Hiring By Knowledge-intensive Firms in China

A thesis submitted to The University of Manchester for the Degree of Doctor of Philosophy in the Faculty of Humanities

2012

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ABSTRACT


Knowledge-intensive firms (KIFs) depend on their workers’ knowledge assets more than capital- and labour-intensive firms. Knowledge assets, such as human and social capital, enable KIFs to innovate, solve problems, and build relationships. But managing a highly skilled and well-connected workforce presents several HRM challenges – perhaps none more so than hiring. In tight labour markets, workers’ knowledge assets are strategically valuable and rare. To attract knowledge workers, KIFs must signal significant value from entering into employment relationships. They must use hiring strategies that communicate positive organisational attributes (employer branding), as well as HRM practices that entice job seekers (employment inducements).

Previous studies on KIFs have focused largely on Western contexts. Few studies have considered HRM by KIFs in developing economies. In China, the focus of this study, KIFs are an emerging organisational form that have grown from privately owned start-ups in high-tech sectors. Such firms encounter hiring challenges at both organisational and external environmental levels. For example, privately owned KIFs face intense labour market competition from state-owned and foreign-invested enterprises for highly skilled workers. This has fuelled upsurges in wages and high turnover. Most private firms are small and vulnerable to market forces, yet scholars know little about their hiring and HRM approaches. Almost no studies have systematically examined hiring as a ‘single’ HRM issue within privately owned Chinese KIFs. By synthesising Western and Chinese HRM literatures, this study developed an analytical framework to explore organisational and external factors that explain variations in KIFs’ hiring strategies and practices. The study conducted interviews with managers and HR workers in seven privately owned KIFs and one state-funded training school.

Several case firms had implemented sophisticated strategies that linked hiring with business objectives. Managers and HR workers acquired HRM knowledge from several sources including the Internet and HRM texts, management consultancies, in-house training, the state’s HR qualification, and informal HR clubs. However, firm size and reputation, as well as managers’ tacit beliefs still limited some KIFs’ abilities to attract talented individuals. Firms generally used a wide range of inducements to attract knowledge workers, including competitive salaries, career development, and ‘paternalistic cultures’. Most participants perceived worker referrals, headhunting, and universities to be effective hiring sources. Thus, some firms had developed strategic hiring approaches that enabled them to compete with state-owned and foreign-invested firms. But small KIFs, in particular, must still strengthen their employer branding to offset competition and labour market ‘invisibility’. KIFs must also deliver on their employment inducements, lest they risk high turnover and a loss of valuable human and social capital.
DECLARATION

No portion of the work referred to in the dissertation has been submitted in support of an application for another degree or qualification of this, or any other university, or other institute of learning.

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ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to my supervisor, Professor Bernard Burnes, for his words of wisdom and support. A special thanks to Professor Fang Lee Cooke for helping me to get started, for believing in my ability, and for inspiring me to work hard. With thanks to Dr Mark Batey for his support and advice during the early stages of the PhD.

I am indebted to Li Qiu Fang, Li Long and Anna for hosting me during my time in China, and to all the interviewees who generously gave up their time to participate. With special thanks to my good friend Sarah Jacob for helping me to maintain my sanity in China over evenings of coffee, kao rou and ‘beng beng che’ (蹦蹦车) rides.

Thanks to Sara Guediri and Dave Hughes for the coffee breaks and office chat.

With thanks to my parents for their words of encouragement and for financing my education during the early years of university.

This work was supported by the Economic and Social Research Council [reference number: ES/H01540X/1].
LIST OF ABBREVIATIONS

CAS  Chinese Academy of Sciences
COE  Collectively owned enterprise
EPL  Employment promotion law
FDI  Foreign direct investment
FIE  Foreign-invested enterprise
GDP  Gross domestic product
GPRS General Packet Radio Service
HR  Human resources
HRM  Human resource management
IFC  International Finance Corporation
IT  Information technology
ICT  Information and communication technology
ITO  Information technology outsourcing
JV  Joint venture
KIF  Knowledge-intensive firm
KPO  Knowledge process outsourcing
LCL  Labour contract law
MNC  Multinational company
POE  Privately owned enterprise
PRC  People’s Republic of China
ODC  Offshore development centre
R&D  Research and development
RPO  Recruitment process outsourcing
S&T  Science and technology
SEZ  Special Economic Zone
SME  Small and medium sized enterprise
SOE  State owned enterprise
SQL  Structured Query Language
TVE  Township and village enterprise
WAP  Wireless Application Protocol
WFOE  Wholly foreign-owned enterprise
WTO  World Trade Organisation
XHTZ  Xi’an High-tech Industries Development Zone
ZGC  Zhongguancun Science and Technology Zone
1 Introduction

1.1 Background to the study

Since the late twentieth century, rapid advances in information technologies, globalisation, and formal education have redefined the commercial value of knowledge to businesses across the globe. Such macro-historical changes have spawned significant interest among scholars, practitioners, and policy makers regarding shifts from the industrial era to the so-called ‘knowledge economy’. Indeed, the knowledge economy exhibits characteristics unlike any seen half-a-century ago (Dahlman and Aubert 2001). Growth of services employment and declines in manufacturing jobs in many countries evidence substantial restructuring at macro-economic and industry levels. Between the mid-1980s and mid-1990s, production and exports in knowledge-intensive business sectors, such as computers, information and communications and aerospace, had more than doubled in OECD countries to between 20 and 25 per cent (OECD 1996). By the mid-1990s, knowledge-based industries contributed more than 50 per cent of GDP in the major OECD countries (OECD 1996). Factors such as global interconnectedness, real-time transactions and reduced dependencies on physical labour have also created new ways of working and organising (Lengnick-Hall and Lengnick-Hall 2003) (see Table 1.1). Products are more complex; they have shorter life cycles and require constant innovation to survive in volatile consumer markets (Chow and Gong 2010; Storey 2005).

Firms at the core of the knowledge economy – knowledge-intensive firms (KIFs) – depend on knowledge-based inputs to a greater extent than capital- and labour-intensive firms (Starbuck 1992). KIFs compete on innovation, problem-solving, and non-standardised production, rather than on set routines and programmed tasks. The success, of which, depends on building and retaining a highly skilled workforce. On one hand, KIFs need to steward human capital by acquiring and developing workers’ knowledge, skills, and abilities (Lengnick-Hall and Lengnick-Hall 2003). On the other hand, KIFs need to build and leverage...
social capital in order to sell and promote products, services, and ideas to customers and clients within their professional networks. Thus, human capital and social capital form core parts of KIFs’ ‘knowledge assets’. These knowledge assets, however, exhibit three characteristics that constantly challenge KIFs’ abilities to compete, despite firms’ dependence on them. First, KIFs do not own workers’ knowledge assets; they merely rent human and social capital from external labour markets. Second, knowledge assets are strategically valuable and rare, and thus difficult to replace (Lepak and Snell 2002). Once ‘knowledge workers’ leave, they take with them their skills, expertise, and professional contacts. Third, because knowledge assets are valuable and rare, knowledge workers possess substantial bargaining powers when negotiating over and entering into employment relationships. Their knowledge assets put them at a labour market premium, but one that many KIFs will compete over and pay.

Thus, perhaps more than any other human resource management (HRM) issue, hiring presents the greatest challenge to KIFs. Many KIFs operate in tight labour markets in which demand for human and social capital is high, but supplies often scarce. A recent Manpower (2012) survey found that, on average, 34 per cent of firms sampled worldwide experienced difficulties filling job vacancies. As a result, KIFs in particular need to attract job seekers by signalling significant value from entering into employment relationships. Yet many KIFs are small and thus exhibit low labour market visibility among job seekers. To attract job seekers, KIFs must use hiring strategies and practices that communicate positive organisational attributes to prospective hires (employer branding), as well as HRM practices and work arrangements that entice interest (employment inducements). Knowledge workers “[A]re autonomous people who enjoy occupational advancement and mobility and resist a traditional command and control culture” (Horwitz et al. 2003, p. 24). They seek high salaries, autonomy, and intellectually stimulating work (Sveiby 1997). These are, of course, all human resource management issues, but ones that KIFs must build their hiring strategies around to attract knowledge workers in the first instance.
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<td>Symbolic goods/ Digitisation</td>
<td>Electronic symbols representing information about the physical goods that we need to know to conduct the transaction (for example, details of a banking transaction).</td>
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<td>Demassification</td>
<td>Reduced dependency on the need for physical concentration or massing (co-location) of labour, materials, and money.</td>
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<tr>
<td>Boundaryless enterprise/ Globalisation</td>
<td>Knowledge transcends firm, industry, and national boundaries; firms have time- and space-independence; work can be performed from a variety of locations.</td>
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<tr>
<td>Virtualisation</td>
<td>Physical things can become virtual, such as corporations and teams.</td>
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<tr>
<td>Connectedness/ Unprecedented partnering</td>
<td>Interconnections within and between firms and institutions; interconnections between businesses and customers.</td>
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<tr>
<td>Disintermediation</td>
<td>Elimination of the intermediaries in economic activity – anything that stands between producers and consumers.</td>
</tr>
<tr>
<td>Convergence</td>
<td>Bringing together different economic sectors to create new products and services (for example, telecommunications).</td>
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<tr>
<td>Personalisation/Mass customisation/ Prosumption</td>
<td>Consumers become involved in the actual production process as their knowledge, information, and ideas become part of the product specification process.</td>
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<tr>
<td>Dynamic pricing</td>
<td>Pricing decisions change based on time and place as products and services constantly update and shift.</td>
</tr>
<tr>
<td>Immediacy</td>
<td>Businesses transact in real time; firms continuously adjust to changing business conditions; product life cycles shorten.</td>
</tr>
<tr>
<td>Customer communities</td>
<td>Customers interact with other customers on local and global scales.</td>
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*Source: Lengnick-Hall and Lengnick-Hall (2003, pp. 22-23)*
Without effective hiring strategies and practices, KIFs risk poor person-job and person-organisation fit. This can have extensive consequences for KIFs’ abilities to compete against their rivals and may limit the effectiveness of other HRM practices, such as training and development (Bernardin and Russell 1998; Huo et al. 2002). Indeed, Hacker (1997) estimated that poor hiring decisions can cost firms up to 30 per cent of a new hire’s first-year salary. Such costs manifest in lower productivity; loss of clients; training costs; and subsequent hiring fees. For firms in knowledge-intensive industries, Collins and Kehoe (2009) described hiring as “arguably the most critical human resource function for organisational survival and success” (p. 209).

1.2 Research context

Much of the research on KIFs to date has focused largely on HRM issues in US and European contexts (Alvesson and Robertson 2006; Collins and Smith 2006; Kaše et al. 2009; Swart et al. 2003). On one hand, this is unsurprising given that Western scholars, such as Bell (1973) and Drucker (1969, 1992), provided some of the earliest accounts of the rise in technical knowledge set to usher industrialised nations into the knowledge economy. By such accounts, Western countries would seem to provide the most fertile empirical sites to study HRM by KIFs. Indeed, most Western countries have seemingly reached stages that satisfy four basic criteria for a knowledge economy:

- An **economic and institutional regime** that provides incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship;
- An **educated and skilled population** that can create, share, and use knowledge well;
- An efficient **innovation system** of firms, research centres, universities, think tanks, consultants, and other organisations that can tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and create new technology;
• Information and Communication Technologies (ICT) that can facilitate the effective communication, dissemination, and processing of information.

Source: The World Bank (2011)

On the other hand, Lam and Lambermont-Ford (2010) argued that future research should “broaden the scope of analysis to include organisations from non-Western contexts characterised by different values” (p. 63), cultures and institutional contexts. This seems a viable proposition given that governments and policymakers in many non-Western countries have already begun to direct attention towards building institutions that support knowledge-intensive industries. Many non-Western governments perceive knowledge-intensive industries as a critical benchmark of their countries’ economic development levels and future international competitiveness. China, the focus of this study, provides a unique and fascinating case in point.

Since launching economic reforms in 1978, China has built-up a reputation as ‘the world’s workshop’. But the country’s low-cost manufacturing advantage is slowly eroding, as foreign investors look towards other developing countries with cost advantages. The Chinese government’s policies to upgrade the country’s industries and human resource pools are thus both timely and critical. In recent years, the government has implemented various measures to steer the country’s economic trajectory away from low value-added manufacturing and to empower the nation through talent (rencai qiangguo). For example, in May 2002 the General Office of the CCP Central Committee and the General Office of the State Council approved plans to strengthen the country’s talent pools over the next three years. In June 2003, the Central Committee established a national-level talent coordination group responsible for (Simon and Cao 2009):

• Evaluating the country’s current talent situation and advising the Central Committee on policy recommendations to align talent developments with broad social and economic developments;
• Assessing talent-related policies, laws, and regulations;
• Coordinating systematic talent initiatives across the entire country, such as training, attracting, and utilising talent, as well as implementing programmes on talent mobility and stimulation.

In December 2003, the government launched a national campaign to promote organisational learning, skills development, and innovation. The initiative, known as *chuangzheng*, encouraged firms ‘to create’ (*chuang*) learning organisations and for workers to strive (*zheng*) to become ‘knowledge workers’ (Cooke 2008). The central government afforded *chuangzheng* high-level attention, after which local governments followed by embracing the *chuangzheng* philosophy. In October 2004, the central government organised a *chuangzheng* conference. It asked firms to adopt a wide range of learning and innovation practices – for example, technological innovation, best practice sharing, skills and performance competitions, worker participation, and on-the-job training. The conference encouraged workers to support the initiative by embracing self-study and life-long learning (Cooke 2008).

The *chuangzheng* initiative formed an important precursor to the State Council’s on-going *Mid- to Long-term Plan (MLP) 2006–2020*, which seeks to build strategic emerging industries (SEIs) and to strengthen the country’s human resource base. China’s leadership aims to build an ‘innovative nation’ by investing 2.5 per cent of GDP in S&T by 2020; achieving a 60 per cent return on S&T; and reducing foreign technology reliance to no more than 30 per cent (Luo 2010). According to Simon and Cao (2009), the Chinese government “hopes to capture and harness the country’s most strategic resource – its talented people – to embark on a quest to close appreciably the prevailing technological gap between itself and the West in fields ranging from biotechnology to nanotechnology” (p. xx). The MLP will transform China’s reliance on “brawn” to “brain” instead by strengthening the country’s human and technological competitiveness during the early part of the twenty-first century (Simon and Cao 2009). In 2005, the US-China Economic and Security Review Commission claimed that “China could be in the early stages of an “S&T takeoff”, which
would have the PRC joining the ranks of the world’s top-tier advanced economies within a decade” (p. 102).

Both state and private firms have played important roles in shaping the country’s transition towards a knowledge economy. Reformed state-owned enterprises (SOEs) and public institutions have supported the growth of technology- and knowledge-intensive industries under the central government’s careful guidance and interventions. Domestic privately owned enterprises (POEs), however, have followed a rather different path. In the past, POEs endured considerable institutional disadvantages under China’s socialist market economy (Child 1996). Many struggled to access loans from the state-run banks and encountered protectionist measures that safeguarded the interests of SOEs at local levels (Ahlstrom et al. 2008; IFC 2000; Park and Luo 2001). As a result, some POEs nowadays still lack resource-backup to invest in technological and human resources and thus to expand their operations. Compared to state-owned and foreign-invested enterprises, POEs remained vulnerable to market forces for many years following economic reforms. To overcome institutional hurdles, many POEs operate informally and with an entrepreneurial eye to spotting market gaps. Thus, without past state support and guidance, entrepreneurs in China have tended to run the most innovative, yet the least funded, firms (Luo 2010).

But even despite social and political struggles with legitimacy, domestic private firms (POEs) have powered China’s economic growth engine since the mid-1990s. According to the Chinese Academy of Social Sciences (CASS), the number of de facto POEs expanded annually at a rate of 14.3 per cent between 2005 and 2010. The private sector now has the largest number of firms of any sector. Before China’s accession to the WTO in 2001, the domestic private sector accounted for over a third of the country’s GDP (IFC 2000), but currently represents more than half (Luo 2010). According to the CASS, the registered capital of domestic private firms in 2010 surpassed RMB1.9 trillion yuan (US$291.96 billion). These outcomes have occurred in parallel with changing workforce demographics across the country as a whole. For example, whereas the number of SOE workers declined from 112.6 to 64.9 million between 1995
and 2008, the domestic private workforce increased from 4.9 to 51.2 million over the same period (*China Statistical Yearbook* 2011). In 2009, the domestic private sector had established 11 million job openings and accounted for 90 per cent of new employment across urban regions (*China Daily* 2010a).

Most POEs are small and concentrated in light manufacturing and commercial services (Cooke 2005b). However, there is a rapidly emerging force of private firms and technology spin-offs shaping the government’s long-term strategy of a higher value-added, knowledge economy (Chen and Shih 2005; Luo 2010). Over the last decade, sizable numbers of POEs have emerged in high-technology and knowledge-intensive industries. Examples include firms in biopharmaceutical, information technology, new energy, and business process outsourcing industries (Simon and Cao 2009). These areas comprise the government’s ‘strategic emerging industries’ (SEIs) and ‘pillar’ industries. Many privately owned KIFs in these industries operate out of high-tech zones and science parks located across China’s developed Eastern coastal regions. They form part of a new breed of firms and entrepreneurs set to capitalise on changing social and political attitudes towards private enterprise and policies to build large pools of talented human resources. Over the past decade, these innovative firms have begun to benefit from government preferential policies supporting small and medium sized firms, as well as sub-national policies that aid KIFs operating in high-tech zones (*Chinese Academy of Sciences* 2009; Warner 1999). Examples include tax concessions that allow KIFs to channel financial capital into important business areas, as well as dedicated training schools on high-tech zones that provide skills training and recruitment services.

Privately owned KIFs operate, nonetheless, within the constraints of an immensely complex and competitive business environment. As state-owned enterprises continue to restructure and reform their management practices (Ralston et al. 2006), and as foreign firms further penetrate local markets, POEs face daunting external pressures (*IFC* 2000). Competition for talented workers has become particularly fierce. Due to the influx of foreign-invested firms into China in recent years, the demand for highly skilled and well-educated workers has intensified (Farrell and Grant 2005; Hartmann et al. 2010; Iles et al. 2010).
By many accounts, there is an oversupply of cheap, unskilled labour, but a pronounced shortage of highly skilled workers to fill technical, professional and managerial level positions in knowledge-intensive industries (Gamble 2006; Li and Sheldon 2010). In some regions, intense competition for highly skilled workers has fuelled upsurges in wages and higher instances of turnover (Cooke 2005b). Turnover of workers’ in high-tech zones tends to be particularly high because KIFs cluster in close proximity and thus hire from a common, yet highly mobile labour pool (Tan 2006). Frequent social and professional interactions enable workers to easily obtain information about rival firms – including employment opportunities. ‘Poaching’ of workers is of particular concern for KIFs on high-tech zones; however, recent employment legislation aims to regulate unfair poaching practices (Brown 2010).

In coming to terms with these external pressures, privately owned KIFs face a number of challenges at the organisational level. HRM is still a fairly new concept in China compared to in the West. China has yet to establish a national professional HRM body to advise on good practice, and Chinese universities did not start to offer HRM courses until around the mid-1990s (Cooke 2005b). Furthermore, many POEs have only begun to introduce dedicated HR departments over the past decade or so, but still most HR workers come from non-HR backgrounds (Cooke 2005b). Indeed, Björkman and Lu (1999a) argued, “[I]t is difficult to find competent HR professionals in China” (p. 18). Another concern in small KIFs is that owners may retain majority control and influence over HRM decisions vis-à-vis HR workers. This potentially leaves important HRM decisions, such as attracting and selecting new hires, open to owners’ tacit beliefs (and sometimes discriminatory practices; Brown 2010), rather than systematic approaches that link hiring strategies with wider business goals. Some limited evidence suggests that managers of POEs have started to adopt strategic approaches to HRM (Cooke 2008; Lu 2000). However, almost no studies to date have examined which information sources inform managers’ and HR workers’ HRM knowledge and competencies, which in turn underpins firms’ hiring approaches. Cooke (2009) asked, “How would [an] absence of HR competence impact on the HR department’s ability to have a strategic influence on… the successful implementation of the firm’s business strategy?” (p. 22).
Thus, the present study attempts to provide an in-depth understanding of hiring by privately owned KIFs in China. Effective hiring would seem particularly important for KIFs because of their young history; their growing significance in the country’s knowledge economy; and their unique market position relative to SOEs and foreign firms. The research seeks to uncover how KIFs develop hiring strategies and practices, and what organisational and external environmental factors lead to variations in their hiring approaches.

1.3 Justification and significance of the study

The present study intends to make several important contributions that address disparate literatures on hiring, POEs, and knowledge-intensive firms (KIFs) in China. First, despite the importance of knowledge-intensive industries to China’s economic development and industrial restructuring efforts, there remains a paucity of research that explores KIFs in China. Much of the research on HRM in China has focused on firms in manufacturing and lower value-added sectors. As a result, the current body of knowledge is less-than-well informed on HRM issues in higher value-added industries, where the demand for human capital is more pronounced. Indeed, the Chinese government is at an important crossroads in the transition to a knowledge-based economy. Policymakers face enormous challenges in terms of regulating regional labour markets; ensuring adequate supplies of highly skilled and well-educated workers across local economies; and expanding new business and job opportunities in the services sector and strategic emerging industries (SEIs). These factors, when combined, exert substantial effects on the competitive landscapes that privately owned KIFs compete in, and will continue to do so as reforms deepen. By examining hiring in this context, the present study explores the challenges of, and strategies for, attracting and building human and social capital by firms in knowledge-intensive industries.

Second, the research will contribute to the limited number of studies that have examined domestic privately owned enterprises (POEs) in China. Since the
1990s, POEs have formed the primary catalyst behind China’s economic growth (Atherton and Fairbanks 2006; IFC 2000; Ralston et al. 2006; Tsui et al. 2006a). Almost two decades ago, Tsang (1994) argued that it would be “very difficult, if not impossible, for a private firm to compete head-on with… [the] foreign giants” (p. 462). This is arguably no longer the case. Despite institutional disadvantages and limited resources relative to SOEs and FIEs (Child and Tse 2001; Cooke 2008), some POEs are even outperforming MNCs’ operations in China (Law et al. 2003; Wang et al. 2007). Yet, most studies conducted by Western scholars have focused on foreign-invested enterprises (FIEs). This phenomenon has little to do with the overall significance of POEs, but reflects Western researchers’ language barriers and related obstacles to securing access to local private firms. Moreover, those studies that have researched POEs have tended to analyse them comparatively alongside other types of ownerships. Although some comparison is inevitable in China’s mixed market economy, the present study examines POEs as the exclusive research focus.

Third, few studies have systematically examined single HRM issues in the Chinese HRM literature, but instead have studied bundles of HR practices (Cooke 2009). The present study, however, focuses on hiring as a single HRM issue within a wider HRM context. By doing so, the research provides in-depth insights into how firms develop hiring strategies to navigate China’s tight labour market for highly skilled workers. A single HRM focus also permits detailed investigation of institutional, competitive, legislative and cultural factors that shape KIFs’ hiring strategies and practices at organisational levels. Western and non-Western literatures have argued that such external environmental factors bear strongly on firms’ HRM approaches at organisational levels (Budhwar and Sparrow 2002; Cooke 2008; Jackson and Schuler 1995). For example, guanxi (roughly translated as ‘personal connections’) is an important socio-cultural factor that permeates all aspects of social and business life in China. Firms use guanxi to procure business contracts and to gain access to powerful government gatekeepers (Peng and Luo 2000), whereas job seekers use it to facilitate job search efforts (Cheung and Gui 2006).
Last, the research will benefit from using qualitative case study methods. Several scholars (e.g., Quer et al. 2007; Tsui 2004) have noted that much Chinese HRM research has relied extensively on deductivist approaches to data collection – such as cross-sectional, ‘snapshot’ surveys. These methods often fail to delineate the nuances of HRM by Chinese firms because of the complex institutional environments in which firms operate. Tsui (2004) called for a partial induction approach. This, she argued, would allow scholars to explore “familiar issues in novel contexts” which permits “connection to the current body of literature,” while promising “the discovery of new insight” (pp. 506-507). In the present study, ‘familiar’ would refer to existing hiring theories, which is well-informed in Western literatures, but which scholars have overlooked within the ‘novel’ context of Chinese KIFs. Case study methods will, therefore, enable the research to explore the ‘what’, ‘how’ and ‘why’ of hiring in this context. By focusing on contextual issues, a case study approach also removes some of the Western precepts that survey methods impose on Chinese HRM research (Cooke 2009). However, some level of Western theorisation is necessary to interpret degrees of HRM convergence between domestic and foreign-invested firms in China. For instance, Björkman (2002) argued that little effort had “been made to explain differences across Chinese organisations in their propensity to adopt Western-style HRM practices” (p. 50).

1.4 Research objectives and questions

By integrating theoretical perspectives from Western and Chinese management literatures, the present study explores hiring strategies and practices used by privately owned KIFs in China. The study adopts a broad perspective on HRM to examine firm level factors driving hiring decisions, as well as the effects of extra-organisational factors, such as institutional environments, competition, legislation, and national culture. Through a detailed literature review and data collection in eight case study firms, the study’s two main objectives are to:
1. Explore hiring strategies and practices used by privately owned KIFs in China and how these align with HRM and business strategies to facilitate acquisition of human and social capital;
2. Investigate organisational and external environmental contexts that shape the use of certain hiring practices and strategies and also how these contexts enable or constrain approaches to hiring.

To address these two objectives, the study proposes five research questions:

1. What characteristics do HR functions in privately owned KIFs exhibit? What are HR workers’ roles and responsibilities? What sources inform HR workers’ and managers’ knowledge of hiring and HRM?
2. What are the effects of organisational and external environmental contexts on privately owned KIFs’ hiring practices and strategies? How do such factors affect how KIFs align hiring with wider business strategies to acquire human and social capital?
3. How do privately owned KIFs use employer branding strategies and employment inducements to attract prospective hires?
4. What types of hiring sources do privately owned KIFs use and why?
5. What selection methods and criteria do privately owned KIFs use to select new hires? How much autonomy and discretion do managers afford HR workers when selecting new hires? How has legislation affected KIFs’ approaches to hiring and selecting workers?

1.5 Organisation of the thesis

The thesis contains nine chapters that provide essential details for reading, interpreting, and discussing the research findings. Chapter 1 has presented an introduction to the study’s background and context, and outlined arguments for the significance of the research. It has also stated the study’s two main objectives and proposed five questions for investigation. Following this, chapter 2 offers a more detailed discussion of the knowledge economy by exploring its underlying development and characteristics, and its problematic
conceptualisation. Within this context, the chapter then discusses knowledge-intensive firms (KIFs). It considers the nature of KIFs; why they are so remarkable; and how KIFs differ from non-KIFs and other professional services firms (PSFs). The chapter concludes by describing a conceptual framework that will guide the selection of case firms used in the research.

Chapter 3 discusses theoretical issues relating to hiring by KIFs. It argues that hiring acts as a dynamic capability (Eisenhardt and Martin 2000; Teece 1998) that enables managers to adapt their human resource bases over time (Bowman and Swart 2007). More specific, hiring as a dynamic capability facilitates KIFs’ acquisitions of human and social capital from external labour markets. By critiquing functionalist hiring research, the chapter argues that KIFs’ hiring approaches simplify into three issues: (i) employer branding: strategies to promote positive organisational attributes to prospective hires and to signal value from entering into employment relationships; (ii) employment inducements: specific sets of HRM practices and work arrangements designed to entice interest in job vacancies; and (iii) hiring sources: the channels that KIFs use to communicate their employer brands and employment inducements to prospective hires. Based on established research and frameworks (e.g., Budhwar and Sparrow 2002; Jackson and Schuler 1995; Storey 2009), the chapter then explores numerous organisational and external environmental factors that might usefully explain variations in KIFs’ hiring strategies and practices.

Chapter 4 then discusses hiring and HRM in the Chinese context. It charts important economic and employment reforms since China opened up in 1978 and describes the three major types of ownerships that currently exist: state-owned enterprises (SOEs), foreign-invested enterprises (FIEs), and domestic privately owned enterprises (POEs). By focusing on POEs, the chapter considers factors that affect hiring and HRM at firm levels, such as firms’ founding conditions, owners’ models of HRM, as well as links between human capital, social capital, and competitive business strategies. The chapter then moves to a macro-level discussion of recent policies relating to knowledge-intensive industries in China and the development of business innovation.
environments. Within this context, the chapter describes the effects of labour market contexts on KIFs’ hiring strategies, such as skills shortages, employment legislation and regulation, and the emergence of new labour market actors and intermediaries. The chapter concludes by presenting an analytical framework of organisational and external environmental factors that potentially enable and constrain hiring by KIFs in China.

Chapter 5 details the study’s research design and methodology, including the research philosophy and strategy, as well approaches to handling data collection, data analysis, and ethical issues. Chapter 6 offers descriptions of the eight case firms (seven POEs and one state-funded training school) located in three distinct regions in China: Beijing, Xi’an, and Shenzhen. Chapter 7 presents the research findings organised around (i) the research questions described in chapter 1 and (ii) the themes identified during the analysis. Chapter 8 provides a detailed analysis and discussion of the research findings in relation to the literatures reviewed in chapters 2, 3, and 4, as well as the research questions posed in chapter 1. Last, chapter 9 presents the research conclusions and outlines contributions to research design, theory, and practice. It also discusses the study’s limitations and provides some potential directions for future research.
2 Knowledge-intensive Firms

2.1 Introduction

This chapter provides an in-depth discussion of knowledge-intensive firms (KIFs) as a precursor to understanding subsequent chapters. It first begins, however, with a historical overview of the knowledge economy by exploring its underlying development, as well as its problematic conceptualisation. This initial introduction highlights important turning points in management thinking on the value of knowledge as an economic resource. In particular, it discusses the influential, but controversial, propositions put forth in Bell’s (1973) post-industrial thesis, in addition to accounts popularised by Drucker (1969, 1992) spanning several decades. The chapter highlights tensions between rational, objectivist accounts of the knowledge economy, and those that recognise the ambiguous, multifaceted nature of knowledge in its definition. Within this context, the chapter then considers how knowledge, in its many guises, has permeated strategic management and organisational theory over the past three decades. The ‘knowledge turn’ in organisational theory came about as scholars began to question traditional neoclassical economic theories in the early 1980s (Nelson and Winter 1982; Teece 1981, 1982). As resource-based and knowledge-based views of the firm took shape in the 1990s, organisational and management literatures increasingly implicated knowledge as an important factor of production and a basis for competitive advantage (Nonaka and von Krogh 2009).

This interest in knowledge as an organisational asset served to direct scholars’ attention towards firms where knowledge possesses substantial economic value: knowledge-intensive firms (KIFs). Thus, the remainder of this chapter focuses exclusively on such firms and their conceptualisation. It attempts to address such questions as: what are KIFs and why are they so remarkable? How do KIFs differ from non-KIFs and professional services firms? Drawing on seminal work by Starbuck (1992), the chapter argues that KIFs depend on their workers’ knowledge and expertise more than workers in labour- and capital-
intensive firms. KIFs’ workers are not merely passive assets “that just [perform] routine tasks in the cycle of production and supply… [They are] human capital with the capacity to be innovative and thus create new demands rather than just react to the market by supplying its needs” (Pillay 2005, p. 83). However, KIFs also compete on the bases of their reputations and ‘images’ of expertise, as much they do on the actual theoretical knowledge residing in their core workforce: knowledge workers. The chapter concludes by discussing a recent conceptual framework of KIFs that the present study adapts to inform the choice of case firms selected for investigation (see chapter 6).

2.2 The knowledge economy

Fifty years ago, Machlup (1962) published his seminal analysis on US knowledge production and distribution. The findings were striking: 29 per cent of the country’s gross national product (GNP) depended on five knowledge industries: communications media; education; information technology (computers); information services (including finance, insurance, and real estate); and research and development (R&D). Furthermore, between 1900 and 1959 the proportion of the labour force working in these industries had increased from 11 to 32 per cent. Drucker (1969) proclaimed that the US was encountering “a new economic reality” in which knowledge had “become the central economic resource” (p. 40). Productive capacity and performance, he argued, were growing ever dependent on the systematic acquisition of knowledge through formal education, and less so on experience gained through traditional apprenticeship (Drucker 1969, p. 40). But what triggered this turning point? According to Drucker (1992), various political and institutional forces influenced this trend, but perhaps none more so than the 1944 GI Bill of Rights in the US. The GI Bill of Rights afforded every returning World War II soldier the money to attend university (Miles et al. 2007). Drucker (1992) hailed this as “the decisive change […] that ushered in the knowledge society” (p. 453).

Machlup and Drucker were not alone in their prognostications. Galbraith (1967) had argued the rise of an elite class of technical-scientific experts shaping the
technostructure. Bell (1973) also described society’s ascent to post-industrial status by predicting the ubiquitous importance of theoretical knowledge over the coming decades. If capitalists’ knowledge about harnessing energy (steam, electricity, oil and gas) for production had characterised the industrial era, then technical or ‘theoretical’ knowledge – born from the technocratic elite – hallmarked Bell’s vision of the post-industrial society. The capitalists, Bell (1973) argued, had begun to relinquish power to this new class of technical experts.

The members of this new technocratic elite, with their new techniques of decision-making (systems analysis, linear programming, and programme budgeting) have now become essential to the formulation and analysis of decisions on which political judgements have to be made, if not to the wielding of power. It is in this broad sense that the spread of education, research, and administration has created a new constituency – the technical and professional intelligencia (Bell 1973, p. 342).

Nonetheless, as economic and environmental pessimism prevailed in the 1970s, scholars grew increasingly sceptical of technological optimism. Bell’s intellectual conservatism sustained critique on several grounds: naïve technological determinism; utopian idealism; and failed recognition of the capitalist imperatives underlying knowledge commodification and technological rationalisation (Kumar 1978; Robins and Webster 1989). Technological rationalisation had promoted a convergence theory of development that disregarded political, historical and cultural nuances (Kleinberg 1973). Post-industrialism had become irreconcilable against the theoretical, socio-economic and intellectual turns of the late 1980s and early 1990s. Unfolding changes in capitalism, and burgeoning advancements in communication technologies had outgrown Bell’s vision of coordinated technocracy and bureaucracy (Blackler et al. 1993).

Post-industrialism had principally, but erroneously, positioned theoretical knowledge as a codifiable and objective commodity for organisational and societal good: it had marginalised the critical role of tacit knowledge (knowhow), and overstated the importance of explicit, theoretical knowledge (know that). Bell premised the post-industrial society on “the primacy of theory over
empiricism and the codification of knowledge into abstract systems of symbols that...can be used to illuminate many different and varied areas of experience” (Bell 1973, p. 20). Put another way, only explicit theoretical principles could determine successful future innovations – for example, the effects of Alan Turing’s seminal paper ‘On Computable Numbers’ on computer science (Webster 2006). And yet, innovations during the ‘industrial’ era did not depend on theoretical knowledge to any great extent (Webster 2006). On the contrary, ‘talented amateurs’ applied trial-and-error methods to solve pragmatic problems without recourse to scientific principles (Webster 2006). For example, George Stephenson developed, without the benefit of an advanced level education, the first steam-powered, track-based locomotive to transport coal from collieries located distally to rivers. Almost a century later Henry Ford manufactured America’s first mass market automobile without any formal engineering background (Webster 2006). Thus, for Bell’s vision to materialise, theoretical knowledge would need to trump the knowhow so crucial to the industrial era.

By the late 1980s, however, such a proposition seemed ever more improbable. According to Blacker et al. (1993, p. 854), practical knowhow and business skills were still more economically valuable than theoretical knowledge. The post-industrialisation thesis on theoretical knowledge was at odds with emerging economic and social trajectories (cf. Bell 1973; Lane 1966). Neither theoretical knowledge commodification nor technological rationalisation provided satisfactory explanations for these developments – and yet, something was clearly happening: “[...] economic, ecological, personal, social and cultural uncertainties [were] being experienced on an unprecedented scale. Institutional frameworks and collective and individual cognitions [were] being stretched to, and perhaps beyond, the limits of their capabilities” (Blackler et al. 1993, p. 857). In a special issue of the Journal of Management Studies (30: 6), Blackler et al. (1993) called for new accounts of knowledge work and the ‘knowledge society’ (p. 854). Postmodernism in the organisational sciences had transformed the earlier philosophical zeitgeist, threatening naïve empiricist epistemologies and prompting a recast of the knowledge economy concept.
Blackler et al. (1993) stressed the need to pursue “established and emerging areas of crucial uncertainty” (p. 854) vis-à-vis objectivist and rationalist accounts. The latter had forced empirical inquiries down a narrow path that ignored the multifaceted and tentative nature of knowledge. To seek purely objective truths in response to inevitable economic, social and cultural changes occurring in contemporary life could potentially prove vacuous. Moreover, objectivist attempts to explain the ambiguous nature of knowledge, and its economic importance, may raise more questions than answers (Alvesson and Kärreman 2001).

2.3 Knowledge and organisational theory

Debates about the importance and conceptualisation of knowledge run deep in literatures on organisational theory. Knowledge is an enigmatic concept that manifests in various forms. Davenport and Prusak (1998) defined knowledge as “a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the minds of knowers… it often becomes embedded not only in documents or repositories but also in organisational routines, processes, practices and norms” (p. 5). Blackler (1995), however, classified knowledge into five types: embrained, embodied, encultured, embedded, and encoded. But as with other ‘general’ concepts, knowledge tends to resist precise definition. Definitions easily become “everything and nothing” or an exercise in re-labelling existing phenomena (Alvesson and Kärreman 2001, p. 998-999). Blackler’s typology, for example, recasts problem-solving skills (cf. Scribner 1986) as embodied knowledge, organisational and professional culture (cf. Ouchi 1980; Pettigrew 1979) as encultured knowledge, and so on. Nonetheless, reconceptualising existing social phenomena can be a useful endeavour when it improves a theory’s explanatory power (Sayer 1992).

As a concept, knowledge has proved fundamental to many strands of strategic management and organisational theory. Nonaka and von Krogh (2009)
attributed this to Teece (1981, 1982) and Nelson and Winter (1982) who used knowledge factors, as opposed to traditional neoclassical economic theories, to explain firms' idiosyncrasies. When resource-based views (Barney 1991; Conner and Prahalad 1996; Helfat and Peteraf 2003; Lockett and Thompson 2001) and knowledge-based views of the firm (Conner and Prahalad 1996; Grant 1996b; Nickerson and Zenger 2004; Spender 1996; Tsoukas 1996) challenged industrial organisation perspectives in the 1980s and 1990s, some scholars began to see wealth creation as less dependent on bureaucratic resource control, and more about managing organisational knowledge effectively (Blackler 1995, p. 1021-1022). For example, the resource-based view implicated knowledge as an important resource used by firms alongside other costly-to-imitate resources to enhance organisational performance (Barney 1991). The knowledge-based view, however, not only emphasised strategies for managing knowledge as a resource, but also the processes for creating knowledge assets. For example, Teece et al. (1997) proposed a theory of dynamic capabilities in which firms build strategic and organisational routines through processes of coordinating and combining knowledge assets. In some respects, this echoes earlier works on organisational learning (Argyris and Schon 1978; Chandler 1962; Nelson and Winter 1982).

The proliferation of theories emphasising knowledge as a strategic resource and basis for competitive advantage coincided with growing scholarly interest in firms where knowledge seemingly possesses the greatest economic value: knowledge-intensive firms (KIFs). The next section critically examines conceptualisations of KIFs. By drawing on the nature of work in these firms, it explores contemporary perspectives on what KIFs are and what they are not. The discussion argues that KIFs trade as much on their reputations and 'images' of expertise, as they do on the actual theoretical knowledge residing in their core workforce: knowledge workers. Nonetheless, theoretical knowledge provides a useful, albeit contentious, starting point from which to delineate KIFs from other types of firms.
2.4 Knowledge-intensive firms

2.4.1 Knowing what KIFs are

Starbuck (1992) coined the term ‘knowledge-intensive firm’ (KIF) to describe firms where “knowledge has more importance than other inputs”, such as labour in labour-intensive firms and capital in capital-intensive firms (p. 715). Around this time, few US scholars had heard of such firms (Starbuck 1992). Yet some 3,500 miles away, Swedish writers had already begun charting the emergence of a new, highly profitable organisational form – ‘knowhow’ firms (Alvesson 2011; Starbuck 2010). According to Sveiby and Risling (1986), knowhow firms diverge from traditional services firms in several important ways, including non-standardised (non-routine) working; high levels of creativity; complex problem-solving abilities; and a high degree of dependency on individuals (p. 13). Starbuck (1992) affirmed these distinctions by arguing that KIFs’ success depend more on their workers’ esoteric expertise than on commonly shared knowledge. Shortly after Starbuck (1992) wrote *Learning by Knowledge-intensive Firms*, KIFs began to attract substantial attention from scholars (e.g., Alvesson 1993, 1995; Blackler 1995; Blackler et al. 1993; Brusoni et al. 2001; Donaldson 2001; Whittington et al. 2009). For example, the *Journal of Management Studies*’ special issue on knowledge in organisations (1993) opened a timely dialogue on the characteristics and nature of work in KIFs.

By the mid-1990s and early 2000s, an archetypical profile of KIFs had begun to emerge that further distinguished these firms from others types (see Table 2.1). Several features appeared to underscore this profile (Alvesson 1995). First, problem-solving and non-standardised production form core activities in KIFs. KIFs usually develop flatter and more fluid organisational structures than traditional, bureaucratic firms. Such structures are amenable to project-based work that focuses on providing solutions and services to individual clients (Swart et al. 2003). Non-bureaucratic structures and processes usually allow project leaders to assemble teams quickly based on individual workers’ experience and expertise. Second, non-standardised production induces KIFs’ workers to think creatively. Creativity is a process of original problem-solving
that creates tangible (e.g., services or physical products) and non-tangible (e.g., ideas, solutions, responses) outputs (Frenkel et al. 1995, p. 779). Of course, not all of KIFs’ outputs demand high levels of creativity. In some professional contexts, such as hospitals, patients would not necessarily expect physicians to exhibit substantial creativity in their work. Moreover, Alvesson (2001) argued that some management consultancies have begun to standardise their methods to systematise work flows and outputs. Indeed, Starbuck (2010) asked, “Do the executives who listen to polished presentations really believe that they are hearing ideas that consultants have tailored to fit their companies distinctively?” (p. 1401).

