

“Transnational Thermals”: A discussion of the interaction of the combined effects of Outward FDI via Chinese SOEs and the Chinese Diaspora to the United States and other advanced economies

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Abstract

International business scholars are becoming increasingly aware of the significant emerging phenomenon of Chinese outward foreign direct investment (OFDI). Over the last decade, Chinese enterprises (primarily state-owned enterprises or SOEs) have made a huge amount of OFDI, particularly to emerging economies in Africa and the Asia-Pacific which has enabled China to become one of the world's leading foreign investors. There is an emerging literature that examines the human resource management implications of FDI in Chinese enterprises, yet most of this focuses on *inward* FDI from foreign investors. Recent evidence suggests that growth and developments in Chinese *outward* FDI create unexplored challenges for Chinese SOEs. One focus of this presentation will be on the HRM implications which follow a significant development of OFDI from Chinese enterprises looking to establish subsidiaries in other countries. The emergence of Chinese SOEs as globally competitive players presents both challenges and opportunities for Chinese managers, other transnational firms, and for the IB researchers who seek to study these firms.

A second phenomena is the ongoing Diaspora of talented young Chinese citizens leaving China to study and work in the United States and other advanced economies. Chinese enterprises are likely to face significant talent challenges in attracting Chinese nationals currently working in the United States and other advanced economies. Difficulties include the PRC's policy of not allowing dual citizenship, salary differentials and cultural repatriation problems (both societal and organizational). Significant competition for talent will come from multinational enterprises based in smaller population advanced economies that understand the need for foreign talent and have considerable experience in this area. There is likely to be significant global competition for talent with experience and training in the specific areas of global marketing and logistics - areas in which Chinese enterprises currently have limited experience. This paper discusses these two “transnational thermals” that are likely to present major management problems for Chinese enterprises in the 21st Century.

The First Thermal: Outward FDI by Chinese MNEs

It is well documented that China's economic growth rate has performed strongly over the last 25 years with a significant growth in per-capita income. With regard to *Inward FDI* (IFDI), China continues to be ranked as the top destination of IFDI (Tung, 2007). With regard to *Outward FDI* (OFDI), China has a long history of active OFDI - particularly in the developing economies of Africa and South East Asia that are characterized by a weak institutional environment. This has been driven in part by political motives in terms of building domestic constituencies in a number of developing countries plus a longer-term interest in building geopolitical standing to assist Chinese interests in various international forums such as the United Nations.

Other motives for Chinese OFDI include the following:

- The availability of cheap capital from the PRC government to fund OFDI expansion
 - The need for China to develop "champion enterprises" to gain access to key world markets and new technology
 - To fend off competition in the home market
 - To shorten the path to the development of global brands
 - To develop management capabilities in global marketing and logistics
- (Shenkar, 2006)

Outward FDI by Chinese MNEs: the geopolitical context

To fully understand the development of OFDI by Chinese MNEs, it is necessary to consider the geopolitical context. Of particular importance is the extent to which access to resources such as oil, natural gas, copper, nickel, iron ore, bauxite, uranium and other minerals is required to fuel a booming economy. Access to resources has become a key factor in China's foreign policy. Continued economic growth in China is the foundation of both China's stability and the continuity of the Communist Party of China (CPC) which is at the centre of a centralized, government-driven economy.

Because China has a one party system, the national government has been able to quickly adapt foreign policy to fit with domestic development priorities. Although key committees and groups within the CPC continue to make key decisions regarding policy, as Zweig & Jianhai (2005) note, a more pluralistic environment is emerging with government think tanks such as the China Institute for International Studies holding "numerous conferences bringing together academics and leaders in business, the military, and the government to devise strategies for the top rung of the Communist Party."

China has been successfully building links with nations in both the emerging economies and the developed economies by building goodwill, developing bilateral trade relations and providing aid. In the developing world this has included forgiving national debt and assistance with national projects such as building roads, bridges, harbors and sporting stadiums. Outcomes of these links include access to minerals and oil from South America (Bolivia and Ecuador), coal from the Philippines and natural gas from offshore fields in Australia (US1B each year for the next 25 years). The latter two examples are significant in that the Philippines has close historical connections to the United States and Australia is (with Japan) one of the closest foreign relations and military allies of the U.S. in the Asia-Pacific region (Zweig and Jianhai, 2005).

