUND

Research on SHR issues has grown significantly in volume and scope, but the field is still characterized by the absence of a generally accepted definition and solid theoretical framework (Boxall & Purcell, 2003). What might be agreed upon by most scholars is that SHR links HR with strategy implementation, 'covering research intended to improve our understanding of the relationship between how organizations manage their HR and their success in implementing business strategies' (Schuler & Tarique, 2007: 723). Particularly lacking is any attention to how internationalization, strategy and human resources intersect. To bridge this gap, we first present a brief review of these literatures, distinguishing formal planning from informal adaptive processes in strategy formulation along with the related strategic human resource issues. We then show the results of our qualitative study to discover how HR can influence the strategy formulation process in an emerging market context.

### Internationalization, Strategy, and Human Resources

Johanson and Vahlne (2003) call for new theories on internationalization due to the changing global business scene. Among others, the behavioural models assume that managers act on the basis of their perception and past experience (Eriksson, Johanson, Majkgard, & Sharma, 2000), and, therefore, an international firm's performance is the result of a series of managerial actions. To face new international challenges, small and medium-sized enterprises (SMEs) specifically need to 'overcome resource/competence deficiencies in areas such as finance and human resources . . . "contingent" on the levels of resources that the firm has at its

disposal' (Bell, McNaughton, Young, & Crick, 2003: 342; see also Woodcock, Beamish, & Makino, 1994; Yeoh & Jeong, 1995). Similarly, market orientation plays a crucial part in SMEs' international business successes within a very volatile market (Kwon & Hu, 2000: 61).

In their review on strategic management, Hoskisson, Hitt, Wan and Yiu (1999) assert that the resource based view (RBV) (Barney, 2001) of the firm has gained prominence in management research as a framework for explaining a firm's sustainable competitive advantage. In viewing the firm as a 'bundle of heterogeneous resources' (Penrose, 1997: ix), the RBV approach distinguishes material and human resources and links them to firm performance. This view is not only gaining influence in strategic management, but also in international business literature (Peng, 2001), including international human resources management (IHRM) (Wright, Dunford, & Snell, 2001).

### **Strategy Formulation: Formal Planning and Informal Adaptation**

There are many different dimensions and levels in the complex and difficult to manage strategy process. However, most levels of 'corporate, business and functional strategies contain human resource issues and implications' (Dyer, 1983: 258). Among the different dimensions of strategy process, strategy formulation and implementation are the two with the most distinctive and interconnected features (Dyer, 1983; Pryor, Anderson, Toombs, & Humphreys, 2007). Even though current SHR has been centred on strategy implementation (Baruch & Altman, 2002; Becker & Huselid, 2006), it is in strategy formulation that 'human resource issues first arise' and where 'opportunities and constraints are translated into goals and plans regarding scope, competitive thrust, and resource allocations' (Dyer, 1983: 259).

Dyer (1983) describes strategy formulation in two ways: formal strategic planning and informal strategic adaptation. The former is a formal process, taking place in a reasonably well-defined manner. The latter is an informal process, generally arising from perceived opportunities or from the need to deal with a crisis facing the firm. Dyer (1983) estimates that around 70–80 percent of all organizational strategies result from informal adaptive processes. Following such processes, firms' often employ formal strategic planning to formulize the results of various strategic adaptations (Quinn, 1980). Most scholars recognize that the involvement of HR in both the formal strategy formulation processes and informal adaptation is critical, especially in the latter.

### **Strategic Human Resources Management**

Research has paid much attention to the role of HR in strategy implementation rather than strategy formulation, even though both have been addressed as

relevant (Schuler, 1992). The focus on strategy implementation might be the critical differentiator in a mature market; nonetheless, in an emerging market, the role of HR in strategy formulation may need more consideration. In a firm's search for competitiveness, SHR emerges as a prominent approach to bridging human resources and strategic management. Scholars have proposed that 'the pattern of planned human resource deployments and [related] activities . . . [may] enable [the firm] to achieve its goals' (Wright & McMahan, 1992: 298).

Lengnick-Hall and Lengnick-Hall (1988) introduce an SHR typology outlining various ways that human resources can help the firm gain an improved competitive position. Schuler and Jackson (2005) call on researchers to devote more effort to studying the nature of the alignment between managing human resources and the implementation of business strategies. Becker and Huselid (2006) also emphasize SHR in strategy implementation. Recent research on strategic international human resource management also has focused on fitting human resources strategy with firm strategy (Baruch & Altman, 2002; Schuler & Tarique, 2007). However, as we have mentioned, little attention has been given to how human resources contribute to the strategy formulation of the firm, especially in a dynamic context such as China.

While there is an upswing in organizational interest in China among both researchers and practitioners (Tsui, Schoonhoven, Meyer, Lau, & Milkovich, 2004), the strategy for operating in this emerging market is unclear. In this instance, a static fit with firm strategy may not achieve advantages in performance due to the constant shifting of both good HR models and the goals of the firm embedded in a turbulent environment (Lengnick-Hall & Lengnick-Hall, 1988). Current SHR models (Delery & Doty, 1996; Dolan, Mach, & Sierra, 2005) are too static for this dynamic environment. Bringing SHR into strategy formulation (Dyer, 1983) might be especially important in emerging markets where new and different institutional, cultural and environmental aspects need to be explored. This need is the driving force behind our research. We chose to study Spanish firms in China to take into account the dynamic nature of the Chinese business environment (cultural and formal institutional aspects), analysing how Spanish firms integrate SHR into strategy formulation to adapt to the local context.

### **Spanish Firms in China and HRM in Spain**

Research on Spanish firms in China is scant. Within the burgeoning interest in China, little attention has been paid to the investment of Spanish firms there. Historically, they were late to embark on internationalization (Cacho, 2006) and the relative lack of Spanish presence in China was due to Spanish firms' focus on Latin American countries (Cacho, 2006; Durán, 1999).