Third, most scholars agree that KIFs’ workforces are largely well-educated and professionalised. However, discrepancies persist as to what extent theoretical or esoteric knowledge play central roles in defining KIFs. Starbuck (1992) originally argued that esoteric expertise is the essence of knowledge-intensity, whereas Alvesson (1993) claimed that much work inside of KIFs is as ‘ambiguity intensive’ as it is knowledge-intensive. That is, rhetoric, image and on-going negotiations determine the value of products and services provided to clients. Ambiguity intensity is certainly important in some occupations such as management consultancy, but perhaps less so in areas where applications of theoretical knowledge to problem-solving are more pronounced (e.g. engineering, architecture). Fourth, traditional, physical assets are less critical than the human expertise and knowledge embedded in networks, customer and supplier relationships, and manuals and systems for supplying services. This is the feature that most scholars have in mind when defining KIFs. KIFs transfer their knowledge and expertise into tangible outputs (e.g., reports, products) (Starbuck 1992). Thus, KIFs that operate in highly dynamic and competitive markets compete on product and service quality, rather than cost and price (Swart et al. 2003). Clients tend to choose KIFs based on the perceived quality of human knowledge and expertise provided. Competing on price alone makes little sense for KIFs because charging clients less in order to win business risks diminishing perceptions of quality.
Table 2.1 Archetypical features and characteristics of knowledge-intensive firms

<table>
<thead>
<tr>
<th>Features</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>Problem-solving and non-standardised production</td>
<td>Flat and fluid organisational structures facilitate project-based work designed to provide supposedly novel solutions to individual client problems</td>
</tr>
<tr>
<td>Creativity</td>
<td>Non-standardised production and problem-solving induces creativity in most KIFs</td>
</tr>
<tr>
<td>Largely well-educated and professionalised workforces</td>
<td>Strong domains of theoretical knowledge are important in most cases (e.g., architecture, engineering); some cases where ambiguity (image, reputation, relationship management) offsets true esoteric expertise (e.g., management consultancies, advertising and marketing agencies)</td>
</tr>
<tr>
<td>Knowledge assets prevail over physical assets</td>
<td>KIFs generate most rents by leveraging knowledge held by individuals, networks of individuals, and organisational assets (e.g., routines, behaviours, cultures)</td>
</tr>
<tr>
<td>Loyalty of workers</td>
<td>KIFs face constant threats of worker turnover; KIFs’ workers have strong bargaining positions because of the value of their knowledge. KIFs seek to maximise loyalty using strategies, work designs, and philosophies that create social bonds; financial rewards are equally important</td>
</tr>
</tbody>
</table>

Source: adapted from Alvesson (1995)

Last, loyalty is fundamental to KIFs’ success and reputations precisely because such firms compete using their workers’ knowledge and expertise (Alvesson 2000). When knowledge workers leave, they take with them valuable knowledge and experience. As Byrne (2001) wrote, “Without loyalty, knowledge is lost” (p. 325). Poor retention manifests in several problems for KIFs. One is that rare or highly valuable knowledge enhances workers’ labour market
prospects. This not only concerns theoretical knowledge, but also knowledge developed through social interactions with clients. Frequent client interactions expose workers to more job opportunities and present options for workers to start their own businesses. Another problem is that KIFs with poor retention strategies risk situations where workers take clients as well as firm-specific knowledge with them to their new firms. To minimise instances of turnover, Alvesson (2000) argued that KIFs seek to build loyalty in two ways. First, KIFs develop strategies around identification-based loyalty: (i) KIFs develop sets of values and visions that workers can identify with and (ii) they create a sense of community and social bonding through events that bring workers together. Second, KIFs implement strategies around instrumental-based loyalty that incentivise and motivate workers through high salaries and financial rewards. Chapter 3 develops these ideas further in the context of employment inducements to attract and hire knowledge workers, not just to retain them.

2.4.2 Knowing what KIFs are not

The descriptions outlined thus far suggest that KIFs organise differently, operate differently, and pursue different agendas vis-à-vis ‘non-KIFs’ (Kärreman 2010). Yet some of these characteristics are manifestly contentious. One criticism is that they politicise KIFs as prestigious relative to routine services and manufacturing firms (Alvesson 2004; Starbuck 1992). By classifying KIFs’ workers as special subsets of professional and managerial workers, researchers construct social divisions of labour (Alvesson 1995, p. 7) that downplay knowledge workers’ “common positioning as wage labour within a capitalist mode of production” (Knights et al. 1993, p. 976). On the other hand, KIFs appear to purposefully construct elite social identities because these: (i) build self-disciplined workforces that strive for high performance standards; (ii) attract and retain high calibre workers; and (iii) create images that facilitate successful client engagements (Alvesson and Robertson 2006, p. 196; Starbuck 2010). But even accepting the socially constructed nature of knowledge intensity does not preclude that some firms, in fact, draw more profoundly on esoteric expertise than others (Starbuck 1992).
A related issue arises from using the term ‘firm’ in the KIF label. First, it is difficult to quantify the proportion of knowledge workers necessary to qualify firms as ‘knowledge-intensive’. But this would anyway be misleading because it does not reflect knowledge workers’ behaviours or the quality of outputs produced (Starbuck 1992). Starbuck (1992) claimed that KIFs grow by despecialising their workforces: rather than hiring more experts, they add support staff. As a result, when KIFs expand, or when they diversify their expertise beyond their core domain, they risk losing their credibility and “halos of expertise” (Starbuck 1992, p. 737). In the cases of larger firms, it is perhaps more appropriate to talk about knowledge-intensive units than firms (Alvesson 2004). Second, the term ‘firm’ implies that KIFs invariably share structural similarities in organisational governance, control, and the division of labour (Kärreman 2010). Yet across the many canonical exemplars studied to date, KIFs appear curiously heterogeneous: accounting and law firms (Empson 2001a; Starbuck 1993), management consultancies (Alvesson 1995; Greenwood et al. 2007; Ram 1999b; Robertson and Swan 1998, 2003), public relations and advertising agencies (Alvesson 1994, 2000; von Nordenflycht 2007, 2011), architecture firms (Winch and Schneider 1993), and engineering consulting firms (Malhotra and Morris 2009; Starbuck 1992).

Kärreman (2010) argued, “KIFs are almost comically diverse, and the concept is used to denote everything from tightly regulated organisations (pharmaceutical companies) to organised anarchies (universities), with almost everything in between included (consultancy and accountancy firms, hi-tech corporations, hospitals)” (p. 1412). As the previous section highlighted, there is almost invariably exceptions to every rule, which makes defining KIFs so difficult. Alvesson (2001) referred to KIFs “as a vague but meaningful category, with sufficient heuristic value to be useful” (p. 864). He added, “The category does not lend itself to precise definition or delimitation and it includes organisations which are neither unitary nor unique” (p. 864). Such statements are problematic, however: all organisations are unique, not least KIFs (Starbuck 1993). If the goal of organisational science is to explain organisational phenomena, then KIFs require conceptual clarification (albeit imperfect) if researchers are to pursue them as a ‘useful’ and ‘meaningful’ category. Alvesson commits to a
postmodernist ontology in which “the constitutive powers of language are emphasised and ‘natural’ objects are viewed as discursively produced...the point of view creates the object” (Alvesson and Deetz 1999, p. 199). But the critical realist ontology described in chapter 5 makes clear that although some aspects of the world are discursively produced, many are not; some are real and mind-independent (e.g., material entities, such as oceans, mountains), and others are partly mind-independent (e.g., social structures, market mechanisms) (Fleetwood 2005).

Firms, as with other social systems, are open and complex; but they are also concrete in that they derive from multiple underlying components and forces. Firms require thoughtful conceptualisation to abstract these complex interacting forces before shifting back to the concrete entity (Sayer 2000). Sayer (2000) stressed:

\[\textit{Much rests upon the nature of our abstractions, that is, our conceptualisations of particular one-sided components of the concrete object; if they divide what is in practice indivisible, or if they conflate what are different and separable components, then problems are likely to result. So much depends on the modes of abstraction we use, the way of carving up and defining our objects of study...Many kinds of social research operate with categories used in official statistics even though they are often based on bad or incoherent abstractions. Take the category 'services', for example, as in 'the service sector', which is sometimes expected to identify activities that have something in common and behave similarly, when of course it embraces economic activities as diverse as transport, hairdressing, tourism, insurance...Not surprisingly, the category cannot bear the explanatory weight many researchers have been tempted to put upon it – for example services as the basis of 'post-industrial society'... No amount of sophistication in research methods can compensate for sloppy abstractions. Only if we give greater emphasis to problems of conceptualisation...are we likely to avoid such pitfalls (Sayer 2000, pp. 19-20).}\]

One might argue that Alvesson’s comments were somewhat premature: accepting a vague categorisation initially is better under theoretical uncertainty, especially when KIF research is still at an early stage. On one hand, Alvesson accepts the problematic nature of conceptualising KIFs: “The problem with the idea of knowledge intensity is that it is very difficult to know where and when to
stop including elements. Formalised, theoretical knowledge represents one pole; cultural, interpersonal, somatic and other forms of tacit knowledge, together with creative skills and talents, represent the other. As a meaningful category, the first covers too little…, the second far too much” (Alvesson 1993, p. 1001). On the other hand, encouraging an ambivalent categorisation seems somewhat laissez-faire and results in ‘chaotic conception’ (Sayer 1992); at best it could lead to inadequate generalisations, and at worst, inconclusive and misleading claims. In fact, by encouraging chaotic conceptions, researchers evade the most fundamental conceptual issues about KIFs.

Alvesson’s (1993, 2001) notion of ‘ambiguity intensity’ in knowledge work illustrates this point. De-emphasising theoretical knowledge might apply to management consultancies where much rests on increasingly standardised solutions that downplay applications of creativity in problem-solving. By contrast, however, architects and engineers often depend on theoretical knowledge and its creative applications to different problems. Although reputation and image (ambiguity) is still apparent in such cases, architects and engineering firms would not exist without experts who can utilise their theoretical knowledge and expertise. Put differently, even without generating significant rents from their reputations and images, such firms would still exist as knowledge-intensive precisely because of the expertise that their members possess; the nature of the work they undertake; and the services they offer. High levels of ambiguity is necessary to define some KIFs (e.g., management consultants, marketing and advertising agencies), but is perhaps insufficient to define all KIFs as so (e.g. architecture and engineering firms). How, then, should scholars conceptualise KIFs? Some important insights rest on broader debates about management and the nature of work in such firms, and the distinctions between KIFs and professional services firms.

2.4.3 Towards a conceptual understanding

The discussions thus far have highlighted the difficulties for scholars of drawing categorical boundaries around KIFs (Alvesson 2001; Käpylää et al. 2011; Starbuck 1993; Zardkoohi et al. 2011). Despite exhaustive attempts by scholars
to study KIFs, the answers to several questions remain contested: why is $X$ a KIF? Why is $Y$ more knowledge-intensive than $X$? Are KIFs professional services firms (PSFs) and vice versa? Archetypical examples aside, substantive progress on conceptualising KIFs has only ensued in the last decade. Building on discussions in the previous section, researchers have seemingly interpreted knowledge intensity from three perspectives: knowledge inputs, outputs and processes (accepting the interdependencies among these factors). Output-oriented perspectives emphasise characteristics such as sophisticated product and service innovations (Alvesson and Robertson 2006; Whittington et al. 2009; Yayavaram and Ahuja 2008); theoretically based tangible (e.g., reports, contracts) (Hislop 2008; Winch and Schneider 1993) and intangible client outputs (e.g., legal rights, patents, software) (Alvesson and Robertson 2006; Ditillo 2004; Heracleous and Langham 1996; Hislop 2008), as well as customised and non-customised client solutions (Hislop 2008; Swart and Kinnie 2010). Process-oriented perspectives, on the other hand, highlight the organisational structures, designs and capabilities; knowledge creation, transfer and production processes; and networking and client interaction strategies that enable KIFs to transform knowledge into valuable outputs (Empson 2001b; Grant 1996a; Kärreman and Alvesson 2004; Morris 2001; Robertson et al. 2003; Smith et al. 2005; Swart and Kinnie 2010).

To a large extent, knowledge input perspectives have carried the most weight in explaining knowledge intensity (Ditillo 2004; Gardner 2005; Hitt et al. 2001; Starbuck 1992; von Nordenflycht 2010, 2011). Starbuck (1992) reasoned that, because inputs reflect similarities and differences across raw materials and worker groups, there follows a useful basis for comparing firms’ internal structures and management operations. To explicate the knowledge input perspective, Starbuck (1992) asserted five points about KIFs and knowledge intensity. First, KIFs may not be information-intensive. For example, management consultancies draw internally and externally from large knowledge stocks without processing large quantities of extant information. By contrast, payroll outsourcing suppliers produce vast amounts of information, but they are more capital- than knowledge-intensive (Starbuck 1992). Second, everyone possesses knowledge and applies it to their work in some capacity, but
knowledge workers, as the mainstream view maintains, rely on abstract, theoretical knowledge (Hislop 2008). Third, expertise may have substantial breadth, and can be managerial as well as technical. Some law firms exhibit high technical expertise but low managerial expertise, whereas fast-food restaurants exemplify low technical expertise but high managerial expertise (Sveiby and Lloyd 1987).

Fourth, KIFs’ knowledge resides in individuals, as well as in firms’ physical capital; in their routines and behavioural repertoires; and in their professionalised cultures (Starbuck 1992). Firms preserve this knowledge even when their employees leave (Daft and Weick 1984; Youndt et al. 2004). However, if some knowledge assumes non-human forms (e.g., databases, manuals, patents, structures, routines) (Blackler 1995; Collins 1993; Morris and Empson 1998; Nelson and Winter 1982; Pentland and Rueter 1994; Tomer 1987), then assessing firms’ knowledge intensity becomes difficult. von Nordenflycht (2010) argued that non-human knowledge forms risks broadening the categorical scope so that almost any firm appears knowledge-intensive. Nonetheless, non-human knowledge forms alone do not define knowledge intensity; rather non-human forms combine with other criteria (i.e., esoteric expertise, low information intensity) to explain knowledge intensity (Starbuck 1992). Last, experts may not be professionals, and KIFs may not be professional services firms (Starbuck 1992). KIFs may employ professionals possessing expertise acquired through formal training and experience. Lawyers, accountants, and architects all identify strongly with their professions. A profession has (i) an explicit theoretical knowledge base; (ii) regulation and control over this knowledge base and its applications; and (iii) an ideology, namely ethical codes of practice (Torres 1991). By contrast, management consultants and executive headhunters do not belong to recognised professions, but they trade in knowledge and expertise.

Research by Starbuck (1992) and Alvesson (1993, 2001, 2004) has added significantly to our understanding of KIFs. These seminal studies have provided a significant impetus for research in this area. Yet despite this, most scholars continue to study KIFs in fragmented fashions. Many assume implicitly that the
firms they investigate are knowledge-intensive either because they fit archetypical lists or because extant studies have chosen similar firms to research. In some cases, this understanding provides implicit authority for scholars to perpetuate archetypical lists without theoretical justification for their choices of firms. As a result, it has led to missed opportunities to delineate different types of KIFs and to provide fruitful conceptualisations that guide research designs and theory development. Recent research by von Nordenflycht (2010) arguably provides the most promising taxonomy to date that addresses these issues. The following section discusses the theoretical properties of this taxonomy and its utility for classifying different types of KIFs. The present study adopts an adapted version of von Nordenflycht’s (2010) taxonomy over accounts offered by others, as it better integrates accounts of KIFs’ organisational features with the challenges of designing knowledge work and managing knowledge workers. Above all, this extended version of von Nordenflycht’s (2010) taxonomy provides an account of KIFs that is parsimonious and consistent with recent studies of ‘intellectual capital’. For this reason, the modified taxonomy overcomes the ‘comical diversity’ of KIFs (Kärreman 2010) and delineates conceptual boundary conditions that permit more nuanced analyses. Boundary conditions lead to more informed research designs and increase confidence that scholars can study KIFs across different contexts and settings.

2.5 von Nordenflycht’s taxonomy

2.5.1 Overview

von Nordenflycht (2010) has developed a person-centric taxonomy of knowledge-intensive firms (KIFs) that emphasises human capital intensity. The taxonomy makes several worthy contributions to debates on KIFs. First, it syntheses distinctive features that qualify some firms as KIFs, but others not. Second, these features help to delineate conceptual boundaries between KIFs and ‘classic’ examples of professional services firms (PSFs). Third, the taxonomy theorises about managerial challenges associated with knowledge
intensity and responses that firms adopt. Von Nordenflycht’s paper has outlined a tripartite theory of KIFs based on whether firms demonstrate (i) professionalised workforces, (ii) capital intensity, and (iii) knowledge intensity. These three organisational features further demarcate four categories of KIFs: (i) technology developers (e.g., biotech, R&D labs); (ii) neo-PSFs (e.g., consulting, advertising); (iii) professional campuses (e.g., hospitals); and (iv) classic PSFs (e.g., law, accounting, architecture) (see Table 2.2). The next section outlines each of the three organisational features.

### Table 2.2 von Nordenflycht’s taxonomy of knowledge-intensive firms

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
<th>Knowledge intensity</th>
<th>Low capital intensity</th>
<th>Professionalised workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology developers</td>
<td>Biotech, R&amp;D labs</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neo-PSFs</td>
<td>Consulting, Advertising</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Professional campuses</td>
<td>Hospitals</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Classic PSFs (regulated PSFs)</td>
<td>Law, accounting, architecture</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Source: von Nordenflycht (2010, p. 166)*

#### 2.5.2 KIFs’ organisational features

First, von Nordenflycht (2010) described professionalised workforces using two institutionalised features: ideology (i.e., professional and ethical codes) and self-regulation (i.e., control over a distinct knowledge base) (Torres 1991). A distinct knowledge base is assumedly an inherent feature of knowledge intensity, whereas self-regulation and ideology are not certain outcomes of knowledge intensity (von Nordenflycht 2010). Both professional campuses and classic (regulated) PSFs exhibit professionalised workforces. Second, some KIFs demonstrate low capital intensity: such firms’ production activities do not
significantly implicate nonhuman assets – that is, equipment, inventory, and factories. Neo-PSFs and classic PSFs both exemplify low capital intensity. As von Nordenflycht explained, low capital intensity is not always a consequence of knowledge intensity. Some firms’ production activities necessitate both an intellectually skilled workforce and substantial non-human assets. Hospitals, for instance, comprise sizeable proportions of advanced level degree holders, but they also rely on non-human capital such as specialist equipment, buildings and infrastructure (von Nordenflycht 2010). Again, in relation to larger, bureaucratised KIFs, references to knowledge-intensive subunits (vis-à-vis knowledge-intensive firms) might seem more apposite (Wallace 1995).

Third, knowledge intensity represents KIFs’ most distinctive organisational feature. By adopting a person-centric definition of knowledge intensity, von Nordenflycht (2010) contended that knowledge embodied in individuals serves as the primary source of KIFs’ production outputs. This is, he suggested, “the definition most scholars have in mind when they label PSFs as knowledge intensive” (p. 159). At least two important managerial challenges arise from such knowledge intensity (von Nordenflycht 2010). The first issue is that KIFs’ outputs exhibit an ‘opaque quality’. Clients typically consult KIFs because their own internal capabilities or expertise proves inadequate. Consequently, buyers of expertise may encounter problems in evaluating the quality of experts’ advice and services (Starbuck 1992). KIFs deploy several mechanisms to signal quality and legitimacy to clients (von Nordenflycht 2010). Bonding enacts organisational features that induce high-quality work and penalise low-quality outputs (e.g., using unlimited liability partnerships, or equal profit distribution among employee owners to hire fewer but higher quality individuals). Reputation is also important where output quality is ambiguous or underspecified. Similarly, organisational appearance enables clients to observe and evaluate the characteristics of KIFs, their employees and the results produced ( Alvesson 1990). Starbuck (1992) asked, “Do the experts speak as persons with much education?... Are the experts well dressed?... Do the experts appear confident?” (p. 731). Last, in professional campuses and classic PSFs ethical codes commit firms to satisfactory conduct to protect clients’ interests.
Directing and retaining an intellectual, skilled workforce presents a second type of managerial challenge affecting knowledge intensity (von Nordenflycht 2010). Classical management theories assume that leaders are better informed than workers because they control information; managers use this to formulate decisions and subordinates comply accordingly (Sveiby 1997, p. 25). However, knowledge workers’ experiences and expertise create strong bargaining positions. Such knowledge may be rare, in demand, and transferable across firms and industries (Teece 1998, 2003). Consequently, KIFs may find it difficult to retain expertise exclusively. For instance, some experts have job opportunities abound owing to frequent and close employee-client interactions (Sorensen and Sorensen 1974). Also, professionals tend to identify more strongly with their professions, which reduces loyalty to specific firms (Freidson 1973; Satow 1975). Furthermore, experts generally dislike bureaucracy (Engel 1970; Scott 1966; Starbuck 1992): most seek autonomy, minimal direction, and informal organisational processes (von Nordenflycht 2010).

2.5.3 A critique and extension

Without redrawing the categorical boundaries of von Nordenflycht’s (2010) taxonomy, the present study proposes the inclusion of two additional types of knowledge assets that complement human capital intensity: social capital and organisational capital. von Nordenflycht’s paper highlights the social construction of value in KIF-client relationships, but then fails to explicate why social capital – the knowledge held by and shared across groups and networks of people (Youndt et al. 2004) – enables KIFs to compete over and above human capital. Social capital resides in individuals, but unlike human capital is distinct from learned or explicit knowledge, skills and abilities. In addition, Starbuck (2010) argued that von Nordenflycht’s taxonomy had “[Underestimated] the importance of knowledge in physical objects” (p. 1400). von Nordenflycht (2010) decided that knowledge intensity referred only to knowledge embodied in humans because 86 per cent (eighteen of twenty-one) of the definitions he reviewed expounded this view. As a result, he argued that to consider non-human types of knowledge would “ultimately [lead] to the inclusion of an overly broad universe of firms” (p. 159). However, the inclusion
of non-human knowledge does not necessarily conflict with von Nordenflycht’s organisational feature of low capital intensity. Indeed, non-human knowledge can manifest in organisational routines, reports, patents, and books – not necessarily only in ‘heavy’ capital like equipment and machines (Nelson and Winter 1982; Starbuck 1992).

Table 2.3 presents a revised version of von Nordenflycht’s taxonomy of KIFs, which accounts for three types of capital – human, social, and organisational – that fall under the umbrella term ‘intellectual capital’ (Reed et al. 2006; Subramaniam and Youndt 2005). Chapter 3 discusses how KIFs use hiring and HRM to build intellectual capital.

### Table 2.3 Revised taxonomy of knowledge-intensive firms

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
<th>Intellectual capital intensity*</th>
<th>Low physical capital intensity</th>
<th>Professionalised workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology developers</td>
<td>Biotech, R&amp;D labs</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neo-PSFs</td>
<td>Consulting, Advertising</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Professional campuses</td>
<td>Hospitals</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Classic PSFs (or regulated PSFs)</td>
<td>Law, accounting, architecture</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

* Refers to firms’ dependence on high levels of human, social, and organisational capital.

* Source: adapted from von Nordenflycht (2010, p. 166)

### 2.6 Summary

This chapter has discussed three related topics that provide the basis for interpreting subsequent chapters in the thesis. The first of these explored perspectives on the development of the knowledge economy. The term knowledge economy has been widely adopted by popular management and
practitioner texts; however, few of these have scrutinised its origins and historical trajectory. By contrast, systematic academic treatments have shown that the concept is far from being transparent. Bell’s (1973) seminal work premised the post-industrial era on the rise of theoretical knowledge in the technostructure, but more recent accounts have questioned such a rational view of knowledge (Blackler et al. 1993). The knowledge economy embodies an area of “crucial uncertainty” (Blackler et al. 1993, p. 854), but one that has permeated strategic management theory and contemporary organisational thinking. Thus, the second topic presented in this chapter outlined the shift from traditional neoclassical economic theories to those implicating knowledge assets to explain firms’ idiosyncrasies. Indeed, two of the most influential management theories in the past three decades have premised knowledge as one of (resource-based view), if not the most (knowledge-based view), valuable organisational resources and factors of production for firms competing in the knowledge economy.

Building on these discussions, the latter half of the chapter sought to provide an in-depth critique of research on knowledge-intensive firms (KIFs). The discussion highlighted the problems inherent in previous studies that have relied on canonical exemplars of KIFs, rather than theoretical frameworks to guide choices of firms to study. Perhaps part of the problem stems from Alvesson’s (1993, 2001) labelling of KIFs as ‘ambiguity intensive’. But by failing to explicitly consider the conceptual boundaries of what does and does not constitute KIFs, scholars risk making inadequate conclusions and even misleading claims. That said, this chapter does not claim to have established a definitive conceptualisation of KIFs, or reached a point of ‘theoretical closure’ on what ultimately constitutes a KIF. As chapter 5 explains, theory is always provisional, and true theoretical closure always a fallacy (King 2004b). Rather, this chapter has made a theoretically informed decision to adapt von Nordenflycht’s (2010) taxonomy to guide the selection of case firms for investigation (see chapter 6). von Nordenflycht’s taxonomy characterises KIFs into four types and outlines the managerial challenges that KIFs encounter. It usefully demarcates KIFs’ conceptual boundaries based on the view that knowledge residing in human capital is KIFs’ most distinguishing organisational feature. The taxonomy follows
Alvesson’s (2001) definition of KIFs as “firms where most work is said to be of an intellectual nature and where well-educated, qualified employees form the major part of the workforce” (p. 863).

Nonetheless, this chapter has proposed an adaption to the taxonomy that accounts for knowledge residing in social and organisational capital, as well human capital. Human capital is ultimately critical to KIFs’ success, but knowledge itself is multifaceted and not always the sole property of individuals. Groups and networks of individuals share knowledge, which firms then transfer into tangible outputs, as well as intangible organisational routines. In short, the modified taxonomy advocated here meets Sayer’s (1992) criteria of ‘practical adequacy’ for categorising and explaining phenomena of interest (see chapter 5). That is, the study can use the taxonomy to judge knowledge claims about KIFs as being ‘more or less useful’ and to generate expectations about KIFs and the actions of actors within them (e.g., Sayer 1992, p. 69). The next chapter elaborates on some of these propositions by discussing hiring as a means by which KIFs build intellectual capital.
3 Hiring by Knowledge-intensive Firms

3.1 Introduction

This chapter extends the preceding chapter’s discussion on managerial challenges affecting KIFs by exploring hiring in the wider context of human resource management. Managing a highly skilled, well-educated workforce is one of the greatest challenges faced by KIFs. Alvesson (2000) argued, “[Although] it is a standard problem for all companies to attract, retain and develop competent personnel, this issue becomes amplified for [KIFs]” (p. 1103). According to Maister (1982), KIFs compete in two markets: ‘output’ markets for their products and services, and ‘input’ markets for attracting and retaining knowledge workers. The nature of work in KIFs demands that firms attract workers with requisite theoretical knowledge, as well as those with subjective qualities like intuition, creativity, and social aptitude. Such a ‘package’ is perhaps idealistic; but, perceptions of skills needed for success in KIFs drives firms to attract and retain the best and the brightest individuals.

The ensuing chapter discusses hiring by knowledge-intensive firms in three parts. The first part builds a theoretical rationale for why effective hiring is fundamental to KIFs’ success and competitiveness. It describes how KIFs leverage stocks and flows of knowledge assets to create value. In particular, KIFs depend on three types of knowledge assets – human capital, social capital, and organisational capital. These three types of knowledge assets underpin intellectual capital theories, which in turn have their roots in knowledge-based views of the firm. Intellectual capital theories propose that KIFs can only create value from human, social, and organisational capital because of the knowledge held and shared by their human resources (Bowman and Ambrosini 2000). Most notable, human capital is the antecedent of social and organisational capital.

This underscores Starbuck’s (1992) original argument that knowledge, as an intangible asset, forms the basis of KIFs’ success. However, in capital-intensive
and labour-intensive firms, machinery and technology, and manual skills, respectively, enable firms to compete against their rivals. Thus, KIFs typically build knowledge assets either by making human capital in-house (training) or by buying it in external labour markets (hiring). By focusing on the latter, this chapter argues that hiring is a process that possesses options values for future capital generation and thus allows KIFs to adapt their human resource bases to meet business needs (Bowman and Swart 2007). Hiring is a dynamic capability (Eisenhardt and Martin 2000; Teece 1998) – a set of antecedent strategic and organisational routines that firms use to acquire human capital and further build social and organisational capital. Thus, the first part of the chapter addresses the question: why is hiring so important for KIFs?

The second part of this chapter discusses KIFs’ approaches to hiring. Much extant research has premised hiring on functionalist prescriptions grounded in positivist organisational psychology research. Firms invariably seek good person-organisational fit when hiring; however, the present study questions the appropriateness of functionalist hiring based on best practice techniques. That is, functionalist hiring prescribes that firms should focus on selection techniques that minimise subjective decision making. But despite researchers’ best efforts to develop objective selection measures, a substantial body of research shows that managers do not always think and act rationally (Boxall and Macky 2007; Purcell and Hutchinson 2007). On the contrary, KIFs’ managers may hire those workers who can best help firms maintain their reputations and images of prestige, or hire those with attributes similar to their own. Starbuck (2010) asked, “Are executives who interview several consultants before choosing one unaware that the consultants know hiring choices reflect intra-organisational political contests?” (p. 1401). Another problem is that some functionalist selection measures tend to suit larger firms better than small ones because they aim to increase hiring efficiency while maximising predictions of prospective hires’ future job performance. But small firms, like many KIFs, tend to hire less frequently than large firms and thus do not necessarily need to rely on functionalist measures to maximise efficiency. As a result, KIFs’ hiring practices may appear deviant according to functionalist prescriptions.
This chapter proposes an alternative focus for exploring hiring by KIFs. It considers tensions between KIFs’ needs to hire highly skilled, well-educated workers, and knowledge workers' bargaining powers. The chapter addresses three important issues. The first issue relates to ‘employer branding’ and reputational capital. KIFs build reputational capital in external labour markets by signalling high quality employment experiences to prospective hires. KIFs use employer branding to convince prospective hires that they can satisfy latent needs of working for a prestigious or respected firm (Martin et al. 2011). The second issue concerns specific ‘employment inducements’ that KIFs use to purposefully accentuate the attractiveness of job attributes (Rynes and Barber 1990). Employment inducements manifest as human resource management issues such as pay and rewards, training and career development, autonomy, and work-life balance. The third issue addresses the ‘hiring sources’ that KIFs use to communicate their employer brands and employment inducements. Even with strong employer value propositions, KIFs still need to select channels that target knowledge workers most effectively.

The last part of this chapter discusses factors that condition managers’ decisions to pursue certain hiring strategies and practices. Following Jackson and Schuler’s (1995) seminal article on understanding human resource management in context, this part of the chapter examines how organisational and external environmental contexts shape hiring approaches. Organisational contexts include organisational life cycles; managers’ HRM ‘blueprints’; firm size; sources of managers’ and HR workers’ HRM knowledge; and links between hiring and competitive business strategies. External contextual factors include government, political, and legislative forces; national cultures; industry characteristics; and labour markets. These contextual factors help to explicate why hiring and HRM approaches vary between firms (Jackson and Schuler 1995).
3.2 Hiring to build knowledge assets and create value

Firms and analysts have traditionally quantified firms’ values in terms of physical assets – that is, their book values. Throughout the 1990s, however, numerous scholars asserted that firms create wealth in other significant and intangible ways – that is, through their knowledge assets (Stewart 1997; Sveiby 1997). These assets in toto comprise firms’ ‘intellectual capital’. Edvinsson and Malone (1997) proposed two knowledge assets that form intellectual capital: human capital (i.e., individuals’ knowledge, skills and experiences) and structural capital (i.e., human capital’s supportive infrastructure). The authors further subdivided the latter into organisational capital (i.e., the systems and operating philosophies that facilitate knowledge flows throughout firms) and customer capital (i.e., the relationships firms hold with their customers). Stewart (1997), however, sought to weight equally human, organisational (structural), and customer capital as intellectual capital’s lower-order components. More recent, Youndt et al. (2004) synthesised extant literatures into three intellectual capital strands: human, social, and organisational capital. This is arguably the most common classification, and the one that the present study adopts.

Human capital refers to individuals’ stocks of learned knowledge, skills and abilities. Human capital theorists argue that some individuals are more economically valuable because they have amassed greater investments in their education and skills (Becker 1964; Mueller 1982). Firms can build human capital by training and developing workers’ knowledge and skills in-house or by outsourcing to training providers. They can also acquire human capital by attracting skilled individuals from external labour markets who already possess requisite knowledge and skills. By contrast, organisational capital refers to institutionalised knowledge and codified experiences embedded in databases, routines, patents, firms’ structures, and so on (Hall 1992; Itami 1987; Starbuck 1992; Tomer 1987). Organisational capital is primarily, but not exclusively, intangible (e.g., manuals, reports, corporate publications). Both make and buy human capital strategies exhibit latent value to facilitate organisational learning and knowledge accumulation (i.e., organisational capital) (Youndt et al. 2004).
Social capital, on the other hand, serves as “an intermediary form of intellectual capital consisting of knowledge in groups and networks of people” (Youndt et al. 2004, p. 338). It describes the knowledge assets embedded within and across, and leveraged through, networks of relationships (Ahuja 2000; Burt 1997; Reagans and McEvily 2003). Such networks include intrafirm knowledge exchanges (Knight 1967; Tsai and Ghoshal 1998), as well as interfirm relationships with suppliers, alliance partners, headhunters and so on. It also includes extrafirm relationships with customers, competitors, regulators, and government bodies. Nahapiet and Ghoshal (1998), drawing on Granovetter’s (1992) work, conceptualised three dimensions of social capital. The structural dimension encompasses social interactions. For example, the positioning of actor’s contacts in social structures might confer several advantages, such as utilising personal contacts to access jobs, or to acquire specific information or resources. The relational dimension reflects intangible assets embedded in these relationships, like actors’ trustworthiness. Last, the cognitive dimension embodies attributes such as shared codes or paradigms that facilitate collective understanding and legitimate ways of acting in social systems.

But how do firms create value from their knowledge assets? What are the implications for hiring and HRM? The knowledge-based view of the firm and the underlying logic of the resource-based view provide important insights into the value-creating properties of knowledge assets. According to the RBV, firms build sustained competitive advantage when their internal resources, such as their human resources, meet four criteria (Barney 1991; Wright et al. 1994). First, valuable resources generate rents that enable firms to lower costs relative to competitors, or enable firms to differentiate their products or services. Second, rare resources may generate exceptional margins or sales volumes relative to competitors’ cost bases. Third, inimitable, difficult-to-replicate resources accrue longer rent streams – often because they are path dependent and causally ambiguous to competitors. Last, firms cannot easily replace some non-substitutable resources to achieve the same outcomes. To understand firms’ value-creation processes, one needs to consider resources’ use values (Bowman and Ambrosini 2000).
By definition, valuable, rent-generating resources link with market revenue streams – whether factor markets or product markets. Such resources need to contribute to valuable product or service creations that have use values, or customer utility, whether for end consumers or for firms procuring inputs (Bowman and Swart 2007). However, ‘resources’ under the RBV refer to ‘valuable resources’. To circumvent tautology, Bowman and Ambrosini (2003) termed non-rent (value) generating resources ‘assets’. Knowledge assets, therefore, only create valuable market outcomes when used practically (Swart and Kinnie 2010, p. 66). That is, knowledge assets accrue value only at the points when firms appropriate their value using other strategies and resources. Before then, their value is latent: they are valued by firms, but not yet valuable to firms. When experts leave firms, for example, they take their expertise with them; but this expertise only becomes valuable to new employers when captured by specific strategies or when supported by other resources. If firms are unable to provide supporting resources (e.g., technical resources), an accommodating organisational culture (e.g., psychological support), and rewards and inducements to motivate experts, then expertise in this context may be non-value creating (Kamoche 1996).

This underscores the importance of effective hiring and the supporting HRM systems used to motivate, develop and retain knowledge workers. Knowledge assets, such as human and social capital, possess latent prehire value that may or may not be apparent to firms at the time of hiring. Whether firms appropriate significant posthire value (generate rents) from these assets depends on how they deploy supporting strategies and internal resources (human or otherwise), and whether firms recognise the existence and potential of these assets. Furthermore, the willingness of employees to cede control of their knowledge assets over time is subject to unstable manager-employee bargaining positions, particularly in KIFs. For example, management consultants may be unwilling to relinquish personal contacts if they foresee opportunities to move to competitors, or plan to setup rival firms. Nonetheless managers, who act as firms’ agents, exert a significant influence over those “processes that use resources – specifically the processes to integrate, reconfigure, gain and
release resources – to match and even create market change” (Eisenhardt and Martin 2000, p. 1107). These are firms’ dynamic capabilities.

Dynamic capabilities are antecedent strategic and organisational routines that managers enact to adapt their resource bases and thus, generate new value-creating strategies (Eisenhardt and Martin 2000). They are not resource or capital stocks, but processes that possess options values for future capital generation (Bowman and Swart 2007). Hiring is such a capability because it enables managers to combine business, functional, and personal expertise to enact choices that they believe will generate rents. Teece (1998) explained, “Seizing opportunities frequently involves identifying and combining the relevant complementary assets needed to support the business. Superior technology alone is rarely enough upon which to build competitive advantage. The winners are the entrepreneurs with the cognitive and managerial skills to discern the shape of the play, and then act upon it” (p. 59). He added, “Dynamic capabilities are most likely to be resident in firms that are highly entrepreneurial, with flat hierarchies, a clear vision, high-powered incentives, and high autonomy” (Teece 1998, p. 59). That is, in firms like KIFs.

3.3 Hiring strategies and practices

Building on the previous section’s discussion, the ensuing sections consider KIFs’ hiring approaches. Hiring constitutes two primary human resource management activities: attraction and selection. Attraction is the process of generating interest in current or upcoming job vacancies by reaching out to prospective individuals. Firms then persuade some proportion of these individuals to apply (Barber 1998). Selection is the process of collecting information about prospective hires in order to evaluate who is most suitable for a particular job vacancy (Ployhart 2006). Scholars typically study attraction and selection from functionalist, process-oriented perspectives. However, this section critiques this body of research and highlights its weaknesses for explaining KIFs’ hiring approaches. The present study argues that hiring by
KIFs simplifies into three main issues: employer branding, employment inducements, and hiring sources.

3.3.1 Functionalist perspectives: A critique

Functionalist or ‘normative-prescriptive’ hiring approaches, as described by many HRM texts, mandate that firms adopt standardised methods and fair processes to maximise investment returns and to achieve good person-organisation fit (cf. Huselid 1995). Such approaches tend to be positivist, deterministic, and fixated on the utility and predictive validity of techniques such as structured interviews, psychometric testing, and assessment centres (Taylor 2006). Normative-prescriptive frameworks promote rational-legal hiring processes in which stages flow sequentially from one to the next. This process-oriented approach is evident in both attraction and selection research. For example, Breaugh et al. (2008) proposed a five-stage attraction model. First, firms should establish their hiring objectives and what positions need filling, as well as the timeframes for filling positions and the total numbers of individuals required. Second, firms should outline strategies to achieve these objectives: whom will firms hire and from where? Other issues include the timing of hiring activities and budgets. Third, firms should choose their hiring methods and sources, and conduct necessary hiring activities. Fourth, firms should monitor intervening job applicant variables such as applicant interest and attention. Last, firms should evaluate whether they have met their original objectives.

Scholars have traditionally taken a similar process-oriented approach to selection. The personnel selection paradigm prescribes a sequence of events that detail how to design and validate ‘rigorous’ selection systems. Smith and Robertson (1993) described that firms should first conduct a detailed job analysis to understand what the job role involves. This analysis should then inform hiring managers about what attributes prospective hires should possess in order to fill job vacancies and to perform effectively in this role. Following this, firms should decide which selection methods will enable them to most effectively evaluate prospective hires’ capabilities on these attributes. Hiring managers should undertake a validation process that assesses the extent to
which their chosen selection methods provide valid predictors of future job performance. Some important criteria include reliability, validity, legality, cost, and fairness. After administering the selection methods to prospective hires, firms should monitor and evaluate the selection system’s effectiveness to inform future selection activities.

Functionalist, process-oriented hiring research is problematic for several reasons. One reason is that the traditional selection paradigm, with its roots in positivist psychology, focuses on the ‘individual’ and assumes that jobs are stable. Yet many jobs, especially in KIFs, are neither stable nor well-defined. Managers may select workers to work in multiple projects teams; workers might change roles, or they may choose to follow diverse career paths within firms (Lievens et al. 2002). Also, hiring decisions are always subjective. Functionalist selection systems claim to increase predictive validity by adding more valid performance prediction (selection) tools and by increasing the number of ‘trained’ raters (e.g., managers, HR workers) involved in the process. Nonetheless, human decision making is invariably complex, situationally motivated, self-referent, and prone to cognitive errors and bias (Beach and Mitchell 1978; Wood and Bandura 1989). Truly objective selection is a fallacy: ‘subjectivity + subjectivity + subjectivity ≠ objectivity’ (van der Heijden and Nijhof 2004).

Functionalist hiring prescriptions also poorly account for chance encounters because they privilege process optimality over opportunism. Functionalist hiring research proposes that attraction starts with clear hiring objectives and then flows into selection, which begins with job analysis. But in reality, there may be times when selection precedes attraction. That is, KIFs’ managers may pre-select prospective hires based on professional network encounters and personal contacts (Chatman 1991). Consider the following probable scenario: Jane, a partner at IT ConsultancyCo, had searched over two months for someone to lead a project that required substantial expertise that her in-house consultants lacked. An ex-colleague advised Jane about a talented IT consultant, Amir, scheduled to present at an upcoming IT developer conference. Jane attended the conference and initiated a conversation with
Amir afterwards. The two exchanged contact details and met informally the following weekend. They negotiated and agreed on an attractive employment package for Amir to bring his expertise to IT ConsultancyCo. In this example, Jane had already ‘pre-selected’ Amir prior to attracting him. Thus, managers also use selection as pre-entry socialisation techniques that expose prospective hires to firms’ cultures and management styles (Anderson 2001).

A consequent problem plaguing functionalist hiring is that such prescriptions privilege large firms over small firms. The traditional selection paradigm requires firms to attract a large enough applicant pool in order to make reliable selection decisions. But small firms, like many KIFs, may wish to target specific individuals, not large groups of applicants. In small firms, Taylor (2006) argued, “Organisational entry remains conditioned by contacts, family ties, extra-functional norms, social indicators, and particularist… means of discrimination” (p. 481). Large and highly visible firms also benefit from rational-legal hiring because these methods enhance their social legitimacy as fair employers in the eyes of job seekers and other stakeholders. This increases isomorphic pressures for large firms to imitate each other’s hiring practices. However, large firms benefit not just because of the hiring practices they use, but also because of their similarities to one another. Similarity makes it easier for large firms to transact with one another and to attract career-minded and talented individuals by signalling legitimacy (DiMaggio and Powell 1983). Small firms, which are less institutionally visible, often fail to reap significant benefits from normative hiring. They may even incur greater financial costs and wasted time by using ‘objective’ selection methods. Hiring by small firms appears deviant against normative prescriptions. But, in fact, their dynamic capabilities may enable them to hire talented individuals just as effectively as large, conformist firms (Swart et al. 2003).

To summarise, functionalist hiring prescriptions exhibit several shortcomings. In KIFs and small firms especially, this manifests as a “significant gap between the ought of recruitment and selection and the is of practice” (Taylor 2006, p. 483, emphasis in original). Process models, such as those proposed by Breaugh et al. (2008) and Smith and Robertson (1993), focus on what firms should do,
rather than what they actually do. The following sections propose three issues that are more pertinent to KIFs’ hiring approaches: employer branding, employment inducements, and hiring sources.