A key driver for Chinese OFDI: State-Owned Enterprises (SOEs)

State owned enterprises (SOEs) are key players in Chinese OFDI, accounting for 25% of GDP in China and consuming 70% of bank loans, some of which is directed to OFDI. The links between the Chinese government and SOEs are very close and many senior managers are members of the CPC. SOEs have government representatives on their boards and the Commerce Ministry and other government ministries maintain a list of countries and resources in which SOE investment qualifies for state subsidies (Yeung, 2006; Zweig and Jianhai, 2005).

Some SOE investments have been in countries which do not respect international accords such as Iran, Myanmar (formerly known as Burma), Sudan and other countries that have poor relations with the United States. For example, President Chavez of Venezuela is reported to have told a group of visiting Chinese business executives that:

We have been producing and exporting oil for more than a 100 years but these have been 100 years of domination by the United States. Now we are free, and place this oil at the disposal of the great Chinese fatherland. (Zweig and Jianhai, 2005, p. 33)

An important recent study of Chinese OFDI by Buckley et al (2007) using official Chinese data collected between 1984 and 2001 empirically confirms the importance of the geopolitical context with a finding that “Chinese behavior towards conventionally-measured host political risk differs from that of developed country investors” (p. 510).

Summarizing their study the authors draw the following conclusion:

China remains distinctive from other emerging economies in that many of its MNEs remain in state hands, even though corporatized in order to focus on commercial objectives. State direction means that these firms still align their

operations, whether at home or abroad, with the five-year plans and national imperatives. This is a model that is not replicated, in any general way, in any of the other leading emerging economies.

(Buckley et al., 2007: 514)

Chinese OFDI, State-Owned Enterprises, International Business and Geopolitics

We would agree with the views of Buckley and his colleagues and argue that it is difficult for international business scholars to analyze the management and performance of Chinese SOEs engaged in OFDI utilizing a traditional Western business perspective which may not give sufficient weight to the impact and importance of the geopolitical context on enterprise performance and management behavior. In terms of attracting and retaining foreign talent, this point may well be particularly salient when studying Chinese SOEs seeking to compete in a global talent market.

A good example of the connection between geopolitics and Chinese OFDI can be seen with the relatively recent case of the proposed purchase of the U.S. energy company Unocal by the China National Offshore Oil Corporation. As Zweig and Jianhai (2005) note, few impartial analysts saw any threat to U.S. national security in this proposed purchase, but the U.S. House of Representatives approved a statement (398 votes to 15) which said that the sale would “threaten to impair the national security of the United States”. To offer a rational economic critique of this vote misses the key point - it would be foolish to underestimate both the strength of the vote and the view that it expresses. Assessments of the value or otherwise of an FDI proposal are often dominated by perceptual judgments of national interest which may not accord with detached economic analysis (Zweig and Jianhai, 2005).

Sinopec is a good example of a Chinese SOE which is at the intersection of international business and geopolitics. Established in 1983 with revenue in 2009 of US\$208 Billion, it ranks 9 in the 2009 *Fortune Global 500*. Sinopec was publicly floated in 2000 in New York, London and Hong Kong and is currently working in 20 countries. It employs over 639,000 people. In 2004 Sinopec signed an oil and natural gas agreement with the Iranian government estimated to be worth US\$70 Billion - the largest Chinese deal to date with a major OPEC producer. The agreement commits Sinopec to assist with the development of new oil fields in Iran and to buy 250 million tons of natural gas over the next 30 years. Iran also agreed to export 150,000 barrels of oil per day to China, at market prices, for 25 years.

Taken in its entirety it appears on the surface that the mobilization of resources and institutions – what some writers refer to as “field”, that is the “social structure in which actions take place” and attendant economic, social, cultural and

symbolic forms of capital - that characterize Chinese outward foreign direct investment are combined to create a significant form of national competitive advantage (Terjesen and Elam, 2009). However it is not only these institutionalized and government sponsored efforts that comprise the Chinese economic potential. In addition a longstanding tradition of informal, family driven and individualized emigration is a second element or “current”, in this phenomenon. We will refer to this force as the Chinese Diaspora.