Even though Spain is a part of Western Europe, the management of Spanish firms differs from the dominant Anglo-Saxon style. Despite the growing use of high involvement or high performance work systems in Spanish industrial firms, this progress has not been rapid or sufficiently widespread enough to be considered the prevailing pattern in Spanish industry (Bayo-Moriones & De Cerio, 2001). Traditional Spanish HRM methods with a 'Latin style of managing' (i.e., '*inter alia*, by efforts to modernize HRM, a greater reliance on an oral culture and the presence of subtle "political" structures which unconsciously nurture docile, dependent attitudes to authority,' according to Mayrhofer and Brewster, 2005: 39; see also Filella, 1991) continue to be widely practiced in Spanish firms (Cabrera & Carretero, 2005: 150).

The increasing presence of Spanish firms in China (Bregolat, 2007) offers a unique opportunity to explore the integration of SHR and strategy formulation in the Chinese subsidiaries of Spanish MNCs. This increased presence also offers an opportunity to discover why some Spanish subsidiaries outperform others and to compare the SHR practices and strategy formulation links between these firms.

### **Firm Performance**

There is disagreement on the meaning of 'performance' in the organizational literature, which may be especially problematic in international subsidiaries (Yan & Gray, 1994). Some studies have focused on financial measures (Huselid, 1995), and others have concentrated on productivity and quality (Arthur, 1994; MacDuffie, 1995). The absence of a widely accepted measure of firm performance makes it difficult to compare findings across studies (Rogers & Wright, 1998).

Following Bird and Beechler (1995) and Yan and Gray (1994), we adopt a combination of subjective and objective measures to determine overall performance. Potential HRM related outcomes include employee morale, employee tenure, rate of employee promotion and rate of employee turnover. Potential firm performance measures include profits, sales growth, achievement of parent-prescribed objectives and performance relative to competitors.

The overarching question of 'How do strategy making and human resources influence performance among Spanish firms in China?' is further broken down into three specific areas. (i) How are human resources linked with the strategy formulation process? (ii) Based on the premise that the Chinese market is highly dynamic, the strategy formulation will imply frequent strategic adaptations; thus, how are human resources involved in these strategic adaptation processes? (iii) What are the differences in SHR practice that distinguish superior performers from other, less superior performers? In answering these questions, we use a qualitative case method approach to provide a deep understanding from the 'inside out' (Tsui, 2006). We follow Yin's (2003) recommendations for case research.

## METHOD

### Case Selection

As most Spanish firms in China are not publicly listed, it is difficult to obtain their financial performance data. Cacho (2006) also states that there is difficulty in obtaining reliable and complete statistical information about the investment of Spanish firms in China. Therefore, we used various official sources, such as the Commercial Office of the Spanish Embassy in China, the Consortium of Commercial Promotion of Catalonia (COPCA), and the Spanish Commercial Chamber in China's database for obtaining study samples.

The criteria for selecting sample cases were company size, advances in internationalization and company age. Consistent with Takeuchi, Wakabayashi and Chen (2003), *only joint ventures with more than 51 percent of Spanish shares or wholly foreign capital, more than 30 employees and more than five years in operation* were considered for the study. As a result, a list of 16 firms from among the Spanish firms in China (representing 36 percent of the eligible population) was drawn up by a team of four Spanish experts – academics, consultants and practitioners with an average of 11 years business experience in China.

After numerous attempts to contact these firms, six of the 16 agreed to collaborate. In order to compare these six firms using thematic analysis (Boyatzis, 1998), the final sample cases were divided into two subsamples based on their performance: superior performers and other performers. The team of experts assisted in evaluating the performance of the case firms. The four experts reviewed the information collected on these firms and triangulated it with their own knowledge. Both subjective and objective measures were used in performance evaluation. Among 10 performance criteria, profit, level of performance on parent prescribed objectives, overall performance, level of employee morale, rate of employee promotion and level of achievement of the initial established goal were measured subjectively. That is, we measured the above listed criteria based on the qualitative replies of interviewed managers, experts and observations. Sales growth, relative performance to competitors, level of average employee tenure and rate of employee turnover were measured objectively. That is, we measured these four performance criteria based on figures provided by the company and classified as high, medium or low within different ranges. For instance, in terms of sales growth, we collected concrete figures from the company. Two firms (cases B and E) had 40–50 percent growth in the final two years of the study and a projected growth of 30 percent in the following year, so they were rated as 'high' in terms of sales growth. Two firms (cases C and F) had minimal growth of less than 5 percent while maintaining their production level at the time of this study, and, therefore, we rated these firms as 'low' in terms of sales growth. The other two firms' (cases A and D) growth fell between the high and low ranges and were subsequently rated as 'moderate'. Overall, the experts identified four 'superior performers' and two

average or 'other performers'. They belong equally to two industrial groups (commodity goods such as confections and non-commodity goods such as transportation). Table 1 shows the criteria used in evaluating the performance of these six firms along with the resulting overall categorization of each as 'superior' or 'other' performers.

### Data Collection and Analytical Approach

The data were collected based on Stake's (1994: 242) view that the researcher should 'spend substantial time onsite, [be] personally in contact with activities and operations of the case, reflect [upon and] revise the meanings of what is going on'. To this end, the data collection process combined qualitative techniques such as interviews with semistructured questions (Fontana & Frey, 1994), observation (Adler & Adler, 1994), interpretation of documents and materials (Hodder, 1994) and personal experiences (Clandinin & Connelly, 1994).

Most SHR researchers have collected data from HR managers (Boxall, 1996), which limits the information source and ignores other organization members. In this study, we included diverse key managers who were strategic decision-makers (including CEOs in headquarters and subsidiaries, HR managers, strategy planners or other functional managers). As triangulation is important for theory development (Knoppen, Dolan, Diez-Piñol, & Bell, 2006; Strauss & Corbin, 1992), we also collected data from moderators such as former employees, consultants and independent observers who had close relations with these firms. Other data sources included journals and newspapers, internal documents, internal magazines, websites, and on-site observations. The different perspectives from Spanish and Chinese managers offered complementary data that helped create a more comprehensive picture of the firm. Table 2 shows the data sources and information used for triangulation of the data in each case.