3.3.2 Employer branding

Knowledge workers ceteris paribus have strong employment prospects. KIFs’ capabilities to attract such workers depend on the strengths of their employment opportunities and how they signal these strengths. ‘Employer branding’ is a salient issue because weak branding signals minimal value appropriation from entering into employment relationships (Martin et al. 2011). Marketers use brands to convey value propositions, which are sets of benefits that signal satisfaction to customers (Day and Montgomery 1999). Managers and HR workers in KIFs apply analogous principles to hiring: rather than selling products or services, KIFs sell employer brands and employment experiences; instead of targeting consumers or end-users, they target prospective hires. But unlike products and services, employment relationships are highly enduring; they induce stronger commitments and more complex decision making from their targets.

KIFs need to craft strong value propositions in order to convince prospective hires to enter into new employment relationships. But in tight labour markets many knowledge workers may already be in employment. Thus, strong value propositions, which underpin employer branding, enable KIFs to capitalise on imperfect market information. That is, employer branding can influence individuals’ rational cognitive and non-rational (affective) decisions about whether or not to terminate existing employment contracts and therefore change jobs (Rynes and Barber 1990; Werbel et al. 2008). Factors affecting job-change decisions include individuals’ latent internal prospects (e.g., promotion, career development); current job satisfaction (Dutton et al. 1994; Herriot et al. 1994); and competing job offers and coercive pressures (e.g., headhunters) (Kirschenbaum and Mano-Negrin 1999; Zenger 1992).
On one hand, some evidence supports that firms’ reputational capital influences the effectiveness of firms’ employer branding and attraction strategies. Reputational capital signals that firms provide “a high-quality employment experience and a distinctive organisational identity which employees value, engage with and feel confident and happy to promote to others” (Martin et al. 2011, p. 3618-19). For example, Powell (1991) observed that individuals’ initial attraction to firms predicted posthire attractiveness more strongly than managers’ behaviours during interviews. This suggests that new hires’ early impressions influence later perceptions of firms’ attractiveness – even before new hires set a foot through the door (Powell and Goulet 1996). But as a result, small firms may possess a priori disadvantages because their reputational capital carries less weight than large firms. Small KIFs, in particular, may struggle to successfully develop “a rhetoric about their distinctiveness or excellence, but may instead develop strong rhetoric about interpersonal bonds associated with being parts of the company representing a socially cohesive community” (Alvesson 2000, p. 1112).

As the last section noted, large and well-established firms tend to benefit from greater institutional visibility and legitimacy among job seekers. Indeed, mere exposure theory posits that repeated exposure to an entity, such as a firm, induces more positive evaluations of it over time – even in the absence of conscious awareness (Zajonc 1968). Nonetheless, small firms may not be completely at the mercy of low reputational capital. Turban (2001) found that managers could use employer branding to improve firms’ attractiveness by proactively managing individuals’ perceptions about firms’ attributes (i.e., image, challenging work, compensation and job security). Thus, even small firms can overcome low reputational capital and institutional ‘invisibility’ by using strategies to manipulate prospective hires’ preconceptions. One way is for firms to promote specific employment inducements in their employer branding strategies.
3.3.3 Employment inducements

Pecuniary and non-pecuniary inducements form important elements of KIFs’ employer branding and value propositions. Firms use inducements to manipulate job attributes that they believe will enhance the attractiveness of job roles to prospective hires (Rynes and Barber 1990). Rynes and Barber (1990) argued that almost all job attributes could be seen as inducements; however, some attributes are more appealing than others. For example, Horwitz et al. (2003) found that a highly competitive salary in the upper market quartile was the most effective attraction and motivation device for knowledge workers, in addition to other non-contractual inducements, such as career development, freedom to plan work, and challenging opportunities. Knowledge workers “[Are] autonomous people who enjoy occupational advancement and mobility and resist a traditional command and control culture” (Horwitz et al. 2003, p. 24). They tend to identify with prestige attached to their careers and occupations more than to specific jobs or firms (Starbuck 1992). Thus, Sveiby (1997) argued that professional development through ‘further education accounts’ may provide better inducements than high salaries. Of course, individual differences (e.g., expectations, needs, desires) influence knowledge workers’ perceptions of inducements’ attractiveness. Nonetheless, inducements such as those identified by Horwitz et al. (2003) feature commonly in accounts of attracting and retaining knowledge workers. Løwendahl (2005) likened managing knowledge workers to herding cats: “…Cats do come when you want them to, if only you have the right incentive – for cats, even a dead herring might work!”…Incentives are important… [especially] to professionals” (p. 70).

Thus, firms should reinforce positive job attributes that appeal most to specific individuals or groups, such as knowledge workers. But, prospective hires expect firms to fulfil inducements posthire, lest unmet expectations result in psychological contract breaches (Robinson 1996) and undesirable outcomes like high turnover, poor job performance, and low commitment (Robinson and Rousseau 1994; Zhao et al. 2007). Firms may incorporate salaries, working hours, and some benefits and compensation into written employment contracts, which realise more or less immediate outcomes. However, research has found
that firms do not fulfil all inducements immediately posthire (Lester et al. 2007). Instead, many prehire inducements satisfy only latent needs and expectations: career and skills development opportunities; firms’ respect for work-life balance; firms’ social atmospheres and cultures; job content (i.e., provisions of challenging, satisfying, and varied work), and inter alia, job security. Firms fulfil some latent desires contingently upon workers’ posthire behaviours – even in spite of firms’ support for, and commitment to, these desires prehire. For example, career development opportunities may depend on workers’ later performance appraisals, and their overt motivation and commitment levels.

In essence, KIFs and prospective hires draw-up prehire psychological contracts. A psychological contract is a legal metaphor in which the term ‘contract’ implies mutuality; however, psychological contracts are mainly in the ‘eye of the beholder’ (Guest 1998). As Guest (1998) remarked, “Where the implicit encounters the implicit, the result may be two strangers passing blindfold and in the dark, disappointed at their failure to meet. Or to put it another way, both may have drawn up contracts in the hope that the other has drawn up exactly the same contract” (p. 652). Nonetheless, how firms communicate their employment inducements is just as important as the actual inducements they use. Research has shown that firms communicate their inducements and employer brands through various hiring sources. These sources may be formal or informal, and be effective to a greater or lesser extent in different contexts. The next section considers the types of hiring sources that KIFs use, and how those responsible for hiring might use these sources to attract prospective hires.

3.3.4 Hiring sources

Scholars typically distinguish between formal and informal hiring sources (Ellis and Taylor 1983; Saks 1994; Werbel and Landau 1996). Formal hiring sources invite applications from open labour markets. Firms communicate job positions publicly and anyone may apply (Werbel and Landau 1996). Examples of formal sources include advertisements placed on corporate web sites, as well as dedicated external recruitment web sites; newspapers and trade magazines; and employment agencies. By contrast, informal sources refer to applications
based on job information transmitted through networks and word-of-mouth (Werbel and Landau 1996). Informal sources tend only to reach out to a select few individuals. Examples include worker referrals; personal networks consisting of friends, family, and acquaintances; work placements and internships; and headhunters. Some researchers have also classified hiring into ‘internal’ and ‘external’ sources depending on whether individuals pursue jobs using information obtained from ‘inside’ or ‘outside’ of firms (Moser 2005; Wanous 1992). In addition to these classifications, self-initiated applications (walk-ins and write-ins) form a third source. In this case, it is often unclear what prior information motivated individuals to apply and where they obtained job information (Moser 2005).

Studies have shown that different hiring sources lead to different posthire outcomes. Ullman (1966) found that workers hired via informal sources (i.e., employee referrals, direct applications) had lower turnover rates compared to individuals hired through formal sources (e.g., newspapers, employment agencies). Other studies have also found that informal sources attracted higher quality individuals. For example, Williams et al. (1993) observed that informal sources reached more qualified and experienced candidates who later performed better than those hired via formal sources. Kirnan et al. (1989) found that informal sources associated with existing workers closest to jobs (referrals by agents, sales manager, and district managers) produced higher quality new hires compared to informal sources of mutual acquaintance and administrative referrals. Other studies have shown that self-initiated applications produce similarly high-quality candidates (Breaugh 1981). Scholars argue that informal hiring sources provide prospective hires with realistic job previews. Friends and close acquaintances are more likely to provide accurate information about positive, as well as negative, job attributes. As a result, information passed on through informal hiring sources lead to more realistic job expectations (Moser 2005). Thus, highly skilled knowledge workers, with high opportunity costs, may choose to self-select out of consideration when they expect a poor fit between their needs and what job roles offer.
Many small and medium-sized KIFs tend to hire using personal networks and other informal sources (Alvesson and Robertson 2006; Finlay and Coverdill 2007; Ployhart et al. 2006). Informal sources are usually cost-effective and underpin KIFs’ dynamic hiring capabilities when pursued strategically. For example, Swart et al. (2003) observed that KIFs’ actual hiring practices differed substantially from their formal hiring policies. Although KIFs’ hiring policies existed in theory, KIFs rarely followed them in practice. Hiring was a continuous process, not a vacancy filling exercise. KIFs emphasised hiring as knowledge exchanges to develop ‘talent networks’ “in the quest for superior intellectual capital” (Swart et al. 2003, p. 44). KIFs’ workers actively maintained ties with former universities and ex-colleagues. By leveraging informal sources, Swart et al. (2003) found that KIFs were able to signal potential job opportunities to select groups of individuals. Alvesson and Robertson (2006) also found that prospective hires used personal and professional networks to gain insights into KIFs’ employment conditions – that is, realistic job previews.

Personal and professional networks act as KIFs’ ‘eyes and ears’ and support continuous interactions between firms and prospective hires (Swart et al. 2003, p. 44). Networks facilitate unremitting “conversation[s] about cutting-edge skills and about who is doing what and moving where…[Hiring] matches this ‘rhythm of conversation’, and when a KIF is made aware that a certain skill is available in the labour market, the skill involved is often purchased, whether permanently or over a fixed period” (Swart et al. 2003, p. 44-45). Networks and other informal sources (e.g., employee referrals, headhunters) also connect KIFs to like-minded individuals. In this sense, informal sources are as much about selecting for cultural fit as they are for finding skills and expertise (Alvesson 2001; Starbuck 1992; Swart et al. 2003). The ensuing sections explore some potential reasons why firms’ hiring approaches vary because of their organisational characteristics and external operating environments.
3.4 Hiring and organisational contexts

Variations in firms’ hiring strategies and practices reflect decisions conditioned by internal organisational contexts, as well as external environmental contexts. Although internal and external contexts are interdependent at micro and macro levels, it is possible to extract salient factors from each for discussion purposes. Based on research and frameworks by Budhwar and Sparrow (2002), Jackson and Schuler (1995), Lengnick-Hall et al. (2009), Storey (2009) and others, this section identifies five organisational factors that condition firms’ hiring strategies and practices. These factors are: organisational life cycles, management ‘blueprints’, firm size, HRM knowledge, and competitive strategies. To provide a comprehensive discussion, this section considers implications of each organisational factor on firms’ broader HRM approaches. In the present study, HRM embraces management of human resources by any individuals tasked with managing people, including firms’ owners and line managers, as well as HR workers. Thus, this section evokes discussions of variations in hiring as part of firms’ wider HRM approaches.

3.4.1 Organisational life cycles

Organisational life cycle theorists argue that firms’ strategies, structures, and management approaches evolve to cope with competing demands and uncertainties as firms progress through developmental stages. Firms’ HRM approaches, too, may progress through such stages including initiation, functional growth, controlled growth, and strategic integration (Baird and Meshoulam 1988; Rutherford et al. 2003; Schuler 1989). Firms in the initiation (start-up) stage typically exhibit entrepreneurial styles, informal management, and limited products and markets (Baird and Meshoulam 1988). Managers focus on immediate HRM concerns to meet core business objectives. They balance short-term cost-efficiency with long-term aspirations (Lengnick-Hall and Lengnick-Hall 1988). Rutherford et al. (2003) found that low-growth firms in the US experienced the least problems hiring and training workers because they operate in more stable environments to develop workers and have fewer
requirements to expand their workforces. However, managers in this stage tend to see workers as costs, rather than value-added.

During the functional growth stage, firms expand their products and markets, and formalise their structures (Baird and Meshoulam 1988). Buller and Napier (1993) found that managers and HR workers perceived hiring to be the most important HRM activity during rapid growth periods. However, managers may have less time and expertise to hire workers, and thus establish dedicated HR functions to assist in such tasks. Firms continue to expand, specialise, and diversify as they pass through controlled growth and strategic integration stages (Baird and Meshoulam 1988). At these points, HRM elevates to corporate levels as managers align HRM with strategic business goals. According to Budhwar and Sparrow (2002), firms that reach mature organisational life cycle stages tend to hire enough workers to allow for labour turnover. They also focus on maintaining market positions by creating new job opportunities and by paying workers at market leading rates. By contrast, firms in decline reduce worker overheads in order to minimise costs and to remain competitive (Budhwar and Sparrow 2002).

Thus, organisational life cycle theories provide useful descriptions of organisational changes that firms undergo in response to external competitive forces. Such theories are intuitively appealing, but some scholars argue that they are overly deterministic (Dodge et al. 1994; Whetten 1987). Indeed, not all firms follow the same trajectories. Some firms are born mature (e.g., merged firms); others die before they grow; and still others adapt only to survive, not grow. As such, organisational life cycle theories tend to describe that firms pass through developmental stages, rather than explain why they do so. Organisational life cycle theories, therefore, mask important contingencies that might explain why different firms adopt different hiring and HRM approaches. Other theories are necessary to explicate strategies and practices used by firms at different stages.
3.4.2 Management ‘blueprints’

Historical and evolutionary analyses of firms have shown that owners ‘imprint’ their ideas and experiences on conditions that enable their firms to grow and survive (Romanelli 1991). Selznic (1957) and Stinchcombe (1965) emphasised the power of internal founding conditions, such as the personalities and backgrounds of firms’ owners and that of other internal actors on decision-making. Such attributes shape early decisions about strategy and HRM within institutional and external founding conditions. Interactions between internal and external founding conditions support path-dependent models of organisational evolution and HRM. Owners’ mental models shape workforce compositions, create expectations and interests within firms, and foster reputations for firms in external labour markets (Baron et al. 1999, p. 531). Child (1972) argued that owners’ ‘prior ideologies’ interact with external conditions to shape evaluations of situations, choices of goals, and strategies relating to scales of operations, technology, structure, and HRM.

For example, Baron et al. (1999) studied founding conditions of Silicon Valley high-tech start-ups (cf. technology developer KIFs; von Nordenflycht 2010). In the study, KIFs’ owners had HRM and employment relations ‘blueprints’ that influenced initial policies, structures, and behaviours. In particular, three types of blueprints guided images about how to organise work and employment across different business areas. First, owners varied on how they envisioned attachments. Some wanted to create family-like bonds that would inspire superior efforts and help to retain workers. Others wanted to provide interesting and challenging work to attract and motivate workers. But others merely saw employment relationships in terms of wage labour exchanges (Baron et al. 1999). Second, owners varied in their approaches to hiring. Some saw their firms as bundles of projects that were time and money-critical and thus hired workers who could contribute immediately to tasks using their skills sets. By contrast, other owners focused more on values and cultural fit. They envisioned long-term about how new hires would connect with existing workers. Third, owners differed on control and coordination, including processes involving
formal procedures and systems, direct oversight, and control through social norms (Baron et al. 1999).

Issues of coordination and control are important because firms’ owners and managers may have different views about HRM’s strategic importance, as well as how to distribute HRM roles and responsibilities. Firms’ selection processes provide useful examples of HRM coordination and control. In small firms with HR or personnel functions, owners may still control a significant stake in selection decisions vis-à-vis HR workers. With limited resources and budgets, small firms have fewer margins over costly selection mistakes. As a result, owners may be reluctant to cede control over final selection decisions to HR workers or supervisors. Moreover, owners may have significant stakes in the socialisation of new hires. Thus, it is important for owners to achieve strong fits between new hires’ and firms’ values (Chatman 1991). Because small firms are less likely to have formal hiring policies and competency frameworks (Ram 1999a), owners may assume ultimate responsibility for judging prospective hires’ suitability. Indeed, Slatter (1992) argued, “It is not pure chance that most successful small firms spend more senior management time on recruiting than their less successful competitors” (p. 111). By contrast, larger firms with sufficient budgets and resources have greater slack over selection errors. In such firms, owners and line managers may be more inclined to entrust HR workers with selection decisions. Moreover, owners of larger firms have little time to coordinate and control hiring across multiple job openings, and to understand the requirements of all new and existing job roles. Thus, HR workers and line managers may jointly coordinate final selection decisions.

3.4.3 Firm size

Numerous studies have shown that hiring and HRM varies with firm size (Barber et al. 1999; Child 1972; Jackson et al. 1989). For example, Terpstra and Rozell (1993) found that larger firms were more likely to adopt sophisticated, formal staffing practices, such as validation studies and cognitive tests. Two theories explain why firm size influences the use of such practices (Barber et al. 1999). First, the efficiency imperative (Williamson 1975) maintains
that larger firms economise costs by internalising procedures for recurrent transactions, such as routine hiring. Hence, formalised procedures facilitate multiple application processing and selection decisions. Over time, repeated hiring amortises costs to develop such procedures, especially as larger firms develop more complex structures and work designs (Barber et al. 1999). Second, large firms have greater exposure to institutional forces (DiMaggio and Powell 1983), such as coercive (e.g., legal requirements), mimetic (e.g., imitating successful competitors so as to appear legitimate), and normative (e.g., acting on shared collective values) pressures. As a result, large firms use formal hiring practices to enhance process efficiency, as well as legitimacy. Other studies also support that large firms have more sophisticated internal labour markets that provide greater scope for intra-firm career mobility and progression (Baron et al. 1986). By comparison, smaller firms with less developed internal labour markets may need to hire externally (Granovetter 1984).

3.4.4 HRM knowledge

Storey (2009) argued that firms pursue different HRM approaches contingent on various types of knowledge that managers’ and HR workers’ draw from when making choices. Some types of knowledge lead managers to act in highly strategic ways, whereas other types lead managers to pursue ad hoc or pragmatic approaches. Storey (2009) distinguished between three types of knowledge underpinning HRM strategies. First, some managers rely on formal knowledge based on analytical models when faced with uncertainty about how to formulate effective HRM strategies. This may entail systematic analyses of current HR policies and practices against economic, social, and legal information (e.g., environmental analysis, SWOT). Alternatively, managers may consult Internet sources, management texts, or consultancy frameworks to support their decisions (Storey 2009). Second, some managers depend on evidence-based knowledge to inform HRM strategies. Here, managers support decisions using data-driven approaches, rather than theoretical frameworks. This may entail collecting and analysing data on HR activities to evaluate what works well and what does not. For example, HR manager might examine which
hiring sources attract the most interest from the highest quality applicants. Of course, such approaches are not entirely ‘theory-free’ because *a priori* knowledge determines what data managers choose to analyse (Storey 2009).

Third, *tacit knowledge* may underscore managers’ beliefs and assumptions about which HR strategies and practices should work most effectively. Sometimes, managers possess knowledge about certain practices, but knowledge underlying decisions to use such practices is implicit (e.g., Barney 1991; Conner and Prahalad 1996; Grant 1996b; Guthrie 2001; Klaas et al. 2001; Lado and Wilson 1994). Managers know *how* to perform certain activities, but they do not always know *that* certain implicit assumptions and beliefs determine their use (cf. Fleetwood 2005). At other times, managers may articulate sound reasons for avoiding certain strategies (e.g., costs, complexity), but cannot, or will not, explicate why alternative strategies are more appropriate. For example, KIFs’ managers may privately believe that personal networks attract individuals with substantial expertise, or who can best represent firms to clients. However, managers may not explicitly endorse such methods if HR policies advocate hiring by formal sources and processes (Swart et al. 2003). In any case, tacit knowledge may have negative, as well as positive consequences. Studies on management ‘blueprints’ affirm that managers’ beliefs, assumptions, and prior ideologies “limit how they think about strategy and how they frame and define and assess strategic options” (Storey 2009, p. 130).

### 3.4.5 Hiring and competitive strategies

KIFs in highly dynamic business environments are especially sensitive to competition and market forces. Although some managers may passively accept the inevitably of growth or decline as they battle the organisational life cycle, others adopt proactive strategies to improve their firms’ market positions and viability to compete (Dodge et al. 1994). Scholars have argued that firms compete more effectively when their HRM strategies align with their business strategies. This idea underscores contingency and configurational theories vis-à-vis universalistic (best practice) perspectives (e.g., Huselid 1995; Pfeffer
For example, Miles and Snow (1984) proposed that specific HRM practices support three types of business strategies. *Prospectors* aggressively seek growth through new products and markets, whereas *defenders* pursue similar, limited product lines that emphasise high volume and low cost. *Analysers*, like prospectors, seek growth but favour stable and predictable markets like defenders. Prospectors are more likely to emphasise ‘buying’ human capital, whereas defenders tend to build skills in-house (Miles and Snow 1984). Later, Schuler and Jackson (1987) showed, by adapting Porter’s (1980, 1985) work, that cost reduction, quality improvement, and innovation strategies require different HRM strategies to manage workers’ role behaviours. More recently, Michie and Sheehan (2005) found that innovation and quality-enhancer strategies moderated links between HRM and performance in manufacturing and services firms. Nonetheless, some firms pursue strategic flexibility, rather than absolute fit, in order to anticipate prevailing market conditions (Lengnick-Hall and Lengnick-Hall 1988).

Lepak and Snell (2002) argued that managers envisage links between HRM and business strategies by evaluating the strategic value and uniqueness of individuals’ human capital under four employment modes: knowledge-based employment, job-based employment, contractual work, and partnerships. Strategic value refers to how individuals’ skills, knowledge and experience may improve firms’ efficiency and effectiveness, and enable them to exploit opportunities and neutralise threats (Barney 1991). Human capital uniqueness, on the other hand, refers to what extent such skills and knowledge are rare, specialised, and perhaps firm-specific. Under job-based employment modes, human capital has high strategic use values, but workers’ skills exhibit limited uniqueness. Firms usually hire such workers to perform predetermined tasks (Lepak and Snell 2002). Under knowledge-based employment, however, human capital is both highly unique and strategically valuable. Managers hire workers to represent their firms’ core knowledge bases. Firms build business strategies around their knowledge workers and thus HRM strategies should elicit long-term commitment from such individuals (Lepak and Snell 2002). However, many firms – even small ones, like some KIFs – comprise job-based and knowledge-based employment modes. Thus, firms may need to enact different
HRM approaches to hire, develop and retain workers that fall under different employment modes (Lepak and Snell 2002).

Firms also build human capital through HRM strategies designed to hire for, or through, social capital (Nahapiet and Ghoshal 1998; Reed et al. 2006; Youndt et al. 2004). Intellectual capital theories assume that social capital forms an important component linking KIFs’ hiring and competitive strategies. In some cases, social capital forms part of a formal hiring approach. For example, Fernandez et al. (2000) argued, “Employers who use [referrals] are quintessential “social capitalists”, viewing workers’ social connections as resources in which they can invest in [in] order to gain economic returns in the form of better hiring outcomes” (p. 1288). Hiring workers by referrals confers several benefits. First, referrals enrich firms’ hiring pools by targeting individuals who might not otherwise apply. Second, referrers are likely to recommended individuals with similar traits and qualities that match firms’ cultures. Third, referrers are unlikely to risk their reputations by recommending individuals who are unsuitable (Fernandez et al. 2000). By contrast, social capital may form part of informal hiring strategies to support wider business goals. For instance, Ram’s (1999a) study of small professional services firms found that new hires’ capacities to generate new business was as important, if not more so, than their technical knowledge. When hiring, one case firm sought individuals with access to networks of customers and expertise that would allow them to compete with larger rivals. Firms attracted new hires through existing personal networks, such as individuals contracted previously under freelance arrangements (Ram 1999a).

3.5 Hiring and external environmental contexts

Firms of all types formulate and enact strategies within constraints of their external environments (Jackson and Schuler 1995; Milliman et al. 1991). Such conditions are particularly important for discussions of hiring and HRM. Based on analytical frameworks by Jackson and Schuler (1995) and Budhwar and Sparrow (2002), this section discusses four external factors that influence firms’
hiring and HRM decisions: government, political economic systems, and legal contexts; national cultures; industry characteristics; and labour market contexts. In short, this section addresses the question: why do firms’ hiring approaches vary because of the external environmental contexts in which they operate? As with the previous section, this section intentionally evokes discussions of variations in hiring as part of firms’ wider HRM approaches.

3.5.1 Governments, political economic systems, and legislation

Prevailing political systems and government arrangements create institutional frameworks through which firms conduct business activities and manage their human resources. Such frameworks vary depending on how national and local governments use regulation and legislation to intervene in management practices, employment relationships, and free market operations. Political ideologies determine the types and levels of interventions based on different models of capitalism. Dicken (2007) identified four such models:

- Neo-liberal market capitalism: states use market mechanisms to regulate most, if not all, parts of their economies; individualism is important, as is maximising ‘shareholder value’ and returns to owners of capital (e.g., the US);
- Social market capitalism: states place high premiums on collaboration between different economic actors, with broad identification of ‘stakeholders’ beyond owners of capital. Governments place substantial emphasis on social welfare, employment rights, and trade union legitimacy (e.g., Germany);
- Developmental capitalism: states play central roles in establishing social and economic goals within explicit industrial strategies (e.g., Japan and South Korea);
- Communist capitalist system: this model, unique to China, functions as a highly centralised political system, yet combines an increasingly open capitalist market system.
Under all four models, governments seek to directly and indirectly influence firms' business activities and HRM practices. Indirect state influence manifests in regulation of trade, foreign direct investment, and industry. State policies on FDI, for example, may influence domestic firms’ exposure to foreign HRM practices (Cooke 2011b). Furthermore, state industrial policies, such as in high-tech and creative industries, shape competitive industry dynamics and labour market functions. Education and training interventions reinforce industrial policies by strengthening supplies of human capital in specific industries. By contrast, governments intervene directly in firms’ HRM practices by enacting legislation to control management behaviours and to punish non-compliance, but with varying degrees of success. For example, Myors et al. (2008) examined perspectives on legal environments for selection in 22 countries. The findings showed that all countries had laws to protect disadvantaged groups (immigrants or foreign residents, religious minorities, and ethnic minorities), as well as laws and directives to prevent discrimination on the basis of sex and other demographics. However, there were very few cases where discriminated job seekers had actually filed cases against firms. In many countries, workers did not understand their rights, or cultural contexts discouraged workers from enforcing their rights. Moreover, punishment of firms was usually light, such as minimal to moderate fines.

3.5.2 National cultures

International and comparative HRM research has shown that national culture influences how firms manage human resources (Aycan et al. 2000; Budhwar and Sparrow 2002; Laurent 1986; Schneider 1988). Terpstra and David (1985) defined culture as a learned, shared, and interrelated set of symbols whose meanings compel members of a society to think and behave similarly. Schein (1990) described culture as “(a) a pattern of basic assumptions, (b) invented, discovered, or developed by a given group, (c) as it learns to cope with its problems of external adaptation and internal integration, (d) that has worked well enough to be considered valid and, therefore (e) is to be taught to new members as the (f) correct way to perceive, think, and feel in relation to those problems” (p. 111). Tayeb (2005) argued that national cultures are distinct from
national institutions. That is, national institutions reflect formal rules and regulations that enforce sanctions for non-conformity, whereas national cultures influence management practices through “internalised socially accepted norms of behaviours” (p. 45). However, Wilton (2011) re-joined that interactions between national culture and institutions are “bilateral in that the institutions both reflect and reinforce the dominant values and attitudes held by a society” (p. 122). Thus, national cultures likely reflect similarities and differences across countries’ history, physical environments, and institutions such as education, mass media, and religious demographics (Tayeb 2005).

But whether shared values and beliefs actually reflect cultures or institutions, such artefacts raise implications for managing people and employment relationships within local contexts and across national borders. Indeed, several studies have shown substantial heterogeneity in hiring practices across country settings. Based on surveys in ten countries, Huo et al. (2002) found that job interviews ranked in the top three selection practices in almost every country, except China. By contrast, managers in China, Indonesia, and Mexico ranked employment tests in the top three selection criteria that firms “should” use, but only firms sampled in China and Indonesia “actually” used such tests regularly in practice. Despite much research on employment tests emanating from the US, testing has had a long history in China ever since officials established the civil service examination during the Sui dynasty. Even today, civil service job applicants must pass an intensive entrance examination that covers technical as well as political knowledge. This reflects cultural beliefs that examinations provide impartial selection methods to identify and choose the most talented individuals (Cooke 2003, p. 394). Huo et al. (2002) concluded, “China seems to be one of a kind; its profile appears to be positioned somewhere between Asia and North America” (p. 40).

3.5.3 Industry characteristics

Industry categories provide analytical frameworks to describe groups of firms that possess similar strategies, business logics, and goals (Budhwar and Sparrow 2002). They provide “contexts within which meanings are construed,
effectiveness is defined, and behaviours are evaluated” (Jackson and Schuler 1995, p. 252). Scholars have analysed industries on several levels, including public versus private (Tolbert 1985), regulated versus unregulated (Nickerson and Silverman 2003), and dynamism (Datta et al. 2005; Davis et al. 2009). However, the most basic distinction for exploring variations in HRM has arisen from classifying industries into manufacturing and services. Bowen and Schneider (1988) argued that services firms differ from manufacturing firms in three ways: (i) services are intangible; (ii) services require customers to collaborate in service production and delivery processes; and (iii) services often function on simultaneous production and consumption. As a result, services firms require different sets of HRM practices to support their goals. For example, Terpstra and Rozell (1993) found that services firms, on average, made greater use of five staffing practices (collecting data on hiring sources, validation studies, structured interviews, cognitive tests, and biographical information banks) compared to manufacturing firms. Most notable, services firms were significantly more likely to collect and act on data relating to hiring source effectiveness.

As the next section explains, such findings underscore a more basic premise: that firms in services industries require access to fundamentally different labour markets compared to manufacturing firms. KIFs, for example, operate in industries that have high knowledge and skills requirements. KIFs need to leverage hiring strategies that account for difficulties in attracting expertise from external sources, as well as in managing different types of employment relationships (e.g., knowledge-based employment, contracted expertise, partnerships and alliances) (Lepak and Snell 2002).

### 3.5.4 Labour markets

Scholars have traditionally defined labour markets as economic mechanisms that enable firms to buy and sell human labour as commodities (Fleetwood 2005). Such mechanisms function as matches (or mismatches) between labour demand (numbers and types of available jobs) and supply (numbers and types of available workers) over time and space. This definition, premised on markets
for wage labour and traditional employment relationships within well-bounded firms is, of course, rather narrow (Rubery 2005). In recent decades, substantial changes have occurred in varieties of relationships held between workers and employing firms, and those mechanisms that enable such relationships to form. In the post-Fordist era, labour markets segment across vastly different dimensions that encompass new employing organisations (e.g., networked firms, contract cultures), new modes of work and pay (e.g., flatter hierarchies, teamworking, flexible working), new labour supplies (e.g., dual-earners, employment opportunities for all), and diverse, rather than standard, employment contracts (Rubery 2005). This section analyses labour markets in the context of a knowledge economy, where expertise, theoretical knowledge, and knowledge-based employment play increasingly privileged roles (Watson 2008). The discussion considers hiring and labour markets along three related dimensions: industry-specific markets; markets for skills; and geographical disparities.

Industry and occupational groups yield particularly useful ways to analyse labour markets. In knowledge-intensive industries, for example, considerable diversity characterises KIFs and ‘knowledge workers’ (Starbuck 1992; von Nordenflycht 2010). Across such industries, firms need to access labour markets comprising of highly skilled and well-educated job seekers. However, different types of KIFs will target distinctly different labour markets and occupational groups. For example, technology developer KIFs will target labour markets that provide access to individuals with skills and experience in S&T. By contrast, regulated professional services firms, such as law and accountancy firms, hire from labour markets consisting of individuals with professionally accredited qualifications. As new firms enter an industry, existing firms must compete within the same labour markets to attract individuals with the required skills. But, at the same time, both technology developers and regulated professional services firms also hire for general skills to fill job-based positions (Lepak and Snell 2002). For such roles, KIFs have greater leverage because non-industry specific skills are less rare and thus widely available across different labour markets. On the supply side, industry classifications provide corresponding occupational groups with indications of market salary rates. Job
seekers may use this information, albeit imperfectly, to make decisions on whether or not to accept job offers.

Many KIFs are thought to operate in tight labour markets where demand for highly skilled workers regularly outstrips supply. When supply is tight, firms may deploy more intensive and expensive hiring practices, expand their geographical search, raise salaries, improve employment conditions, and reduce hiring standards (Jackson and Schuler 1995). Such actions are in response to so-called ‘skills shortages’. According to Manpower’s 2012 Talent Shortage Survey, engineers, technicians, IT workers, accounting and finance workers, and executives ranked in the top ten jobs vacancies that firms across the globe experienced difficulties in filling. Nonetheless, skills shortages are complex phenomena with many causes rooted in organisational and institutional contexts. Watson et al. (2006) argued that accurate assessments of shortages depend on “firms knowing the current skills set of their employees and, additionally, then being able to define an optimum future level of skills that they wish to attain” (p. 42). Moreover, inconsistencies across studies reporting shortages occur because ‘skills’ and ‘shortages’ are equivocal concepts. Indeed, many researchers (as well as firms and policymakers) fail to articulate adequate definitions. Green and Ashton (1992) argued that the term ‘skills shortages’ embraces such a wide range of labour market problems that it “fundamentally misconstrues the real problems facing… countries in relation to their skills bases” (p. 287).

Skills, in a very broad sense, constitute any learned abilities that enable individuals to perform tasks with certain degrees of competence. Becker (1962) categorised skills as either general or firm-specific. General skills, unlike firm-specific skills, are transferable across firms and industries (Castanias and Helfat 2001). They “form a universal foundation for success in the labour market, transcend the individual subjects being studied, and are applicable across a wide range of situations” (Grugulis et al. 2004, p. 8). Such skills include basic cognitive abilities (e.g., literacy, numeracy, problem solving); vocational and technical skills linked to occupational domains; as well as abilities to apply learned theoretical knowledge in context. Thus, according to Richardson (2007),
skills shortages arise when (i) there are too few people available in external labour markets with general skills and (ii) the training time to develop such skills is long. Shortages are most severe when education and training institution capacities are fully utilised, but moderate when capacities can expand readily (Richardson 2007). But shortages do not always relate to skills – they also reflect more general qualities that employers want. This, in essence, underpins the notion of ‘quality gaps’.

Quality gaps arise when sufficient people exist with general skills who are willing to apply for vacancies, but such individuals lack ‘qualities’ that employers see as important (Richardson 2007). According to Holt et al. (2010), job seekers must “offer not just single but multiple skills, and also other attributes alongside skills” (p. 26). Many researchers and policymakers classify general skills as being either ‘hard’ (for instance, IT and numeracy) or ‘soft’ (for instance, behavioural patterns and mental dispositions). However, the latter are not really skills at all. For example, when Oliver and Turton (1982) asked employers ‘Is there a shortage of skilled labour’, many respondents interpreted skills as personal and behavioural attributes (adaptability, reliability, ability to work without supervision). Employers in different occupational groups also appear to interpret ‘skills’ and ‘shortages’ differently. For instance, Green et al. (1998) observed that employers in lower-status occupational groups reported more shortages in behavioural and social skills. Thus, ‘skills’ and ‘skills shortages’ mean different things to different people, and statistics based solely on employers’ perceptions do not always reflect actual skills shortages (Watson et al. 2006). As Skinner et al. (2004) put it,

The background to the assertions made relating to skill need and supply suggests a lack of clarity created through inconsistency in the use of terms, assumptions made about shared understanding of the problem and the reliance on data provided by one set of stakeholders whose assessment, understanding and reporting of the issue is subject to a variety of influences. On this basis, it is not surprising that recent skills surveys have also highlighted possible discrepancies between the perceptions of employers and perception of employees in relation to skills (Skinner et al. 2004, p. 184).
A further disparity highlights problems inherent in discussions of skills shortages – that is, the notion of ‘skills mismatches’. Skills mismatches arise when there are enough people with essential skills in certain labour markets, but job seekers choose not to (or are unable to) apply for vacancies under certain conditions (Richardson 2007). First, geographical disparities can lead to hiring difficulties when individuals gravitate towards regions where salaries and living standards are highest. KIFs located in other regions may experience greater difficulties filling vacancies from local labour markets that contain fewer individuals with essential skills. Second, skills mismatches can also rise due to information shortages in labour markets. Information shortages occur because labour markets are “so large, and hiring/employment decisions are so multifaceted, [that] it can be difficult for both employers and individuals to get sufficient information to know what choices are available and to make sensible decisions about those choices that are known about” (Holt et al. 2010, p. 22). Thus, labour market intermediaries, such as private and public employment agencies, serve important roles in disseminating employment information to job seekers. Third, some firms may struggle to fill vacancies because their employment conditions fail to match job seekers’ needs or expectations. As a result, firms may conflate hard-to-fill vacancies with skills shortages when, in fact, problems stem from unattractive employment prospects, such as low salaries or poor firm image, or even ineffective hiring practices (Richardson 2007).

### 3.6 Summary

This chapter has explored KIFs’ hiring approaches by dividing the discussion into three parts. The first part built a theoretical rationale for why effective hiring is fundamental to KIFs’ success and competitiveness. It argued that hiring acts as a set of antecedent strategic and organisational routines – that is, dynamic capabilities (Eisenhardt and Martin 2000; Teece 1998) – that managers enact to adapt their human resource bases over time (Bowman and Swart 2007). In particular, hiring enables KIFs to build three types of knowledge assets: human, social, and organisational capital. These assets possess latent, prehire value –
but whether firms appropriate significant posthire value (generate rents) from these assets depends on how they deploy supporting strategies and internal resources (human or otherwise) (Bowman and Swart 2007). Thus, intellectual capital enables KIFs to compete because their work designs and outputs depend more on knowledge assets than in capital- and labour-intensive firms (Starbuck 1992).

The second part of this chapter discussed KIFs’ hiring practices and strategies. By critiquing functionalist hiring paradigms, the chapter argued that KIFs’ hiring strategies and practices simplify into three main concerns. First, KIFs rely on employer branding strategies to promote positive organisational attributes to prospective hires and to signal value from entering into employment relationships. However, small firms, like many KIFs, endure lower reputational capital because they are less visible to job seekers in external labour markets. Second, KIFs depend on the strengths of their employment inducements to enhance their employer brands. Previous studies have shown that KIFs use bundles of HRM practices to motivate and retain knowledge workers. These HRM practices manifest as employment inducements to entice knowledge workers. During selection, KIFs may exercise their dynamic capabilities when bargaining with knowledge workers over inducements and contractual terms. The final set of inducements incorporated into legal and psychological contracts may or may not reflect the value of knowledge workers’ human and social capital. This depends on the strengths of each party’s negotiation skills and bargaining positions. Third, KIFs use a variety of hiring sources to communicate their employer brands and inducements. However, research has shown that informal sources often produce the highest quality new hires. Informal sources provide prospective hires with realistic job previews that enable them to make better informed decisions about their suitability and organisational fit. Thus, these three issues provide a parsimonious account of hiring by KIFs that moves beyond functionalist, process-oriented perspectives, which have traditionally dominated HRM literatures.

The third part of this chapter explored why hiring strategies and practices vary between firms. By situating hiring in the wider context of HRM, this part of the
chapter discussed hiring and HRM variations in terms of organisational and external environmental contexts. Based on research by Jackson and Schuler (1995), the chapter acknowledged the interdependence between these factors, but sought a distinction for analytical purposes. The chapter discussed five sets of organisational factors that influence hiring strategies and practices: (i) organisational life cycles; (ii) managers’ HRM ‘blueprints’; (iii) firm size; (iv) sources of managers’ and HR workers’ HRM knowledge; and (v) links between hiring and competitive business strategies. The chapter also discussed four types of external environmental factors: (i) governments, political economy economic systems, and legislation; (ii) national cultures; (iii) industry characteristics; and (iv) labour markets. The next chapter utilises and adapts this organisational and external contexts framework to focus on hiring and HRM in China. The frameworks explicates the unique hiring and HRM challenges faced by domestic privately owned firms (POEs) in China relative to rival state-owned (SOEs) and foreign-invested (FIEs) enterprises.
4 Hiring and HRM in China

4.1 Introduction

The purpose of this chapter is to explore hiring and HRM within the research context of China. The chapter begins with a historical discussion of economic and employment reforms that charts major changes in China’s competitive business environment and labour markets since 1978. Although the focus is primarily on hiring and HRM by domestic privately owned enterprises (POEs), the chapter incorporates discussions of other ownership types, namely state-owned (SOEs) and foreign-invested (FIEs) enterprises, for three reasons. First, some of the most significant changes in HRM and employment relations have occurred in the state sector. Once the sole employer during the Maoist era, SOEs have since upgraded their archaic HRM practices to compete in China’s market-oriented economy. Widespread restructuring and downsizing during the 1990s released millions of state sector workers back into external labour markets and triggered government initiatives to up-skill those who remained (Cooke 2005b). Second, the implications of these restructuring and up-skill initiatives, as well as the continuing influx of foreign firms into China, have resulted in increased labour market competition among all ownership types for skilled, well-educated job seekers. Third, a discussion of other ownership types contrasts with the uneven development of the domestic private sector and its historical struggles with legitimacy under a ‘socialist market economy’.

Following this introduction to China’s economic and employment reforms, the chapter turns next to explore factors that influence POEs’ approaches to hiring and HRM. Where empirical evidence is available, this part of the chapter refers to firms operating in China’s knowledge-intensive industries. The chapter uses a modified analytical framework based on the one proposed in chapter 3. It distinguishes between organisational factors and external environmental factors that influence hiring and HRM strategies and practices. The first organisational factor examines POEs’ organisational life cycles relative to SOEs and FIEs. By highlighting how legal and political setbacks have restricted POEs’ growth rates
and sizes, it argues that many POEs have traditionally been unable to invest significantly in HRM and thus to attract highly skilled, well-educated workers. The second factor considers how POE managers and HR workers acquire HRM knowledge, given that HRM is still an emerging management discipline in China. The third and fourth organisational factors explore, respectively, POEs’ links between human capital and business strategies, and between social capital and business strategies. These sections underscore theories of intellectual capital and explain how firms hire for core knowledge assets to support their business goals and growth.