The Second Thermal: Chinese Diaspora, Entrepreneurship, Social Networks and Social Cohesion

Some historians have traced China’s present global developments to an enduring combination of adaptation to local economic and regulatory conditions and a long term emphasis on family and guanxi relationships. These very different and yet complementary dualities were first apparent within the more localized Asian-Pacific region (Cochran, 2006; Sugihara, 2005) and then across Asia to North America, South America, Europe and even Africa (Tung, 2008; Warner, 2009). This so-called “Confucian capitalism” (Chai and Rhee, 2009) is an improbable combination of two elements. The first element consists of tightly woven social networks, long term employment patterns, seamless work and nonwork relationships between individuals and extended family groups, personalized, and enduring partnerships with proven trading partners and government agencies (Chai and Rhee, 2009: 11). This social closure is said to result in higher levels of openness, commitment, effort and less of a reliance on costly bureaucratic control systems. A second benefit of this element relates to the ability to quickly mobilize more extensive resources (both human and capital) in order to take advantage of transitory business opportunities as well as invest in the long-term human capital of individuals within this closed social network.

A second element essential to Chinese capitalism is referred to as “structural holes” – that is a bridge between “two unconnected contacts” resulting in “unique and diverse information along with timely access to information sources” (Chai and Rhee, 2009: 6). Having access to ‘outsiders’ provides the Chinese organization with a capacity to interpret opportunities, package and broker exchanges and, by mobilizing the formidable resources of the Confucianist extended family network, reap the economic benefits of these exchanges. It is not enough to merely possess the entrepreneurial value set and a formidable potential resource base. In order to exploit these clustered values and resources a certain level of openness to the outside, to the non-familial, is required (Chai and Rhee, 2009; Schmitt and Soulbeyran, 2006). International cultural experiences, language abilities and in depth skills and talents allow certain selected employees to maintain their role and value in the closed society and yet be “excused” to bridge to the wider, outside world (Chai and Rhee, 2009: 19-20). “These individuals would naturally have a rich set of outside ties even prior to

their entry into the firm. Having such skills provides advantages for employees in part because these employees must be given special privileges if they are to be kept in the firm” (Chai and Rhee, 2009: 20).

Balancing the dual elements of closed Confucianst integration and community with a series of designated bridges to outside, “alien” groups and societies then becomes a critical issue. How can the Chinese Diaspora maintain the continuity and concentration of homogeneous cultural “critical mass” while concurrently being open to and exposed to the alternative values and beliefs inherent in the travels and experiences in other lands?

Talent, Career Development and Entrepreneurship

If the issue is one of mobilizing and organizing the career experiences of young talent and would-be entrepreneurs, then the framework of “habitus” – creating and maintaining an ongoing cognitive schmea and mental maps that organize and guide the thoughts and actions of actors – and “field” – the social structure in which the actions of the actors take place – may be a useful device for further analysis (Terjesen and Elam, 2009: 1104). Terjesen and Elam define entrepreneurship as a ‘practice’, i.e. the pursuit of new business activities shaped by the dual and complementary set of ‘habitus’ and ‘field’ which structural entrepreneurial activity (Drori et al., 2006; Elam, 2008). Entrepreneurs can, thus, be understood as a *practice* or action strategy in which decisions are based on an individual’s response to his/her context, given one’s habitus and capital resources, as determinants of one’s social position in the field of play (DeClercq and Voronov, 2009; Drori et al., 2006; Elam, 2008).

Specific to our purposes two activities are required to coordinate Chinese entrepreneurship. First, habitus and fields must be established in the mind of the individual going abroad. Second the pattern or structuring of the international experiences making up the career must be planned. These two activities are mutually reinforcing as a transnational entrepreneur’s habitus includes ‘individual and collective experiences, perceptions, and norms that provide a reference for action’ (Drori et al, 2006: 14) individual contexts [our emphasis] and ‘reflects the ability of agents to adopt, advocate and introduce preferential scripts and world views into their institutional field’ [(Drori et al., 2006: 22)]. Thus, a transnational entrepreneur is embedded in two or more distinct institutional contexts and is challenged in terms of interpreting and navigating potentially conflicting views of acceptable operations . . . field [is] defined by distinct sets of institutional structures in the macro environment, including *cultural repertoires, legal and regulatory regimes, social and professional networks* and *power relations* . . . (Terjesen and Elam, 2009: 1105).