The data driven code development of thematic analysis (Boyatzis, 1998) was adopted for analysis. This includes identification of themes and development of codes and clusters. We began by 'reducing the raw information [in the different subsamples of transcribed qualitative data], identifying themes within subsamples, comparing themes across subsamples, creating a code [book], and determining the reliability [of the code]' (Boyatzis, 1998: 44). To test the reliability of the codes, we distributed the qualitative data to 40 master's degree students enrolled in an international management course at a European business school, who were divided into eight teams. The code development process outlined above was repeated, using two cases (A and B) until a consensus was reached. We achieved an initial reliability of 85 percent for case A and 75 percent for case B and established a 100 percent final reliability for both cases by revisiting and discussing each code. As acceptable code reliability is greater than 75 percent (Boyatzis, 1998), both the initial and final reliability test results were acceptable for both cases. The code book

Table 1. A summary of performance evaluation of the firms in this study

Performance criteria <sup>†</sup>	Non-commodity goods industry			Commodity goods industry		
	Case A	Case B	Case C	Case D	Case E	Case F
Profit (\$)	High	High	Low	High	High	Low
Sales growth (o)	Moderate	High	Low	Moderate	High	Low
Level of performance on parent-prescribed objectives (s)	High	High	High	High	High	High
Overall performance (s)	High	High	High	High	High	High
Relative performance to competitors (o)	High	High	Low	High	High	N/A
Level of employee morale (s)	12510	Moderate	Moderate	High	High	Moderate
Level of average employee tenure (o)	High	Moderate	Moderate	High	Moderate	Moderate
Rate of employee promotion (s)	High	High	High	High	High	Moderate
Rate of employee turnover <sup>‡</sup> (o)	Low	Moderate	Moderate	Low	Moderate	Moderate
Level of achievement of the initial established goal (s)	High	High	Low	High	High	Moderate
Overall evaluation (%) <sup>§</sup>	Superior performer	Superior performer	Other performer	Superior performer	Superior performer	Other performer
High	80	70	30	90	80	20
Moderate	20	30	30	10	20	50
Low	-	-	40	-	-	20
N/A	-	-	-	-	-	10
Total:	100%	100	100	100	100	100

Notes:

<sup>†</sup> s, subjective data; o, objective data. Following are the ranges in each of the objectively measured indices (low, medium and high, respectively): sales growth (0–5 percent, 6–29 percent, 30 + percent); relative performance to competitors, as ranked in segmented market (11th + place, 4th–10th place, 1st–3rd place); level of average employee tenure (0–2 years, 2–4 years, 4 + years); rate of employee turnover (0–10 percent, 11–40 percent, 41 + percent).  
<sup>‡</sup> The rate of employee turnover is reverse considered, which means it is counted as ‘high performance evaluation’ if the rate is low, as ‘low performance evaluation’ if the rate is high and as ‘moderate performance evaluation’ if the rate is moderate.  
<sup>§</sup> The overall performance is evaluated based on the equal moderation of 10 indices. A case is considered a ‘superior performer’ when more than 70 percent of indices are valued as high and there are no indexes valued as low. A case not matching this qualification is considered an ‘other performer’.



Table 2. Triangulation of data

<i>Data collection and analysis</i>	<i>Case A</i>	<i>Case B</i>	<i>Case C</i>
Timing of assessment	Current and retrospective	Current and retrospective	Current and retrospective
Data sources <sup>†</sup>	Interviews with 3, 4 and 5, archival data	Interviews with 2, 3, 4 and 5, archival data	Interviews with 2, 3, 4 and 5, archival data
Cross-source agreement <sup>‡</sup>	Modestly high	High	Modestly high
<i>Data collection and analysis</i>	<i>Case D</i>	<i>Case E</i>	<i>Case F</i>
Timing of assessment	Current and retrospective	Current and retrospective	Current and retrospective
Data sources <sup>†</sup>	Interviews with 1, 2, 3, 4 and 5, archival data	Interviews with 1, 2, 3, 4 and 5, archival data	Interviews with 1, 4 and 5, archival data
Cross-source agreement <sup>‡</sup>	High	High	Modestly high

*Notes:*

<sup>†</sup> Informants are coded as follows: 1, CEO or same level in Spanish headquarters; 2, CEO or same level in Chinese subsidiary; 3, other managers in Spanish headquarters; 4, other managers in Chinese subsidiary; 5, moderators.

<sup>‡</sup> High, all sources of data are in agreement; modestly high, at least three sources are in agreement.

was used when analysing the data of the other superior performing cases, D and E. Agreements on these two cases were good with respective reliability of 90 percent and 95 percent. Based on the high reliability of these four cases, the code book was applied to the two remaining cases, C and F.

## RESULTS

The thematic analysis processes across the subsamples resulted in three clusters or domains: general strategic management architecture at the firm level, factors pertaining to SHR and features relating to international management. Each of these clusters is discussed below comparing 'superior performers' with average or 'other performers'.

### General Strategic Management

We define general strategic management as the ability to formulate and implement strategy to achieve sustainable competitive advantages and superior performance. Across the six cases, we identified the themes of 'corporate values and vision' and 'strategy formulation and implementation' under the domain of general strategic management. The first theme, corporate values and vision, has three subthemes: holistic vision, leading vision and humanistic vision. Holistic vision is the ability to see and plan into the future by incorporating perspectives from different stakeholders, considering integrative business models and timing. Leading vision is the ability to lead or inspire to lead in the deterministic context or industry. Finally, humanistic vision is the ability to align people with an organizational culture focused on development. Details for each theme and subtheme with some illustrative quotations from the data are shown in Table 3.