The section on external environmental contexts distinguishes between five factors. The first factor examines state-driven industrial policies and the growth of business innovation environments. The purpose of this section is to discuss how privately owned KIFs located in China’s high-tech zones receive preferential policies that directly and indirectly support their hiring and HRM activities. The second factor explores how privately owned KIFs might benefit from state initiatives to upgrade the country’s national human resource development through education, and management training and skills development. The third factor considers how labour market supply and demand for skilled, well-educated workers affects firms’ hiring strategies and practices, as well as job search behaviours. This section focuses, in particular, on discourses concerning China’s so-called ‘skills shortages’. The argument presented challenges whether existing analyses on this topic have produced any substantiated findings, or whether some studies have misspecified the issue. The fourth section focuses on an emerging area of Chinese labour market studies: labour market intermediaries. It contemplates the changing roles of employment agencies in acting as legitimate hiring sources for firms and in influencing job seekers’ search behaviours. The last section discusses the effectiveness of recent employment legislation that seeks to control firms’ hiring and HRM activities, and to improve job seekers’ prospects. What will become clear throughout this chapter is the enduring influence of central and local governments over firms’ hiring and HRM activities.
4.2 Economic and employment reforms

China’s economic structure and competitive business environment is barely recognisable since the time when reforms began over thirty years ago. These remarkable, on-going changes have created a unique mixed-market economy, comprised of a diversity of business ownership types. The following sections contrast the historical trajectory of three of these: state-owned enterprises (SOEs), foreign-invested enterprises (FIEs), and domestic privately owned firms (POEs). These sections discuss the developments of each of these ownership types, as well as the management and employment challenges that each face. The aim is to provide a short contextual overview of China’s competitive business environment in order to interpret the hiring and HRM issues discussed later.

4.2.1 State-owned enterprises

Between 1949 and 1978, China’s one-party state ran a centrally planned economy that controlled all aspects of employment and industry (Child 1996; Korzec 1992). Beginning in the 1950s, the central government began to outlaw private ownership and to transform private businesses into state-owned and collectively owned enterprises (Chen and Chen 1953; Yueh 2010). Three employment systems characterised labour management in state-owned enterprises (SOES): (i) the ‘iron rice bowl’ (i.e., lifetime employment and welfare); (ii) the ‘iron wages’ (i.e., state-administered wages), and (iii) the ‘iron chair’ (i.e., promotion based on political allegiance and seniority). Individual enterprises had almost no autonomy over hiring and firing. Instead, each year the central government issued fixed labour quotas directly to local bureaux officials who would then allocate workers to enterprises (Child 1996; Zhu and Dowling 1994). Other job placement methods also existed outside the central system – for example, indirect state assignment by recruitment bureaux tasked with screening approved requests; direct individual applications to work units; and personal connections (guanxi) (Bian 1994) (see Table 4.1). However, the
state discouraged such methods because they undermined the goals of ‘full employment’ and socialist equality.

Table 4.1 Job placement methods by year of first urban job in Tianjin, China

<table>
<thead>
<tr>
<th>Year of first urban job</th>
<th>Number of cases</th>
<th>Job placement method (%)</th>
<th>% using guanxi</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Direct state assignment</td>
<td>Indirect state assignment</td>
</tr>
<tr>
<td>Total</td>
<td>938</td>
<td>70.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Pre-1949</td>
<td>63</td>
<td>31.1</td>
<td>4.9</td>
</tr>
<tr>
<td>1949-52</td>
<td>67</td>
<td>64.5</td>
<td>4.8</td>
</tr>
<tr>
<td>1953-57</td>
<td>71</td>
<td>76.1</td>
<td>4.5</td>
</tr>
<tr>
<td>1958-60</td>
<td>74</td>
<td>71.4</td>
<td>7.1</td>
</tr>
<tr>
<td>1961-65</td>
<td>117</td>
<td>86.9</td>
<td>7.5</td>
</tr>
<tr>
<td>1966-76</td>
<td>268</td>
<td>88.5</td>
<td>6.5</td>
</tr>
<tr>
<td>1977-88</td>
<td>278</td>
<td>56.0</td>
<td>23.8</td>
</tr>
</tbody>
</table>

Source: cited in Bian (1994)

Under new state leadership in 1978, China set out on a series of unprecedented economic, political, and social reforms. Under the ‘open door’ and ‘four modernisations’ policies, the state overhauled employment and welfare systems to pursue a ‘socialist market economy’ (Child 1996). The new mixed-market economy reintroduced private enterprise and replaced central labour allocation with external labour markets (Child and Tse 2001; Nee 1992; Peng et al. 2004; Tan 2002; Taylor 2002; Zhou et al. 2006). Sweeping reforms introduced across the state sector ushered in radical changes in SOEs’ HRM and employment practices. By the early 1990s, the government had removed SOEs’ labour quotas and labour contracts replaced jobs-for-life (Huang 2008). For the first time, these contracts gave managers autonomy to hire and fire workers (Taylor 2002). New performance management systems had also compelled workers to ‘up-skill’ themselves by ‘competing for the post’ – or else face retraining or redundancy (Cooke 2005b; Warner 1996).

In 1997, Premier Zhu Rongji gave underperforming and loss-making SOEs just three years to turn around. Mass downsizing was common and most small SOEs were privatised under the ‘grasp the large, release the small’ slogan (Hassard et al. 2004; Morris et al. 2002). Since the mid-1990s, millions of
redundant SOE workers have found work in de novo private firms or as entrepreneurs. Between 1995 and 2008, the combined privately owned and foreign-invested workforce rose from seven to 61 million, while the SOE workforce declined from 113 to 65 million (see Table 4.2). However, many ex-SOE workers who entered external labour markets lacked marketable skills. Thus, the state assisted these workers' job searches by offering skills training and information on external vacancies (Cooke 2005b).

However, SOEs were not just shedding numbers. Most were radically transforming their structures and management operations. The modern enterprise system (MES) adopted in the early 1990s had forced SOEs to restructure around advanced management practices. Nowadays, four principles guide 'corporatised' and 'marketised' SOEs: clear property rights; clarified rights and responsibilities; separation between government and enterprise; and advanced (in this sense, ‘Western’) management (Hassard et al. 2007). By virtue of accountability, SOEs are leaner, more efficient, and outwardly competitive (Hassard et al. 2004; Ralston et al. 2006). Although their economic influence remains significant by sheer scale and output, SOEs must now compete with a strengthening private sector. The next two sections explore developments in foreign-invested and domestic private sectors.

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<td>31.47</td>
<td>14.99</td>
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<td>7.64</td>
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<td>6.62</td>
<td>6.18</td>
<td>5.97</td>
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<td>Joint-ownership units</td>
<td>0.96</td>
<td>0.53</td>
<td>0.42</td>
<td>0.45</td>
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<td>0.43</td>
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<td>Private enterprises</td>
<td>0.57</td>
<td>4.85</td>
<td>12.68</td>
<td>34.58</td>
<td>39.54</td>
<td>45.81</td>
<td>51.24</td>
<td>55.44</td>
<td>60.71</td>
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<tr>
<td>Foreign-funded units</td>
<td>0.62</td>
<td>2.41</td>
<td>3.32</td>
<td>6.88</td>
<td>7.96</td>
<td>9.03</td>
<td>9.43</td>
<td>9.78</td>
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<td>Self-employed individuals</td>
<td>6.14</td>
<td>15.60</td>
<td>21.36</td>
<td>27.78</td>
<td>30.12</td>
<td>33.10</td>
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* Excludes employment statistics for co-operative units, limited liability corporations, shareholding corporations Ltd, and units with funds from Hong Kong, Macao and Taiwan.

Source: China Statistical Yearbook (2011)
4.2.2 Foreign-invested enterprises

Foreign direct investment (FDI) has formed an integral part of China’s opening up and modernisation policies. For example, in 2008 China secured over 27,500 FDI deals worth US$92.4 billion (China Statistical Yearbook 2011). Under the original ‘open door’ policy, foreign-invested enterprises (FIEs) were restricted to joint ventures with SOEs in special economic zones (SEZs). Such arrangements enabled Chinese firms to acquire advanced technologies and raise management competencies (Child 1991). FIEs, on the other hand, benefited from tax concessions and access to new markets, as well as cheap labour, land, and raw materials (Wall 1993). During these early ventures, the Chinese side retained considerable control over management operations and HRM policies. For example, local managers capped local workers’ salaries and interfered in hiring and management appointments (Child 1996).

In 1986, the state granted FIEs legal rights to setup as wholly foreign-owned enterprises (WFOEs). However, with cumbersome legal processes and uncertain outcomes, joint ventures remained common among foreign investors. In 2001, the government removed several legal restrictions on WFOEs’ operations to enable the country’s accession to the WTO. WFOEs are now the most popular route into China. They allow firms to pursue their own business objectives while avoiding the strategic and cultural discords common to local partnering (Deng 2001; Gamble 2000). Nonetheless, WFOEs tend to lack local market and cultural understanding upon entering China (Ahlstrom and Bruton 2001). Child (1991) quoted one American manager who described working in China as “the graveyard of ambitious expatriate executives who experience failure… for the first time in their careers” (pp. 93-94). But as local managers’ business competencies continue to rise, many WFOEs have turned to local labour markets to attract talented job seekers, rather than employ expatriates. In some industries, this has increased domestic labour market competition for highly skilled workers.
4.2.3 Domestic privately owned enterprises

The growth of China’s domestic private sector is a story of triumphs and setbacks. Since emerging from the command economy, privately owned enterprises (POEs) have contributed enormously to China’s economic development (Cooke 2005a, 2008; Li and Yang 2006; Tsui et al. 2006b). POEs now represent the largest sector of the economy by number of enterprises and employ more workers than any other ownership type (Beijing Review 2011). Yet due to their young economic history and past institutional constraints, many POEs remain small and under-resourced relative to SOEs and FIEs. Before 1987, individual household businesses (getihu) were the only domestic private businesses allowed to register by law. Such firms received minimal institutional support because the government saw them as supplementary to SOEs and as threats to socialism. Getihu could only employ up to eight workers because Marx defined firms with more workers as exploitative non-household production units that yield surpluses (Tsai 2006). However, many POEs evaded this rule by paying ‘administration fees’ or by donning ‘red hats’ (IFC 2000). Red hat firms were essentially private firms concealed as collectively owned enterprises (COEs). In this status, red hat firms could receive government support and protection.

In June 1988, the State Council released the Provisional Regulations Governing Private Enterprises, which recognised an additional ownership type: privately owned enterprises (siying qiye). The state classified POEs as profit-making economic entities that legally employed eight or more workers (Tsang 1994, p. 453). POEs operated in a highly restricted capacity and only certain demographics could register (e.g., farmers, urban unemployed individuals, retired persons) (Yueh 2010). Most started with limited financial capital and operated in basic services sectors and light manufacturing (Cooke 2005b). At the National Congress in 1992, Deng Xiaoping argued that the nature of private business should not impede China’s transition to a market-oriented economy. The state motioned an ambitious strategy to facilitate rule-based and market-supporting institutions (IFC 2000). Changing policies and ideological positions triggered a wave of entrepreneurship across the country. By the end of 1993
and 1994, the number of registered POEs had increased respectively by 70 and 82 per cent, while the number of POE workers had grown by 61 and 74 per cent.

In 1997, the central government recognised the private sector in a constitutional amendment and began to scale-back legal and economic restrictions shackling the sector. But even nowadays, responsibility for interpreting and enforcing laws and regulations rests at local levels. As a result, POEs have grown-up disadvantaged by regulatory and financial systems biased towards the state sector. Many POEs have encountered significant resistance and interference from local authorities intent on protecting SOEs under their jurisdictions (Boisot and Child 1999; Jiang and Hall 1996; Nee 1992). SOEs co-op with sponsoring ministries that represent their interests at provincial and national levels, for example, by channelling financial capital through the state-run banking system (IFC 2000). By contrast, POE owners rely almost exclusively on informal loans and self-financing to start-up: in Beijing, around 96 per cent of POEs relied on such sources during the 1990s (IFC 2000). Thus, POEs must invest considerable time and resources into maintaining good guanxi (i.e., personal connections) with local authorities – although few have any real influence over the policies and regulations that affect them.

Despite their past institutional constraints, POEs have managed to ‘thrive on a tilted playing field’ (Bai et al. 2003). POEs have penetrated nine out of 19 major industries and many play important roles in China’s knowledge-intensive industries (Beijing Review 2011). On one hand, POEs’ growth in the latter owes much to creative individuals who showed early initiative in bridging research and production gaps (Tan 2006). For example, many entrepreneurs had started KIFs in the 1980s and 1990s having grown dissatisfied with their high-status but low-paying SOE positions (Tan 2006). Others started businesses having once worked in science and technology (S&T) fields. In both cases, POE owners compensated for their limited financial resources with broad technical skills, leadership potential, and sound legal knowledge. They combined ambition with pragmatism, and aggression with charisma, to succeed under institutional constraints and uncertainties (People’s Daily, 1988). On the other hand, KIFs’
growth in recent years owes largely to state industrial policies supporting SMEs in knowledge-intensive and high-tech sectors. Industrial policies have afforded POEs greater rights and legitimacy, and enabled POEs to compete more effectively against FIEs and SOEs. As POEs have grown in number and size, their approaches to strategy and management have formalised accordingly. But compared to research on FIEs and SOEs, scholars are far less informed about HRM by POEs.

4.2.4 Summary

The preceding sections have charted important developments in economic, labour market, and employment reforms in China over the past three decades within the context of state-owned enterprises (SOEs), foreign-invested enterprises (FIEs), and domestic privately owned firms (POEs). These sections have discussed how market-oriented reforms have significantly altered employment and management across the state sector and opened-up the economy to external labour markets and a dynamic private sector. Based on these discussions, the ensuing section explores some of the organisational challenges of hiring and HRM, primarily from the perspectives of POEs, before moving onto explore the effects of the external environmental.

4.3 Hiring and HRM: Organisational contexts

This section applies a slightly modified analytical framework to that used in chapter 3. It explores four organisational factors that influence hiring and HRM by POEs in China: (i) organisational life cycles; (ii) HRM knowledge and management ‘blueprints’; (iii) human capital and business strategies; and (iv) social capital and business strategies.

4.3.1 Organisational life cycles

The section on organisational life cycles in chapter 3 discussed how firms’ strategies, structures, and management approaches evolve to cope with
competing demands and uncertainties as firms progress through developmental stages. The issue addressed here is whether organisational life cycle theories can reliably describe hiring and HRM by firms in China as they grow in size and sophistication. One of the problems with organisational life cycle theories is that they assume that firms operate initially in environments conducive to growth and success and that they grew from ‘birth’. However, this is only true of some firms in China. For example, when state-owned enterprises (SOEs) emerged from the Maoist era, they had already inherited the most privileged economic positions. SOEs relied on market monopolies, strong guanxi (i.e., personal connections), as well as their ‘administrative parents’ to provide protection and to channel critical resources (Peng and Luo 2000; White and Xie 2006; Xin and Pearce 1996). When FIEs began to enter China, they benefited initially from the backing of their state-owned partners. Thus, FIEs entered China at mature stages of development through their parent firms’ internationalisation strategies and prospered from favourable FDI policies. That is, none of these started life in China as ‘new’ enterprises.

POEs, by contrast, perhaps fit organisational life cycle theories better than other types of ownerships in China. Such firms emerged from the Maoist era unconstrained by state heritage and thus embodied the true entrepreneurial spirit associated with firms at the initiation stages of the organisational life cycle. But unlike entrepreneurs in the West, POE owners experienced punitive institutional conditions in the early reform years. These conditions left a deep legacy on some POEs. Throughout the 1990s, POEs had a “limited ability to evolve beyond the first, informal stages of life” and became “‘stuck’ in a framework of legal, financial, governance, and market structures that they [had] out-grown in terms of the size and complexity of their [businesses] (IFC 2000, p. 20). Because of these constraints, POEs had limited capital to invest in business expansion and HRM. Nonetheless, as recent legislation has afforded POEs greater rights, the situation is markedly different to over a decade ago. Most POEs still operate in challenging environments, but which now permit greater freedom to grow. As later sections show, some POEs at more advanced stages have grown increasingly sophisticated in their hiring and HRM practices in order to compete.
4.3.2 HRM knowledge and management ‘blueprints’

As a management discipline, HRM is still a fairly new concept in China compared to in the West (Cooke 2005b; Ding et al. 2000; Warner 2008). This raises questions about what sources Chinese managers and HR workers use to acquire HRM knowledge and competencies. As of yet, there is no national professional HRM body in China to advise on good practice, such as the Chartered Institute of Personnel and Development (CIPD) in the UK and the Society for Human Resource Management (SHRM) in the US. Instead, the government’s Ministry of Human Resources and Social Security acts as the main source of employment and labour relations information. It also sets examinations for the state’s HR qualification. Chinese universities did not start to offer HRM degrees until the mid-1990s; although, uptake has since proliferated rapidly. Only thirty institutions provided undergraduate HRM degrees in 1999, but this number expanded to ninety universities by 2001 (Cooke 2005b). Despite this, there remain a sizeable proportion of HR workers that have not received any formal HRM training, and many come from non-personnel backgrounds (Cooke 2005, p. 204). Björkman and Lu (1999a) argued that “it is difficult to find competent HR professionals in China” (p. 18). Nonetheless, most Chinese HR workers are keen to learn new skills and to build HRM competencies. According to Björkman (2002) and Cooke (2005b), some HR workers have established informal HRM clubs and forums in their local areas to share experiences and information on ‘good’ practice. Some of this knowledge may derive from the Internet, HRM textbooks and practitioner journals and serve “brokering [roles] in introducing Western HR theories and practices to Chinese readers” (Cooke 2005b, p. 205).

However, scholars have argued that managers and HR workers also acquire HRM knowledge through exposure to Western firms operating in China (Björkman 2002; Ding et al. 2000). Based on institutional forces (cf., DiMaggio and Powell 1983), Björkman (2002) suggested that Western firms serve as sources of HRM influence for domestic firms. First, firms have a high propensity to copy salient practices and policies when large numbers of firms concur that
these are the correct ways to handle management issues. In regions populated by large numbers of Western firms, such as high-tech zones and developed coastal cities, isomorphic pressures may induce local firms to use Western firms as referents of legitimate HRM practices. Similarly, joint ventures may directly facilitate the transfer of management practices between foreign and Chinese firms. Björkman (2002) argued that normative pressures have also led to the professionalisation of HRM in China. However, the degree of professionalisation is likely to differ across regions, depending on the number and concentration of firms using Western-style HRM practices. In cities such as Beijing and Shanghai, for example, formal HR conferences with international guest speakers provide optimum forums for Chinese attendees to discuss and learn about HRM practices. Multinationals’ corporate universities may also promote convergence among local firms towards Western HRM approaches (Goodall et al. 2004).

Nonetheless, managers’ own experiences and backgrounds may still mould their HRM competencies and what practices they choose to adopt. Managers in ‘privatised’ SOEs, for instance, may imprint inert state-owned mindsets on HRM (Ding and Akhtar 2001), whereas in de novo POEs, founders’ personalities, work experience, and educational attainments may shape HRM (Cooke 2005b). For example, Zhejiang province has a renowned private sector; however, in 2003 almost 80% of entrepreneurs came from farmers’ backgrounds (Cooke 2005b). Over 70% of them had junior secondary education or below, and only one in ten managerial workers in Zhejiang had either bachelor’s or postgraduate qualifications (Cooke 2011b). Despite this, Zhu et al. (2005) found that managers’ perceptions towards, and understanding of, HRM have changed significantly in China since the mid-1990s. For example, in 1995 FIEs (74 per cent) and SOEs (69 per cent) were significantly more likely than POEs (47 per cent) to have dedicated HR departments. By 2002, however, numbers of POEs with HR departments had increased to 65 per cent and SOEs with HR departments to 80 per cent. Firms with HR departments were also more likely overall to hire using formal selection methods and criteria (Zhu et al. 2005). Perhaps the more pressing issue is not whether firms now have HR departments or not, but whether managers and firms’ owners afford HR workers
with learned HRM competencies any real autonomy over hiring and selection decisions. In a review of Chinese HRM research, Cooke (2009) asked, “What is the level of autonomy and power [of HR workers in China]?” (p. 23).

4.3.3 Human capital and business strategies

Recent studies on China have shown that managers in some knowledge-intensive industries devote considerable attention to links between HRM, human capital and business strategies. In a sample of technology developer KIFs, Chow and Gong (2010) found that innovation strategies mediated effects of knowledge-based HRM systems (e.g., hiring highly skilled workers, skills-based pay, and technical training) on SOEs’ and FIEs’ performance levels. In addition, growth firms, compared to recent start-ups, exhibited the strongest links between HRM, innovation capabilities, and performance (Chow and Gong 2010). Warner’s (1999) study of high-tech firms in Beijing found that SOEs and POEs built high skills profiles by hiring from top local universities. Firms’ remuneration levels were markedly higher than in other industries and substantial reward systems incentivised workers to stay. Zhu and Warner (2004) studied a small IT firm that used a range of formal HR practices and policies, such as training, autonomous working environments, and goal-oriented evaluation and compensation systems. The firm hired workers with PhDs and master’s degrees and pursued business growth through the slogan ‘open thought’. In a different study, McKenna et al. (2010) researched one of the largest computer manufacturers in China. These authors found that the firm had tightly integrated new HRM practices with wider business strategies. For example, the firm used consultancy firms, cognitive testing, job analysis and standardised selection procedures, as well as anti-nepotism policies. Zhang and Li (2009) noted, “[Chinese] firms are experimenting with different human resource practices consistent with their competitive strategy of innovation in products and processes…[This] is particularly important for those competitive industries such as high-technology and pharmaceuticals” (p. 2335).

Studies focusing specifically on POEs have also shown that some managers pay particular attention to HRM-business strategy links. For example, Lu (2000)
interviewed Zhu Baoguo, who had transformed TaiTai Pharmaceuticals Ltd into one of the fastest growing pharmaceutical firms in China. TaiTai began as a private start-up in 1992, but by 1998 had over 1,600 workers and sales worth RMB 660 million yuan. The firm has grown by hiring professional managers with extensive work experience in FIEs and joint ventures who have introduced modern management styles and practices. TaiTai hires from various sources, including headhunters and graduates. The firm develops and retains workers in various ways. In addition to in-house training, TaiTai contracts with top Chinese universities that provide master's degrees and training courses, as well as with consultancy firms and external training providers. The firm’s culture fosters cooperation and teamworking. TaiTai’s selection criteria emphasise loyalty, but Zhu Baoguo prefers some mobility because turnover injects ‘new blood’ into the firm. He maintains a stable executive team by offering free housing to executives with five-years or more tenure (Lu 2000). In a different study, Wang et al. (2007) observed that POEs had aligned economic and humanistic goals more tightly with HRM practices than had FIEs and SOEs. Although POEs adopted fewer HRM practices overall (training, manager autonomy, worker autonomy, and performance-related pay) compared to FIEs, POEs aggressively pursued high-performance HRM practices to support their business goals. In some instances, adoption rates of certain HRM practices were similarly high between domestic and foreign firms. For example, just as many POEs (64 per cent) as FIEs (63 per cent) had implemented training practices. In recent years, HRM differences between ownership types have narrowed and POEs are even outperforming FIEs in some aspects (Law et al. 2003; Wang et al. 2007).

4.3.4 Social capital and business strategies

Social capital is critical in Chinese society and business (Bian 1994; Li et al. 2008). It serves important roles in labour market functions that govern hiring and job search behaviours. Knight and Song (2005) argued that social capital improves information held and shared by both hiring firms and job seekers in imperfect labour markets. Firms may leverage social capital either formally through formal worker referrals, or informally through personal contacts and connections. Very few studies have explicitly examined Chinese firms’ use of
employee referral schemes. Cooke’s (2012) research found that several firms had implemented financial reward schemes to encourage workers to headhunt potential new hires. Similar to Han and Han’s (2009) study on network-based hiring, managers in Cooke’s (2012) research perceived that referrals generated higher quality applicants due to the quality of information communicated to prospective hires and the strength of ties with firms’ existing workers. Managers believed that referral schemes could help to reduce hiring costs and enhance person-organisation fit by broadening access to job seekers already familiar with firms’ cultures and processes.

In contrast to the limited research conducted on worker referral schemes, many studies have focused on how firms use guanxi networks. Guanxi is “a web of connections to secure favours in personal and organisational relations…[it is] an intricate and pervasive relational network that contains implicit mutual obligations, assurances, and understanding” (Park and Luo 2001, p. 455). Numerous studies have shown guanxi to be important for hiring and job search. For example, Cheung and Gui (2006) found that 34 per cent of survey respondents obtained jobs through guanxi matchmakers. Matchmakers mainly comprised of relatives (34 per cent), friends (30 per cent), colleagues (11 per cent), and classmates (8 per cent). Well-educated individuals with high socioeconomic statuses benefited most from strong guanxi ties. Although weak ties between matchmakers and job seekers were helpful in providing job information, such ties failed to provide job seekers with satisfying work opportunities (Cheung and Gui 2006). Huang (2008) found that guanxi ties and professional ties were particularly important for white-collar job seekers pursing ‘soft skills’ employment. ‘Soft skills’ jobs, Huang argued, require workers to demonstrate high levels of trust and good reputations. Chinese managers are not easily trusting of strangers and thus close guanxi ties can help to overcome these problems. Huang (2008) also observed that strong guanxi ties induced reciprocal favours between individuals that were hard to ignore. For example, one POE owner ‘pulled’ his friend away from a SOE, after the owner had unsuccessfully engaged headhunters to find him a trustworthy vice-general manager (Huang 2008).
In other cases, firms may depend on workers’ social capital to support business objectives, rather than to acquire human capital per se. A resource dependence perspective (cf. Pfeffer and Salancik 1978) might conceive that firms in China hire ‘for’ guanxi to gain access to critical resources. In such cases, firms use workers’ personal connections to procure business contracts, to secure land and to reduce taxes, and to gain access to powerful government gatekeepers (Cheung and Gui 2006; Peng and Luo 2000). Government-related guanxi gives non-state owned firms a voice with local officials at various levels (Ahlstrom et al. 2005). It enables them to navigate complex and uncertain institutional environments. Ahlstrom et al. (2005) interviewed one FIE manager, who explained,

We like to hire people with good connections with local governments. Usually they are insiders who can get things done with the city or various bureaus. These people can help you get permits or find out if a regulation to put in a new wall or the purchase of some expensive equipment is really necessary. Their input can also help protect you from interference and surprise tax assessments. These managers spend a lot of time taking officials out to dinner when they show up at our facilities. This can be costly, but at least those expenses are predictable (quoted in Ahlstrom et al. 2005, p. 276).

Even KIFs’ selection criteria may preference guanxi over meritocracy. Fu et al. (2006) argued, “Chinese high-tech firms often have no choice but to rely on guanxi” because they remain vulnerable in the absence of formal institutional support and without strong legal rights (p. 280). But guanxi ties also confer market advantages with non-government actors. In Western cultures, professional ties ordinarily maintain only superficial relationships that do not guarantee access to resources or obligate exchanges of favours at will. However, professional relationships in China tend to transform over time into guanxi ties (Huang 2008). Managers may encourage such transformations when access to critical resources is at stake. Huang (2008) interviewed an advertising manager, who explained,

Advertising jobs require employees to be good at communicating with clients, agencies, and media, etc., and to have a wide guanxi network. The wider your guanxi network is, the more convenient it is for communication, and the more profits might be generated. For some
young men, they do not have abundant social resources yet, but they should prove they have a great potential to construct guanxi networks in the future. In this case, their guanxi contacts serve as middlemen who can assure the referee’s ability and potential (quoted in Huang 2008, p. 478).

In China, whom you know is often just as important as what you know (Li et al. 2008). For POEs, strong guanxi substitutes for formal institutional support (Xin and Pearce 1996); for job seekers, strong guanxi often ‘paves the road to success’ (Cheung and Gui 2006).

4.4 Hiring and HRM: External contexts

This section continues to discuss the slightly modified analytical framework taken from chapter 3 by exploring five external environmental factors that influence hiring and HRM by POEs in China. These factors are: (i) industrial policies and business innovation environments; (ii) human resource development; (iii) supply and demand of skills in labour markets; (iv) labour market intermediaries; and (v) employment legislation and regulation. Most notable, the analytical framework used in chapter 3 discussed the government as a separate section. However, the roles of central and local governments are so pervasive in China that each of the following sections covers these issues in turn. To address the research context of the present study, the following sections discuss external environmental factors primarily from the perspective of knowledge-intensive firms and industries.

4.4.1 Industrial policies and business innovation environments

Following three decades of reforms, China has transitioned from an economy based largely on agriculture to one based increasingly on manufacturing and services. Tertiary industry employment has been growing year-on-year and for the first time surpassed secondary industry employment in 1994 (see Figure 4.1). In 2010, tertiary industry contributed 43.1 per cent of national GDP compared to 46.8 per cent by secondary industry. The government has
achieved these impressive figures through a series of industrial and innovation policies. As China edges up the value chain, policies have focused increasingly on technological competitiveness through the so-called ‘pillar industries’ and ‘strategic emerging industries’ (SEIs). SEIs represent a decisive move to replace low-skilled, labour-intensive industries with higher value-added, technology-intensive industries. The 2011 12th Five-year Plan outlined seven SEIs: alternative energies, biotechnologies, next-generation information technologies, high-end equipment manufacturing, advanced materials, alternative-fuel cars, and environmentally friendly technologies. By investing RMB 4 trillion (US$600 billion) over the five-year period, the government aims to increase SEIs’ national GDP contribution from five to eight per cent by 2015. By 2020, the government projects that SEIs will contribute 15 per cent of national GDP. Such policies will transform the country from a ‘master imitator’ to an ‘indigenous innovator’ (zizhu chuangxin) (Simon and Cao 2009). Emphasises rest firmly on building domestic innovation and superior technological capabilities.

![Figure 4.1 Percentages of working population employed in three industry strata](image)

Source: adapted from *China Statistical Yearbook* (2011)
To build China’s SEIs and knowledge-intensive industries requires that KIFs operate in environments conducive to innovation, growth, and success. Indeed, many KIFs have setup businesses in economic and technological development zones (ETDZs), as well as high-tech industrial development zones (HIDZs). The government established these zones under the ‘Torch Programme’ in 1988 to optimise business innovation structures and to speed-up high-tech industrialisation. Inspired by Silicon Valley in the US, the government designated Zhongguancun (ZGC) in Beijing as the first ‘official’ HIDZ. However, to date, there are 54 official state-level ETDZs and 54 HIDZs across the country, which comprise both domestic and foreign-invested firms. Three basic criteria guided these zones’ initial development: (i) firms had to operate and conduct activities in ‘new’ and ‘high’ technology areas; (ii) firms’ chief operating managers had to be scientific or technical professionals with strong organisational and managerial capabilities; and (iii) firms had to possess sufficient capital, physical resources, and market potential (Gu 1996). From the outset, HIDZ and ETDZs reinforced a dualist approach: to learn from foreign firms’ advanced technologies and management practices, while fostering indigenous innovation among de novo private firms (Yueh 2010).

In many ways, China’s high-tech zones resemble technology clusters in other countries: firms establish formal links with universities and research institutions; knowledge-based businesses form core activity bases; and central management functions actively engage in transferring technology and business skills to firms on site (Tan 2006). Because of these configurations, firms on high-tech zones tend to experience some unique HRM issues that differ from those faced by KIFs outside of such zones. On one hand, outsider firms tend to incur higher costs when hiring and relocating highly skilled or specialised workers (Porter 1990). Outsider firms may also possess fewer connections with research institutes and other sources of expertise from which to hire. On the other hand, firms located in high-tech zones tend to cluster in close proximity and thus hire from a common, yet highly mobile labour pool (Tan 2006). Through frequent social and professional interactions, workers readily obtain information about competitors – including employment opportunities. As a
result, turnover tends to be high in high-tech zones. In the early 1990s, the average turnover of workers in Beijing’s ZGC had reached 17 per cent – although this was still lower than the 35 per cent average of firms in Silicon Valley in the 1970s (Tan 2006).

Nonetheless, firms in high-tech zones tend to benefit from the government’s ‘visible hand’ (Tan 2006). In China, local governments and on-site management commissions help to promote growth and development opportunities for both new start-ups and established firms (Gu 1996). Firms benefit in a variety of ways. For example, preferential government policies on tax, equipment, and materials alleviate financial burdens typically experienced by outsider firms. In Beijing’s high-tech zone, Gu (1996) reported that the management commission liaises between KIFs and funding institutions, which helps firms to secure finances and business loans. Through such policies and support, firms can invest more in core business functions such as R&D, marketing, and technology. Enhanced cash flows also allow firms to invest more in human resources to support core functions. Compared to outsider firms, firms in high-tech zones may initially have larger budgets to attract skilled workers and thus expand their operations. The effects, of which, may be reinforcing because opportunities presented by growth firms may attract more qualified job seekers. Thus, preferential policies indirectly enable small domestic firms to compete more effectively with foreign firms to attract workers.

Local governments and management commissions also support firms’ HRM capabilities in ways that are more direct. For example, the Xi’an High-tech Zone in central China invests RMB 20 million yuan every year into projects designed to attract experts; to send workers abroad to study; and to up-skill workers at on-site training schools and local universities. Xi’an’s provincial government also jointly invests RMB 50 million yuan annually to ensure steady supplies of highly skilled human resources. In 2009, the state-funded Service Outsourcing Institute in Xi’an collaborated with several high-ranking universities to supply almost 11,000 software developers and technicians to firms on the Zone. Similar initiatives in other zones have helped to raise the profile of high-tech zones among job seekers across the country. In 2007, employment in the
ETDZs was around 5.35 million, 6.5 million in HIDZs, and 15 million in special economic zones (SEZs) (Zeng 2010). Together, these figures represent about 4 per cent of total national employment. If counting subnational SEZs, then the figure is closer to 10 per cent (Zeng 2010).

4.4.2 Human resource development

China’s SEIs and other knowledge-intensive industries have necessitated significant state interventions in national human resource development, including education, training, and skills development. Since the 1980s and 1990s, the government has enacted nationwide policies that directly target education and training. Shortly before China initiated ‘opening and reforms’, the Cultural Revolution (1966 - 1977) had devastated the country’s education and training systems. After Mao’s Red Guards closed schools and universities, literacy levels fell to their lowest levels for over a decade. Moreover, Mao had ordered millions of city cadres to experience rural ‘re-education’ (zai jiaoyu) in the countryside (Goodall et al. 2004). However, since the 1980s the government has stressed education reforms and emphasised national efforts to develop human resources. For example, in 1993 the government launched ‘Project 211’ to facilitate improved teaching, scientific research, and professional training in around one hundred key universities. In 1998, ‘Project 985’ reaffirmed this mission by outlining plans to transform several top-tier universities into world-class institutions. To build adequate supplies of human resources, the government recognised early on that it needed to counteract ‘brain drain’ – that is, large numbers of students opting to remain abroad after graduating. Indeed, since 2008 the ‘Thousand Talents Plan’ has attracted some 2000 Chinese experts and scholars back to work in China (Cooke 2011b). Pressures to boost regional economic development have also prompted local governments to attract experts. Some local authorities, for instance, have setup ‘enterprise incubators’ in high-tech zones to provide accessible entry points for Chinese returnees (Zweig 2006).

The central government has made substantial investments in promoting management education and training. Between the mid-1980s and mid-1990s,
formal qualifications became pre-requisites for promotion in the state sector. As a result, thousands of SOE managers enrolled on courses either in purpose-built management development institutions or in management and economics schools at top-tier universities (Borgonjon and Vanhonacker 1994). As China’s economy expanded in the 1990s, so too did demand for Chinese managers with modern management knowledge and exposure to Western business principles (Goodall et al. 2004; Wang 1999). Through state interventions and funding, business schools providing MBA and short-term executive management courses have grown rapidly in China (Goodall et al. 2004). Managers attending such courses tend to be “far more enlightened about Western HRM techniques and modern management concepts than those who have not” (Cooke 2011b, p. 3843). In recent years, foreign firms’ corporate universities have also provided short-term alternatives to MBAs. Such universities typically allow domestic firms to send their managers to undertake training and development courses designed by leading MNCs in partnership with local universities. Motorola, for example, has collaborated with China’s two highest-ranking universities – Tsinghua and Renmin – to develop EMBA and DBA courses for middle and senior managers (Warner and Goodall 2010).

4.4.3 Labour markets: Supply and demand

As the government transitions towards knowledge-intensive industries, ensuring matches between current and future skills demands is critical to KIFs, local governments, and policymakers. The state-led initiatives discussed in the previous section evidence the efforts of China’s political and scientific leadership to develop the country’s human resources. However, by various accounts, China’s rapid economic growth continues to outpace labour market supplies of highly skilled workers and experienced managers (Child 1996; Cooke 2005b; Hassard et al. 2004; Hughes 2009; Li and Sheldon 2010; Warner and Goodall 2010). Manpower (2006) reported, “[Skills] shortages are particularly acute in managerial and executive roles (p. 1)... despite a huge population and pool of potential employees, Chinese and foreign-invested companies cannot find enough people with the right kinds of skills to fill their vacancies” (p. 4). Researchers at Mckinsey estimated that China has around
3,000 to 5,000 globally competent business leaders, but would require up to 75,000 between 2005 and 2020 (Farrell and Grant 2005). Intense competition for skilled workers has contributed to salaries and turnover rates rising quickly within a short time (Cooke 2005b). For instance, between 2001 and 2005 the average turnover rate for Chinese workers increased from nine to 14 per cent (US-China Business Council 2006). In 2005, the average turnover rate for Chinese managers was 25 per cent higher than the world average (Society for Human Resource Management 2005).

On one hand, these statistics seem to present a case for on-going and future skills shortages. On the other hand, such evidence runs counter-intuitive to statistics that confirm the vast quantity of highly educated individuals graduating from Chinese universities each year. For example, over a third of students (1.1 million) majored in engineering in 2005 – compared to around 20 per cent in Germany and just five per cent in India (Farrell and Grant 2005). Moreover, Manpower’s (2012) recent talent shortages survey found that only 23 per cent of firms in China experienced difficulties filling vacancies, compared to 49 per cent in the US, and 34 per cent as the global average. Thus, if one considers official statistics and trends on China’s education and training outputs, then capacities would appear adequate to meet firms’ skills demands. However, what causes specific concern is not output volume per se, but output quality (Simon and Cao 2009). As chapter 3 highlighted, employers want more than mere technical skills and theoretical knowledge; they want other qualities and attributes alongside these (Holt et al. 2010). Indeed, Velde (2009) found that only 33 per cent of Chinese managers felt that specialised knowledge and skills were ‘extremely important’. Rather, the most important ‘qualities’ were positive attitudes and behaviours (85 per cent), commitments to learning (67 per cent), and creativity (63 per cent). Shen’s (2008) study of manufacturing POEs found that managers evaluated workers on ‘soft’ criteria – for example, positive working attitudes, sound moral practices, and good personal relationships. In the past, SOEs also evaluated cadres’ performance on similar criteria: de (political and moral attitudes), qing (working attitudes), neng (ability and educational background), and ji (performance and achievement).
Quality gaps will arguably redress over time as the government expands education and training capacities, and as young workers gain experience in a variety of firms. Recent trends suggest that these goals have already begun to materialise. Moreover, ‘brain gain’ will further increase numbers of highly skilled and well-educated individuals returning to China from overseas (Zweig 2006). Perhaps firms’ greatest challenges will be to convince talented job seekers that they are ‘employers of choice’. For example, China’s ‘golden collar’ workers – “typically aged between 30 and 45 years, well-educated... and familiar with Western business practices and cultural trends” (Cooke 2005b, p. 176) – have already become popular targets for headhunters. As the quality of job seekers increases, some firms may struggle to fill vacancies because their employment conditions fail to match job seekers’ needs and expectations. For example, the International Finance Corporation (2000) found that one POE in China paid master’s graduates as little as RMB 3,000 yuan per month during probationary periods, whereas low-level office managers could earn more than RMB 8,000 yuan. Although probationary periods enabled the firm to identify qualified people, such low wages and uncertain prospects made it difficult to attract the best and the brightest (IFC 2000). However, salaries represent just one part of employment relationships. Other employment inducements are necessary to attract job seekers, such as career prospects, training and development, and work-life balance.

For instance, some studies have shown that Chinese job seekers find some types of ownerships more attractive than others (Chow et al. 2001). For example, job seekers tend to see foreign firms as prestigious employers. Such reputations enable FIEs to hire around 60 per cent of top-tier graduates each year (Farrell and Grant 2005). By contrast, SOEs tend to offer better job security than foreign firms and POEs, but provide less variable compensation. But as SOEs embrace market mechanisms and POEs gain more legitimacy, domestic firms have become more attractive to job seekers. For instance, Manpower’s (2010) Talent Competitiveness survey showed that job seekers’ perceptions of different ownership types influenced the types of firms that they were willing to consider. Compared to the 2006 survey, five per cent more job seekers would have chosen to work in POEs in 2010, whereas ten per cent
fewer would have applied to FIEs. Moreover, general job seekers and managers, on average, perceived POEs to be as good as, if not better than, foreign firms in four areas: compensation and benefits, work opportunities, long-term career development opportunities, and work-life balance (Manpower 2010) (see Figure 4.2). However, both general job seekers and managers rated POEs and FIEs low on work-life balance. SOEs typically excel in this area because work in these firms is comparatively less strenuous. SOEs tend to attract more risk-averse individuals who have lower pay needs (Chow et al. 2001).

As chapter 3 discussed, geographical disparities also affect supplies of highly skilled workers. In China, many individuals inevitably gravitate towards regions where salaries and living standards are highest, such as in Beijing, Shanghai, and Guangzhou (Simon and Cao 2009). Cities in China’s eastern coastal regions, in particular, have amassed high concentrations of experts and experienced managers compared to less-developed inland regions. As a result, local governments in second-tier cities have implemented measures to redress geographical imbalances. For example, the Suzhou Industrial Park Administrative Committee has issued ‘blue residency permits’ to private sector workers and organised nationwide programmes to attract skilled workers from other regions (Li and Sheldon 2010). Nonetheless, geographical disparities also relate to job search behaviours. Western job search theories assume that job seekers have unrestricted access to market information through formal channels, such as employment agencies and newspapers (Werbel et al. 2008). This information increases job search options and enables job seekers to identify opportunities. However, Werbel et al. (2008) found that information asymmetries in China not only restricted job seekers’ access to vacancy information compared to US job seekers, but job search efforts were less likely to influence starting salaries in China. Whereas employment agencies in Western labour markets have long served an important role, the influence of labour market intermediaries in China is only just beginning to emerge (Cooke 2011a). Indeed, many job seekers still learn about job openings through informal channels and word-of-mouth (Werbel et al. 2008).
Figure 4.2 Determinants of general job seekers’ (top) and managers’ (bottom) ownership preferences

Source: adapted from Manpower’s (2010) Foreign and Chinese Companies: Talent Competitiveness Survey
4.4.4 Labour markets: Intermediaries

In China, the state influences firms’ HRM practices and management behaviours by mobilising institutional actors and labour market intermediaries in subtle, but strategic ways (Cooke 2011b, p. 3833). Institutional actors and intermediaries “promote isomorphism in employer practice, even in societies with flexible, lightly regulated labour markets, and weak employers’ associations” (Heery and Frege 2006, p. 602). Examples include state-run job agencies, as well as management consultancies and employment agencies in the private sector. In recent years, labour market intermediaries in China have provided job seekers with formal search channels that can reduce search time and effort. In theory, firms also benefit from broader applicant pools and greater efficiency in matching applicants to jobs (Zeng and Cui 2008). However, Zeng and Cui (2008) argued that developments of labour market intermediaries in China remain “quite backward” (p. 280). On one hand, such problems stem from China’s decentralised economic development model. Local governments have considerable control over regional economic development and their interests do not always align with central government policies (Cooke 2011b). On the other hand, labour market intermediaries have developed unevenly because the central government has depended on different types of intermediaries to serve different types of firms. Despite this, intermediaries’ roles have evolved in recent years as legislation updates have afforded greater scope for agencies and providers to expand their influence over firms and labour markets (Cooke 2011a).