A potential structuring of careers for Chinese managers will now follow. This model is presented by way of a very general example for purposes of discussion and the generation of further discussion:

Stage One: A Chinese manager may start out as a line manager for a MNE operating in China. Undergraduate degree may be from a Chinese university with a concentration of English language courses.

Stage Two: Employee may self initiate - or at the direction of the firm – a move to graduate school in business studies in North America or Europe. Complete degree.

Stage Three: Employee may move to South America, African or Asian operation of the original MNE he or she worked for in China, or go to work for a new MNE. Experience may be at the division or strategic business unit (SBU) level.

Stage Four: Employee brought back to China for operational experience at a more advanced executive level in a joint venture (JV) of wholly owned subsidiary in Northern, Western or South Western Chinese economic development zones.

Stage Five: Executive named to a high profile position with a SOE or JV.

At each stage in this process there are aspects of ‘personal stretch’ such that the individual has to hold on to the cluster of cultural control and yet adapt quickly to bridge to new contacts and experiences. Personal contacts, social networks and institutional (particularly government) connections are multiplied, renewed and reinforced.

Outward Foreign Direct Investment Strategies and Diaspora: Interaction, Conflict or Synergism?

Chinese FDI strategies may therefore have the potential to interact with longstanding processes of entrepreneurial Diaspora such that the formal policies of outbound FDI are facilitated by ongoing social habitus and fields of Confucian entrepreneurial social dynamics (Terjesen and Elam, 2009; Tung, 2008). Given the exemplar five stage model of transnational career progression, from the Chinese policy maker perspective it becomes an issue of maintaining the human capital investment built up in the early stages of a career, so that more senior managers maintain their careers within the “prevailing winds” of state policy mandates and are not lost to MNEs from other nations or independent entrepreneurial activities. Borrowing again from the imagery of prevailing thermal currents, operating at various level in the atmosphere, the combined effect of coordinating both centralized government policy with individualized or family level entrepreneurial decision processes may provide the Chinese government with a powerful combined engine for economic change, contributing to the maintenance of already impressive increases in GDP per capita that characterize the last 20 years of Chinese economic development (China Quarterly Update, 2009). However, given the potential for increasingly ‘boundaryless careers’ (Ashkenas, Ulrich, Jick and Kerr, 2002) there is a real

possibility that these two forces may not combine and that rather personal career decisions may incrementally act in a countervailing manner, pushing against the direction of government policy and thereby diminishing or distracting from efforts at outward FDI.

It next becomes a question of identifying critical talent – described by Boudreau and Ramstad as “pivot points”, those individual and small unit (job family) locations in the organization where critical and timely investments in human capital “most effect success” (2007: 50). These authors posit the intriguing question “Where would an improvement in the quality of talent and organization make the biggest difference in our strategic success?” (Boudreau and Ramstad, 2007: 50). Applied to our analysis, at what points in the multistage careers model for Chinese managers will timely investments reinforce these managers’ commitment to national strategies and systems and what human resource (HR) practices and programs are available to maintain and coordinate the dual forces of outward FDI policy and Chinese entrepreneurial impulses?

Strategic Intent and Human Resource Practices

Tung (2008) provides a review of empirical research to support the potential for transnational thermals in the form of three observations. First, “after obtaining advanced education and work experience in Canada, many Hong Kong immigrants choose to return to their country of origin . . . to take advantage of better career opportunities and lower taxes” (Tung 2008: 299). Second, “patterns suggest that Canada has become a human capital entrepot whereby people arrive and acquire competencies and skills that would be useful to them later in their career” (Tung 2008: 299). Third, certain individuals may choose to remain in North America. She sites evidence that 29% of Silicon Valley California start ups in IT were organized by Chinese and Indian immigrants and that “in California alone, immigrants account for 39% of all entrepreneurial operations” (Tung 2008: 299). Even given the long-term perspective that these Chinese entrepreneurs may not be totally lost to Chinese national purposes, it is still logical to assume that the longer the immigrants stay outside of the Chinese national sphere of influence the less likely they are to redirect their boundaryless careers back to paths relevant for Chinese government planning and ODFI.