According to Dolan and Garcia (2002: 116), 'Values are words and, therefore, relatively simple structures of thought which nevertheless encompass complex ideas about the reality desired by people.' Values and cultures reflect more concrete concepts that allow one to begin to read an environment (Siegel, 2001) and aspects of the artifacts that are visible in organizational structures and processes (Schein, 1999). The values and culture embedded in an organization enable people to conceptualize a strategic vision of the future. A holistic vision provides an integral business model, considers different stakeholders (especially Chinese partners, in our cases) and timing in planning (short, intermediate and long-term plans). Superior performers consider multiple relations with other stakeholders while other performers did not take advantage of their stakeholders. As stated by one other performer executive, 'the local partner doesn't help much . . .,' demonstrating disjointed interaction and detracting from successful holistic vision. This coincides with the international HR trends of enhancing the experience of

Table 3. General strategic management domain with themes, subthemes and supporting quotations<sup>1</sup> from the cases

<b>DOMAIN: General strategic management</b>		
<i>The ability to formulate and implement strategy to achieve sustainable competitive advantages and superior performance.</i>		
<i>Themes</i>	<i>Subthemes</i>	<i>Quotations from superior performers</i>
<b>Corporate values and vision</b>	<b>Holistic vision</b> The ability to see and plan into the future by incorporating perspectives from different stakeholders, considering integrative business models and timing.	‘Alone [we] can go nowhere . . . Not only is the relation with stakeholders considered, but also with employees, distributors and others’  ‘In China, it offers integral services besides the core business specialized in Spain.’
	<b>Leading vision</b> The ability to lead or inspire to lead in the deterministic context or industry.	‘A few foreign companies (including us) have been in charge of leading the change in the sector. And it is an industrial revolution in the Chinese market as we changed business concepts.’
	<b>Humanistic vision</b> The ability to align people with organizational culture focused on development.	‘It is very important to develop people together with the development of the company.’  ‘What differentiates a company is the quality of the people. Technology and machinery can be copied easily.’
		‘The local partner doesn’t help much, only puts in some physical assets at the beginning.’  ‘The exportation from China to other Asian pacific countries was forbidden by HQ . . . finally the commercial activity was stopped and business is concentrated solely on production.’  ‘It has been always difficult for HQ to do its business. There were too many competitors in the Chinese market, and it managed to survive with profits. But it is clear that there was no aspiration to be among leaders in [the] Chinese market.’  ‘There is a corporate book of vision and mission which applies to the whole corporation. Maybe middle level managers are still aware of that, but line operators don’t care much.’

Table 3. (cont.)

<b>DOMAIN: General strategic management</b>		
<i>The ability to formulate and implement strategy to achieve sustainable competitive advantages and superior performance.</i>		
<i>Themes</i>	<i>Subthemes</i>	<i>Quotations from other performers</i>
<b>Strategy formulation and implementation</b>	<b>Long-term commitment</b> The ability to think of long-term schemes and integrate them into the strategic schema involving both strategy formulation and implementation.	'It is indispensable to work with a long-term mentality. The time of maturation, negotiation and project development in China is long.'  'The company has been having losses during the early years. Developing trust and commitment in the Chinese market, the new adapted strategy turned out to be successful, and it became a profitable subsidiary.'  'Starting with selected core products, the company expands to other product groups.'  'The company reinvests into business development every year.'
	<b>Gradual business development</b> The ability to advance and progress the business, even at a modest pace.	'During some years, the company tried to sell in the Chinese market. But since it's difficult and there was no immediate solution, it gave up the sales in the market.'  'The local team laughed at the initial business plan because it was just unrealistic and such a drastic implementation was impossible.'  'The exportation from China to other Asian countries was forbidden by the headquarters.'  'When we tried to outsource part of production to other suppliers to reduce cost and become more competitive in price to compete in [the] Chinese market, it was not allowed by the Spanish parent company . . . as we would be more a trading company than a producer . . .'
<b>Flexibility and adaptability</b> The ability to be open to change and to adapt when given factors indicate the need to do so.	'If it doesn't reach what is expected, rectify it. The plan cannot be rigid, but it needs to be flexible so as to constantly adjust . . . in accordance with the development.'  'This is an example of how China has been changing. When these changes occur, you have to . . . adapt them very rapidly. And many times the market goes ahead of your capacity [for] reaction.'	

*Notes:*

† Quotations are translated from either Spanish or Chinese. HQ, headquarters.

multiple stakeholders in the global environment (e.g., Schuler & Jackson, 2005; Sparrow & Brewster, 2006).

While a leading vision is evident in firms with superior performance, other performers do not have such aspirations. Superior performers successfully lead the changes and revolutions in their industries in China and push their local competitors to follow them. However, other performers view competition in China as already so elevated that they are just trying to keep up with the pace. The humanistic vision of superior performers is reflected in their orientation to people, an organizational culture that emphasizes development and the translation of values into practice. These parameters are either absent or found minimally in other performers. The organizational culture of other performers is more control oriented and what is said and what is done are not always aligned.

We discovered that the path from corporate values and vision to strategy formulation and implementation in this changing market needs long-term commitment. Under strategy formulation and implementation, three subthemes were identified: long-term commitment, gradual business development, and flexibility and adaptability. Long-term commitment is the ability to think of long-term schemes and integrate them into the strategic scheme involving both strategy formulation and implementation; gradual business development is the ability to advance and progress the business, even at a modest pace; and flexibility and adaptability is the ability to be open to change and to adapt when given factors indicate the need to do so.

The superior performers work with a long-term mentality. The other performers are more focused on the present, dealing with immediate barriers impeding their strategy implementation. The strategy process (both formulation and implementation) is gradual among the superior performers, while drastic implementations of pre-planned strategies are introduced by the other performers. This results in significant losses due to unrealistic assumptions about markets and goals. Both strategy formulation and implementation are flexible and adaptive in superior performers during the process to achieve better performance. One top executive from a superior performing firm showed such flexible and adaptive tendencies when saying, 'the plan cannot be rigid, but needs to be flexible so as to constantly adjust in accordance with the development.' However, in the case of some other performers, we found that most adjustments to their business model did not obtain support from their headquarters.