The central government mandated that employment agencies should serve only a supporting role in the state’s ‘active employment’ policy. That is, job seekers must rely on themselves to find work; markets mediate employment; and the government merely ‘promotes’ employment (Ministry of Labour and Social Security 2003). However, Peck and Theodore (2001) argued that employment agencies “actively shape the growth in contingent labour through their role[s] in labour market intermediation, by selling employers the cost-cutting and labour-controlling virtues of workforce flexibility while mobilising contingent workers and brokering connections to employers” (p. 477). Although employment
agencies have long existed in China, they have grown in number and influence over the last decade (Xu 2009). Many employment agencies are state-run and tend to dispatch workers at the lower ends of labour markets (Cooke 2011b). Such agencies burgeoned in response to mass downsizing and privatisation across SOEs during the late 1990s. In 2008, 24,410 state-run employment agencies provided services to 39 million registered job seekers – of these individuals, 21 per cent held formal qualifications (China Labour Statistical Yearbook 2009). Whereas private employment agencies may command fees, the 2005 Employment Agency Regulation stipulated that state-run agencies must not charge for their services. In reality, however, many agencies levy fees (Xu 2009).

To a lesser extent, some state-owned agencies also provide employment and human resources services to firms operating in mid- and upper-level labour markets. During the late 1970s and 1980s, the government setup a handful of foreign services companies so that FIEs could hire local workers (Xu 2009). Major players such as FESCO and CIIC have since expanded into diverse and comprehensive HR outsourcing (HRO) providers that service foreign and domestic clients. For example, FESCO’s hiring solutions include (i) recruitment process outsourcing (e.g., on-site services, CV screening and background checks, interviewing); (ii) high- and mid-end executive search; (iii) online recruitment; (iv) recruitment consultation; and (v) designing recruitment fairs and obtaining government approvals. At local levels, regional governments have also established HR outsourcing centres to serve high-tech industrial zones (HIDZs) under their jurisdictions. For example, state-funded Human Resources Development Co. LTD (SIPHRD) specialises in training and supplying workers to firms located on Suzhou Industrial Park. SIPHRD also provides headhunting and executive search solutions for firms operating in high-end labour markets.

Domestic privately owned HRO providers have also captured market shares in some regions. For example, China Talent Group (CTG) offers payroll outsourcing, benefits management, and graduate and professional recruitment services. Since the firm’s establishment in 2003, CTG has setup offices
throughout China. The International Association of Outsourcing Professionals (IAOP) ranked China Talent Group 90th on its 2011 Global Outsourcing 100 list. Many domestic HRO providers seek to raise their reputations and social legitimacy by gaining ISO 9000 accreditation. However, FIEs have encountered cultural clashes when using domestic providers. Cooke and Budhwar (2009) described the case of a prestigious MNC that inadvertently used a Chinese HRO provider that systematically screened-out women job applicants – even when their qualifications and experience were as good as, or better than, the men’s credentials. The HR director notified the provider that such actions breached the MNC’s equal opportunities policies. However, the provider argued that gender screening is common in China because society deems women with family commitments to be less productive (Cooke and Budhwar 2009).

By contrast, foreign HR consultancies have only recently penetrated Chinese markets. In 2002, the government introduced the Regulation on Talent (Employment) Market Management, which enabled foreign providers to form joint ventures with domestic providers. For example, in 2010 Adecco formed a joint venture with state-owned FESCO to serve clients in Shanghai. MNCs and international HRM consultancies such as Manpower, Randstad, and Adecco play important roles in trend-setting and raising domestic firms’ HRM competence levels (Cooke 2011a). McKenna et al. (2010) have supported such assertions empirically. These authors interviewed HR managers in a major computer manufacturer in Beijing, who revealed three sources of HRM influence. First, previous collaborations with MNCs, including IBM and HP, had provided the firm with new insights into HRM strategy. The firm learned, for example, how other business functions, such as finance, could support their HRM strategies. Second, the firm maintained close ties with US management consultancies with offices in China, such as Gallup. For example, management consultants had persuaded the firm to introduce cognitive testing. HR managers had also obtained information from leading HR consultancy web sites and designed HRM around ‘best practice’ advice. Third, HR managers had turned to North American business journals and books for HRM ideas and inspirations. All mid-level managers and above, for instance, had subscriptions to Harvard Business Review. These factors, taken together, highlight mimetic and
normative institutional forces that bear strong influence over domestic firms’ HRM strategies and practices (McKenna et al. 2010).

4.4.5 Employment legislation and regulation

Substantial changes have occurred in China’s economic structure and employment environments since legislatures introduced the first Labour Law in 1994. Labour market restructuring has since revealed serious weaknesses in employment legislation that recent laws have sought to redress. The Employment Promotion Law (EPL), enacted in January 2008, confronts several agendas. First, the EPL emphasises local authorities’ responsibility for promoting employment and in advancing vocational education and skills training. Second, the EPL enhances regulations governing the employment agency industry. The law defines the scope of services permitted by job agencies and prescribes rules on such agencies’ behaviour and that of their client firms (Cooke 2011a). Third, the EPL promotes private sector employment and highlights favourable policy conditions for self-employment. Fourth, the EPL stipulates rules on fair hiring and employment conditions. The law prohibits firms from discriminating against job applicants based on gender, ethnicity, nationality, religious beliefs, and physical disabilities, *inter alia*. For example, firms cannot deny women employment, discriminate based on marital status, or raise hiring standards for women. The EPL also affords ethnic minorities greater protection by encouraging firms to preference minority applicants over China’s majority race (the Hans) when such applicants possess similar or better qualifications. The EPL, for the first time in China’s employment law history, presents the most “comprehensive statement… on the types of workers who should not be discriminated against” (Cooke 2011a, p. 184).

The central government has also legislated changes to the 1994 Labour Contract Law (LCL). The 2008 LCL supports the EPL by addressing labour market tensions in the private sector, as well as new trends in informal employment such as casual and agency work. As Article 1 states, “This law is enacted and formulated in order to improve the labour contract system, to specify the rights and obligations of both parties to the contract, to protect the
legitimate rights and interests of employees, and to construct and develop a harmonious and stable employment relationship”. The LCL carries implications for non-provision of employment contracts, redundancy, salary under-payment, wage arrears, excessive overtime and non-contribution to social insurance. This is important because reports suggest that fewer than 20 per cent of small and medium-sized private firms sign contracts with workers (Cooke 2011a). The LCL also mandates new regulations on ‘poaching’ of workers. For example, if firms hire workers whose contracts have not ended, firms and poached workers are jointly and severally liable to compensate for any damages incurred.

Nonetheless, several factors restrict the effectiveness of employment legislation in China. The country’s legal system operates ‘rule-by-law’, which gives local authorities scope to interpret and enforce laws at their discretion (Brown 2010). That is, should a firm break the law, there is no guarantee that a prosecution will ensue. Thus, some critics have argued that the EPL reads more like a policy statement than a serious law with enforceable consequences (Brown 2010; Yang and Li 2009). As a result, firms still widely and openly discriminate against candidates based on gender, background, age, and physical appearance. Job seekers are still likely to encounter recruitment advertisements such as: "[S]eeking an office clerk. Female, decent height and appearance. All five facial organs must be in the right place (wu guan duan zheng)” (Brown 2010, p. 75). Based on an analysis of job advertisements, Woodhams et al. (2009) found that Chinese firms often discriminated on grounds of gender. Many advertisements reflected entrenched gender stereotypes, which showed preferences for women in relation to administrative and sales jobs, and preferences for men for professional, technical, and managerial roles. Brown (2010) argued, “Employers who might otherwise follow the labour laws are in a quandary; why spend the money to follow these laws if they are not enforced?” (p. 7).

4.5 Summary

This chapter has explored hiring and HRM within the context of China. The chapter provided an initial introduction to the economic and employment reforms that have characterised China’s competitive business landscape since
1978. In particular, it discussed three major developments: the opening-up of a mixed market economy; the development of the private sector; and the re-emergence of external labour markets following the end of the ‘iron rice bowl’ era. These changes have created profound implications for human resource management, employment relations, and labour market functions in China (Child 1996; Cooke 2005b). SOEs have reformed by shedding workforce numbers, while implementing modern enterprise management techniques and becoming employers of choice for job seekers seeking stability. Many FIEs, once tied to joint ventures with SOEs, now operate with greater freedom as wholly foreign-owned enterprises (WFOEs), having developed competencies to navigate China’s complex institutional environments. Many FIEs have localised their workforces and thus represent attractive choices for ambitious Chinese managers and graduates. POEs also operate with greater freedom compared to over a decade ago. Some have made substantial headway in the country’s emerging knowledge-intensive industries with the help of the government’s ‘visible hand’ (Tan 2006).

Nonetheless, this chapter sought to explore organisational and external environmental factors that might enable or constrain POEs’ success against rival SOEs and FIEs in knowledge-intensive industries. The chapter followed a modified analytical framework of the one proposed in chapter 3. The first organisational factor discussed whether organisational life cycle theories accurately describe the changing hiring and HRM approaches of firms in China as they grow in size and complexity. This section concluded that such theories fail to capture hiring and HRM changes in SOEs because these firms matured through the assistance of the Chinese state, not through natural entrepreneurial mechanisms. Moreover, FIEs entered China at mature stages of development through their parent firms’ internationalisation strategies, so organisational life cycles theories are less relevant in these cases. By contrast, organisational life cycle theories would seem to better account for modern POEs’ developments because such firms are more characteristic of entrepreneurial firms that started life in the initiation stage of the cycle. In contrast to most POEs during the 1990s, modern POEs operate with greater freedom that allows them to grow fairly organically in terms of size and management capabilities.
The second organisational factor considered sources of HRM knowledge for POE managers and HR workers. This section argued that managers have become more aware of HRM in its Western interpretation because of the isomorphic influences of FIEs operating in China, as well as the Internet and textbooks satisfying managers’ thirsts to learn about ‘advanced’ management techniques. This section also presented evidence for increased instances of domestic Chinese firms establishing dedicated HR departments. However, it questioned what degrees of hiring autonomy HR workers possess vis-à-vis firms’ owners. Managers may still enact HRM ‘blueprints’ that are grounded in ‘prior ideologies’ and tacit knowledge. This is a salient issue that the present study seeks to address. The third and fourth organisational factors explored, respectively, POEs’ links between human capital and business strategies, and between social capital and business strategies. There is some evidence that POEs have adopted increasingly sophisticated HRM approaches that link human capital acquisition and development with wider business goals. POEs appear to use social capital in a number of ways to support their business goals: one way is to use workers’ personal networks to refer talented individuals and thus to acquire human capital; another is to use connections to gain access to critical resources or favours (e.g., land, property, business contracts, tax concessions).

The analytical framework identified five external environmental factors that might potentially affect hiring and HRM by privately owned KIFs in China. The first factor examined industrial policies and business innovation environments. It focused on the advantages for firms operating in high-tech zones, which receive direct and indirect government assistance to support their hiring and HRM strategies. This section also highlighted some of the disadvantages of operating in high-tech zones, such as firms all hiring (and poaching) from a common, yet highly mobile, labour pool (Tan 2006). The second external environmental factor looked at human resource development in China. It outlined government policies and initiatives designed to upgrade the country’s management capabilities and to reverse ‘brain drain’. There is some evidence that these
policies have begun to take effect, given the growing numbers of ‘golden collar’ workers emerging in first-tier cities (Cooke 2005b).

The third factor examined skills supply and demand in external labour markets. This section criticised narrow conceptualisation of skills shortages by arguing that quality gaps and job seekers’ perceptions of ownership types provide better explanations of firms’ hiring difficulties. The fourth factor considered the roles of labour market intermediaries. It speculated that employment agencies potentially serve as legitimate hiring sources for firms and important influencers of job seekers’ search behaviours. However, previous studies to date have not corroborated such assertions empirically. The last factor discussed recent employment legislation that seeks to control firms’ hiring and HRM activities, and to improve job seekers’ prospects. The most recent round of legislation amendments, including the labour contract law and employment promotion law in 2008, raises important implications for firms’ hiring practices, particularly in regards to fairness and anti-discrimination. But with weak enforcement and monitoring at local government levels, it remains to be seen whether these changes have really changed managers’ attitudes towards hiring job seekers who fall under legally protected groups.

Thus, based on the literatures reviewed over the last three chapters, Figure 4.3 provides an integrated analytical framework of the organisational and external environmental factors that potentially enable and constrain hiring by privately owned KIFs in China. Along with the research questions in chapter 1, the present study will use this integrated analytical framework to develop the interview questions for data collection. The next chapter discusses the research design and methodology.
Figure 4.3 Analytical framework of the external and organisational contexts of hiring in China’s knowledge-intensive industries
5 Research Design and Methodology

5.1 Introduction

As described in chapter 1, the aim of the present study is to explore hiring strategies and practices used by privately owned KIFs in China and how these align with HRM and business strategies to facilitate acquisition of human and social capital. In doing so, the study also seeks to investigate organisational and external environmental contexts that shape the use of certain hiring practices and strategies and how these contexts enable or constrain approaches to hiring. This chapter discusses the research design and related methodological issues. The first section discusses the research paradigm and philosophical position informing the study. Based on this, the second section describes the research logic and case study research strategy. The third section presents the data collection methods, as well as a pragmatic discussion on gaining access to firms in China. This section also offers a brief overview of the three cities where data collection took place. The fourth section compares and evaluates data analysis techniques and then describes the final choice of procedure: template analysis. The fifth section details the ethical issues considered throughout the course of the research. The last section reflects on some potential limitations of the research design.

5.2 Research paradigms

A paradigm represents the basic belief system that defines an individual’s assumptions about “the nature of the “world”, the individual’s place in it, and the range of possible relationships to that world and its parts” (Guba and Lincoln 1994, p. 107). Three interconnected types of questions inform research paradigms, whether implicitly or explicitly: ontological, epistemological, and methodological (Guba and Lincoln 1994; Niiniluoto 1999). Ontological questions concern understandings of the nature and existence of reality, whereas epistemological questions address the boundaries of what can be known about the world: that is, the production, acquisition and validity of knowledge claims
(Niiniluoto 1999). Questions of methodology inevitably rest on the appropriateness of techniques and methods available to investigate what can be known about the world (Niiniluoto 1999).

Different research paradigms reflect unique positions on the answers to these three questions. Although there are some commonalities among the various groupings of research paradigms, researchers tend to vary in their approaches to classification. For example, Burrell and Morgan (1979) discerned between functionalist, interpretive, radical humanist and radical structuralist paradigms, whereas Guba and Lincoln (1994) distinguished between positivism, postpositivism, critical theory, and constructivism. Perhaps the most fundamental dichotomy between research paradigms in the social sciences is between positivism and postmodernism. This is particularly evident in the field of organisation and management studies. Nonetheless, this dichotomy serves as the point of departure for justifying the alternative postpositivist paradigm adopted by the present research – that is, critical realism.

Positivism describes an empirical/naïve realist ontology, which holds that “the world is objectively and unproblematically available and capable of being known” (Ackroyd and Fleetwood 2000, p. 3). Similar to its application in the natural sciences, positivist social science adopts a nomothetic epistemological stance. In this status, scholars should study the world as a closed system with the possibilities of discovering empirical regularities and law-like generalisations (Astley and Zammuto 1992; Tsang and Kwan 1999). Such research is almost invariably hypothesis-driven and inherently reductionist (Reed 2005). Using a deductivist logic, the aim is to identify and empirically test relationships between sets of discrete variables, while controlling for extraneous or confounding variables (Astley and Zammuto 1992). Positivist research in organisation and management studies typically relies on quantitative data collection methods (e.g., surveys) and statistical analyses.

By contrast, the postmodernist movement evolved as a critique to positivist orthodoxies and a challenge to the eminence of positivism as the ‘received’ view of science (Bamberger 2008; Kilduff and Mehra 1997; Lewis and Grimes
The ontological and epistemological tenets of postmodernism contend that “there is a plurality of different perspectives held by groups of people; discourses are central to social life [and] the social world...is to a considerable degree socially constructed” (Ackroyd and Fleetwood 2000, p. 7). Unlike positivism’s objectivist epistemology, postmodernism commits to a subjectivist epistemology that refutes claims of absolute truth. As Guba and Lincoln (1994) pointed out, postmodernism blurs the boundaries between ontology and epistemology: the transactional relationship between researchers and research objects (individual, group of individuals, phenomena) mediates the value of any empirical findings. Postmodern research typically adopts qualitative or ‘discursive’ methods of inquiry.

Thus, positivist and postmodern paradigms diverge on ontological, epistemological, and methodological grounds. Both research paradigms remain prevalent in mainstream organisation and management research. However, the next section argues that critical realism, an alternative meta-theory, provides a more coherent approach to ontology, epistemology and methodology and reconciles many of the shortcomings of positivism and postmodernism. The ensuing section also discusses the implications of critical realism for research strategy and methods.

5.3 Critical realism: An alternative meta-theory

Critical realism is as an emerging philosophy of science that is gaining increasing attention across the social sciences (Archer et al. 1998; Easton 2010; Fleetwood and Ackroyd 2004; López and Potter 2001). Bhaskar (1978, 1979) proposed critical realism some thirty years ago, but it has since been advanced by scholars such as Archer (1995, 2000) and Sayer (1992, 2000). Critical realism holds that there exists an external reality, independent of our thoughts, in which “an entity can exist independently of its identification...without someone observing, knowing and constructing it” (Fleetwood 2005, pp. 198-199). But due to human subjectivity in interpreting the world, any attempt to understand reality is potentially fallible and prone to error.
Critical realists avoid claims of ‘absolute’ truth, but rather aim to advance social science by producing knowledge that demonstrates ‘practical adequacy’ (Sayer 1992). Sayer argued that scholars can judge knowledge claims as more or less useful. However, “knowledge must generate expectations about the world and about the results of our actions [that] are actually realised” (Sayer 1992, p. 69).

Unlike positivism, critical realism recognises science as a value-laden social practice. Facts and values are inseparable and it is inappropriate to reduce social phenomena to neutral terminology (Syed et al. 2009). For example, consider the implications of the following versions of the same event: (a) ‘John’s boss fired him’ and (b) ‘John stopped working for his company’. Both statements may be ‘true’; however, (a) is more practically adequate because it implies version (b), but not necessarily the other way around. Statement (b) might also imply that John voluntarily quit his job, which is untrue (Syed et al. 2009). But most important, statement (a) “maximises the explanatory power of the theory required to explain” what happened (Syed et al. 2009, p. 74). In short, there is no truth in an absolute sense, yet some knowledge held about the world is ‘truer’ than other accounts. This contrasts with postmodernism’s and poststructuralism’s tolerance of judgemental relativism, in which scholars afford equal viability to different statements and beliefs.

Critical realism attempts to reconcile between postmodernism’s preoccupation with reality as discourse, and positivism’s insistency of a mind-independent and law-like reality. Critical realist meta-theory reconstitutes the traditional ‘flat’ ontology and what it means to be ‘real’. First, critical realism embraces a standpoint in which the world consists of both extra-discursive and discursively ‘real’ entities (Fleetwood 2005). Real entities are those that (i) possess causal efficacy; (ii) have the potential to affect behaviour, and (iii) make a difference in some way (Fleetwood 2005). Fleetwood (2004, 2005) classified real entities into four modes of reality: the material, ideal, artefactual and social (see Table 5.1). To illustrate, the following example highlights the causal efficacy of discursive (ideally real) and extra-discursive (socially real) factors on gender discrimination,
In some cases, female workers possess skills similar to those possessed by (comparable) male workers. Not only does sexist discourse draw our attention to ‘women’s skills’, it draws our attention to them in ways that present them as being of a lower skill level. And of course, once these skills are discursively downgraded, discrimination in the labour market and the workplace often follows... Working alongside this discourse, however, are extra-discursive factors that also cause discrimination. Many female workers simply do not possess skills similar to those of male workers. There are various reasons for this, such as women’s restricted access to jobs where skill attainment is possible. This is often caused by intermittent labour market activity, which is, in turn, caused by the requirements of child and/or dependant care. In this case, the lower skill level is not caused by sexist discourse but by extra-discursive, socially real factors (Fleetwood 2005, pp. 200-201).

### Table 5.1 Four modes of reality

<table>
<thead>
<tr>
<th>Mode</th>
<th>Defining characteristics</th>
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<tbody>
<tr>
<td>Materially real</td>
<td>• Material entities (e.g., oceans, the moon, and mountains) which can exist and endure irrespective of the behaviour and thoughts of individuals;</td>
</tr>
<tr>
<td></td>
<td>• Can be affected by human interaction but would remain in existence (in some form) even if humans did not.</td>
</tr>
<tr>
<td>Ideally real</td>
<td>• Conceptual (or ‘discursive’) entities including discourse, language, ideas, beliefs, theories, etc.;</td>
</tr>
<tr>
<td></td>
<td>• Depend on human actions and existence.</td>
</tr>
<tr>
<td>Artefactually real</td>
<td>• Entities that would not otherwise exist without humans (e.g., computers and musical instruments);</td>
</tr>
<tr>
<td></td>
<td>• Conceptually mediated and thus can be interpreted in numerous ways.</td>
</tr>
<tr>
<td>Socially real</td>
<td>• Encompass “practices, states of affairs or entities for short, such as caring for children, becoming unemployed, the market mechanism, or social structures in general” (2005, p. 201);</td>
</tr>
<tr>
<td></td>
<td>• Depend on human behaviour and existence;</td>
</tr>
<tr>
<td></td>
<td>• Retain their extra-discursive status regardless of the ideally real labels that exist to describe them.</td>
</tr>
</tbody>
</table>

*Source: Fleetwood (2004, 2005)*

Second, critical realists contend that the world has natural necessity: entities have certain powers to act and generate events in virtue of their intrinsic nature, properties, or forms (Bhaskar 1979; Bhaskar and Lawson 1998). Critical realists, unlike their positivist counterparts, recognise a need to study the social world as an ‘open’ system. According to Bhaskar (1979; 1998), reality stratifies
into at least three domains: the real (ensembles of structures, powers, and relations), the actual (the patterns of actions and events generated by combinations of mechanisms activated at the real level), and the empirical (the domain of experience) (see Figure 5.1). The mechanisms operating at the real level are predominantly mind-independent. These mechanisms, although largely beyond human perception, can manifest as human constructions (e.g., socioeconomic structures), which individuals may (or may not) experience as actual events. Indeed, rather than seeing the world as consisting of readily-observable, law-like generalisations, critical realists argue that mechanisms in the real domain have ‘a tendency to x’ (Fleetwood 2001, p. 211). However, whether x ever becomes realised, or activated, depends upon the various conditions which x is contingent. The fact that mechanisms have tendencies does not guarantee that they will always result in x outcome. Rather, events depend on the activation of (often) context-specific causal powers and mechanisms (Tsoukas 1989).

![Figure 5.1 A stratified critical realist ontology](source: Bhaskar (1978, 1979))
Wage labour, for example, is a socioeconomic structure with the mechanisms and causal powers to affect individuals’ situations, statuses and behaviours in society (Danermark et al. 2002). This creates tendencies for people to behave and think in certain ways: finding a job, travelling to work, working contractual hours, and so on. Each time groups of people in society perform these actions, they activate the ensembles of mechanisms that reproduce the wage labour structure, and similar actions generate, and so forth (Danermark et al. 2002). However, the wage labour structure merely provides conditions for actions – it does not determine them. Certain conditions fail to trigger the wage labour mechanism (e.g., self-employment), or alternative mechanisms counteract it (e.g., having to care for dependants), or produce manifestly different outcomes in certain situations (e.g., redundancy/unemployment) (Danermark et al. 2002). Nonetheless, the mechanisms that comprise the wage labour structure still exist regardless of whether they are triggered, and independently of peoples’ abilities to observe, know, or experience them. Figure 5.2 illustrates critical realism’s position on the structure of causal explanation (Sayer 1992, p. 109).

Critical realism is fairly thorough in its treatment of agency and structure. Similar to Giddens’ (1984) structuration theory, Bhaskar (1979) articulated a transformational model of social action (TMSA) that emphasised inextricable relationships between agency and structure from a critical realist, emergentist ontology. Bhaskar (1979) conceived agency and structure as interdependent, but both ontologically distinct. However, this contrasts with structuration theory, which denies that social structures and human actions have any levels of ontological autonomy (Archer 1998). For social structures to exist unexercised or unrecognised in open systems like society, then a disjunction must exist between them and actors’ everyday phenomenal experiences (Archer 1998, p. 368). But in structuration theory, there is no workable means to identify causal powers because the theory cannot extricate between actions and structures at an analytical level (Archer 2010).
Figure 5.2 The structure of causal explanation
Source: Sayer (1992, p. 109)

Thus, Archer (1995, 1998) proposed a morphogenetic approach that emphasises a strong analytical dualism between action and structure. In particular, Archer implicated temporality as a fundamental constituent of the theory: at $T_1$, pre-existing structures (prior-outcomes) condition social interactions that occur at $T_2$, and when at $T_3$, these interactions result in either the reproduction (morphostasis) or transformation (morphogenesis) of social structures at $T_4$. Similar to Sayer’s (1992) model of causal explanation, the morphogenetic approach has potential explanatory power for understanding hiring within the cultural, institutional, and historical context of China. For
example, Taylor (2006) mapped out how the morphogenetic model might explain the reproduction and transformation of hiring activities over time (Figure 5.3). At $T_1$, pre-existing structures (e.g., legislation, institutions, labour markets, and societal and organisational norms) condition hiring and labour market activities at $T_2$, and when at $T_3$, these interactions result in either the reproduction or transformation of hiring activities and pre-existing structures at $T_4$.

To summarise, critical realism’s revindication of ontology represents a radical departure from the flat ontologies inherent in positivist and postmodern accounts of reality – that is, collapsing ontology into epistemology (the ‘epistemic fallacy’) (Bhaskar 1978, 1979; Fairclough 2005). Critical realism recognises that knowledge, explanations and theories are transient and align with specific socio-temporal and socio-spatial contexts (e.g., Archer 1998; Archer 2010; Potter and López 2001; Reed 2005). Thus, critical realism is especially useful for redressing ethnocentric and normative-prescriptive accounts of hiring and HRM. Furthermore, critical realist meta-theory accommodates a stratified ontology that denounces the hypothetico-deductive and inductive modes of inference associated with positivism and postmodernism, respectively. The next section discusses critical realists’ preferred mode of reasoning – retroduction – and elaborates on the case study research strategy that informs the present study.

Figure 5.3 Structural conditions, managerial action and time in hiring

5.4 Research logic and strategy

Building on the previous section, this section describes the mode of logic that guides the research process, and justifies the suitability of case studies as the main research strategy.

5.4.1 Research logic: Retroduction

Based on the seminal work of Pierce (1997/1903), many critical realists advocate retroduction (or ‘abduction’) as an alternative to deductive and inductive reasoning. Retroduction explains social events by postulating and identifying mechanisms that may reasonably have produced them (Sayer 1992, p. 107). Peirce (1997/1903, p. 245) expressed the logic of retroduction as follows,

*The surprising fact, C, is observed.*

*But if A were true, C would be a matter of course.*

*Hence, there is reason to expect that A is true.*

Retroduction involves working backwards from a phenomenon of interest and then mobilising (often multiple) theories as mediators to uncover possible causal-explanatory processes at the ‘real’ level (Easton 2010; Modell 2009). This contrasts with deduction which concerns testing theory-driven hypotheses based on observations at the empirical level (top-down approach), as well as induction, which entails generating theoretical arguments based on direct empirical observations (bottom-up approach). Retroduction grounds causal explanations in theory, not direct empirical observations. Nonetheless, scholars must necessarily revise theories over the course of their investigations. This is due to the highly context-dependent nature of causal mechanisms underpinning empirical observations, as well as insights emerging from additional data collection. In short, retroduction asks “What must be true in order to make this event possible?” (Easton 2010, p. 123).
5.4.2 Research strategy: Case study research

Critical realism is less prescriptive and more flexible in terms of research methods than studies adopting positivist and postmodern research paradigms. Sayer (2000) raised two issues that should guide research method decisions: (i) the natures of objects proposed for study and (ii) what researchers intend to learn about them. He also proposed a distinction between intensive and extensive research designs (Sayer 1992) (see Table 5.2). Extensive research designs focus on producing descriptive generalisations of populations or representative samples by using large-scale surveys (or standardised interviews) and statistical analysis. Extensive designs are potentially representative of populations in question, but make it difficult to generalise beyond these (Sayer 1992). By contrast, intensive research designs rely on studies of individuals in context to derive causal explanations of productions of objects or events (Sayer 1992). Some common methods include interactive or informal interviews, ethnography, and structural and causal analysis. The contingent relations found in intensive designs are often unrepresentative and non-generalisable (i.e., due to context-specificity). However, the necessary relations uncovered through such designs tend to generalise to other contexts in virtue of the causal powers inherent in entities (Sayer 1992) (refer back to Figure 5.2).

The present study uses an intensive research design because the aim is to explore the causal factors underlying hiring practices and strategies in a small number of domestic private firms. As such, the study relies on case studies. Case study research is a strategy, not a method per se (Yin 2003). It can incorporate various qualitative and quantitative methods into a single, intensive design (e.g., Chow et al. 1999; Eisenhardt 1989; see also Hartley 2004). This is compatible with critical realists’ arguments on the commensurability of different methods (methodological pluralism) (Danermark et al. 2002). Easton (2010, p.

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1 Sayer (1992) noted that the intensive/extensive distinction is not mere rehearsal of the survey analysis/ethnography distinction. That is, “Intensive research need not always use ethnographic methods to establish the nature of causal groups and surveys need not be devoid of attempts to understand the social construction of meaning” (p. 244). “[Intensive/extensive designs] may be complementary rather than competing” (p. 246).
123-124) described the process of conducting case study research using critical realist meta-theory (see Table 5.3).

**Table 5.2 Intensive and extensive research designs**

<table>
<thead>
<tr>
<th>Research question</th>
<th>Intensive</th>
<th>Extensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>How does a process work in a particular case or small number of cases? What produces change? What did the agents actually do?</td>
<td>What are the regularities, common patterns, distinguishing features of a population? How widely are certain characteristics or processes distributed or represented?</td>
<td></td>
</tr>
<tr>
<td>Relations</td>
<td>Substantial relations of connection</td>
<td>Formal relations of similarity</td>
</tr>
<tr>
<td>Type of groups studied</td>
<td>Causal groups</td>
<td>Taxonomic groups</td>
</tr>
<tr>
<td>Type of account produced</td>
<td>Causal explanation of the production of certain objects or events, though not necessarily representative ones</td>
<td>Descriptive representative generalisations, lacking in explanatory penetration</td>
</tr>
<tr>
<td>Typical methods</td>
<td>Study of individual agents in their causal contexts, interactive interviews, ethnography. Qualitative analysis</td>
<td>Large-scale survey of population or representative sample, formal questionnaires, standardised interviews. Statistical analysis</td>
</tr>
<tr>
<td>Limitations</td>
<td>Actual concrete patterns and contingent relations are unlikely to be representative, ‘average’ or generalisable. <em>Necessary relations discovered will exist wherever their relata are present, e.g. causal powers of objects are generalisable to other contexts as they are necessary features of these objects</em> [emphasis added]</td>
<td>Although representative of a whole population, they are unlikely to be generalisable to other populations at different times and places. Problem of ecological fallacy in making inferences about individuals. Limited explanatory power</td>
</tr>
<tr>
<td>Appropriate tests</td>
<td>Corroboration</td>
<td>Replication</td>
</tr>
</tbody>
</table>

*Source: Sayer (1992, p. 243)*
The case study strategy used in the present study comprises two methods: semi-structured interviews and secondary data analysis (discussed in the next section). Data triangulation carries implications for reliability and validity because the traditional criteria used to assess these issues must change to accommodate qualitative (discursive) methods. Some scholars have argued a case for replacing the positivist criteria of reliability and validity with procedural dependability, generalisability (or ‘transferability’), and descriptive and theoretical validity (e.g., Flick 2009; Johnson 1997; Kirk and Miller 1986; Ryan et al. 2002). Procedural dependability concerns the adoption of appropriate and robust methods and procedures in which research adopts rigorous designs, clearly specified questions, and where scholars systematically record and organise case data (Flick 2009; Ryan et al. 2002). Descriptive validity replaces the notion of internal validity and underscores the credibility of data reporting and any conclusions that scholars draw (Ryan et al. 2002).

Theoretical validity is integral to critical realist meta-theory and retroductive logic. It concerns the extent to which theories converge to represent the causal explanations posited by scholars. Theoretical validity also reflects degrees of theoretical cohesion present in analyses and carries implications for the transferability of causal explanations beyond cases at hand. Thus, generalisability (transferability or ‘external validity’) in critical realist case research relates to Sayer’s (1992) account of underlying causal powers ascribed to entities as they generalise to other contexts (refer back to Table 5.2).

5.5 Data collection

This section outlines and justifies the approaches used to collect data and discusses procedures to negotiate access to the case firms. It additionally provides background summaries of the cities and regional labour markets where data collection took place. However, the next chapter provides descriptions of the actual case firms.
Table 5.3 Tasks and processes in critical realist case research

<table>
<thead>
<tr>
<th>Task</th>
<th>Process/Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify the research phenomena</td>
<td>• Critical realist case research suits understanding complex organisational and interorganisational phenomena</td>
</tr>
<tr>
<td></td>
<td>• Define the research boundaries clearly. These may change over the investigation as the search for causality broadens, or as the identified causal mechanisms become narrower</td>
</tr>
<tr>
<td>Identify entities characterising the research phenomenon</td>
<td>• Requires processes of careful abstraction – “that is, our conceptions of particular one-sided components of the concrete object” (Sayer 2000, p. 19)</td>
</tr>
<tr>
<td>Construct research questions</td>
<td>• Research questions must probe for causal explanatory processes</td>
</tr>
<tr>
<td></td>
<td>• They should consider “What caused the events associated with the phenomenon to occur” (Easton 2010, p. 123)</td>
</tr>
<tr>
<td>Choose methods and undertake data collection</td>
<td>• Case study research leans towards an ‘intensive’ design; however, methods associated with intensive and extensive designs need not be mutually exclusive</td>
</tr>
<tr>
<td></td>
<td>• Methods and data collection are “Governed by what is thought to be required to establish a plausible causal mechanism [and] constrained by what data can actually be collected in the research context” (Easton 2010, p. 124)</td>
</tr>
<tr>
<td>Analyse and interpret data</td>
<td>• Apply retroductive logic to the data and theory – this may require further data collection or theory revision to aid in epistemological closure (acknowledging that closure may be provisional and flawed)</td>
</tr>
<tr>
<td></td>
<td>• Final explanations ought to meet the conditions of ‘practical adequacy’ (Sayer 1992)</td>
</tr>
</tbody>
</table>


5.5.1 Data collection methods

The study uses two sources to triangulate data under the case study strategy, namely, interviews and job advertisements as secondary data. Social scientists
often use interviews to capture rich, qualitative data (King and Horrocks 2010). In Chinese management studies, for example, scholars have sometimes used interviews as a part of intensive research designs to explore HRM and employment issues (e.g., Chiu 2006; Cooke 2007; Gamble 2006; Huang 2008; Taylor 2002). Interviews comprise varying degrees of structure (or formality) and different modes of administration (e.g., face-to-face, telephone, online). Highly structured interviews, for example, rely on survey-style questioning and thus treat interviewees as research ‘subjects’. Such interviews masquerade under a positivist pretext, often with an aim to minimise subjectivity and researcher bias (King 2004a).

Semi-structured and unstructured interviews, on the other hand, recognise interviewees as ‘participants’ who actively shape “the course of the interview rather than passively responding to the interviewer’s pre-set questions” (King 2004a, p. 11). The present study relied on semi-structured interviews for two reasons. First, semi-structured interviews help to address research questions by ‘guiding’ participants. Second, they facilitate flexible researcher-participant interactions and thus enable new insights to emerge. This latter point is important for deciding when a sufficient degree of theoretical closure has been reached and whether studies require follow-up interviews to understand emerging themes. The slight degree of structure inherent in semi-structured interviews provides a suitable means through which to compare interview data with other triangulated data sources (King 2004a).

The present study conducted face-to-face semi-structured interviews with managers and HR workers in eight case firms in mainland China between June 2010 and May 2011. Appendix 1 provides some example questions taken from the interviews. The interviews took place in either Chinese (Mandarin) or English, depending on the participants’ preferences. A native Mandarin speaker (a former graduate of Manchester Business School at The University of Manchester) assisted with translating some technical terms and idiomatic expressions during the Chinese-speaking interviews. The assistant’s presence also helped to convey trust and understanding about the legitimacy of the research project to participants. The assistant received a full brief on the nature
of the study several weeks prior to starting the interviews. The interviews took place on an individual (rather than group) basis inside the offices of each participant’s respective firms. Senior management granted permission for the interviews to proceed and all participants consented to having their interviews audio recorded for later transcription. Some follow-up interviews also took place to clarify points that had arisen during the analysis phase.

In addition to conducting the interviews, the study collected secondary data from the case firms (apart from one state-funded training school). Organisation and management scholars can either use secondary data as an exclusive data source for analysis (e.g., Meyer and Sinani 2009; Ramsay et al. 2000; Zheng and Lamond 2009) or as means to supplement first-hand data (e.g., Chow et al. 2008; Grimshaw and Miozzo 2009; Singh et al. 1986). This study adopted the latter approach by collecting and analysing job advertisements (see Appendix 2 for translated samples). The main purpose was to explore the case firms’ hiring requirements and employer branding strategies (research question three), and to assess the extent to which firms complied with legislative requirements in practice (research question five). The study collected ten advertisements from each privately owned case firm between June 2010 and May 2011. The advertisements came from requests made directly to HR managers and from firms’ job listings on external recruitment web sites (e.g., 51job.com, ChinaHR.com and Zhaopin.com).

5.5.2 Negotiating access

The researcher negotiated access to the case firms and participants using personal contacts established during a previous visit to China in 2008. Personal contacts serve as “the operational code for getting things done in China” (Yueh 2010, p. 110). They are the predominant strategy used by Chinese and Western researchers (who traditionally have weak bargaining powers) to negotiate ‘meaningful’ access to firms in China (Björkman and Fan 2002; Cooke 2002, 2009; Easterby-Smith and Malina 1999). Personal contacts enable researchers to target firms that exhibit specific phenomena under investigation (knowledge-
intensive firms, in this case) and to gain access to high level participants in firms, such as senior managers.

5.5.3 Description of regions

This section provides an overview of the three cities (Beijing, Shenzhen, and Xi’an) where data collection took place (see Figure 5.4). It also outlines characteristics of these city’s labour markets and the types of industries found in each.

Beijing

Beijing, the capital city of China, is a metropolis situated in the northeast of the country. It has a population surpassing 22 million permanent and non-permanent residents. Beijing is a municipality under direct central government control and is thus a burgeoning political, cultural, and education centre. The city is driven by a rapidly expanding tertiary sector that represents 70 per cent of the city’s GDP (up from 50 per cent in 1995). Finance and culture represent significant proportions of Beijing’s tertiary sector; however, the government has also pursued policies that support the development of high-tech and strategic emerging industries (Wong and Ding 2002). In 2009, Beijing ranked third behind Tokyo and Paris for total number of firms on the Fortune Global 500 list. Beijing is an international transfer destination for R&D, particularly in the ICT sector (Zhou and Xin 2003) and boasts the largest concentration of R&D personnel of any region in China (Zhao 2009).

Many domestic and international high-tech companies cluster in Zhongguancun (ZGC) Science and Technology Zone in Haidian District (known as China’s Silicon Valley). Since being founded in the mid-1980s, ZGC has become a renowned IT and R&D hub, and IT income sales on the Zone have generated over US$24 billion (Zhao 2009). ZGC maintains extensive links with the Chinese Academy of Sciences (CAS), as well as several of Beijing’s most prominent higher educational institutes located nearby (including Beijing Normal University and Tsinghua University) (Tan 2006). In total, Beijing has over 70
universities and higher education institutes. However, the city’s highly competitive labour market has resulted in many graduates being unable to secure even reasonably well-paid work (*China Daily* 2010b).

**Shenzhen**

Shenzhen is a city located in Guangdong Province, which lies directly adjacent to Hong Kong. The government designated Shenzhen as China’s first Special Economic Zone (SEZ) in the early 1980s. In 1979, the city was just a small fishing village with 30,000 residents, but has since grown into an economic powerhouse with around 9 million permanent residents (Xiao and Tsang 1999; Zhao 2008). Shenzhen’s economic output has grown 4000 times in the past 30 years and will likely match that of Hong Kong in the next decade (*People’s Daily* 2010). The city’s local government has already established high-tech, logistics, financial service, and cultural industries in the regions, and now aims to develop biotech, new energy and internet services as pillar industries by 2015 (*Shenzhen Government Online* 2010). Because of its young history in the economy, Shenzhen is known as a ‘migrant city’ (Child and Mollering 2003) that continues to attract both skilled and unskilled workers from across the country (Cooke 2006; Zhao 2008). The city’s diverse industrial profile and competitive business environment means that there is strong demand for highly skilled workers. In recent years, firms in Shenzhen have begun to actively attract educated professionals and graduates at national levels in order to cultivate their skills in-house through management training and development (Xiao and Tsang 1999). As a result, the local government has substantially reduced its budget for adult education and training in the city (Xiao and Tsang 1999).

**Xi’an**

Xi’an, the capital of Shaanxi Province, is a second-tier city in central China with a population of around 8 million residents. Xi’an has great cultural and historical significance in China, but the city is also a key player in the government’s strategy to develop China’s inland regions (the “Western Development” policy: *xibu da kaifa*). President Jiang Zemin used Xi’an as the base for launching the
‘Western Development’ policy in 1999 (Walcott 2003). The city has rapidly developed an extensive industrial base supported by five pillar industries: high-technology, equipment manufacturing, tourism, modern services, and culture (Hulme 2006).

Xi’an is one of China’s largest National Software Bases and a leading centre for information technology (ITO), business process (BPO) and knowledge (KPO) process outsourcing. The city has three expansive state-level industrial zones: Xi’an Economic and Technological Development Zone, Xi’an Yanliang National Aviation High-tech Industries Base, and Xi’an High-tech Industries Development Zone (XHTZ). The government designated the latter as one of China’s national-level industrial zones, which prompted global firms such as Fujitsu, IBM, Intel, Honeywell, and Oracle to establish their research and development (R&D) or production operations on the Zone. Around 20-30 per cent of firms there are large MNCs and an estimated 90 per cent of Xi’an’s software firms setup their operations on the Xi’an Software Park (part of XHTZ). Xi’an Software Park operates a Talent Services Department, which is responsible for coordinating activities between local universities, training schools, and employment agencies on the Park. The Talent Services Department runs a regular HR club where the Park’s HR workers can attend workshops run by prominent university professors, HR consultants, and government officials. Previous events have covered issues such as recruitment and selection strategies, the Labour Contract Law, and employee benefits and social security.