Although Tung reports evidence from studies of student populations that support the contention that Chinese cultural habitus and fields remain strong even among Chinese brought up in Australia (Tung and Baumann, 2009; Tung, 2007, 2008) she also provides stark evidence that at key points in some Chinese immigrant careers a number of entrepreneurs are lost to china. According to Tung:

“the Report on the Development of Chinese Talent” (written in 2006 and released in 2007) an estimated 1.06 million Chinese went abroad to study between 1978 and 2006. Of this number, only 30% returned. In the area of

science and engineering, the disciplines most needed in China's current efforts to become a leading industrial nation, the stay rate abroad of Chinese is even more dismal – an estimated 90% of Chinese graduates in these disciplines have remained in the U.S. . . . This brain drain could worsen in the future since only 4,000 of the 118,500 Chinese who went abroad to study in 2005 were funded by the government. Throughout the 1980s and up to the 1990s the vast majority of Chinese students who went abroad were funded by the government . . . the 2005 statistic suggests that self financing is now the norm; as such, there is no obligation on their part to return to China (2008: 302).

In terms of combining Chai and Rhee's and Terjesen and Elam's conceptual analyses, how can the "structural holes" created during the career progressions of transnational Chinese entrepreneurs be integrated into the "habitus" and "fields" of these transnational travelers so that these experiences remain contained within national policy and are not so overwhelming that they disrupt and redefine the entrepreneur's sense of identity, values and purposes? Tung's (2008) initial analysis is not promising for Chinese policy makers.

Warner (2009) presents the challenges to the management of Chinese human resources in terms of seven paradoxes: 1) Western, yet Eastern – borrowing elements from western HRM yet remaining true to Confucian values and traditions; 2) Capitalist, yet Socialist – providing incentives for key talent and recognizing that "some animals may be more equal than others" and yet remain consistent with state socialist egalitarian values; 3) Non-ideological, yet Ideological – pragmatism and unspoken practicality balanced with ideological consistency; 4) Advanced, yet Transitional – marrying the HR practices developed and honed in the advanced industrial societies of the west to the practical, survivalist realities of the transitional, still industrializing society of China; 5) Global, yet Glocal - balancing the standardized processes inherent in purely global competitive realities in selected industrial sectors in China with the reality that many of the economic sectors are servicing largely domestic Chinese stakeholders and are "glocal" at best; 6) Multinational, yet National – resolving the interests of a critical but limited number of foreign owned or operated MNEs and joint ventures with the needs of the majority of state owned enterprises (SOEs) that are operating at various levels of global competitiveness; finally 7) Individualistic, yet Collectivistic – back to our previous discussion of the tension between collectivistic social closure and individualistic structural holes, played out on the complex and dynamic cognitive domain of habitus and field.

The ability to identify, track and assess the cognitive states of the hundreds of thousands or even millions of Chinese working abroad at various stages of the transnational trade wind that comprises the human capital within the Chinese Diaspora is an exercise in human resource planning and talent management that is

beyond the capability of even the most sophisticated Western MNE we know of (Analoui, 2007; Boudreau and Ramstad, 2007; Pucik, 2005; Yeung, 2005). Determining sources and locations of critical talent, key pivot points – in which human capital investments can be leveraged into significant strategic returns (Boudreau and Ramstad, 2007), classifying and encoding the forms and indicators of relevant competencies and those career experiences and events associated with these talents (Aston, Brown and Lauder, 2009), developing the database and software to track such a system (Ashkenas et al., 2002: 270-272; Molineau, Lumineau and Perrin, 2009) and finally creating the infrastructure of policies, accountability, resource allocations and reporting relationships necessary to convert an awareness of a national problem into a working solution, comprise a formidable agenda.

Conclusions: Talent Challenges facing Chinese MNEs

In terms of drawing some conclusions regarding the talent challenges facing Chinese MNEs, the following three challenges are likely to present to Chinese senior managers:

1. Chinese MNEs are likely to face significant talent challenges in attracting Chinese nationals currently working in the United States. Difficulties will include the PRC's policy of not allowing dual citizenship, salary differentials and cultural repatriation problems (both societal and organizational).
2. Significant competition for talent will come from MNEs based in smaller population advanced economies that understand the need for foreign talent and have considerable experience in this area.
3. There is likely to be significant global competition for talent with experience and training in the specific areas of *global marketing* and *logistics* - areas in which Chinese MNEs currently have limited experience.

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