### **Strategic Human Resources**

Table 4 shows the four themes pertaining to the strategic human resources domain (i.e., 'structure', 'leadership', 'HR policies' and 'learning') with illustrative quotations from the data for each. Under the theme structure are the subthemes of flat and flexible organism and headquarters (HQ) and subsidiary interface. A flat and

Table 4. Strategic human resources domain with themes, subthemes and supporting quotations<sup>1</sup> from the cases

<b>DOMAIN: Strategic human resources</b>		
<i>The ability of human resources to sustain a firm's strategic competitive advantage.</i>		
<i>Themes</i>	<i>Subthemes</i>	<i>Quotations from other performers</i>
<b>Structure</b>	<b>Flat and flexible organism</b> A horizontal and flexible system lacking any complex, rigid hierarchical structure.	'The company is little bureaucratized, very flat, without many levels. It is a flat structure with few departments, but very active and very flexible.'
	<b>HQ and subsidiary interface</b> The communication and interaction between a firm's headquarters and its subsidiaries.	'Except the president and two other expatriates from Spain, the rest of the managers in the subsidiary are local Chinese who have direct and close contacts with managers in headquarters.'
<b>Leadership</b>	<b>Participation of HQ leaders in subsidiaries</b> The closeness of the headquarters' leaders' involvement in their subsidiaries.	'The family [the owner of parent company] is the first one interested in seeing all changes happening in China . . . They closely follow the market. That offers some ease in understanding us [the subsidiary] and making decisions.'
	<b>Characteristics of subsidiary leaders</b> Characteristics include integrity, supportiveness and self-realization.	'He [the subsidiary president] supports us very much. The way that the organization is managed is very much of a family. The growth [of the subsidiary] in China is his pride. He has been developing it and realizing it.'
		'There is a structure and we have all habitual areas of a company: general director, controller, R&D, quality, finance, and personnel.'
		'The industrial director of the headquarters is also the general manager of the subsidiary. He is the principal link in between.'
		'The project was started by one of the shareholders at HQ, followed by an expatriate with a dual budgeting system. The subsidiary GM had to fight for every possible resource.'
		'The current GM is from production. He controls cost and few things more.'
		'I [the GM] have to fly every two weeks to China to control everything. Chinese work amazingly hard; but you need to keep one eye on them.'

<p><b>Abilities of subsidiary leaders</b> Abilities include identifying opportunities, breaking barriers and embracing good judgment.</p>	<p>‘When things went very bad with the previous model, we transformed the business by ourselves.’</p>	<p>‘There is a good book of doing business with Chinese. But the longer I am in China, the more difficult I feel it is to understand them.’</p>
<p><b>Human resources policies</b> <b>Excellence and integrity in HR</b> Superior quality and relatively greater efforts compared with others, going beyond standard practice with resulting retention and commitment.</p>	<p>‘What differentiates a company is the quality of the people. We look for and try to have the best persons, not only in Spain, but also in China.’</p>	<p>‘Qualified employees are very demanded in the market. We pay a higher salary than others to retain our directors. However, training, motivation and professional development are not fully followed.’</p>
<p><b>Applicability of HQ’s HR policies in subsidiaries</b> The extent to which headquarters’ HR practices are applicable in their subsidiaries.</p>	<p>‘The policies of HR in China are very distinct from those of Spain. It would be an error to have Spanish methods in China.’ – HQ</p>	<p>‘As part of a member of a global compact, that applies to all subsidiaries.’ – HQ</p> <p>‘HR policy is quite independent from Spain’ – Subsidiary</p>
<p><b>Learning</b> <b>Continuous learning</b> Perpetual acquisition of knowledge and ongoing maintenance of bringing and keeping what is known up to date.</p>	<p>‘They [headquarters] view China from outside and we see it from inside.’ – Subsidiary</p> <p>‘Initially, we made errors thinking that we had to do the same as in Spain. You could notice that the first day. Over time you could see more things. After five years you start to be very integrated and adapted.’</p>	<p>‘It is simply that [we don’t know], not because China has something making it difficult to run a business there . . . I appreciate positively that it forced me to recover certain things that I had lost. The truth is it is gratifying because besides learning, never giving up learning, you see things from a different viewpoint.’</p>
<p><b>Continuous training</b> Perpetual activities to coach and lead employees to skilled behaviour in the international context.</p>	<p>‘The technological development, mentality evolution and the training of personnel have been determinant factors for the change.’</p>	<p>‘We have some training programmes for our Chinese employees. Sometimes we send technicians to learn in the headquarters.’</p>

*Notes:*  
† Quotations are translated from either Spanish or Chinese.  
R&D, research and development; HQ, headquarters; GM, general manager; HR, human resources.

flexible organism is a horizontal and flexible system lacking any complex, rigid hierarchical structure. HQ and subsidiary interface is the communication and interaction between a firm's headquarters and its subsidiaries.

Within the leadership theme are the subthemes of participation of HQ leaders in subsidiaries, characteristics of subsidiary leaders and abilities of subsidiary leaders. Participation of HQ leaders in subsidiaries relates to the closeness of the headquarters' leaders' involvement in their subsidiaries. Characteristics of subsidiary leaders include integrity, supportiveness and self-realization. Abilities of subsidiary leaders include identifying opportunities, breaking barriers and embracing good judgment in order to make decisions in a changing environment, which are characteristics of superior performers in comparison with others.

Encompassed in the theme of HR policies are the subthemes of excellence and integrity in HR and applicability of HQ's policies in subsidiaries. The former subtheme reflects HR's superior quality and relatively greater efforts compared with others, going beyond standard practice with resulting retention and commitment; the latter subtheme relates to the extent to which headquarters' HR practices are applicable in their subsidiaries. For example, the headquarters of superior performers are aware that simply imposing HR practices on their subsidiaries is not appropriate or effective as they should take into account the context within which their subsidiaries are embedded. Instead, their vision is shared with their subsidiaries, who then tailor processes and practices based on their clear understanding of their contextual and market situations. In contrast, the headquarters of other performers openly claimed that practices are consistent over all their subsidiaries, while their subsidiaries expressed contradictory views, an example of which is the remark that '[here, in China,] HR policy is quite independent from Spain.'

Finally, the theme of learning encompasses the subthemes of continuous learning and continuous training. This is a focus on the perpetual acquisition of knowledge and ongoing maintenance of bringing and keeping what is known up to date, including activities to coach and lead employees to skilled behaviour in the international context.

Superior performers possess a flat and flexible structure, with high independence of subsidiaries from headquarters. Their interface between headquarters and Chinese subsidiaries is multifaceted and multileveled. Conversely, the other performers are more dependent on their headquarters, while communication is limited and hierarchical rather than interactive.

Leaders from superior performers' headquarters are involved actively in Chinese subsidiaries, and this is shown in their structure and in leaders' frequent and close participation in activities of the subsidiaries. In the selection of a leader for Chinese subsidiaries, superior performers place emphasis on the characteristics of integrity, supportiveness and self-realization. In terms of leadership abilities required to operate successfully in China, identifying business opportunities, breaking down barriers and embracing good judgment were highlighted.