In addition to favourable investment policies, Xi’an’s comparative advantage over first-tier cities like Beijing and Shanghai is its large supply of cheap, but highly skilled human resources. Xi’an is home to more than 40 universities that produce around 130,000 graduates annually (Jones Lang LaSalle 2008) and is thus China’s third largest education centre. Xi’an is a ‘regional technopole’, where highly educated graduates facilitate knowledge transfer between universities and newly established knowledge-intensive firms (Walcott 2003). But although Xi’an produces steady supplies of graduates and technical workers, research shows that foreign language skills and the quality of professional and managerial workers is a potential bottleneck for the city’s
future economic development (Hulme 2006; Jones Lang LaSalle 2008). Moreover, few out-of-province graduates opt to remain and work in Xi’an after graduation (OECD 2005).

Figure 5.4 Case firm locations in China

5.6 Data analysis

5.6.1 Evaluation of techniques

There are many techniques available to analyse textual data. This study used three criteria to narrow down the choices. First, the data analysis technique would have to demonstrate epistemological integrity with critical realist assumptions. Second, the choice of technique would have to accommodate an analysis of the interview data, as well as the secondary data. Third, the technique would have to meet the assumptions implicit in the research questions. That is, the research questions make a priori assumptions about the role of contextual factors affecting firms’ hiring strategies and practices. This
section evaluates three potential techniques: discourse analysis, grounded theory, and template analysis.

**Discourse analysis**

Discourse analysis focuses on language as a social function and addresses ‘how’ and ‘why’ individuals use language in different social situations (Dick 2004). It is therefore suitable to analyse textual data. Flick (2009) argued that discourse analysis emphasises the analysis of versions of events and how individuals construct these within language. Social scientists use discourse analysis to identify ‘interpretive repertoires’ (Potter and Wetherell 1987) and to understand different accounts of reality (Dick 2004). However, the strong emphasis of DA on constructing reality through language is perhaps better aligned with social constructionism than critical realist meta-theory.

**Grounded theory**

Patton (2002) described grounded theory as one of the most important techniques in qualitative social science research. Grounded theory enables researchers to generate theory inductively through the process of systematically gathering and analysing data during their research (Strauss and Corbin 1990). However, researchers must reject their predetermined ideas and allow theories to emerge directly from data. The technique requires researchers to make ‘constant comparisons’ of incidents (Patton 2002). Nonetheless, grounded theory has several drawbacks. First, by focusing initially on micro-level details and then building up to theory development, the technique may fail to account for other theories that guided the research from the outset. Second, micro level analyses risk oversights of important macro level factors that reciprocally shape theory development, data collection, and analysis (Layder 1993). Third, grounded theory depends entirely on inductive logic; however, the present study makes a priori assumptions using retroductive logic. Thus, grounded theory is unsuitable to analyse data in this study.
Template analysis

Researchers can use template analysis to produce lists of codes from textual data that represent ‘themes’ (Crabtree and Miller 1992; King 2004b). Researchers can identify these themes a priori, but also allow new ones to emerge as part of the analysis. Thus, themes generally evolve as the template develops into a hierarchical structure of meaning. Compared to grounded theory, template analysis is a far more flexible technique, with fewer prescriptions on how to analyse data (King 2004b). The technique works well for analysing data on large groups of participants and for comparing “perspectives of different groups of staff within a specific context” (King 2004b, p. 257). Perhaps the greatest advantage of template analysis is that researchers can use it under various epistemological assumptions, including critical realism. Template analysis can potentially produce accounts that are descriptive and somewhat reductionist, but researchers can reflect on these issues and minimise them in their analyses.

Thus, based on the comparison and evaluation of techniques, the present study selects template analysis as the most appropriate technique to analyse the case study data. The next section outlines the procedure for using template analysis.

5.6.2 Procedure: Template analysis

Template analysis is a flexible technique that is unrestricted by heavy procedural prescriptions. It is important, therefore, for researchers to adopt a systematic approach to organising and analysing data in order to ensure the procedural dependability of the analysis and its outcomes (see section 5.4.2). Nonetheless, template analysis is a fairly new research technique in organisation and management studies. As a result, there are very few texts covering procedural issues. The most comprehensive advice on the subject comes from Crabtree and Miller (1992, 1999) and King (2004b). Crabtree and Miller discuss template analysis from an interpretivist perspective, whereas King opens the technique to a wider range of epistemological perspectives. The study consulted both sources, but mainly followed King’s (2004b) advice.
The first stage of data analysis involved transcribing the interview audio verbatim and then translating the Chinese interviews into English. Translation is an important issue in cross-cultural organisational and management research because of the cultural, social and political connotations that language encapsulates (Stening and Zhang 2007; Yang and Lê 2008). In this study, the present researcher translated the interviews with the help of the Chinese-English speaking assistant who was present during the interviews. This resolved some of the minor linguistic discrepancies, such as idioms and colloquialisms that participants used. Transcription and translation occurred as soon as feasible following each interview.

The analysis used several sources of data and information to develop the initial template and the a priori codes. These included the interview questions, the first interview transcript, the initial sets of job advertisements, and the literatures reviewed in chapters 2, 3, and 4. King (2004b) defined a template code as the short “label attached to a section of text to index it as relating to a theme or issue in the data” (p. 257) that has been identified as important to the issues under investigation. The study used two methods to code the template. First, hierarchical coding, where codes organise linearly to produce broad higher-order codes as well as lower-order codes attached to text segments containing finer, more specific information (King 2004b). Higher-level codes derived from the main interview questions and the literature reviews. Lower-order codes derived from the subsidiary interview questions (including prompts and probes) and the initial interview data. Second, the analysis used parallel coding to categorise the same text segment under two (or more) unique codes (King 2004b).

Following this, the analysis revised the initial template structure to accommodate on-going data collection. During the iterative process of collecting and analysing the data, the study followed King’s (2004b) four types of template modifications (see Table 5.4). Retroduction demands that the entire analytic process uses extensive amounts of theory from the literature review. Thus, the analysis constantly reflected on the question, “What must be true in order to
make this event possible?” (Easton 2010, p. 123). This enabled the study to posit possible causal explanations from theory, rather than directly from the data (as in the case of inductive approaches). The data occasionally presented instances where the literature review seemed not to have accounted for extant theory. This prompted further literature searches to ascertain whether the posited causal explanations had any existing theoretical bases or not. The data analysis phase produced a total of five template revisions before resulting in the final template (see Appendix 3).

Table 5.4 Four types of modifications in template analysis

<table>
<thead>
<tr>
<th>Modification</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insertion</td>
<td>Adding a code not already present in the template which is relevant to answering the research question(s).</td>
</tr>
<tr>
<td>Deletion</td>
<td>Removing a code at the end of the template construction process because either (i) its relevance to addressing the research question(s) is rendered redundant or (ii) there is substantial and unnecessary overlap between this and another code.</td>
</tr>
<tr>
<td>Scope change</td>
<td>Re-defining a code at a higher or lower level within the hierarchy because its definition is subsequently deemed to be too broad or too narrow. Scope change occurs under the same higher-order code.</td>
</tr>
<tr>
<td>Changing higher-order classification</td>
<td>Switching a lower-level, subordinate code from one higher-order code and redefining it under a different higher-order code.</td>
</tr>
</tbody>
</table>

Source: King (2004b)

5.7 Ethical issues

The research used several measures to ensure that the study proceeded in a professional and ethical manner. First, the researcher applied for and received ethical approval from The University of Manchester Ethics Committee prior to conducting the fieldwork. Second, the study reassured participants about the
legitimacy of the research programme and the confidentiality of their data. The study addressed these issues as follows:

1. Before conducting any interviews, the researcher provided participants with an information sheet detailing the nature of the study, their right to confidentiality, and their rights to withdraw at any point during the study (without giving reason or incurring any personal detriment) or have their data securely discarded following the interviews (see Appendix 4). The information sheet described that the researcher would store data securely and not share these with anyone else inside or outside of the case firms;
2. The researcher told participants that the study’s results may be submitted for publishing in an academic journal, but that their individual responses and firms’ details would remain anonymous;
3. The researcher required all participants to sign an informed consent form to indicate that they had received sufficient information before taking part and that they wished to continue (see Appendix 4);
4. Participants received copies of their interview notes at the end of the study;
5. The researcher issued contact details to each participant so that they could request further information after the study.

5.8 Potential limitations of the research design

This section acknowledges some limitations in the research design. First, the researcher made requests to collect job advertisements from the HR managers after the interviews had taken place. But as the interviews had discussed issues of legislation and discrimination, HR workers could have provided samples of job advertisements that downplayed these issues. Second, template analysis potentially risks a loss of individual ‘voice’ when aggregating themes (King 2004b). This can lead to ‘flat’ or over-descriptive accounts of data. Nonetheless, critical realist research helps to minimise this problem because explanations should derive from theoretical accounts of the data, not directly from empirical observations.
Third, identifying sufficient degrees of ‘theoretical closure’ presents an issue for most research studies (King 2004b). Critical realist case research recognises that ‘true’ epistemological closure is a fallacy – that is, theoretical closure is always provisional. King’s (2004b) practical advice on template analysis addresses some of the issues of theoretical closure. For example, he suggests categorising data around central themes and questions using tables/matrices, and then evaluating the extent to which data fit these. This direct approach of matching data to categories underscores the importance of theory in the research process. Theoretical explanations and descriptions should not be afterthoughts, but should form integral and explicit parts of data analysis. Above all else, Sayer’s (1992) account of practical adequacy, as well as the retroductive and iterative processes of working with theory and data, helped guide decisions on theoretical closure during the analysis and write-up.

5.9 Summary

In summary, this chapter has discussed the study’s research design and methodology. The chapter has given extensive consideration to the epistemological underpinnings of the research because of the direct consequences that methods have for answering the research questions. The study has chosen to follow a critical realist meta-theory to guide the case study strategy due mainly to the epistemological and ontological limitations presented by positivist and postmodern paradigms. Moreover, critical realism’s compatibility with methodological pluralism enables triangulation of two data sources (semi-structured interviews and job advertisements) to address the research questions posed in chapter 1. Furthermore, the study uses template analysis because it adequately accommodates the retroductive process of analysing data and theory iteratively. The next chapter describes the case firms where data collection took place.
6 Case Firm Descriptions

6.1 Introduction

This chapter offers descriptions of the eight case firms categorised by region and summarised in Table 6.1. The study conducted interviews with managers and HR workers in seven privately owned KIFs, as well as one state-funded training school. Table 6.2 summarises the interviewee profiles.

6.2 Beijing firms

Case firm 1: PowerCo

PowerCo is an SME founded in 2002 that operates near to the Zhongguancun (ZGC) Science and Technology Zone in the Haidian District. The firm currently researches, designs, and manufactures power allocation devices, which it supplies to firms nationally. PowerCo’s organisational structure consists of five formal departments: accounting, sales, HR and administration, production, and R&D. PowerCo employs 62 workers – three of which work in the HR and administration department. At present, the firm is not pursuing large-scale expansion, but aims to utilise its current resources to become one of the leading SMEs in its business field in Beijing. PowerCo’s owner and managers have begun to execute a ten-year plan to strengthen the firm’s human resources through better hiring, training, and personal development. The study used PowerCo to pilot the interview questions and to make adjustments before undertaking further fieldwork. The high quality of findings from this case firm led to their inclusion in the final analysis.

Case firm 2: AutoCo

AutoCo established its operations in 1994 on the Zhongguancun (ZGC) Science and Technology Zone. The firm employs more than 1,800 workers at its head office in ZGC and more in its subsidiary units. AutoCo specialises in
researching, designing, and manufacturing automated programming systems for China’s National Grid. The firm’s head office in ZGC has six centres: R&D, HR, IT, manufacturing and production, sales, and accounting. In the R&D centre alone, there are ten specialist departments. The firm’s eight HR workers oversee HRM responsibilities for AutoCo’s head office as well as its subsidiary units.

6.3 Xi’an firms

Case firm 3: TrainingCo

Xi’an Software Park’s management committee established TrainingCo in 2000. The state-funded training school employs more than 50 staff and trainers. TrainingCo provides technical training and recruitment services to firms located on the Park. The school offers two types of training: first, recent university graduates, school leavers, or unemployed job seekers can undergo six months of technical training in a specified area (e.g., Java, .NET, C++, Linux, mobile phone technology). After which, firms can choose potential candidates to undergo a selection procedure in their firms. Second, firms can arrange to send existing workers to TrainingCo for training. Firms on the Software Park can turn to TrainingCo to hire trainees free-of-charge. The majority of trainers at TrainingCo are existing or previous project managers or software development engineers with an average of five to ten years’ of industry experience. Every year, TrainingCo arranges trips to Beijing and Shanghai to attract high-skilled workers to Xi’an.

Case firm 4: SoftCo

SoftCo established its operations in 2000 as a software development and IT outsourcing (ITO) firm. The firm, which has offices located across China, employs more than 3,000 workers. Many of these work as programmers, developers, and engineering specialists. The study undertook interviews with participants at SoftCo’s Xi’an offices in XHTZ. This office delivers three types of
software outsourcing solutions. The first type is offshore development centres (ODC), in which dedicated teams of programmers and developers undertake client projects. SoftCo assembles specialist teams and matches these to client firms’ organisational cultures. These specialist teams therefore function as natural extensions/complements to client firms’ own IT departments. The second type is outsourcing of individual technical workers to work on short-term client projects. The third type is bespoke software solutions in which SoftCo manages client project lifecycles from start (i.e., planning, design, implementation, testing) to finish (i.e., maintenance and aftercare). The firm holds ISO 9001:2000 (Quality Management Standard) and ISO 27001 (Information Security Standards) status. In addition to its domestic client portfolio, SoftCo supplies core technical and outsourcing services to Fujitsu, Hewlett-Packard and IBM.

Table 6.1 Summary of case firms

<table>
<thead>
<tr>
<th>Firm</th>
<th>Region</th>
<th>Core business</th>
<th>High-tech zone</th>
<th>Ownership type</th>
<th>Employees</th>
<th>Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>PowerCo</td>
<td>Beijing</td>
<td>Power allocation devices</td>
<td>No</td>
<td>POE</td>
<td>&gt;60</td>
<td>2002</td>
</tr>
<tr>
<td>AutoCo</td>
<td>Beijing</td>
<td>Automated programming systems</td>
<td>ZGC</td>
<td>POE</td>
<td>&gt;1,800c</td>
<td>1994</td>
</tr>
<tr>
<td>TrainingCo(^b)</td>
<td>Xi’an</td>
<td>Training and recruitment services</td>
<td>XHTZ</td>
<td>State-funded</td>
<td>&gt;50</td>
<td>2000</td>
</tr>
<tr>
<td>SoftCo(^b)</td>
<td>Xi’an</td>
<td>IT outsourcing (ITO)</td>
<td>XHTZ</td>
<td>POE</td>
<td>&gt;3,000</td>
<td>2000</td>
</tr>
<tr>
<td>NetCo(^b)</td>
<td>Xi’an</td>
<td>Network hardware/software development</td>
<td>XHTZ</td>
<td>POE</td>
<td>&gt;50c</td>
<td>2004</td>
</tr>
<tr>
<td>AppsCo(^b)</td>
<td>Xi’an</td>
<td>Mobile applications development, R&amp;D</td>
<td>XHTZ</td>
<td>POE</td>
<td>&gt;850</td>
<td>2005</td>
</tr>
<tr>
<td>RealCo</td>
<td>Shenzhen</td>
<td>Real estate and consultancy services</td>
<td>No</td>
<td>POE</td>
<td>&gt;3,000d</td>
<td>-</td>
</tr>
<tr>
<td>ElectricCo</td>
<td>Shenzhen</td>
<td>Electrical products, R&amp;D</td>
<td>No</td>
<td>POE</td>
<td>&gt;50,000a</td>
<td>-</td>
</tr>
</tbody>
</table>

\(^a\) All firms (except TrainingCo) are domestic start-ups.

\(^b\) Receives tax and rent concessions as part of the Shaanxi Provincial Government’s commitment to developing high-tech zones.

\(^c\) Figure excludes external employees (e.g., university professors, PhD students) contracted to undertake research projects.

\(^d\) Figure suppressed or omitted to protect firm’s and interviewees’ identities.
Table 6.2 Interviewee profiles

<table>
<thead>
<tr>
<th>Firm</th>
<th>Participant</th>
<th>Age</th>
<th>Sex</th>
<th>Tenure (years)</th>
<th>Experience/qualifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>PowerCo</td>
<td>Managing Director</td>
<td>42</td>
<td>M</td>
<td>8</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>Personnel Manager</td>
<td>40</td>
<td>M</td>
<td>8</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>AutoCo</td>
<td>R&amp;D Manager</td>
<td>42</td>
<td>M</td>
<td>10</td>
<td>Master’s degree</td>
</tr>
<tr>
<td></td>
<td>HR Manager</td>
<td>39</td>
<td>F</td>
<td>7</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>Recruitment Supervisor</td>
<td>29</td>
<td>F</td>
<td>4</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>Salaries and Benefits Officer</td>
<td>31</td>
<td>F</td>
<td>4</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>TrainingCo</td>
<td>Recruitment Services Manager</td>
<td>34</td>
<td>F</td>
<td>6</td>
<td>Bachelor’s degree, state HR qualification</td>
</tr>
<tr>
<td></td>
<td>Recruitment Services Officer</td>
<td>31</td>
<td>F</td>
<td>5</td>
<td>Bachelor’s degree, state HR qualification</td>
</tr>
<tr>
<td></td>
<td>Training Coordinator</td>
<td>36</td>
<td>M</td>
<td>5</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>SoftCo</td>
<td>HR Manager</td>
<td>35</td>
<td>M</td>
<td>8</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>Training Supervisor</td>
<td>32</td>
<td>F</td>
<td>4</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>Recruitment Supervisor</td>
<td>31</td>
<td>M</td>
<td>2</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>NetCo</td>
<td>R&amp;D Manager</td>
<td>43</td>
<td>M</td>
<td>5</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>HR Manager</td>
<td>30</td>
<td>F</td>
<td>5</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>HR worker 1</td>
<td>30</td>
<td>F</td>
<td>4</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>HR worker 2</td>
<td>28</td>
<td>M</td>
<td>1</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>AppsCo</td>
<td>R&amp;D Manager</td>
<td>37</td>
<td>M</td>
<td>5</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>HR Manager</td>
<td>33</td>
<td>F</td>
<td>3</td>
<td>Bachelor’s degree, state HR qualification</td>
</tr>
<tr>
<td></td>
<td>HR worker</td>
<td>28</td>
<td>F</td>
<td>2</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>RealCo</td>
<td>HR Manager</td>
<td>39</td>
<td>F</td>
<td>12</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>Recruitment Officer</td>
<td>29</td>
<td>F</td>
<td>3</td>
<td>Bachelor’s degree, HR background in large US MNC</td>
</tr>
<tr>
<td>ElectricCo</td>
<td>Training Officer</td>
<td>32</td>
<td>F</td>
<td>6</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td></td>
<td>HR Manager</td>
<td>35</td>
<td>F</td>
<td>14</td>
<td>College education</td>
</tr>
<tr>
<td></td>
<td>Recruitment Officer</td>
<td>31</td>
<td>F</td>
<td>4</td>
<td>Bachelor’s degree, state HR qualification</td>
</tr>
<tr>
<td></td>
<td>Training Officer</td>
<td>32</td>
<td>F</td>
<td>4</td>
<td>Bachelor’s degree, state HR qualification</td>
</tr>
</tbody>
</table>

Case firm 5: NetCo

NetCo established its operations on the Xi’an Hi-tech Industries Development Zone (XHTZ) in 2004. The firm initially began by manufacturing cable exchange hardware, but the Shaanxi Broadcasting & TV Network Intermediary Company
recently contracted the firm to work on its ‘Unification of Three Nets’ project. The unification of three nets project aims to merge and digitally upgrade existing communications, television, and Internet platforms for three million subscribers in Xi’an. NetCo also designs network management and maintenance software and plans to expand into business software development and online gaming. The firm employs more than 50 workers, as well as ten individuals (mainly university professors and PhD students) who it contracts to undertake research and development.

Case firm 6: AppsCo

AppsCo setup its operations in 2005 and has its headquarters in the Xi’an High-tech Industries Development Zone (XHTZ). The firm employs more than 850 workers and has offices across China, including in Guangdong, Hainan and Shandong provinces. AppsCo’s core business is in designing and developing mobile applications for industries such as insurance, oil and coal mining, medical, tourism, and retail, as well as government and public sectors. The firm’s in-house expertise enables it to build platforms based on Wireless Application Protocol (WAP), Java, SQL, GPRS, as well as cloud-based technologies, among others. The firm has successfully built mobile application solutions for local (e.g., Shaanxi Radio and Television Network), national (e.g., BYD, China Mobile) and global (e.g., Coca-Cola) firms. AppsCo received ISO 9001 (Quality Management Standard) accreditation in 2010.

6.4 Shenzhen firms

Case firm 7: RealCo

RealCo is a property development and real estate consultancy services firm that employs in excess of 3,000 workers across China. The firm has published several reports and books on property and real estate in China. The present study undertook interviews with participants at the firm’s Shenzhen and Xi’an offices. The firm employs around 530 workers at these two locations. Four
individuals work in RealCo’s HR function and who perform tasks relating to hiring, training and development, performance appraisal, and compensation and benefits. Due to the prominence of this firm in its industry, only minimal details can be provided to protect the firm’s and the interviewees’ identities.

Case firm 8: ElectricCo

ElectricCo designs, manufactures, and distributes advanced electrical products. The firm has offices, factories, R&D and distribution centres located across China. ElectricCo has both a central HR function, as well as various decentralised HR functions located in regional offices. The study conducted interviews with participants in the group’s Purchasing Centre near Shenzhen. These offices employ a total of 345 individuals – five, of which, work in the HR department. Due to the prominence of this firm in its industry, only minimal details can be provided to protect the firm’s and the interviewees’ identities.
7 Findings

7.1 Introduction

This chapter describes the interview findings based on the research questions stated in chapter 1 as well as themes that emerged from the template analysis (see Appendix 3). The chapter presents the findings over three main sections. The first section presents the findings on the case firms’ HR functions and sources of HRM knowledge. The second section presents the findings on the case firms hiring strategies and practices, including how firms respond to external environmental pressures arising from competition, skills shortages, and other external hiring constraints. The last section presents the findings on the case firms’ approaches to selection, including issues relating to recent employment legislation amendments.

7.2 HR functions and work organisation

This section outlines characteristics of the case firms’ HR functions. It considers two themes: (i) HR workers’ roles and responsibilities; and (ii) factors that influence HR workers’ knowledge of HRM. Table 7.1 summarises the findings.

7.2.1 HR roles and responsibilities

An analysis of the case firms by age and workforce size revealed that larger firms with longer histories relied on HR role specialisation to a greater extent than smaller firms with younger histories. The four largest firms (AutoCo, SoftCo, AppsCo, RealCo, and ElectricCo) had assigned functional responsibilities (hiring, training, rewards and compensation) to individual HR workers. This allowed workers to specialise and provided managers in other departments with points of contact to resolve specific needs (i.e., to find candidates to fill vacancies, to organise training). For example, AppsCo had put one worker in charge of training and personnel relations; another oversaw
appraisal, pay and social security; whereas the HR manager coordinated hiring and the HR ‘master plan’. To meet growing business demands, AppsCo had planned to increase the number of HR workers and to assign multiple workers to different HR functions. By contrast, the two smallest case firms (PowerCo and NetCo) organised work around generalist principles. Task variety enabled workers to acquire broad exposure to different HR functions.

7.2.2 HRM knowledge and competencies

The interviewees acquired HRM knowledge from a range of sources. HR workers in five of the case firms relied on ‘formal’ HR knowledge to some extent. For example, AutoCo invested in external training and management consultants to develop managers’ and HR workers’ HRM competencies. SoftCo and ElectricCo, on the other hand, relied mainly on internal training by HR managers. Three of the case firms – AppsCo, RealCo, and ElectricCo – either encouraged workers to study for the state’s HR qualification, or hired HR workers who had already obtained this qualification. Nonetheless, SoftCo’s recruitment supervisor argued that the state’s HR qualification failed to bridge gaps between theory and practice. To compensate for this, case firms located on Xi’an’s software park encouraged HR workers to attend events organised by the on-site management committee on management and HRM topics. For example, in 2007 the Committee had organised a recruitment and selection seminar on topics including recruitment risks; structured interviews and interviewing skills; scenario simulation; and retention techniques. Two researchers from Xi’an Jiaotong University with expertise in HRM strategy and Western management theories had delivered the sessions. The Committee had also engaged government officials at various levels to present on broad HRM issues and regional talent development.

The two smallest firms – PowerCo and NetCo – had invested the least in HRM training and development. In these firms, HR workers relied primarily on on-the-job learning. The HR manager at NetCo explained that the firm channelled its limited financial resources into core business activities, rather than into training HR workers. As she put it, “In small firms, money is the problem”. In general,
learning on-the-job was common among the interviewees because many had either transferred to HR from other business areas, or had not previously studied management-related subjects. However, some of the case firms appeared to benefit, paradoxically, by employing HR workers with ‘non-HR backgrounds’. Such individuals had acquired technical knowledge and work experience that enabled them to communicate effortlessly with experts. HR workers with technical backgrounds showed greater understanding of experts’ hiring and training needs. As a result, HR workers with technical backgrounds had better understandings about how to align hiring and HRM strategies with business needs and technical requirements. SoftCo’s recruitment supervisor argued,

At the moment, there is a shortage of HR workers in China with actual HR backgrounds; many have moved into HR from other industries or areas. I studied IT at university, so I am one of these people... In China, however, a technical or professional background is often required to become a HR professional. Many HR students struggle to find work after their studies because of this. High-tech firms prefer HR workers to have some technical knowledge because such firms’ hiring and training activities relate to high-end, technical talents (Recruitment Supervisor, SoftCo).

Other interviewees argued that, even with some formal, albeit limited HRM knowledge, they had few opportunities to put theory into practice. The HR manager at NetCo explained,

HRM has drawn much attention in China, but ‘Chinese HRM’ is not grounded in science and theories like in the West. Managers want to optimise their workforces, but they also want quick results. Quite often they do not understand the processes and procedures needed to achieve effective outcomes. I heard that Lenovo and Hua Wei use professional consultants to design their HRM practices, such as performance appraisal and reward systems. However, we have only learned about such theories and practices from books; HR people like us have never tried them or put them into practice. We do not really know how to use them properly. Those HR people with HR ‘know-how’ tend to work in large, high-end firms; we do not have opportunities to meet such people (HR worker 1, NetCo).

By contrast, some interviewees with formal HRM knowledge expressed scepticism towards certain Western HRM practices. For example, RealCo’s
recruitment officer questioned the validity of the firm’s personality
quionnaires,

We use personality questionnaires because we believe that certain roles
require special characteristics. We want to ensure that new hires fit our
organisation’s culture. To be a leader and to be a worker is quite
different. However, I never make decisions based solely on the
outcomes of personality tests – it is just a reference tool. I believe that I
can judge a person’s personality traits during an interview – I can see for
myself whether someone is extroverted or introverted (Recruitment
Officer, RealCo).

**Table 7.1 Characteristics of HR functions and sources of HRM knowledge**

<table>
<thead>
<tr>
<th>Case firm</th>
<th>No. of HR workers</th>
<th>Job roles</th>
<th>Sources of HRM knowledge and competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>PowerCo</td>
<td>3</td>
<td>Generalist</td>
<td>Tacit knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• On-the-job learning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Beliefs, prior experience</td>
</tr>
<tr>
<td>AutoCo</td>
<td>8</td>
<td>Functional</td>
<td>Formal knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• External HR training</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Management consultants</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Evidence-based knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Analysis of hiring data</td>
</tr>
<tr>
<td>SoftCo</td>
<td>4</td>
<td>Functional</td>
<td>Formal knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Internal HR training</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Tacit knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• On-the-job learning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Beliefs, prior experience</td>
</tr>
<tr>
<td>NetCo</td>
<td>3</td>
<td>Generalist</td>
<td>Tacit knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• On-the-job learning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Beliefs, prior experience</td>
</tr>
<tr>
<td>AppsCo</td>
<td>3</td>
<td>Functional</td>
<td>Formal knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• State HR qualification</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Tacit knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• On-the-job learning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Beliefs, prior experience</td>
</tr>
<tr>
<td>RealCo</td>
<td>4</td>
<td>Functional</td>
<td>Formal knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Exposure to MNCs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Internet sources</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• State HR qualification</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Evidence-based knowledge:</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>• Analysis of hiring data</td>
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<td></td>
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<td></td>
<td>• Tacit knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• On-the-job learning</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Beliefs, prior experience</td>
</tr>
<tr>
<td>ElectricCo</td>
<td>5</td>
<td>Functional</td>
<td>Formal knowledge:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Internal HR training</td>
</tr>
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7.3 Hiring strategies and practices

The chapter has so far presented characteristics of the case firms’ HR functions and sources of HRM knowledge. The ensuing section presents evidence on hiring as an important function of HRM in the case firms. It focuses on four themes identified in the interviews and from the research questions: (i) perceptions of competition, labour markets and skills shortages, and other external hiring constraints; (ii) employer branding and employment inducements; and (iii) formal and informal hiring sources and perceptions of their effectiveness.

7.3.1 Competition, skills shortages, and hiring constraints

Competition

Questions relating to competition focused on the three main types of ownerships in China: state-owned enterprises (SOEs), foreign-invested enterprises (FIEs), and domestic privately owned enterprises (POEs). The case firms shared broad consensus that SOEs posed the greatest challenges to their hiring strategies, followed by FIEs and then other POEs. PowerCo’s managing director argued that most job seekers would prefer to work for SOEs because such firms provide stable prospects,

*Competition has grown so fierce for jobs that job seekers are once again attracted by SOEs’ stability and benefits. In the past, people’s talents and abilities were lost and under-utilised. Nowadays, job seekers have reverted back to SOEs. Labour market pressures have forced job seekers to reassess uncertainties of working in foreign and private firms. However, SOEs’ entry requirements can be very high – particularly for new graduates. For those who do not meet such requirements, we consider them because their qualities may still be very good (Managing Director, PowerCo).*

AutoCo’s R&D manager and ElectricCo’s Training Officer reinforced such perceptions of the three types of ownerships. They described that SOEs provide job seekers with greater stability and benefits such as extended holidays over
the spring and mid-autumn festivals. However, such benefits compensate for lower salaries. By contrast, the interviewees concurred that FIEs tend to offer high salaries, but work-life balance is low and career development quite slow. Perceptions of POEs, however, appeared to fit somewhere in between SOEs and FIEs. Work in POEs can be highly demanding, but salaries and benefits tend to compensate for this fact. TrainingCo’s recruitment services manager highlighted considerable salary variations across POEs’ on Xi’an’s software park. However, she expressed that highly skilled workers that create significant value for firms receive equitable pay,

*People usually assume that POEs on Xi’an’s software park have lower skills standards compared to FIEs. But this is not always the case. Often, they have even higher requirements. POEs hire fewer workers to achieve their goals: if a worker can generate huge profits, firms may offer uncapped salaries or shares. It depends on workers’ abilities to create value. Those individuals that create little value for firms may receive extremely low salaries. There is considerable variation across firms (Recruitment Services Manager, TrainingCo).*

Unlike FIEs and SOEs, POEs tend to provide workers with more opportunities to showcase their abilities (R&D manager, AutoCo). According to ElectricCo’s recruitment officer, highly skilled workers have more opportunities to secure promotions than in FIEs and SOEs.

**Skills shortages**

The interviews focused additionally on perceptions of skills shortages. However, most of the interviewees’ discourses referenced ‘talent’ (rencai) shortages, rather than ‘skills’ shortages *per se*. Indeed, definitions of talent tended to emphasise personal qualities as much as skills. For example, AutoCo’s R&D manager and SoftCo’s HR manager offered the following perspectives,

*Talented individuals, above all else, must possess healthy minds, sound morals, and positive attitudes. We do not always expect new starters to have job-specific knowledge, but such individuals should understand the rules of the game: what things they must not do against certain standards and rules. Talented individuals must also have thinking minds, strong learning capabilities, and adaptability. Interpersonal skills are*
important, too – without which, all other qualities are useless (R&D Manager, AutoCo).

We do not simply measure talent by education level. Talent is education plus skills, which accounts for 60 per cent, as well as personal qualities, which accounts for 40 per cent. In China, personal quality is very important. Without this, a firm’s culture cannot be healthy; its capabilities cannot rise to a higher level (HR Manager, SoftCo).

ElectricCo’s HR manager also made reference to talented individuals’ personal qualities and use values,

For us, talent is about suitability and potential: senior managers might possess superior technical expertise, but if such individuals do not fit our culture, then we do not label them ‘talents’. Technical knowledge is a secondary issue; individuals’ personal qualities and characteristics must fit our firm. Although some people lack certain qualities, they might demonstrate future potential. For these individuals, if they can satisfy our basic requirements, we might still hire them and develop their potential (HR Manager, ElectricCo).

During the interviews, the HR workers and managers outlined various perspectives on possible causes of talent shortages in China. For example, AutoCo’s R&D manager argued that China’s problem is not talent ‘shortages’, but talent ‘wastage’. He commented,

Many PhD holders enter into large SOEs to work on basic jobs that even farmers [sic] can do. There are many talented people in China, but such individuals do not or cannot enter into positions that match their abilities. This creates perceptions of talent shortages; so, it just appears like there are shortages. This phenomenon of talent shortages does not match with the substance of reality (R&D Manager, AutoCo).

By contrast, AppsCo’s HR manager suggested that perceptions of talent shortages arise when workers move between firms of different sizes and ownership types. Such moves result in mismatches between workers’ expectations and firms’ cultures and resources. She provided one example,

In the past, we hired some senior managers from Huawei and Zhong Xin (ZTE). These individuals, of course, possessed talent and capabilities, but they could not realise their potential in our firm without a strong team to back them. Compared to their previous firms, we are quite small.
They had grown accustomed to sophisticated processes and procedures, but they could not implement these here. These individuals could not actualise their creativity, skills and, knowledge. They could not adapt to our culture and processes, and so broke their contracts. This explains why we are always searching for talented middle and senior managers (HR Manager, AppsCo).

PowerCo’s managing director attributed talent shortages to changing demographics and generational differences. He argued that new generations of job seekers have different attitudes towards work. Younger workers, often supported by their wealthy parents, easily grow dissatisfied,

For my generation, people experienced pressures to raise a family. Children had to pay for their parents, which forced them to work harder and show greater loyalty. In the past, people longed for work opportunities, but recent graduates are more demanding.

On one hand, PowerCo’s managing director expressed difficulties in attracting talented workers because the firm had not established a visible profile among job seekers. On the other hand, he admitted underinvesting in training because the ‘new generation’ had higher tendencies to leave after only a short time.

The recruitment services manager at TrainingCo, a state-run training school on Xi’an’s software park, described regional perspectives on talent shortages. Xi’an had until recently suffered substantial ‘brain drain’ to other provinces and cities. Many talented individuals with technical skills and management knowledge moved to Beijing, Shanghai, and Shenzhen to seek career development. This left Xi’an with only “basic talents”. The local government responded by organising visits to large coastal cities to attract experts back to Xi’an. Other recent trends have also increased ‘brain gain’. According to TrainingCo’s training coordinator, favourable FDI policies have encouraged more MNCs to setup divisions in Xi’an’s high-tech zones. MNCs benefit from lower operating costs, as well as a strategic position in the centre of China. Because MNCs’ salary bands tend to remain stable across regions, many highly skilled workers relocate back to Xi’an to benefit from lower living costs.
Hiring constraints

Apart from competition and ‘talent shortages’, the interviews asked HR workers and managers to describe the greatest barriers to hiring for knowledge-based roles. Some interviewees stressed the ‘liabilities of newness’. The training officer in RealCo’s Xi’an office explained,

*Our firm is the largest in the industry – yet, we only setup in Xi’an about two years ago. Unlike in Shenzhen, our firm is unfamiliar to many job seekers here in Xi’an. But whenever we tell them that we have offices in 27 cities, they are eager to join us. We still need to establish our reputation and visibility to attract more talented people (Training Officer, RealCo).*

ElectricCo’s recruitment officer argued that the firm’s location presented the greatest barrier to hiring. ElectricCo has offices across China, but the firm had decided to locate its purchasing centre in a small city outside of Shenzhen. As a result, ElectricCo had experienced resistance from some workers who would have preferred to work in neighbouring cities such as Guangzhou and Shenzhen. By contrast, AppsCo found that firm size affected prospective hires’ perceptions. AppsCo’s managers and HR workers had to constantly convince prospective hires that the firm had stable growth plans.

7.3.2 Hiring strategies

This section describes hiring strategies within the case firms. It examines degrees to which the firms aligned hiring with business objectives. The interviews explored this through the perceptions of HR workers and those of other department managers.

HR workers at PowerCo believed that senior management had not aligned hiring strategies systematically to support long-term staffing plans and business objectives. PowerCo’s owner acknowledged important links between people and performance, but believed that he had to do more to strengthen such links. Indeed, he had identified the people-performance relationship as the “missing link that would help the firm to become an industry leader within the next
decade”. RealCo, despite being a large firm, had yet to raise the HR department’s profile to a strategic level,

*Other departments see us as a supporting function, rather than a strategic business partner. Good people lie at the heart of every successful business. Therefore, a company must adopt a professional hiring approach. If a company can select the right people for the role, they can provide these people with a stable job and future career progression. It is really important to match the person to the job, as well as to the organisation’s culture. But other managers do not appreciate that we [HR workers] can directly help the firm to achieve these goals (Recruitment Officer, RealCo).*

Nonetheless, within the HR department, workers had developed hiring strategies that distinguished between ‘professional’ workers, graduates, and ‘general’ workers. This framework guided decisions about which hiring sources to use and the types of inducements required to attract different types of workers. NetCo applied a similar approach, but less systematically. The firms’ HR workers recognised that different hiring sources lead to different posthire outcomes. This also informed HR workers’ decisions about which hiring sources to use.

Similar to HR workers at PowerCo, the HR manager at AppsCo emphasised owners’ perceptions of human resource management as an important factor. She commented that, in many POEs, different departments have different priorities depending on owners’ ways of thinking. But according to the HR manager, AppsCo’s owner valued talent highly and had attached great importance to the HR department. As a result, AppsCo had implemented a ‘Strategic Talent Hiring’ scheme to support the firm’s objectives,

*Our talent scheme is integrated into the firm’s long-term plans so that we can reserve talent for the future. By doing so, our HR department serves as a basic management support function, as well as a strategic function (HR worker, AppsCo).*

At SoftCo, the recruitment manager argued that HRM played a pivotal role in his firm because each project demanded high levels of expertise. Although SoftCo hired workers on a continuous basis, the firm had also devised long-term hiring
strategies. The HR manager worked closely with other department managers to analyse the types of “talents” needed and to forecast requirements for the year ahead. The firm’s hiring strategy distinguished between high-end, mid-end, and low-end talents. For each level, SoftCo used different hiring sources to attract prospective hires.

HRM also had a high profile at AutoCo. The R&D manager commented that the firm’s HRM operations covered a wide range of areas because the HR function was horizontal, unlike other departments’ vertical operations. HRM issues could go right up to the board level for general managers and centre managers to discuss. If HR proposals seemed operational, then managers would approve them. Like AppsCo and SoftCo, AutoCo had implemented “talent management” strategies to hire different types of workers. The firm divided its workforce into high-end, mid-end, and basic talents. Some managers further divided basic talents into two categories. The first type is those candidates that AutoCo hired for instant use – often such individuals would have had relevant work experience. The second type is those candidates that showed future potential, but who required additional training and development – for instance, recent graduates. AutoCo usually hired and promoted internally for mid-end talents. For high-end technical talents, the firm would search for well-known master’s and PhD students at top universities.

Similar to AutoCo, HR workers at ElectricCo perceived that the HR department served a strategic role within the firm,

In the Purchasing Centre where I work, there are many different departments. Other managers rely on our HR team to attract the best candidates based on their requirements. Other departments in the Centre value what we do (Training Officer, ElectricCo).

ElectricCo also segmented workers in knowledge-based roles into different talent levels. This approach, too, underpinned the firm’s graduate hiring scheme and guided decisions about salaries and other employment inducements.
7.3.3 Employer branding and employment inducements

Employer branding strategies and employment inducements varied based on firms’ resources, business strategies, and labour market reputations. For example, PowerCo, the smallest case firm, demonstrated a modest employer branding strategy. The managing director conceded that the firm “does not try to exaggerate what it can offer”. By contrast, larger firms such as SoftCo and ElectricCo had established strong industry and labour market reputations by paying salaries above market rates. ElectricCo’s HR manager explained,

*If we want to attract outstanding workers, then we must offer high salaries. For example, our senior purchasing roles require considerable expertise and strong social networks. It is difficult to find individuals with such backgrounds because these roles are high stakes. In 2008, our purchasing centre generated profits of RMB 100 million. As a result, we pay our senior purchasers about RMB 1 million yuan per annum. For other management roles, we offer around RMB 300,000 yuan (HR manager, ElectricCo).*

In addition to high salaries, ElectricCo rewarded innovative workers with prizes such as cars and other high-value items. Indeed, most firms found that high salaries alone were insufficient to attract high-level workers. AppsCo’s HR manager argued that experts and experienced managers also want authority, autonomy, and support.

The interviewees described the importance of career development and learning opportunities. For example, AppsCo’s promotes a “fighter culture”: the firm stresses to prospective hires that training and development is available to anyone who wants it. The most ambitious workers have opportunities to study JAVA programming with AppsCo’s partners in Japan. The firm also pays for non-technical workers to study management and marketing courses at high-ranking universities. In a similar way, ElectricCo explains to students that the firm’s comprehensive training system enables graduates to receive management promotions within three to five years. SoftCo, too, stressed the concept of learning. The firm’s fast speed of knowledge exchange helped to attract job seekers by satisfying their desires to learn about new technologies.
Each of the case firms had incorporated organisational culture and welfare into their employer branding strategies. For example, managers at SoftCo claimed to have successfully poached several workers from Japanese firms on Xi’an’s software park because the firm offered better benefits and welfare. During university campus visits, RealCo’s HR workers used slideshow presentations to portray the firm’s organisational culture. These slideshows present video testimonials of existing workers describing positive aspects of the firm’s culture and processes,

*We want to provide students with realistic expectations. It is important to project messages that students will have bright futures in our firm: good training, excellent salaries, and a friendly and supportive culture. We also want students to know that guanxi is not an issue in RealCo. We have formal processes that workers follow to advance their careers. Students need to know that personal relationships must not affect our business goals and performance. Guanxi is still a fact of life in many Chinese firms. We do not want students to think that better relationships with managers will improve their chances of promotion (HR Manager, RealCo).*

ElectricCo attracted prospective hires by subsidising living costs. The firm offered all new graduates cheap accommodation within a close commuting distance. ElectricCo stressed to prospective hires that the firm’s culture is “just like one big family” (HR Manager, ElectricCo). AutoCo, in addition to promoting career development and benefits, highlighted its corporate social responsibility such as donating to the government’s Hope Project for disadvantaged individuals. The firm’s HR manager believed that prospective hires with higher social and moral consciences would show greater loyalty to the firm.

### 7.3.4 Hiring sources

This section presents evidence on the types of hiring sources identified during the interviews. These include formal sources (online, universities, job fairs, training schools, and newspapers), informal sources (headhunting, employee referrals, and *guanxi*), and self-initiated applications. The findings describe each hiring source’s perceived effectiveness and which sources firms used for
knowledge-based and job-based employment modes. Table 7.2 summarises the findings.

*Online*

All seven POEs used online hiring sources. The case firms relied either on hiring through their corporate web sites or placing advertisements on external recruitment web sites. Apart from AppsCo, the firms used their corporate web sites to advertise knowledge-based and job-based work. However, managers in smaller case firms such as PowerCo, NetCo, and AppsCo argued that corporate web site advertisements attracted very few applicants. Managers in larger firms such as SoftCo, RealCo, and ElectricCo described that corporate web site hiring attracted moderate interest, but the quality of applicants varied considerably. The case firms, apart from PowerCo and RealCo, often relied on external recruitment web sites to attract applicants. By doing so, firms incurred greater costs and thus reserved this source almost exclusively for technical and managerial positions. Compared to corporate web sites, external recruitment web sites increased firms’ applicant pools. External web sites also afforded firms greater control over candidate attraction. For example, interested candidates could send their CVs directly to firms. Also, managers could actively search online databases for suitable candidates and view local and national CVs.

*Universities*

All the case firms reported hiring from local universities. However, variations existed across firms regarding the frequency and effectiveness of using this source. An analysis of the interviews revealed a basic distinction between firms located in Xi’an and those in Beijing and Shenzhen. For example, Xi’an-based SoftCo hired graduates for both knowledge-based and job-based positions. However, the firm’s recruitment supervisor preferred to hire from training schools because university graduates’ skills are typically less refined. University graduates, he argued, demonstrate less professional capabilities. HR workers at NetCo, also based in Xi’an, argued that universities produce graduates with
few practical competencies. Subjects such as computer science and mathematics relate to IT, but they focus largely on theoretical knowledge. As a result, graduates are unable to work effectively in computer programming roles. In such cases, training schools help to bridge theory-practice gaps (HR Manager, NetCo). AppsCo rarely hired from universities because the firm’s HR policies required new hires to hold at least one year’s work experience. AppsCo’s HR manager commented,

We would only visit university campuses to promote our firm’s image and reputation to students. In such cases, we would only seek office support workers. For higher positions, it costs too much to train graduates without work experience (HR Manager, AppsCo).

By contrast, ElectricCo, based near Shenzhen, regularly hired workers through its graduate recruitment scheme because the firm believed that the “quality of candidates is very high”. However, ElectricCo’s recruitment officer argued that graduates have special training and development needs compared to other new hires. By supporting graduates with tailored training, career development, and generous remuneration packages, the firm has realised significant value by hiring graduates. ElectricCo had also imitated other successful firms by using job rotation to expose ambitious new graduates to different business areas. RealCo’s HR manager also argued that graduate quality is generally high. AutoCo’s R&D manager believed that graduates exhibit “higher moldability, better studying abilities, and greater stability”. Both RealCo and AutoCo had established connections with local universities to attract students graduating in specific majors, such as architecture and IT. NetCo also contracted researchers and professors from top universities to work on short-term and long-term projects.

Job fairs

Job fairs had limited utility among the case firms. Only AppsCo described ever having used this source, but only infrequently for job-based employment opportunities. AppsCo’s HR manager believed that job fairs offer a platform to raise the firm’s visibility among job seekers.
Training schools

Three of the case firms located on Xi’an’s software park reported hiring workers from TrainingCo. AppsCo and SoftCo had established formal agreements with TrainingCo to supply workers for knowledge-based and job-based roles. TrainingCo’s students receive training for between 6 months and one-year before entering into employment with these firms. Managers at AppsCo and SoftCo expressed satisfaction with the quality of training school students. TrainingCo’s recruitment services manager described that the school “works with ‘raw talents’”. Many are graduates-to-be who seek a platform to enter work. The training instructors had on average five to ten years’ of industry experience. TrainingCo had even modified its classrooms to match work environments that students should expect after they leave. For example, the school had adjusted each room’s design, layout, and furniture to simulate European, North American, and Japanese firms on the software park.

NetCo had also partnered with TrainingCo, but expressed dissatisfaction with the quality of new hires. NetCo’s HR manager argued that training schools only target certain market needs in order to pursue profits. Such schools, she added, have only one objective: to push students into jobs within half-a-year. For example, NetCo had previously sought students from TrainingCo to work in the firm’s Java development team. However, NetCo could only leverage limited expertise because students had not learned about client terminal development. According to NetCo’s HR manager,

Students from TrainingCo have very limited uses. In Xi’an’s high-tech zones, such students can perhaps work only in small firms with between three and five workers. Their skills match basic job roles such as game development and web design, but most firms require far deeper knowledge (HR Manager, NetCo).
Newspapers

Newspapers served limited purposes in only two of the case firms. Both NetCo and AppsCo used newspapers to supplement other hiring sources to meet tight vacancy deadlines. AutoCo’s R&D manager explained that he occasionally used professional trade magazines such as Power System Automation to promote the firm’s achievements, new technologies, and patents. However, he had never placed advertisements to hire for specific vacancies.

Self-initiated applications

Four of the larger case firms regularly received self-initiated applications from job seekers. SoftCo’s training supervisor commented,

*We often have people walk into our offices to find work. We are quite well-known in China, so we do not need to advertise extensively* (Training Supervisor, SoftCo).

HR workers at RealCo and ElectricCo explained that self-initiated applications provided steady supplies of workers for job-based positions, but rarely produced high-quality candidates for managerial and high-level technical positions.

Headhunting

Each of the POEs, apart from PowerCo, relied on headhunting exclusively to attract managers and experts. The firms used headhunting in one of two ways. First, firms such as AutoCo and RealCo contracted external headhunting firms. Prior to the interviews, RealCo had contracted a headhunting firm to find experienced managers and technical workers for several vacancies. On one hand, AutoCo’s R&D manager argued that “headhunting firms can be very useful”. On the other hand, he explained that such firms present a constant threat,

*Headhunters are always searching for talented individuals. They will try by any means to build connections with industry experts. Often*,
headhunters’ success rates are quite high. They will make contact with workers outside of working hours, or when workers are on holiday. However, many experts try to avoid contact with headhunters. I have not sent out any CVs, but headhunters have contacted me several times (R&D Manager, AutoCo).

Second, HR workers in firms such as AppsCo, NetCo, and SoftCo acted as headhunters themselves. For example, SoftCo’s HR manager had trained the firm’s HR workers on “digging for talent”. The firm’s headhunting training focused on improving interpersonal communication, as well as methods to search online for mid- to high-end experts. SoftCo’s recruitment supervisor explained the process,

*First, we search online for suitable firms that might possess the expertise we require. Second, we identify individuals that match our requirements by exploring firms’ corporate information pages and worker profiles. At this stage, we begin collecting further information on specific individuals using online search engines. Third, we contact certain individuals to meet informally. We aim to engage them in “deep communication” to assess their suitability and stability. If the person wishes to join us, we then ask that he or she interviews with our senior managers (SoftCo).*

HR workers at NetCo and SoftCo argued that in-house headhunting helped firms to avoid high costs associated with external headhunting providers. The firms described that headhunters command fees of between ten and 20 per cent of a worker’s first-year salary. However, one headhunting firm in Shenzhen had charged RealCo 30 per cent for a director’s salary. AppsCo’s HR workers also acted as headhunters due to high fees charged by external providers. However, the firm had previously contracted the state-run management committee in Xi’an’s software park to headhunt high-end managers. The management committee subsidised the cost of headhunting so that AppsCo incurred only minimal costs. Nonetheless, the recruitment services manager at TrainingCo argued that the government does not encourage headhunting between local firms,

*As the government, we do not promote intra-province headhunting; we prefer to attract workers from other regions. If firms on the software park poach from each other, then the industry as a whole suffers. It slows
down industrial and economic development. For example, if ‘firm A’ poaches an expert from ‘firm B’, then the entire software park enters into a pointless cat-and-mouse game. In the end, nobody wins (Recruitment Services Manager, TrainingCo).

Table 7.2 Hiring sources for knowledge-based and job-based employment

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Notes. KB = knowledge-based employment, such as technical, managerial, and professional positions; JB = job-based employment. * = Indicates that interviewees perceived this source to be highly effective. This table excludes TrainingCo, which is a state-funded training school on Xi’an Software Park.

Worker referrals

All of the POEs hired workers by referrals for knowledge-based and job-based positions. HR workers and managers agreed, almost unanimously, that referrals attracted the most competent and committed new hires. AutoCo’s HR manager argued that referred workers tend to have promising technical skills and sound
morals. They possess much clearer understanding of the role’s requirements and the firm as a whole. She observed that referred workers usually pursue long-term development prospects and thus show strong commitment (AutoCo, HR Manager). RealCo’s recruitment officer also stressed the posthire effectiveness of worker referrals,

*Our existing workers recommend some of the best candidates. Referred workers are not necessarily close relatives, but rather friends or ex-colleagues. The referral process is a form of social networking.* (Recruitment Officer, RealCo).

She added that the firm uses both proactive and reactive referrals. For the latter, the firm accepts recommendations from existing workers for non-urgent or potential, upcoming vacancies. For urgent vacancies, the HR workers would send emails to existing workers to recommend prospective hires. Some firms had implemented formal referral schemes to encourage workers to recommend friends, ex-colleagues, and other contacts. For instance, AppsCo offered referrers RMB 100 yuan to find suitable office support workers; RMB 150 yuan to recommend junior software developers; and more than RMB 150 to refer senior developers and engineers.

**Guanxi**

Four of the case firms had leveraged *guanxi* at some point to hire workers, but only for job-based employment. For example, ElectricCo hired workers by *guanxi* for factory jobs – existing workers could recommend their friends and relatives to the firm. AppsCo’s HR manager described two reasons for using *guanxi*. First, senior managers felt obliged to satisfy clients’ recommendations to hire certain individuals. Managers believed that business development depended on such decisions. Second, the firm preferred to hire some workers with government backgrounds and connections. AppsCo’s current business plan, apart from developing mobile technologies, required the firm to develop government information technologies. Thus, workers with government connections offered a strategic advantage. AutoCo’s R&D manager argued that the use of *guanxi* had changed in recent years,
It is not possible to remove guanxi completely, but it has been restricted to a much smaller scale than before. Larger firms in China have implemented more formalised processes and structures, which match their business goals. In our industry, competition and ‘the rules of the game’ will eliminate any firm that relies largely on guanxi (R&D Manager, AutoCo).

7.4 Selection

This section presents findings on the case firms’ approaches to selection. It describes the findings in relation to four issues raised by research question five, as well as those that emerged from the template analysis. These issues are: selection criteria; selection methods; selection autonomy and decision making powers; and employment legislation. To address the last point, this section relies on the analysis of recruitment advertisements as secondary data sources, in addition to the interviews conducted with participants.

7.4.1 Criteria

The smaller case firms such as PowerCo and NetCo selected workers for knowledge-based and job-based positions using flexible criteria. These firms did not report having used systematic methods to match job requirements to candidates’ competencies and personal attributes. However, the larger case firms including AutoCo, SoftCo, RealCo and ElectricCo had produced job specifications to guide selection criteria. Job specifications outlined what technical skills and qualities prospective hires should possess. RealCo and AutoCo used job analysis techniques to obtain this information. In addition, the larger POEs had clear minimum requirements for each job. For example, AutoCo required prospective hires to hold at least a bachelor’s degree, two years’ of work experience, and English language (band four). The firm also had minimum age requirements for some senior positions. All of the larger POEs required prospective hires to have at least one year’s work experience – except for graduate roles.
7.4.2 Methods

An analysis of the data revealed that the case firms relied mainly on four types of selection methods for knowledge-based positions: (i) CVs, references, and document checks; (ii) interviews; (iii) written tests; and (iv) personality questionnaires. This section discusses each of these in turn.

CVs, references, and document checks

All of the POEs required prospective hires to submit CVs, whereas only four of the firms routinely checked references and other documents. For example, RealCo’s policy required that HR workers conduct reference checks for all financial positions. Additional document checks included proof of residency status and qualification transcripts and certificates. However, some managers complained that they often receive CVs containing falsified information. AutoCo’s R&D manager estimated that some 20 per cent of all CVs received contained fabrications of some kinds. Indeed, all firms had zero-tolerance policies on non-genuine documents.

Interviews

Face-to-face interviews featured in all of the firms’ selection processes. In each firm, HR workers were responsible for conducting first round interviews after checking CVs, references, and other documents. Five of the firms also conducted initial telephone interviews to screen-out candidates that failed to meet basic requirements. HR workers and managers conducted interviews at the firms’ premises, except for graduate positions which firms such as AutoCo and RealCo conducted on-campus. Apart from PowerCo, firms had standardised questions that they used for knowledge-based and job-based positions. RealCo’s recruitment officer described the questions she used recently to interview five candidates for a Finance Director position,

We asked each candidate: 1. What do you know about our firm and why have you applied? 2. What were your main responsibilities in your last job and why did you leave? 3. How did you manage your team
effectively? 4. What are your strengths and weaknesses? 5. What are you career and salary expectations? (Recruitment Officer, RealCo)

Before making recommendations to department managers, HR workers at AutoCo, SoftCo, RealCo, and ElectricCo reported that they usually cross-referenced information provided by interviewees with information in job descriptions. TrainingCo’s recruitment services officer argued that interviews allow managers to easily assess individuals’ interpersonal skills and cultural fit, without resorting to other selection methods.

Written tests

Four of the POEs – AppsCo, AutoCo, NetCo, and SoftCo – used written tests to ground selection decisions in meritocracy. Firms conducted these prior to the first-round interviews. For example, NetCo's HR workers collaborated with other department managers to design test questions for specific functions and tasks. For technical positions, questions focused extensively on the depth and breadth of individuals’ practical skills. For non-technical roles, questions assessed personal qualities and professional competencies. At SoftCo, technical positions required prospective hires to undertake two written tests. The first assessed individuals' basic mathematics skills and English language abilities. The second test contained two components: (i) basic technical questions and (ii) realistic job skills, such as detecting and correcting errors in lines of program codes from the firm’s previous projects. Individuals who failed these tests were not usually allowed to reapply.

Personality questionnaires

Five of the POEs required prospective hires to complete personality questionnaires. SoftCo and NetCo had designed personality questionnaires in-house using information that HR workers had found online. Both firms adapted their questionnaires to fit different job roles. RealCo had also consulted online resources, but decided to use the Enneagram questionnaire, which divides personality into nine types. By contrast, AutoCo and ElectricCo had contracted
external consultancies to provide access to online personality questionnaires and to feedback results. ElectricCo’s HR manager argued that personality questionnaires save time and improve efficiency when hiring graduates. In 2010, for instance, the firm’s purchasing centre received more than 9000 applications for nine graduate jobs. However, AutoCo used personality questionnaires for quite different reasons. According to the R&D manager, the firm had in the past experienced problems with some workers’ “extreme personalities”. Thus, personality questionnaires helped AutoCo’s managers to better assess person-organisation fit.

7.4.3 Autonomy and decision making

The interviewees reported varying degrees of selection autonomy and discretion. HR workers at PowerCo, the smallest of the case firms, had discretion to attract candidates, but the firm’s founder did not trust workers enough to decide whom to hire. PowerCo’s HR workers accepted this arrangement because the firm’s founder also maintained tight control over decisions in other departments. Moreover, HR workers at PowerCo seemed ambivalent towards Western conceptions of HR departments as strategic business partners. Workers had received minimal exposure to Western HRM theories and had gained no formal HR qualifications or training. By contrast, RealCo’s recruitment officer had acquired substantial work experience in a large US multinational firm, whereas others HR workers at the firm had obtained the state’s HR qualification. Although HR workers at RealCo had complete autonomy to attract candidates, workers expressed dissatisfaction that senior managers intervened in selection decisions,

*Department and project managers make the final decisions. If I think that a particular candidate is very good, but the department manager thinks otherwise, then there is little I can do about it. Even if say that this person demonstrates the right personal attributes and he or she has good qualifications, managers may simply overlook my judgements… this is a shame (Recruitment Officer, RealCo).*

In the other firms, HR workers had somewhat greater selection autonomy. At NetCo, final selection decisions rested on discussions between one senior
manager, one department manager, and at least one HR worker. The firm used this same configuration to design job descriptions and requirements. However, there were instances where the firm’s founder would instantly hire a candidate if that person was deemed “important enough to the firm”. Similar arrangements existed at AutoCo. Department managers, supervisors, and HR workers together decided whom to select. At ElectricCo, the largest of the case firms, HR workers retained complete control over graduate attraction and selection decisions. For non-graduate hiring, HR workers were able to influence selection decisions, but department managers approved all final decisions.

7.4.4 Employment legislation

The interviews asked HR workers and managers to comment on the Labour Law and Employment Promotion Law enacted in 2008. However, only ElectricCo had adapted their hiring processes to accommodate the new laws. The firm’s HR manager explained that the firm had become more sensitive to various hiring and employment relations issues. After the government introduced the new employment laws, ElectricCo began to scrutinise individuals’ backgrounds with greater care in order to minimise any negative consequences later on – for example, if the firm had to fire a worker. The firm’s HR department carefully checked references and maintained accurate records of interview conversations. However, the other case firms had not adjusted their hiring practices. Instead, most had continued to engage in discriminatory selection practices. For example, RealCo’s recruitment officer stated that the firm would never hire individuals with disabilities. AutoCo had hired such individuals, but only under the government’s calling to do so. The firm’s R&D manager stated,

Even where a person with disabilities is qualified to do a job, the term ‘qualified’ only means that the person is able to it, not that he or she can necessarily do it well or better than other individuals. Every firm strives to build a talented workforce. Firms do not just accept everyone who can do a job; firms want individuals who can excel (R&D Manager, AutoCo).

Several case firms such as RealCo and NetCo also discriminated based on gender. RealCo’s recruitment officer and NetCo’s HR manager said,
We actually prefer to hire women for some client facing roles – especially those who are attractive and who have excellent communication skills. But, we also consider their backgrounds and work experience. Of course, we would never tell someone: ‘Oh, we have not made you an offer because you are a man’. We would call that person and say: ‘On this occasion, our HR department and our project managers feel that your experience is not suitable for this role. However, we will keep your CV on file in our talent pool'” (Recruitment Officer, RealCo).

There are far less women in labour markets with advanced technical knowledge, so we focus our attention on hiring men. Besides this, we have to think about business trips. If we hired women, we would need to pay more for accommodation because men and women cannot share hotel rooms (HR Manager, NetCo).

The collected job advertisements revealed that firms sometimes discriminated on the basis of gender – even for knowledge-based roles. For example, RealCo had advertised for an architecture, planning, and design consultant in March 2011. At a minimum, the job required that candidates have a master’s degree or above in a relevant field and one year’s work experience in real estate, planning, or product research – but the candidate had to be a man. Nonetheless, the majority of job advertisements made no references to gender preferences. This finding evidently contrasts with accounts provided by some participants during the interviews.

7.5 Summary

In summary, this chapter has presented the study’s findings in relation to the research questions stated in chapter 1 as well as themes that emerged from the template analysis (see Appendix 3). The chapter organised the findings around three main sections. The first section presented findings on HR functions and work organisation in the case firms, as well as sources of HRM knowledge and competencies. The study found that the case POEs organised work in their HR departments around either generalist or functional designs. The case firms with longer histories tended to rely more on HR role specialisation (functional designs) to a greater extent than smaller firms with younger histories, which
relied on HR workers performing generalist roles. AppsCo, for example, planned to deepen its functional specialisation of HR workers in the future as it grows its HR department in line with increasing business demands. HR workers in the larger case firms had acquired formal HRM knowledge from several sources including the state’s HR qualification, in-house HRM training, as well as external consultants and training courses. However, the two smallest firms – PowerCo and NetCo – lacked financial resources to invest in HR workers’ training and development.

The second section presented findings on the case firms’ hiring strategies and practices within the context of external environmental pressures. The study found that SOEs presented the greatest competitive threat to the case firms in external labour markets, followed by FIEs, and then by other POEs. The interviewees agreed, almost unanimously, the SOEs had established reputations as stable employers with good welfare and benefits. In addition, the interviewees attributed talent (skills) shortages to four phenomena: (i) a lack of personal qualities among job seekers; (ii) talent wastage arising from highly skilled, well-educated job seekers pursing jobs in SOEs that rarely match these individuals’ abilities; (iii) mismatches between firms and job seekers’ expectations; and (iv) generational shifts that have produced fickle job seekers with fewer loyalties and low commitment. To manage these external pressures, several case firms had developed ‘talent hiring strategies’ that segmented human capital into different levels. Case firms supported these strategies with a range of employer branding approaches and inducements which, in turn, depended on different types of hiring sources to signal value to prospective hires. These included formal sources (online, universities, job fairs, training schools, and newspapers), informal sources (headhunting, employee referrals, and guanxi), and self-initiated applications.

The third section presented findings on the case firms’ approaches to selection. The findings showed that the two smallest case firms – PowerCo and NetCo – had implemented flexible selection criteria, whereas other firms used systematic methods to match job requirements to candidates’ competencies and personal attributes. The case firms mainly used four types of selection methods: (i) CVs,
references, and document checks; (ii) interviews; (iii) written tests; and (iv) personality questionnaires. However, HR workers reported varying degrees of autonomy and discretion over selection decisions. In a couple of firms, final selection decisions rested on discussions between HR workers and other department managers. But in PowerCo selection decisions rested mainly with the owner, and in RealCo, senior and department managers intervened strongly in selection decisions. Other than in ElectricCo, participants reported that new employment legislation had made little difference to their hiring practices. Several interviewees had rejected job applicants in ways that contravened recent legislative amendments.

The next chapter first presents a recap of the research objectives, as well as the literatures reviewed in chapters 2, 3, and 4. It then proceeds to present an in-depth analysis and discussion of the study’s findings organised around the five research questions posed in chapter 1.
8 Analysis and Discussion

8.1 Introduction

The present study explored hiring strategies and practices used by knowledge-intensive firms (KIFs) in China’s domestic private sector. By integrating theoretical perspectives from Western and Chinese HRM literatures, the study sought to address two research objectives. The first research objective was to explore hiring strategies and practices used by privately owned KIFs in China and how these align with HRM and business strategies to facilitate acquisition of human and social capital. The second research objective was to investigate organisational and external environmental contexts that shape the use of certain hiring practices and strategies and also how these contexts enable or constrain approaches to hiring. These two objectives informed the relevant literatures reviewed in chapters 2, 3, and 4. To recap, chapter 2 explored literatures on the development of the knowledge economy and discussed the ‘knowledge turn’ in strategic management and organisational theory. Building on these discussions, the chapter proceeded to critique research on knowledge-intensive firms. It argued that past research has relied extensively on studying archetypical KIFs, rather than using theoretical frameworks to select which firms to investigate. Based on von Nordenflycht’s (2010) article, the chapter put forth a modified taxonomy of KIFs that incorporates social and organisational capital intensity alongside human capital intensity. This taxonomy guided the selection of case firms in the present study.

Following this, chapter 3 explored KIFs’ hiring approaches. It argued that hiring acts as a dynamic capability (Eisenhardt and Martin 2000; Teece 1998) that enables managers to adapt their human resource bases over time (Bowman and Swart 2007). But more specific, hiring enables KIFs to build three types of knowledge assets: human, social, and organisational capital – of which, this chapter focused on the former two. Three factors are important when KIFs hire to build human and social capital. First, KIFs rely on employer branding strategies to promote positive organisational attributes to prospective hires and
to signal value from entering into employment relationships. Second, KIFs depend on the strengths of their employment inducements to enhance their employer brands – for example, high salaries, career development opportunities, autonomy, and work-life balance. Third, KIFs use a variety of hiring sources to communicate their employer brands and inducements, but research shows that informal sources (e.g. worker referrals, personal networks) are particularly effective. Based on established research and frameworks (e.g., Budhwar and Sparrow 2002; Jackson and Schuler 1995; Storey 2009), the chapter then explored numerous organisational and external environmental factors that might explain variations in KIFs’ hiring strategies and practices.

Chapter 4 explored hiring and HRM within the focal research context of China. The chapter provided an initial introduction to the economic and employment reforms that have characterised China’s competitive business landscape since 1978. It discussed three major developments: the opening-up of a mixed market economy; the development of the private sector; and the re-emergence of external labour markets following the end of the ‘iron rice bowl’ period. The chapter applied a modified analytical framework to the one proposed in chapter 3 to examine the organisational and external environmental contexts of hiring. By focusing on POEs’ perspectives, the first organisational factor argued that POEs founded in the early reform period encountered struggles with legitimacy that restricted their ability to grow. However, younger POEs now operate with greater freedom that allows firms to grow fairly organically in terms of size and HRM capabilities. The second factor argued that managers have become more aware of HRM in its Western interpretation because of the isomorphic influences of FIEs operating in China, as well as the Internet and textbooks satisfying managers’ thirsts to learn about ‘advanced’ management techniques. However, POE managers may still enact HRM ‘blueprints’ that are grounded in ‘prior ideologies’ and tacit knowledge.

The third and fourth organisational factors explored, respectively, POEs’ links between human capital and business strategies, and between social capital and business strategies. A small body of evidence indicated that some POEs have become increasing sophisticated in their HRM approaches that link human
capital acquisition and development with wider business goals. Some studies show that POEs are even outperforming SOEs and FIEs in this respect (Wang et al. 2007). By contrast, POEs seem to use social capital in two ways to support their business goals: one is to use workers’ personal networks to refer talented individuals and thus to acquire human capital. However, only a few studies have specifically examined instances of worker referrals in China (e.g., Cooke 2012; Han and Han 2009). Another way is to use personal connections (guanxi) to gain access to critical resources or favours (e.g., land, property, business contracts, tax concessions). The latter supports a resource-dependence perspective (Pfeffer and Salancik 1978).

The analytical framework proposed five external environmental factors to examine hiring in the context of China. The first factor examined industrial policies and business innovation environments. It explored policies to grow strategic emerging industries, as well as high-tech zones that support KIFs’ hiring strategies through direct and indirect government instance. But it also noted the issue of poaching that affect firms on high-tech zones, which all hire (and poaching) from a common, highly mobile labour pool (Tan 2006). The second factor examined national HRD policies to upgrade the country’s management capabilities and to reverse ‘brain drain’. Following this, the third factor explored labour market supply and demand issues, such as skills shortages. The chapter criticised narrow perspectives on skills shortages by arguing that quality gaps and job seekers’ perceptions of ownership types provide better explanations of firms’ hiring difficulties. The fourth factor, which considered the roles of labour market intermediaries, speculated that employment agencies potentially serve as new types of hiring sources for firms. The last factor discussed recent employment legislation that seeks to control firms’ hiring and HRM activities, and to improve job seekers’ prospects. However, weak law enforcement and monitoring at local government levels will unlikely firms’ hiring stances against disadvantaged groups of job seekers (Brown 2010).

Based on the research objectives and reviewed literatures, the present study proposed five research questions to investigate:
1. What characteristics do HR functions in privately owned KIFs exhibit? What are HR workers’ roles and responsibilities? What sources inform HR workers’ and managers’ knowledge of hiring and HRM?
2. What are the effects of organisational and external environmental contexts on privately owned KIFs’ hiring practices and strategies? How do such factors affect how KIFs align hiring with wider business strategies to acquire human and social capital?
3. How do privately owned KIFs use employer branding strategies and employment inducements to attract prospective hires?
4. What types of hiring sources do privately owned KIFs use and why?
5. What selection methods and criteria do privately owned KIFs use to select new hires? How much autonomy and discretion do managers afford HR workers when selecting new hires? How has legislation affected KIFs’ approaches to hiring and selecting workers?

Thus, this chapter analyses and discusses the findings in relation to these five questions, as well as the literatures reviewed in chapters 2, 3, and 4. The chapter discusses each research question in turn.

8.2 Research question 1: HR functions, work organisation, and sources of HRM knowledge

The first research question asked: What characteristics do HR functions in privately owned KIFs exhibit? What are HR workers’ roles and responsibilities? What sources inform their knowledge of hiring and HRM? This question addresses the bedrock out of which HRM strategies and practices emerge (Storey 2009). The review of the literature in chapter 4 discussed how HRM, as a management discipline, is still a fairly new concept in China compared to in the West (Cooke 2005b; Warner 2008). China has yet to establish a national professional HRM body to advise on good practice. Furthermore, Chinese universities did not start to offer HRM courses until the mid-1990s (Cooke 2005b). As a result, Björkman and Lu (1999a) argued, “[It] is difficult to find
competent HR professionals in China” (p. 18). Some limited evidence has suggested that the roles of HR workers and HR departments have changed in recent years. For example, domestic Chinese firms are now significantly more likely to have HR departments with dedicated HR workers than in the 1990s (Zhu et al. 2005). However, the literature review showed that almost no studies to date have systematically examined the sources that inform managers’ and HR workers’ HRM knowledge and competencies. Given Cooke’s (2005b) observation that most HR workers in China come from non-HR backgrounds, the first research question aimed to find out from where they acquire HRM knowledge.

In the present study, an analysis of the case firms by age and workforce size revealed that larger firms with longer histories relied more on HR role specialisation than did smaller firms with younger histories. Medium and large sized firms organised HR roles around functional specialisation. Each HR worker had clearly defined role responsibilities – sometimes two or more, owing to the small scale of the HR departments. By contrast, the two smallest KIFs – PowerCo and NetCo – required HR workers to perform a broad range of tasks as needs arose. Organisational life cycle theories assume that firms’ management approaches evolve to cope with increasing structural complexities and competing external demands as firms pass through developmental stages (Baird and Meshoulam 1988; Rutherford et al. 2003). Similarly, the efficiency imperative (Williamson 1975) states that, as firms’ workforces increase in size, HRM stakeholders seek to maximise process efficiency and economise costs. In the medium and large sized case firms, HR workers with assigned functional hiring roles had acquired explicit and implicit expertise in attracting prospective hires and selecting individuals with good person-job and person-organisation fit. However, the two smallest firms had comparatively simpler internal structures and fewer workers overall. As a result, managers were under less pressure to improve HRM process efficiency through functional specialisation.

The case firm managers and HR workers had acquired HRM knowledge and competencies from a wide range of sources. These corresponded to two broad classifications. The first source of influence stemmed from KIFs’ investments in,
and promotion of, formal HRM training and development. For example, AutoCo had invested in external HRM training courses and management consultants to develop managers’ and HR workers’ competencies. Three other medium and large sized firms had required HR workers to sit the state’s HR qualification, or hired HR workers who had obtained this qualification. These findings evidence changing attitudes towards HRM among some owners and managers in China (Zhu et al. 2005). Discussions with the interviewees suggested normative pressures on firms to professionalise their HRM approaches (Björkman 2002). HRM professionalisation was particularly important to medium and large sized firms located on high-tech zones and those based in Shenzhen, where Western MNCs and large POEs have a strong presence. Björkman (2002) noted, “Late adopters jump on the bandwagon as the increasing number of users leads to stronger isomorphic pressures” (p. 54). In the absence of a national HR association and limited financial resources to invest in HR, firms located on Xi’an’s software park actively encouraged HR workers to attend events organised by the on-site management committee on management and HRM topics. Some of these events invited government officials to give talks on HRM and talent issues affecting the region. This provided grassroots channels for the state’s ‘visible hand’ to influence HRM by promulgating discourse on building a talent-driven economy (Simon and Cao 2009; Tan 2006).

The second source of influence on HRM knowledge and competencies derived from managers’ and HR workers’ backgrounds, education, and work experience (Cooke 2011b; Ding and Akhtar 2001). Managerial ‘blueprints’ about HRM were most apparent in discussions with interviewees in the two smallest case firms. In PowerCo and NetCo, simple organisational structures meant that owners had regular contact and involvement with almost all workers on a daily basis. However, Huang (2008) argued that Chinese managers are not easily trusting. Indeed PowerCo’s and NetCo’s owners retained majority control and influence over most HRM and business decisions. But neither PowerCo’s owner nor the HR workers had any direct exposure to Western multinationals, nor had they previously studied any management related degrees or courses. They relied mainly on prior ideologies, beliefs, and assumptions about hiring and HRM. But as Storey (2009) argued, such tacit knowledge may “limit how [managers] think
about strategy and how they frame and define and assess strategic options” (p. 130). Although PowerCo’s owner acknowledged the importance of HRM in theory, actualising a more systematic approach to HRM was difficult in practice. Like many other small firms in China (IFC 2000), PowerCo’s growth rate had stalled somewhat early in the organisational life cycle. The firm’s limited financial resources restricted any potential investments by its owner in HRM training and development. Even where HR workers in small firms had some limited formal HRM knowledge, such as in NetCo, HR workers felt that owners’ control over, and preconceptions about, HRM discouraged them from putting theory into practice.

Cooke’s (2005b) observation that most HR workers in China come from non-HR backgrounds was true of case firms in this study. Most HR workers had transferred to work in HR from other business areas, or had previously studied technical, rather than management-related disciplines. But compared to HR specialists in many Western firms, the HR workers in the case firms compensated limited theoretical HRM knowledge with deep understandings of their relevant businesses and technical areas. This was important in these KIFs because it enabled HR workers to converse with experts in other departments about their specific hiring needs. By contrast, RealCo’s recruitment officer had gained extensive hiring experience working in a US Fortune 500 firm, as well as relevant qualifications in personnel management at degree level. Björkman (2002) argued that Western MNCs serve as sources of HRM influence for local firms because their management practices are often seen as legitimate ways of acting. Through increased job mobility among local workers in China, MNCs act as vehicles to transfer HRM policies and practices. However, transfers of Western HRM practices seemed to depend on two factors. First, RealCo’s recruitment officer found that she could make only limited impact on her new firms’ HRM approach. She had moved from a multinational where HRM played a strategic role to a domestic firm where managers perceived HR largely as a supporting function. Second, RealCo’s recruitment officer was sceptical about some Western selection techniques, such as personality questionnaires. She believed that her own intuition led to more informed selection decisions.
Thus, the study’s findings inform the first research question by providing evidence on the roles of HR workers and the organisation of work in HR departments in China. The study has shown that several different sources influence the types of HRM knowledge and competencies that HR workers and managers possess. These include firm size and position in the organisational life cycle; managers’ prior ideologies of HRM; HR workers’ education and work experience; the state’s HR qualification; as well as firms’ exposure and regional proximity to MNCs, which exerts normative pressures to professionalise.

8.3 Research question 2: Hiring in external and organisational contexts

The second research question asked: What are the effects of organisational and external environmental contexts on privately owned KIFs’ hiring practices and strategies? How do such factors affect how KIFs align hiring with wider business strategies to acquire human and social capital? Chinese POEs operate in dynamic and highly competitive business environments, marred by past institutional constraints and struggles with legitimacy under socialism. Yet, most POEs have managed to thrive on this ‘tilted playing field’ (Bai et al. 2003). On one hand, many KIFs possess advantages over the majority of POEs because they operate under the government’s calling to build strategic emerging industries (SEIs) within a knowledge economy. Many privately owned KIFs tend to cluster in high-tech zones, where favourable government policies support their initial growth ambitions. On the other hand, many do not operate in such zones, and those that do must still contend with unyielding market forces when time-limited preferential policies and concessions expire.

POEs have three main competitors: state-owned enterprises, foreign-invested enterprises, and other POEs. In any given region, all three types of firms compete for talented workers in the same labour markets. Moreover, each type of firm has its own appeal to job seekers (Chow et al. 2001). The interviewees in the present study concurred with findings in Manpower’s (2010) Talent Competitiveness survey that job seekers’ perceptions of different ownership
types influence the types of firms that they are willing to work in. On one hand, the attitudes of recent job seekers represent a significant departure from those of the past. Despite intense competition for jobs, young and well-educated individuals are more fickle in their job searches and career choices. Most interviewees reinforced Cooke’s (2005b) point that ambitious graduates returning from abroad have high, albeit unrealistic, salary and promotion expectations. In China, such expectations may only materialise in foreign firms, and are thus unattainable for the majority of job seekers. On the other hand, some interviewees believed that intense competition for jobs and rising living costs had forced many job seekers to ‘play it safe’ by pursuing careers in SOEs. Non-strenuous work, as well as generous benefits and holiday allowances make SOEs an attractive choice for job seekers (Chow et al. 2001). PowerCo’s owner argued that “Labour market pressures have forced job seekers to reassess uncertainties of working in foreign and private firms”. The case firms shared broad consensus that SOEs posed the greatest competitive challenges to their hiring strategies, followed by FIEs, and then other POEs.

China’s tight labour market has raised substantial discussion among scholars about the prevalence of skills shortages (Child 1996; Cooke 2005b; Li and Sheldon 2010). The general conclusion expounded by scholars is that China does suffer from on-going skills shortages. However, Green and Ashton (1992) argued that the term ‘skills shortages’ implies such a wide range of labour market problems that it “fundamentally misconstrues the real problems facing… countries in relation to their skills bases” (p. 287). This conceptual ambiguity leads some firms to report shortages when, in fact, their hiring problems represent something quite different. Thus, the second research question asked managers and HR workers about their understanding of skills shortages and how these might affect their firms’ hiring strategies and practices. The interviewees’ interpretations of the meaning of skills shortages corresponded with early research by Oliver and Turton (1982). That is, when asked, “Is there a shortage of skilled labour”, managers and HR workers made references to job seekers’ personal and behavioural attributes, as much as job seekers’ actual skills sets. Interviewees preferred to use the term “talent” (rencai) and “talent shortages” to guide discussions. One might assume that this preference derives
Discussions of ‘talent’ shortages factored into four themes: (i) personal qualities; (ii) talent wastage; (iii) mismatches between firms and job seekers’ expectations; and (iv) generational shifts. First, managers and HR workers discussed shortages of general personal qualities that have also featured in Western literatures, such as adaptability, reliability, and positive attitudes (Green et al. 1998; Oliver and Turton 1982). However, other types of qualities diverged considerably; they were more unique to the Chinese context. For example, several managers’ definitions of talent described the importance of individuals possessing ‘healthy minds’ and ‘good morals’. This supports Shen’s (2008) research, which found that managers in POEs valued ‘soft’ performance criteria, including positive working attitudes, sound moral practices, and good personal relationships. Chinese society has traditionally valued such qualities very highly. Moreover, these qualities also formed part of the four criteria that SOEs used previously to evaluate cadres: de (political and moral attitudes), qing (working attitudes), neng (ability and educational background), and ji (performance and achievement) (Shen 2008). These attributes serve as foundations for strong business relationships and harmonious work cultures in China. Although personal virtues are still taught in Chinese schools, finding young graduates with such rounded qualities, as well as excellent performance potential can prove difficult.

Second, perceptions of talent shortages may arise due to talent ‘wastage’ – that is, talented individuals entering into entry-level positions in SOEs. Although only one manager discussed this idea, it raises an important point that scholars have not addressed previously in-depth. FIEs tend to hire the graduate ‘cream of the crop’ – those ambitious individuals in the upper top percentiles in their universities, whereas SOEs attract those graduates seeking long-term stability (Chow et al. 2001). Graduates have two main entry routes into SOEs: they either pass the state’s rigorous entry examination, or they use their parents or relatives guanxi to secure work. In either case, many SOEs remain overstaffed.
and graduates find their talents wasted or mismatched. POEs tend to absorb those that fail to acquire work in FIEs and SOEs; however, such individuals may still have great potential. Indeed, FIEs and SOEs may only attract those individuals that are good at sitting examinations, not necessarily those that are the most talented, creative, and enterprising. Examinations reveal little about individuals’ interpersonal skills, which most POE managers in this study and Velde’s (2009) survey valued above theoretical knowledge. As with Velde’s research, this study showed that most POEs valued some degree of creativity – something that neither traditional examinations test, nor SOEs particularly value.

Third, scholars and practitioners have argued that the most severe shortages of suitable candidates exist at management levels (Cooke 2005b; Farrell and Grant 2005; Manpower 2006). AppsCo’s HR manager suggested that ‘perceptions’ of talent shortages may arise when experienced managers transfer from foreign firms to domestic ownership types. This results in mismatches between workers’ expectations and their new firms’ cultures and resources. Managers in foreign firms grow accustomed to formal and transparent processes that often do not exist in POEs founded only recently by ambitious entrepreneurs. This mismatch between managers’ expectations and what POEs can offer leads to high turnover and perceptions that there are shortages of suitable candidates. This mismatch between job seekers and firms is not unique to China. Richardson (2007) argued that many firms struggle to fill vacancies because their employment conditions fail to match job seekers’ needs and expectations. As a result, firms tend to misinterpret hard-to-fill vacancies as actual skills shortages. Fourth, a related problem already discussed relates to generational differences. This problem is more unique to the Chinese context because of the country’s continuing ‘opening-up and reform’ process. Many young workers rely on financial support from their wealthy parents who benefitted financially, and significantly, from the entrepreneurial boom years of the 1990s. With this financial back-up, young workers can easily grow dissatisfied with work and change jobs more frequently than in the past. This phenomenon may affect KIFs more than other types of firms because savvy young job seekers, armed with good educations, are more likely to assert their preferences for high quality employment and work opportunities. When
KIFs fail to provide these, demanding young workers simply leave, or they do not apply in the first instance.

Considering the effects of competition, perceived ‘talent’ shortages, and tight labour markets, the second part of research question two asked how the case firms aligned hiring practices and strategies with wider business strategies to acquire human and social capital. Prior research has shown that POEs in knowledge-intensive industries have begun to draw strategic links between HRM practices and business goals. Chapter 4 provided some empirical illustrations of how firms have achieved this. For example, McKenna et al. (2010) observed how firm had tightly integrated Western-style HRM practices with wider business strategies. The computer manufacturer, one of the largest in China, used consultancy companies, cognitive testing, job analysis and standardised selection procedures, as well as anti-nepotism policies. TaiTai, a major Chinese pharmaceutical firm based in Shenzhen, hires from various sources and provides extensive training and development to new hires (Lu 2000). In addition to headhunting, the firm contracts with top Chinese universities that provide master’s degrees and training courses, as well as with consultancy firms and external training providers. But even in smaller firms, managers have reassessed HRM-business strategy links. Small, privately owned IT firms in Zhu and Warner’s (2004) study used a wide range of formal HRM practices and policies, such as training, autonomous work groups, and goal-oriented evaluation and compensation systems. One firm hired workers with PhD and master’s degrees and actively pursued business growth under an ‘open thought’ slogan. Zhang and Li (2009) argued, “[Chinese] firms are experimenting with different human resource practices consistent with their competitive strategy of innovation in products and processes...[This] is particularly important for those competitive industries such as high-technology...” (p. 2335).