A leader's mental schema influences decisions on human resource policies. Two key factors are highlighted in the data garnered from the six cases: excellence in human resources with integrity and applicability of HR policies from headquarters to subsidiaries. Superior performers integrate the policy of HR excellence into practice; while other performers' HR perceives this as job fulfillment rather than striving towards excellence. Superior performers also allow a high level of independence in subsidiaries' HR policy designs, while acknowledging that Chinese HR policies are becoming more and more similar to those of the Spanish headquarters.

Due to the constantly changing nature of the global environment, continually updating knowledge through learning is vital to sustaining a firm's competitiveness. Developing organizations with a capability to learn seems to be a natural response for management in times of rapid change (Huysman, 2000) so as to be able to survive and gain competitive advantage (Marquardt, 1996; Senge, 1990). Our data show that superior performers are continuously learning and updating their knowledge, which enables them to evaluate and adapt strategy rapidly to the changing environment in China. Although other performers also place value on constant learning and training, in practice it is not as evident. Superior performers, in contrast, experiment with the learning process in practice throughout the organization and, in so doing, motivate the firm's development. Other performers tend to stay with a practice, thereby limiting the learning and development process.

### **International Business Practices**

'Market orientation' and 'cross-cultural management' are the two themes that emerged from the International Business Practices domain, with the latter theme having four subthemes. The theme of market orientation refers to the action of performing an accurate market study, being familiar with and adjusting to international market data. The subthemes under cross-cultural management are as follows: acculturation process, which involves mutual understanding, mutual respect and honesty and stereotype avoidance; trust building, which posits trust as the foundation for the acculturation process, along with intervention by capable bicultural persons and seeking similarities across cultures; perseverance, which is the ability to be steady and diligent in spite of difficulties, obstacles or discouragement and to maintain constant effort toward accomplishing things; and motivation, which is defined as the desire to work in an international organization (see Table 5).

An initial international market study is especially important to realistically define the market. While our data show that superior performers carried out a gradual business development, overcoming any initial strategic errors, the other performers were production oriented, resulting in a move away from the market. Cross-cultural management holds special weight in international management since

Table 5. International business practices domain with themes, subthemes and supporting quotations\* from the cases

<b>DOMAIN: International Business Practices</b>	
<i>The practices employed in dealing with international businesses, implying strategic human resources processes.</i>	
<i>Themes</i>	<i>Quotations from other performers</i>
<p><b>Market orientation</b> Being familiar with and adjusting to international market data.</p>	<p style="text-align: center;"><i>Quotations from superior performers</i></p> <p>‘It is important to do good homework before launching internationalization, especially in a market as competitive as China. It was difficult and now it is more difficult.’</p> <p>‘We made mistakes in initial market studies, but we noticed that the first day arriving in China, and we didn’t make mistakes in management.’</p>
<p><b>Cross-cultural management</b> <b>Acculturation process</b> Mutual understanding, mutual respect and honesty and stereotype avoidance.</p>	<p style="text-align: center;"><i>Quotations from other performers</i></p> <p>‘The former general manager believes that, especially in China, “if you treat people well, it will go well.” In return, Chinese partners also had helped in financing the JV at critical moments when the Spanish HQ was in crisis. The current general manager has some understanding of China from frequent travels, but [has] not reached yet this level of integration. This is partially because he is not residing in China.’</p> <p>‘[Chinese are good at negotiating. For example,] . . . You never know what the real price of [a] purchase is in China, as you always can get [a] lower price.’</p>

	<p>‘China is changing so quickly that a stereotype of consumer behaviours needs to be avoided to explore new opportunities.’</p>	<p>‘The longer I stay here in China, the more complex I find the Chinese culture, and the less I understand it.’</p>
<p><b>Trust Building</b> Trust as the foundation for the acculturation process, along with intervention by capable bicultural persons and seeking similarities across cultures.</p>	<p>‘Trust Chinese managers. Many Spanish firms believed that Chinese subsidiary had to be managed by Spanish executives; [and it is wrong] ... In fact, we [Spanish and Chinese] are very similar. We like food; shout loudly in restaurants; make friends in business ...’</p>	<p>‘They [HQ] could not fully trust the Commercial Director [a Chinese]. He was used to sell out the stock and they said to him goodbye and thanks.’</p>
<p><b>Perseverance</b> The ability to be steady and diligent in spite of difficulties, obstacles or discouragement and to maintain constant effort toward accomplishing things.</p>	<p>‘Due to the different conception of time, it is necessary to have doses of patience and perseverance to navigate in the complex Chinese bureaucracy ... even if it is getting better; there is still a long way to go through for the situation to be optimistic.’</p>	<p>‘The reply of HQ is no, no and no, all negatives. So I started to count how much time was left to leave the company ... Headquarters were perceived as having no patience in the Chinese market.’</p>
<p><b>Motivation</b> The desire to work in an international organization</p>	<p>‘The economic condition is not always the best motivator, we listen to Chinese managers’ opinion and let them express their ideas ... they feel the company as their own.’</p>	<p>‘It seems that economic condition is the only motivator considered for employee’s appraisal and superior performance.’</p>

*Notes:*

† Quotations are translated from either Spanish or Chinese.  
JV, joint venture; HQ, headquarters.

psychological barriers (due to the relatively short business history of relationships between Spain and China) are still impeding many operations. In our study, the superior performers emphasize acculturation, trust building, being positive and patient as well as displaying perseverance, with attention to employee motivation.

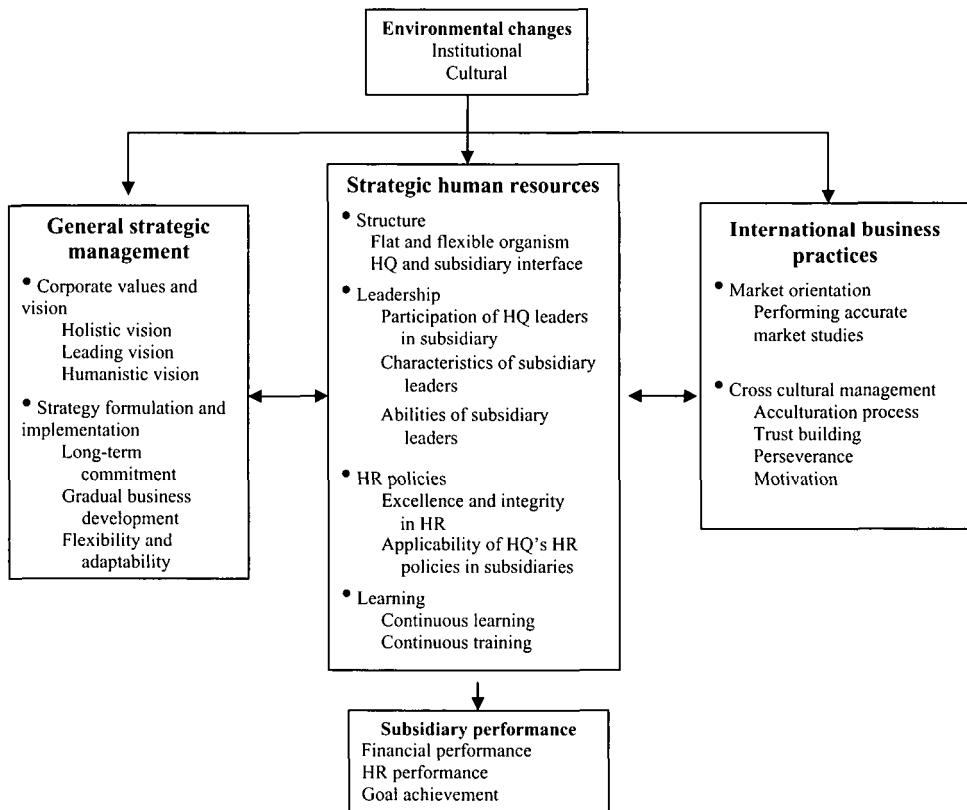
All four cases of superior performers have followed an adaptive acculturation process to better understand, respect and avoid stereotypes between headquarters and subsidiaries and, consequently, have become much more confident with their operations. Proficiency in communications makes it easier to build trust and further the positive cycle of the acculturation process. This adaptive acculturation process also develops more capable people to bridge the two cultures by leveraging cultural similarities. The four superior performers also show that positivity, patience and perseverance help in the acculturation process. Acculturation involves socialization, which can, in part, be achieved by receiving training at headquarters. This is an effective vehicle for transferring cross-cultural knowledge, learning methods and customs that help strategy formulation in the subsidiaries. High rates of turnover among Chinese executives are a constant worry for international firms (Leininger, 2004), and companies in China struggle to train and retain qualified managers (Wozniak, 2003). Training at headquarters is perceived as recognition and status not only through the acquisition of technical skills, but also because it facilitates an alignment of values that is significant in motivating and retaining executives. As key managers are carriers of firm and market knowledge, their commitment and retention in the organization is vital for the strategy formulation and adaptation process. Superior performers listen to their managers' ideas and do not rely solely on economic rewards to motivate them.

## DISCUSSION

### **Toward a Dynamic Adaptive Model of International Strategic Human Resources**

In a complex and volatile business environment such as China's, environmental, institutional and cultural changes are constant. In order to perform well and succeed in such an environment, our findings show that business subsidiaries need to engage effectively in three domains: general strategic management, strategic human resources and international business practices. These three domains interact fluidly at the theme and subtheme levels. A static structural representation of this model is shown in Figure 1, while Figure 2 illustrates its dynamic and fluid nature. Figure 1 suggests that strategic HR at the subsidiary level has a more critical role in strategy formulation and reformulation than HR professionals in the Spanish headquarters, who have little participation in this process. Therefore, while strategic decision-makers influence the strategy making process, the role of HR in strategy formulation emerges from the data as a key aspect in the

Figure 1. A static structural model of international strategic human resources



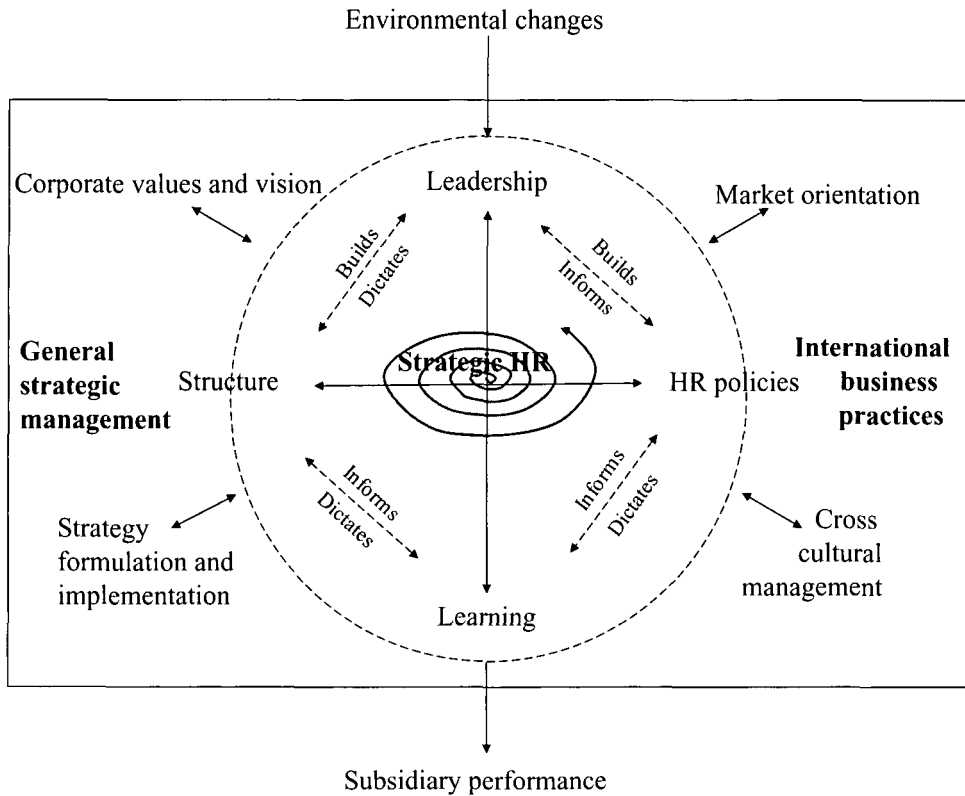
Notes: HQ, headquarters; HR, human resources.

subsidiary's performance. HR appears to make a vital contribution towards strategy formulation in the six cases analysed.

Figure 2 presents a dynamic adaptive model of strategic human resources, emphasizing a fluid and informal process between strategy, HR and international management. Our analysis also suggests that structure and leadership are first decided and selected by the parent company. Structure is the sequence of firm creation and development as well as the prescription of initial strategy and other elements of SHR. The characteristics and abilities of leaders in Chinese subsidiaries are a result of firm development as well as an indicator for future development, influencing the subprocess of HR policies to create and design a learning environment, which, in turn, eventually provokes changes in the structure. This cycle continues, producing a highly fluid and adaptive system.

Within SHR, the characteristics of leaders and their capacities to learn are at the heart and are drivers of this process, as there may be no substitute for executives who are so 'highly sensitized to human resource issues that they are automatically

Figure 2. A dynamic adaptive model of international strategic human resources



Notes: HR, human resources.

considered whenever strategic issues are addressed' (Dyer, 1983: 268). This dynamism in leadership and learning builds on, informs or dictates the relatively static variables of structure and HR policies to act as an integrative SHR process. Furthermore, Chinese executives participate in the decision-making process, which motivates them and serves as part of the acculturation process, helping to integrate the diverse perspectives into a central corporate culture. In short, general strategic management and international business practices as a whole serve as the basis for differentiating a firm's HR architecture and making a positive impact on the subsidiary's performance (Dolan, Garcia, & Richley, 2006; Lepak & Snell, 2002).

The dynamic process generated by the skillful weaving together of human resources as part of a firm's international strategy formulation and the characteristics that human resources possess makes the difference between superior performers and other performers in the Chinese market environment. The high performing firms employ a dynamic adaptive logic while the other performers use static structural logic. This indicates that superior performers have continuity in the strategic adaptation process (where SHR contributes to this informal strategy

formulation) and other performers have an interrupted and discontinuous strategy adaptation process, following a static model within an international business context that has constantly changing environmental, institutional and cultural factors.

### **Limitations and Future Research Directions**

Our process related insights from comparative case studies involve an evolutionary perspective of international performance. The results especially highlight the importance of a firm's dynamic flexibility in enabling, indeed conditioning, business performance. They call attention to the role of organizational culture, the contribution of national culture and their propensity towards flexible processes and systems.

Although our study highlights the relevance of HR's role in strategy formulation, which might be especially important for doing business in a transitional and dynamic emerging market, the results and their interpretation need to be taken with caution. First, the International SHR model we propose is limited to small and medium-sized Spanish firms operating in the Chinese context. The generalizability of our results to large MNCs or MNCs of different parentage is as of yet unknown. Second, in this study, factors such as time, stage of organizational growth and market characteristics are not taken into account in order to limit our scope of exploration to the interaction between strategy and human resources in international management. As the institutional environment of China becomes more developed and the pace of growth slows, HR may play a more important role in strategic implementation, as is the case in developed economies similar to that of the USA (Becker & Huselid, 2006; Schuler & Tarique, 2007). Another limitation is the inaccessibility of failed firms as well as other firms that chose not to participate in this study. Even our other performers are doing quite well on some performance dimensions as shown in Table 1. Further research with access to failed or failing firms may provide clearer contrasts to, or support for, our findings and help further refine our proposed model.

Despite these limitations, one of the strengths of this study is its focus on the Chinese business environment. China may become a model of globalization (Fanjul, 2004) that serves as a reference for other developing countries even though some scholars have observed that the motivation for globalization among Chinese firms may differ from accepted international theories (Boisot & Meyer, 2008). This study focuses on Spanish subsidiaries in China; the findings may serve as a launch pad for further research in this particular context. Further replication in other countries and cultures would be desirable to contribute to the emerging field of internationalization of human resources management.

Some results of our study both support and diverge from current literature in international business; for example, under the theme of leadership, the finding that

the participation of headquarters leaders in their subsidiaries was significant to firm success supports studies done outside the Chinese business environment. Future studies that replicate this methodology and design in the Chinese context using larger sample sizes might help strengthen and support this finding. Focusing on the cross-cultural management process, this study also highlights that a dyadic acculturation process builds trust between foreign and Chinese counterparts, which leads to motivation and performance. Further qualitative research focusing on the organizational acculturation process may help shed further light on this particular finding.

Although Barner-Rasmussen and Björkman (2007) found a link between language fluency and trustworthiness in their study comparing Chinese and Finnish contexts, our study showed that communication skills rather than language proficiency led to building trust in such environments. To better understand if competence in communication and/or language proficiency leads to trust in cross-cultural business interactions, we suggest that future research employ a longitudinal design to study how language and communication skills impact the development of trust in cross-cultural contexts. We believe such a design could provide deeper insights that would contribute to both the theory and practice of international management.

Our proposed dynamic adaptive model may be a useful framework for understanding the role of HR in changing and unstable environments. Specifically, the dynamic adaptive logic discovered in this study might be used to analyse similar phenomena in other cultural contexts and emerging markets (e.g., India) that are facing similar dynamic challenges; they might also be used to inform future studies of diverse industries embedded within such volatile environments.

## CONCLUSION

This study contributes to the existing need to focus on the process of international business using qualitative methodologies (Nippa, Beechler, & Klossek, 2007). Factors such as learning, acculturation and leadership emerged as essential factors that contribute to firm performance in bi- or multicultural contexts. The study will help both researchers and practitioners to better understand success factors relating to foreign direct investment (FDI) in China and international joint ventures (IJVs).

In conclusion, the results of this study call for a shift of research in the field of SHR to a new emphasis on strategy formulation in emerging markets as well as incorporating variables such as leadership and learning pertaining to a broader definition of SHR. We hope that our contribution will serve as a basis for the future development of theories that link SHR with managerial decision-making relating to international operations.



## NOTES

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