The present study’s findings suggest that privately owned KIFs are not only experimenting with links between HRM practices and business goals, but also explicit HRM strategies. Such strategies support Lepak and Snell’s (2002) theory that firms distinguish between different types of employment modes,
most notably, knowledge-based and job-based employment. Under knowledge-based employment, human capital is highly unique and strategically valuable. Managers hire workers to represent their firms’ core knowledge bases. Under job-based employment modes, human capital has high strategic use values, but workers’ skills are less unique. Thus, firms usually hire workers to perform predetermined, routine tasks (Lepak and Snell 2002). Most firms comprise a mixture of the two modes, but KIFs draw a greater distinction because they place greater emphases on knowledge-based employment. This was true of many case firms in the present study, which had devised clear talent hiring strategies to segregate different types and levels of workers into knowledge-based and job-based employment categories. Past research, based mainly on survey methods, has rarely documented such detailed accounts. Thus, this study’s findings provide new insights into hiring and HRM strategies used by firms in knowledge-intensive industries.

There were divides, nonetheless, between firms that had implemented talent hiring strategies and those that had not. But firm size alone did not seem to provide a convincing explanation of why firms had implemented such strategies. For example, neither PowerCo, the smallest case firm, nor RealCo, the second largest firm, had formal talent hiring strategies. However, HR workers at NetCo, the second smallest case firm, actually referred to informal frameworks used to guide hiring decisions on professional workers, graduates, and general workers. This is despite NetCo’s HR workers decrying that they had little influence over HRM decisions vis-à-vis the firm’s owner. Thus, a reasonable explanation of firms’ decisions to implement talent hiring strategies derives from owners’ and managers’ HRM ‘blueprints’. RealCo’s recruitment officer, for instance, complained that the HR department served a supporting role and that senior managers had yet to raise the profile of HRM to a strategic level. The firm had already grown large, but the strategic role of HRM did not compare with the recruitment officer’s past experience of working in a major US firm. In short, the firm’s HRM approach did not match the controlled growth and strategic integration stages that organisational life cycle theories posit it should have reached for its age and size (Baird and Meshoulam 1988; Rutherford et al. 2003).
By contrast, firms such as AppsCo, AutoCo, ElectricCo, and SoftCo, had each developed strategic hiring approaches to support their businesses’ objectives. AppsCo’s HR manager specifically discussed the role that the owner had played in building this link. The owner attached great importance to the role of HRM and perceived talented individuals as the main vehicle to growth and success. In collaboration with other managers, the owner had encouraged the HR department to develop a ‘Strategic Talent Hiring’ scheme that would reserve talented people for the firm’s long-term plans. The firm had experienced some success with this approach, but also some setbacks. For example, AppsCo had previously hired some senior managers from Huawei and Zhong Xin (ZTE) – two renowned high-tech POEs in China. But shortly after, they quit. They were unaccustomed to small POEs’ processes and management styles – it was a costly mismatch of expectations. This example reinforces Guest’s (1998) remarks about psychological contracts: “Both [parties] may have drawn up contracts in the hope that the other has drawn up exactly the same contract” (p. 652). Nonetheless, SoftCo’s senior managers encouraged a similar approach to AppsCo; they viewed effective HRM as paramount to success. As with most KIFs, each of SoftCo’s projects demanded high levels of expertise and excellent interpersonal skills to build relationships with clients. To meet long-term growth strategies, the HR manager worked closely with other department managers to analyse the types of “talents” needed and to forecast requirements for the upcoming year. The firm’s hiring strategy distinguished between high-end, mid-end, and low-end talents, which each required the use of different hiring sources and practices. ElectricCo also segmented knowledge-based workers into different talent levels. However, this approach focused mainly on graduate hiring.

AutoCo had arguably the most comprehensive talent hiring strategy to build its core knowledge base through human capital (Bowman and Ambrosini 2000; Swart and Kinnie 2010). Although medium in size, the firm’s HRM approach aligned closely with the strategic integration stage that it had attained in the organisational life cycle based on its age (Baird and Meshoulam 1988). Indeed, HRM issues went right up to the board level and most interviewees seemed to
be highly receptive to new management ideas. As AutoCo’s R&D manager commented, “Human resources are the pre-condition to realise all business goals. There would be nothing without people”. The firm aimed to become a ‘one-hundred year historical brand’ that matched the success of firms like Siemens in Germany. To achieve this goal, AutoCo had implemented a formal, but flexible, ‘talent management’ strategy to hire different types of workers under knowledge-based and job-based employment modes (Lepak and Snell 2002).

As with some other case firms, AutoCo had a broad strategy to segregate workers into high-end, mid-end, and basic talents. But rather than apply a one-size-fits all approach, managers had discretion to adapt this framework to suit their departments’ needs. For example, managers in the R&D department divided basic talents into two types. The first type possessed skills that could be put to “instant use”, such as in job-based employment roles. The second type had to demonstrate future potential that the department could develop through training and development. At the opposite end, the department sought high-end talents, such as master’s and PhD students, from high ranking universities. This flexible interpretation across departments enabled AutoCo to leverage hiring as a dynamic capability – that is, an antecedent strategic routine that managers enacted to adapt their resource bases and thus generate new value-creating strategies (Bowman and Swart 2007; Eisenhardt and Martin 2000).

Based on such findings, it is perhaps unsurprising that some POEs are outperforming foreign-invested firms in China (e.g., Law et al. 2003). Indeed, as with research by Wang et al. (2007), most of the firms in the present study had closely aligned human capital focused hiring strategies with their economic goals. But, to what extent did the case firms complement their human capital strategies with explicit social capital strategies? In recent years, social capital has come to the fore as a prominent topic in Western literatures across a range of social science disciplines (Granovetter 1992; Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998). In organisational and management literatures, the
concept forms an integral strand of intellectual capital theory (Youndt et al. 2004).

Such theories implicitly position social capital as an organisational ‘good’ – a means through which workers create, share, and utilise knowledge. But in Chinese society and business relationships, social capital assumes a rather different form because actors build social relations differently and for different purposes. Based on Nahapiet and Ghoshal’s (1998) cognitive dimension of social capital, social actors in China exhibit different shared codes or paradigms that facilitate collective understanding and legitimate ways of acting compared to in the West. Although firms in China widely rely on guanxi as social capital, the practice of using personal connections carries negative connotations entrenched in favouritism, nepotism, and corruption. Perhaps as direct result, the present research found that none of the case firms reported using explicit guanxi hiring strategies.

Nonetheless, some interviewees ‘informally’ discussed the utility of guanxi for linking hiring with business goals, especially for workers hired under job-based employment modes (Lepak and Snell 2002). For example, ElectricCo hired workers by guanxi for factory jobs – existing workers could recommend their friends and relatives to the firm. This ensured that hiring was efficient and cost-effective. At AppsCo, senior managers felt obliged to satisfy clients’ recommendations to hire certain individuals, such as friends and relatives. They argued that continued growth and business development depended on such hiring decisions. To support a project to develop government information technologies, managers at AppsCo confirmed that they had hired individuals with government backgrounds and connections. These findings corroborate research by Ahlstrom et al. (2005) who found that FIEs, too, hire people with good government connections to “get things done” (p. 276). The data also support resource dependence perspectives (cf. Pfeffer and Salancik 1978). In other words, hiring ‘for’ guanxi provided some firms with access to critical resources, business intermediaries, and government gatekeepers (Cheung and Gui 2006; Peng and Luo 2000).
For knowledge-based employment modes, *guanxi* showed limited utility among the case firms. As AutoCo’s R&D manager stated, “It is not possible to remove *guanxi* completely, but it has been restricted to a much smaller scale than before… In our industry, competition and ‘the rules of the game’ will eliminate any firm that relies largely on *guanxi*. Thus, on one hand, these findings support Tsang’s (1999) argument that good *guanxi* is necessary, but not sufficient, for successful business in China. Business strategies founded exclusively on *guanxi* seem naïve and risky (Fan 2002, p. 556): in knowledge-intensive industries, competition and market forces may demand that firms focus predominantly on human capital acquisition strategies. As Fan (2002) put it, “*Guanxi* cannot make a poor strategy successful; as a tactical tool, it can only make a good strategy work” (p. 556). On the other hand, many of the KIFs in the present study received preferential government treatment owing to their location on high-tech zones. For KIFs located in other regions, hiring for *guanxi* may still be necessary to alleviate some market vulnerabilities in the absence of strong institutional support and to form critical business relationships (Fu et al. 2006).

In contrast to *guanxi*, the interviewees showed particular enthusiasm for worker referrals and headhunting as social capital hiring strategies. Indeed, all of the POEs used worker referrals to hire for knowledge-based and job-based roles, whereas all firms, apart from PowerCo, used headhunting exclusively to hire individuals for knowledge-based positions. Unlike *guanxi*, headhunting and referral strategies directly supported the KIFs’ acquisitions of human capital. Moreover, headhunting and referral strategies convey credibility and social acceptance as legitimate hiring approaches. For example, recent amendments to the Labour Contract Law have set boundary conditions for the use of headhunting activities and labour market intermediaries. This act, in itself, has signalled to firms that headhunting is acceptable within constraints of the law. Also, MNCs operating in China that use headhunting and referrals further legitimise the use of such strategies as means to acquire human capital (Björkman 2002). Section 8.5 discusses the perceived effectiveness of headhunting and referrals and the processes used by firms to attract individuals using these sources.
Thus, the study’s analysis of the findings in relation to research question two show that the analytical framework described in chapter 4 provides a useful lens through which to explain variations in privately owned KIFs’ hiring strategies and practices.

8.4 Research question 3: Employer branding and inducements

The third research question sought to answer: How do privately owned KIFs use employer branding strategies and employment inducements to attract prospective hires? It extends the previous section’s discussion of hiring strategies as they relate to attracting individuals for knowledge-based positions. Chapter 3 built an argument that KIFs’ capabilities to attract knowledge workers depend on the strengths of their employment systems and how firms signal these strengths in external labour markets (and to those already in knowledge-based employment relationships with other KIFs). KIFs rely on effective employer branding and attractive employment inducements to entice knowledge workers who have, ceteris paribus, strong employment prospects with many firms. Employer branding enables KIFs to build reputational capital, which signals to job seekers and external stakeholders that firms provide “a high-quality employment experience and a distinctive organisational identity” that workers value (Martin et al. 2011, pp. 3618-3619). This may be especially important for small firms, like many KIFs, that suffer from institutional and labour market ‘invisibility’. It is also critical to firms early in the organisational life cycle and those firms that have expanded their operations into new regions. For example, interviewees at RealCo stressed the ‘liability of newness’. After expanding into Xi’an, RealCo had to establish its reputation in local labour markets. AppsCo, established in 2005, had to constantly convince prospective hires that the firm had stable growth plans, as well as high-quality employment opportunities. By contrast, the largest case firm, ElectricCo, did not experience such problems. However, the firms’ purchasing centre did struggle to attract some high-end experts because of its location outside of a major city. Most
experts in China reside in large cities located along Eastern coastal regions (Simon and Cao 2009).

Previous research has shown that managers use employer branding and inducements to improve their firms' attractiveness by managing prospective hires’ perceptions of firm attributes, such as organisational image, challenging work, and rewards and compensation (Turban 2001). Similar to research by Horwitz et al. (2003) on KIFs in Singapore, the present study found that medium and large sized firms relied on competitive salaries as effective pecuniary inducements. ElectricCo, for example, paid its senior buyers RMB 1 million yuan to leverage their expertise and personal networks; for management roles, the firm paid around RMB 300,000 yuan. To put these figures into perspective, the average annual salary for skilled workers in Xi’an in 2010 was RMB 20,000 yuan; in Guangdong, where ElectricCo runs its purchasing centre, the average salary was RMB 24,000 yuan (China Daily 2011).

Studies have shown that KIFs, in general, tend to hire fewer workers than non-KIFs to achieve their goals (Alvesson 2000; Starbuck 1992). The same is true of POEs in China, but this owes more to financial and institutional constraints, than any conscious staffing decision or business model. But like KIFs in other countries, most medium and large sized firms in this study linked salaries to value creation. That is, if workers could generate substantial profits, some firms would offer high or even uncapped salaries, as well as share options. Warner’s (1999) study also found that high-tech firms in Beijing built high skills profiles by using remuneration levels that were markedly higher than other industries. In the present study, however, workers that generated little value for firms would receive equitably low pay that usually matched the upper ends of regional salary ranges.

But, even by paying competitive salaries, small KIFs, in particular, may struggle to successfully develop and project an image of distinctiveness or excellence (Alvesson 2000). KIFs, therefore, must also use non-pecuniary inducements to signal value to prospective hires. Knowledge workers tend to identify with prestige attached to their careers and occupations more than to specific jobs or
firms (Starbuck 1992). As a result, knowledge workers are harder to attract, and ultimately, harder to retain. Indeed, almost all the interviewees agreed that competitive salaries alone were insufficient; they had to offer other tangible and intangible inducements to attract the best and the brightest individuals. Similar to Lu’s (2000) study of TaiTai pharmaceuticals, which offered senior managers free housing, ElectricCo subsidised workers’ living costs and offered new graduates accommodation within close commuting distance. This enabled ElectricCo to attract new graduates and experts located in neighbouring cities. It also helped the firm to compete with SOEs, which typically offer generous welfare benefits.

Despite ElectricCo’s size and market orientation, the firm had also attempted to simulate SOEs’ cultures of paternalism. Most of the small and medium sized case firms had also attracted prospective hires by promoting a harmonious and supportive organisational culture. For example, RealCo communicated this supportive image through on-campus visits by using slideshows and video presentations of existing workers. Alvesson (2000) argued that firms that lack images of distinctness or excellence tend to promote “strong rhetoric about interpersonal bonds associated with being parts of the company representing a socially cohesive community” (p. 1112).

Most knowledge workers and experts seek autonomy and discretion over their work (Starbuck 1992; von Nordenflycht 2010). Those case firms with formal talent hiring strategies seemed to acknowledge this point – albeit within the constraints of Chinese collectivist values. Indeed, AppsCo’s HR manager argued that experts and experienced managers want authority, as well as support. To meet these demands, ElectricCo’s comprehensive training and development system enabled graduates to receive management promotions within three to five years. Emphases on training and development underscored most interviewees’ perceptions of a core employer branding strategy and inducement. Interviewees were aware that FIEs and SOEs typically excel in these areas and thus they wanted to provide similar opportunities to attract prospective hires. AppsCo’s ‘fighter culture’, for example, offered training and development placements with their partners in Japan to those workers who
fought hard enough for such opportunities. In most firms, managers and HR workers believed that training and development offered powerful inducements to attract prospective hires. This also supports Sveiby’s (1997) argument that professional development through ‘further education accounts’ may provide better inducements than high salaries. In addition, ElectricCo had sufficient resources to reward the most innovative workers with prizes such as cars and other high-value items. Even smaller firms reported using rewards and incentives as examples in their employer branding strategies and on their corporate web sites.

Thus, the findings inform research question three by showing that the case firms relied on various pecuniary and non-pecuniary inducements to attract knowledge workers and to support their talent hiring strategies.

### 8.5 Research question 4: Hiring sources

The fourth research question asked: What types of hiring sources do privately owned KIFs use and why? Chapter 3 discussed hiring in terms of formal and informal sources, as well as self-initiated applications. Past research has shown that informal sources often produce the highest quality new hires. Informal sources provide prospective hires with realistic job previews that enable them to make better informed decisions about their suitability and organisational fit. Research by Cooke (2012) and Han and Han (2009) in China also demonstrated the utility of informal hiring sources.

In the present study, however, four of the POEs present slightly unique circumstances because of their locations on high-tech zones. These firms had access to an additional hiring source, namely high-tech training schools. Nonetheless, as the following analysis and discussion reveals, this did not have a major effect on the breadth of sources used between those firms operating in high-tech zones and those located in other locations. All the case firms (excluding TrainingCo, a state-funded training school) used three types of hiring sources, consistent with previous research findings: formal and informal
sources (Ellis and Taylor 1983; Werbel and Landau 1996), as well as self-initiated applications (Moser 2005). Based on Lepak and Snell’s (2002) distinction between employment modes, this study analysed knowledge-based and job-based modes to determine which hiring sources firms used and perceived to be most effective for attracting different types of workers. KIFs require knowledge workers with unique and rare human capital, as well as workers that possess human capital with high strategic use values, but limited uniqueness, to perform routine, predetermined tasks (Lepak and Snell 2002). The present study found that KIFs varied in their use and perceptions of different hiring sources for attracting knowledge workers and those individuals hired under job-based employment modes. The following section discusses reasons for these differences.

Formal hiring sources are those that openly invite responses and applications from anyone in external labour markets (Werbel and Landau 1996). On-campus university visits appeared to be the most prevalent formal hiring source among the case firms. All seven POEs had relied on hiring university graduates; however, variations existed across firms regarding the frequency and effectiveness of using this source. The capacities of local universities to supply skilled graduates has direct consequences for the availability (or lack) of much-needed human capital by KIFs (Richardson 2007). In this study, the case firms operated in Beijing, which has over 70 universities and higher education institutes; in Xi’an, which has around 40 universities producing more than 130,000 graduates annually; and in Shenzhen, which has several universities and plans to expand capacity by 2015, as well as many prominent universities in neighbouring Guangzhou. Despite universities in Xi’an providing sufficient supplies of graduates, managers and HR workers of case firms in Xi’an believed that graduates do not generally demonstrate good practical capabilities. By contrast, RealCo’s HR manager, based in Shenzhen, argued that universities produce very high quality graduates, and AutoCo’s R&D manager, based in Beijing, argued that graduates exhibit “higher moldability, better studying abilities, and greater stability”. On one hand, it might be that the quality of graduates really is better in Beijing and Shenzhen because these are first-tier cities, whereas Xi’an is a second-tier city. On the other hand, it might be that the
experience of the case firms in Xi’an of using training schools has influenced their perceptions of university graduates. That is, firms contracting with TrainingCo in Xi’an’s software park have a basis from which to compare university graduates with training school graduates who, according to SoftCo’s recruitment supervisor, exhibit greater professional capabilities.

In contrast to using universities to hire graduates, only one case firm, NetCo, reported hiring university researchers on contract to undertake specific projects. Lepak and Snell (2002) argued that firms hire workers under contract employment modes when human capital is neither of particularly high strategic value, nor unique. This may be apparent in some firms and industries, but this represents a rather traditional view of labour markets (Rubery 2005). In fact, the reverse may hold true for KIFs. Hiring by KIFs on contractual bases represents a dynamic capability to capture human capital that is unique and strategically valuable (Bowman and Ambrosini 2003). For example, informal arrangements between NetCo and local universities enabled the firm to outsource core business projects that required expertise that was difficult to obtain via other sources. It also enabled NetCo to effectively manage its financial resources and cash flow because outsourced projects usually had a finite timescale and budget for completion. Thus, contractual arrangements helped NetCo to avoid long-term employment relationships that might otherwise provide a costly and poor fit with the nature of some short-term business projects.

The second and third most prevalent formal hiring sources were online corporate web sites and external online recruitment web sites, respectively. However, none of the seven POEs considered these sources to be highly effective channels to attract individuals for knowledge-based and job-based employment modes. Smaller case firms argued that corporate web site advertisements attracted very few applicants, whereas larger firms found that this source promoted only moderate interest. One explanation is that the smaller case firms had lower reputational capital and less labour market visibility among job seekers. However, corporate web sites require job seekers to make conscious and narrow job search decisions. The sheer number of firms in China can lead to job information asymmetries. Holt et al. (2010) argued, “[It]
can be difficult for both employers and individuals to get sufficient information to know what choices are available and to make sensible decisions about those choices that are known about” (p. 22). Research by Werbel et al. (2008) found that information asymmetries in China restricted job seekers’ access to job information compared to US job seekers. As a result, job seekers may be more likely to concentrate their job search efforts on hiring sources where firms can proactively communicate their reputations and employer brands.

In contrast to corporate web sites, managers and HR workers in the present study found that external recruitment web sites were slightly more effective. However, firms reserved this source almost exclusively for knowledge-based positions because it entailed substantially greater costs than corporate web site advertising. In other words, managers wanted to maximise their returns on advertising investments by hiring those individuals who could create the most value, and therefore, profits. External recruitment web sites also allowed greater flexibility and control. Firms could proactively search regional and national databases for suitable candidates, whereas job seekers could search vacancy listings to send their CVs directly to firms. From the case firms’ perspectives, external recruitment web sites generated larger applicant pools than corporate web site advertisements. In China, external recruitment sites are new types of labour market intermediaries, and their utility among firms and job seekers is still at an early stage to draw stable conclusions. Nonetheless, the prevalence of use among the case firms in this study suggests that external web sites are increasingly important to supplement other hiring sources. They are particularly critical for small firms with lower labour market visibility, which depend on active search processes to attract interest in highly competitive markets.

Training schools were the fourth most prevalent formal hiring source. Three POEs located on Xi’an Software Park reported having used TrainingCo to hire workers. Compared to hiring university graduates, managers and HR workers at AppsCo and SoftCo expressed general satisfaction with the quality of training school students. Whereas university students tend to graduate with strong theoretical knowledge, managers argued that training school students demonstrate greater practical skills and procedural knowledge. According to the
interviewees at TrainingCo, students had access to teachers and experts with extensive industry experience. Both AppsCo and SoftCo, therefore, hired training school students for knowledge-based and job-based positions. Interviewees at NetCo had quite different opinions on TrainingCo. The HR manager claimed that training school students can only work in small firms; their skills sets are suitable only for basic, routine roles that require limited knowledge and working proficiency. Although not referring specifically to TrainingCo, she argued, “Training schools only target certain market needs in order to pursue profits”. This seems to support Xu’s (2009) observation that many state-funded agencies are charging illicit fees for their services, despite the 2005 Employment Agency Regulation forbidding them to do so. Nonetheless, training schools provided an additional hiring source to expand applicant pools, which was unavailable to the other case firms located off of high-tech zones.

Newspapers and job fairs were the least prevalent formal hiring sources, respectively. Despite China having the largest newspaper market in the world, only two firms – AppsCo and NetCo – reported using newspapers, but only infrequently to supplement other hiring sources. Managers and HR workers felt generally that newspapers were less effective, less efficient, and more costly in comparison to other hiring sources. AppsCo’s HR manager argued that newspapers sometimes provide large response rates from too many unqualified applicants. For small firms with few managers and HR workers, this negatively affects hiring efficiency because of the time and resources needed to screen individual applications (Barber et al. 1999). Job fairs had very limited prevalence and utility among the case firms – in fact, only AppsCo reported ever having used this source, but only for job-based employment. Similar to newspapers, job fairs are time-consuming to participate in and incur fees that firms can avoid by using other sources.

Self-initiated applications (walk-ins and write-ins), which some scholars have classified as neither formal nor informal because of uncertainties as to where job seekers obtained vacancy information (Moser 2005; Wanous 1992), were prevalent in four out of the seven POEs. AutoCo’s R&D manager suspected
that some self-initiated applications derived from the firm using professional trade magazines such as Power System Automation to promote the firm’s achievements, new technologies, and patents. However, the firm had never advertised specifically for prospective hires through such sources. By contrast, other medium and large sized firms, such as SoftCo, reported that they often had ‘walk-ins’. SoftCo’s training supervisor argued that the firm does not need to advertise and brand extensively in external labour markets because the firm is already well-known to job seekers in the industry. This suggests that larger firms possess a priori advantages because their reputational capital carries greater weight than smaller firms (Martin et al. 2011; Powell and Goulet 1996). HR workers in several case firms explained that self-initiated applications provide steady supplies of workers for job-based positions, but rarely produce high-quality candidates for knowledge-based roles. This could mean that knowledge workers prefer to use more informal or relationship-based approaches to job search; or even that most experienced knowledge workers are already in employment and merely wait for firms to contact them.

Compared to formal hiring sources, informal sources had greater appeal in general among the case firms. Informal sources refer to applications based on information communicated through limited networks and word-of-mouth. Thus, such information tends only to reach select numbers of individuals (Werbel and Landau 1996). Worker referrals were, by far, the most prevalent informal hiring source. However, this form of hiring has received very little scholarly attention in previous research on Chinese HRM – although Cooke (2012) and Han and Han (2009) provide two notable exceptions. As with these two studies, the present research found that several case firms had implemented financial rewards to encourage workers to recommend prospective hires. AppsCo, for example, offered referrers tiered financial incentives depending on whether they found workers for job-based or knowledge-based positions. Because knowledge workers generated the most value for the firm, managers rewarded the highest incentives to fill knowledge-based roles.

Managers’ and HR workers’ opinions of worker referrals appeared to support the views of Fernandez et al. (2000), who argued, “Employers who use
[referrals] are quintessential “social capitalists”, viewing workers’ social connections as resources in which they can invest in order to gain economic returns in the form of better hiring outcomes” (p. 1288). Consistent with research by Cooke (2012) and Han and Han (2009) in China, as well as mainstream research on informal hiring sources (Kirnan et al. 1989; Ullman 1966; Williams et al. 1993), managers and HR workers broadly agreed that referrals generated higher quality new hires than most formal hiring sources. This was true of both knowledge-based and job-based referrals because referrers were in general likely to recommended individuals with similar traits and qualities that matched firms’ cultures and requirements (Cooke 2012). Fernandez et al. (2000) argued that referrers are unlikely to risk their reputations by recommending individuals who are unsuitable. Unlike in previous research, the present study observed that some firms used referrals in two ways: firms accepted recommendations from existing workers for non-urgent or potential, upcoming vacancies (passive referrals); firms also actively engaged existing workers to refer acquaintances for outstanding vacancies (active referrals).

As already discussed, four of the case firms reported hiring by guanxi, but only for job-based employment. Some firms felt obliged to accept clients’ recommendations to hire their friends and relatives in order to secure business contracts, whereas other firms hired ‘for’ guanxi to use existing workers’ personal connections to access critical resources. Most managers and HR workers were reluctant to discuss guanxi during the interviews – possibly because it undermined their ‘professional’ images as knowledge-intensive firms. In most cases, the interviewees seemed keen to convey a formal and professionalised approach to hiring. Indeed, managers and HR workers saw headhunting as a more legitimate source to attract talented individuals because the government has enacted legislative measures to regulate the industry (Cooke 2011a). Apart from PowerCo, the smallest case firm, all POEs used headhunting to attract individuals for knowledge-based employment. According to the interviewees, headhunters have high success rates and were among the most effective sources by which firms attracted high-level expertise.
Headhunting enabled firms to attract experienced senior managers, who are ostensibly in short supply in China (Cooke 2005b; Farrell and Grant 2005; Manpower 2006). AutoCo’s R&D manager argued that headhunters will try by any means to build connections with industry experts. However, this presented a problem: the case firms also risked losing experts to headhunters. Cost was another significant factor that reduced the likelihood of firms engaging with outside headhunters. As a result, four of the case firms conducted headhunting using in-house HR workers, rather than outsourcing requirements to external providers. Firm size did not seem to correspond with whether or not firms used in-house workers to headhunt, as both small and medium sized firms adopted this approach. Small firms, with financial constraints, inevitably sought to save money by undertaking headhunting in-house. However, larger firms, such as AutoCo and SoftCo, also decided to save on costs because they had large professional networks that they could leverage without resorting to external headhunters.

Thus, the findings inform research question four by showing that the case firms used various hiring sources depending on their strategies to hire for knowledge-based versus job-based employment roles. This supports Lepak and Snell’s (2002) argument that firms require different HR architectures to support different employment modes. The findings also explicate reasons why managers and HR workers perceived some hiring sources to be more effective than others.

8.6 Research question 5: Approaches to selection

The fifth research question asked: What selection methods and criteria do privately owned KIFs use to select new hires? How much autonomy and discretion do managers afford HR workers when selecting new hires? How has legislation affected KIFs’ approaches to hiring and selecting workers? Chapter 3 described how scholars have traditionally defined selection as a process of systematically collecting information for the purposes of evaluating which candidates from an applicant pool to employ (Dowling et al. 1994). This conventional view holds selection as a neutral activity: managers act as passive
observers who objectively discern between prospective hires’ qualifications, experience, and future potential (Anderson 2001). An alternative perspective sees selection as a social process. That is, a form of socialisation that accounts for the two-way nature of firms selecting prospective hires, but also prospective hires choosing firms (Anderson 2001). Headhunting for experts and experienced managers might fit this perspective. To illustrate, SoftCo’s recruitment supervisor described how, after contacting prospective hires informally, he would meet individuals face-to-face to engage them in “deep communication” to assess their backgrounds and cultural fit. Following this, the recruitment supervisor would ask ‘suitable’ individuals to discuss opportunities at interview with the firm’s senior managers.

Such discussions emphasise the socialisation and bargaining processes that knowledge workers engage in with KIFs. These processes provide opportunities for both prospective hires and firms to ‘manage their impressions’ and to convey their intentions to the other party (Herriot 1989). As Chatman (1991) contended, informal meetings are often the first stage of selection socialisation. However, the selection as socialisation view “assumes that either party may exit from the nascent relationship at any period during the sequence of social interactions of which the selection process is constructed” (Herriot 2002, p. 385). According to Herriot (2002), the socialisation perspective is complementary to traditional selection process theories because selection is still a data collection exercise from which firms base their hiring decisions. It adds to the scientific perspective by accounting for additional outcomes and sense-making processes that conventional paradigms ignore (Herriot 2002). Nonetheless, the interviewees in the present study generally referred to conventional methods for selecting workers consistent with normative-prescriptive selection approaches, rather than a socialisation perspective per se. Four types of methods emerged during the interviews: CVs, references, and document checks; telephone and face-to-face interviews; written tests; and personality questionnaires.

Interviews were the most prevalent selection method, as evidenced by their use across all case firms to hire for knowledge-based and job-based employment roles. This finding contrasts with research by Huo et al. (2002), who found that
interviews ranked in the top three selection practices in almost every country studied, except in China. Although Huo et al. (2002) did not state the types of firms under investigation, this discrepancy between findings may stem from two organisational factors. First, if Huo et al. (2002) had studied SOEs, the authors’ data may have captured more instances of firms hiring by *guanxi* than by conventional selection methods. Second, even if Huo et al. (2002) had studied private firms, these firms may have been small or family-run businesses, where nepotism would have discounted the need to interview formally. An alternative explanation is that external environmental factors may have shaped the prevalence of interviews for hiring in the present study, since the time that Huo et al. (2002) collected their data. This seems plausible given the prevalence of other Western-style selection methods observed among the case firms. For instance, five of the POEs required prospective hires applying for knowledge-based roles to complete personality questionnaires. In addition, four of the POEs required prospective hires to undertake written technical tests. Testing by examination has formed a part of Chinese culture in the civil service for centuries. However, current emphases on personality questionnaires and technical tests are more recent phenomena reflecting shifts in managers’ HRM blueprints.

Two sources of influence have primarily enabled these changes. On one hand, Chinese managers now have access to vast arrays of Internet resources that disseminate hiring and HRM advice. For example, SoftCo and NetCo had each designed their own personality questionnaires in-house using information obtained online. RealCo’s HR workers had also consulted Internet resources, which led them to a standardised questionnaire (Enneagram) that they felt had prior research to support its utility. On the other hand, Chinese managers also appear to have been influenced by the growth of consultancy services. For instance, AutoCo and ElectricCo had contracted external consultancies to provide access to online personality questionnaires and to feedback results to prospective hires. However, each firm had contracted consultancy services for quite different reasons. AutoCo used personality questionnaires to overcome problems encountered over workers’ “extreme personalities”. The firm recognised that they had in the past allowed management subjectivity to result
in inadequate selection decisions and poor person-organisational fit of new hires. Research by McKenna et al. (2010), too, found that the need to reduce management subjectivity was an important determinant underscoring a major Chinese POE’s decision to pay an external consultancy for cognitive tests. ElectricCo, the largest case firm in the present study, relied on personality questionnaires to leverage the ‘efficiency imperative’ (Williamson 1975) – mainly due to the huge number of graduate applications received each year. Barber et al. (1999) argued that larger firms economise costs by internalising procedures for recurrent transactions, such as routine hiring. Hence, formalised procedures facilitate multiple application processing and selection decisions (Barber et al. 1999).

In terms of selection criteria, the case firms varied in their degrees of formalisation and specification. The two smallest POEs – PowerCo and NetCo – selected workers for knowledge-based and job-based positions using flexible criteria. Managers and HR workers did not describe any systematic attempts to match job requirements to prospective hires’ competencies and personal attributes. This corresponds to the early stages of both firms in the organisational life cycle, and the degrees of HRM professionalisation that one would expect to observe at these stages (Baird and Meshoulam 1988). Neither HR workers at PowerCo nor those at NetCo had received any past training on or exposure to job analysis techniques. Instead, these firms relied mainly on loose job specifications and criteria to select new hires. This approach allowed the firms to operate agilely and responsively in competitive external labour markets, with fewer prescriptions and preconceptions about finding the ‘ideal’ or ‘perfect’ candidate.

By contrast, the larger case firms, including AutoCo, SoftCo, RealCo and ElectricCo, had produced job specifications to guide selection criteria. These specifications clearly outlined the technical skills and qualities that firms expected prospective hires to possess. This degree of formalisation and specification reflects the HRM development stages that each firm had achieved in the organisational life cycle. Compared to PowerCo and NetCo, the larger case firms had developed more complex organisational structures and work
designs that demanded more systematic and rigorous approaches to matching individuals to jobs. With greater labour market visibility, and thus higher vacancy response rates and larger applicant pools, the larger case firms could afford to impose stricter selection criteria to screen-out unsuitable candidates – for example, those with fewer than two years of work experience or with English language levels below band four. Most notable, the POEs tended to impose minimum age requirements on senior level positions. Chinese national culture reveres respect for age and hierarchy (Björkman and Lu 1999b); however, age carries an unprotected status under the labour law (Brown 2010). Thus, although the larger case firms tended to emphasise meritocracy in selection, age and seniority could trump skills and qualifications to some extent.

In a review of recent Chinese HRM literatures, Cooke (2009) asked, “What is the level of autonomy and power [of HR workers]?” (p. 23). Previous research on Chinese HRM has not systematically addressed HR workers’ levels of autonomy and decision-making powers vis-à-vis firms’ owners and managers. The fifth research question sought to address this issue. In the present study, the interviewees reported varying degrees of selection autonomy and discretion. HR workers at PowerCo, the smallest case firm, had discretion to attract candidates, but the firm’s owner did not trust workers enough to decide whom to hire. A similar scenario arose at RealCo, where HR workers had considerably more formal HRM knowledge than HR workers at PowerCo. RealCo’s recruitment officer expressed frustration and dissatisfaction over her inability to make autonomous selection decisions because she had previously enjoyed such discretion in her last position at a large US multinational firm. This constraint, again, reflects managerial blueprints concerning HRM control and work organisation.

In ElectricCo, the largest case firm, HR workers ceded selection autonomy to middle and senior managers for all knowledge-based positions, apart from graduate roles. This is probably because graduate roles have more general skills requirements, whereas managers may have more vested interests in other knowledge-based roles in which new hires should demonstrate their capabilities immediately. Experienced knowledge workers should be able to add value from
the outset, but managers mostly accept that graduates need time to develop. Thus, the knowledge assets possessed by experienced professionals have more or less immediate use values (Bowman and Ambrosini 2003). However, graduates’ knowledge assets accrue value only at the point when firms appropriate their value following training and development. Before then, their value is latent: they are *valued by* firms, but not immediately *valuable to* firms. Arguably, managers in ElectricCo, and several of the other case firms, believed that they had greater abilities to evaluate knowledge workers’ human capital than did HR workers. However, this negatively impacted the self-efficacy of the more experienced HR workers to contribute meaningfully to strategic hiring decisions.

The fifth research question also asked about the implications of new and updated legislation for selection among the case firms. Substantial changes have occurred in China’s labour markets and employment systems since legislatures introduced the first Labour Law in 1994. Both the Employment Promotion Law (2008) and the Labour Law (2008) specify additional requirements that firms must abide by to ensure fair selection and non-discriminatory practices. Of the seven POEs studied, only ElectricCo had adapted their hiring processes to accommodate legislative amendments. Following the new labour laws, ElectricCo had begun to pay greater attention to prospective hires’ backgrounds during selection to minimise any negative consequences after taking-up employment – for example, if ElectricCo later had to terminate a contract for poor performance or misconduct. However, the other six POEs had not explicitly adjusted their selection practices to align with new legislation. Rather, managers and HR workers were deliberately engaging in discriminatory practices to screen-out individuals that they deemed unsuitable. AutoCo’s R&D manager admitted to only hiring disabled workers for menial tasks, and only under the government’s calling to do so.

In organisation and management studies, there is often an implicit assumption that gender discrimination affects women more than men (the ‘glass ceiling’). However, the findings showed that firms discriminated against both men and women (albeit overall more against women). Among the case firms, gender
discrimination was subtle, but widespread. That is, the majority of job
advertisements made no references to gender preferences, and yet almost all
the interviewees held beliefs about which roles were most suitable for men and
which were more suitable for women. These implicit beliefs had real
implications for firms’ selection practices and legal compliance. HR managers
regularly enacted routines that saw them screen out non-preferred genders
from applicant pools (cf. Cooke and Budhwar 2009) – even for knowledge-
based roles where, in theory, meritocracy should prevail. For women, in
particular, this perhaps masks deeper economic and social issues that NetCo’s
HR manager touched upon during the interviews: “There are far less women in
labour markets with advanced technical knowledge”. As illustrated by
Fleetwood’s (2005) quote in Chapter 5, the point made by NetCo’s HR manager
perhaps underscores discursive factors (sexist discourse), as well as ‘socially
real’ factors that affect women’s skills attainment levels in China,

In some cases, female workers possess skills similar to those
possessed by (comparable) male workers. Not only does sexist
discourse draw our attention to ‘women’s skills’, it draws our attention to
them in ways that present them as being of a lower skill level. And of
course, once these skills are discursively downgraded, discrimination in
the labour market and the workplace often follows... Working alongside
this discourse, however, are extra-discursive factors that also cause
discrimination. Many female workers simply do not possess skills similar
to those of male workers. There are various reasons for this, such as
women’s restricted access to jobs where skill attainment is possible.
This is often caused by intermittent labour market activity, which is, in
turn, caused by the requirements of child and/or dependant care. In this
case, the lower skill level is not caused by sexist discourse but by extra-
discursive, socially real factors (Fleetwood 2005, pp. 200-201).

In short, the new employment laws will not change the entrenched mindsets of
a generation of managers overnight. Until the government mandates rigorous
compliance at local levels, provincial governments will still need to intervene
directly in the hiring affairs of highly ‘visible’ firms to maintain a ‘harmonious
society’. Thus, although some firms in the West adopt systematic and fair
selection techniques at least partly on a rational-legal basis, most of the firms in
the present study did not choose to use Western-style techniques (e.g.,
personality questionnaires, cognitive tests) for such reasons. In fact, coercive
legislative pressures proved to be the weakest institutional forces shaping firms’ selection approaches. Managers were either indifferent, or argued against the benefits of protecting certain classes of job seekers under new employment laws. In the latter’s case, managers perceived that some classes of job seekers displayed weaknesses that would prove detrimental to their business strategies and competitive advantages. The present study, therefore, largely supports Björkman’s (2002) hypotheses. That is, the strongest institutional forces shaping selection decisions were normative pressures – namely, firms’ desires to professionalise hiring – as well as mimetic isomorphic pressures – such as using knowledge obtained from the Internet, HRM texts, and consultancy firms, in addition to observing FIEs which serve as referents of legitimate practices.

8.7 Summary

In summary, this chapter has analysed and discussed the study’s findings in relation to the five research questions posed in chapter 1, as well as the literatures reviewed in chapters 2, 3, and 4. Using the analytical framework proposed in chapter 4, the research has analysed how the case firms developed hiring strategies and practices, in addition to the organisational and external environmental factors that led to variations in their hiring approaches. The discussion in relation to research question one showed that the case firms with longer histories tended to rely more on HR role specialisation (functional designs) to a greater extent than smaller firms with younger histories, which relied on HR workers performing generalist roles. This is consistent with organisational life cycle theories, which assume that growing firms’ HRM approaches evolve to cope with increasing structural complexities and competing external demands. Moreover, despite the recency of HRM as a concept in China, some case firms had begun to invest in HRM training and development through in-house, as well as external courses. This is important given the lack of a national professional HR body in China to advise on ‘good’ practice. Managers’ and HR workers’ backgrounds, education, and work experience also provided sources of influence over firms’ hiring strategies and practices. Nonetheless, in some cases managers’ HRM ‘blueprints’ and prior
ideologies had a constraining effect on the ability of HR workers to realise their occupational goals and potentials.

The discussion in relation to research question two showed how some case firms had developed talent hiring strategies to contend with external environmental pressures. Firms encountered several challenges including managing job seekers’ ownership preferences for SOEs and FIEs vis-à-vis POEs, as well as ‘talent’ shortages arising from: (i) a lack of personal qualities among job seekers; (ii) talent wastage from highly skilled, well-educated job seekers pursing jobs in SOEs; (iii) mismatches between firms and job seekers’ expectations; and (iv) generational shifts that have produced fickle job seekers with fewer loyalties. These findings call into question existing descriptions of China’s so-called ‘skills shortages’ and argue for a much more nuanced approach to analysing this phenomenon.

The discussion in relation to research question three showed that the case firms relied on different employer branding strategies, as well as various pecuniary and non-pecuniary inducements to attract knowledge workers and to support their talent hiring strategies. Non-pecuniary inducements such as career development opportunities and paternalistic welfare and work designs helped the case firms to signal additional value to prospective hires over and above high salaries. These findings support research in Western literatures on KIFs (Alvesson 2000; Sveiby 1997), as well as some studies on KIFs in China (e.g., Lu 2000). The discussion in relation to research question four showed that the case firms used a variety of formal and informal hiring sources to hire for knowledge-based and job-based employment roles (Lepak and Snell 2002). Compared to formal hiring sources, informal sources generally had greater appeal among the case firms. Participants perceived that workers referrals schemes were quite effective and some firms had incentivised the use of these with modest financial rewards. Guanxi demonstrated only a marginal role in KIFs’ formal hiring strategies, and was mainly used for job-based employment.

The discussion in relation to research question five showed that most medium and large case firms had implemented systematic methods to match job
requirements to candidates’ competencies and personal attributes. Although Western literatures highlight the importance of ‘socialisation selection’ approaches for KIFs, the interviewees tended to refer to normative-prescriptive selection procedures. Four types of methods emerged during the interviews: CVs, references, and document checks; telephone and face-to-face interviews; written tests; and personality questionnaires. The prevalence of personality questionnaires was somewhat unexpected, but may reflect managers’ changing perceptions and acceptance of Western-style HRM practices. These changes appear to be driven by increased access to HRM knowledge on the Internet and in management texts, as well as through Western firms and management consultancies selling their services. Managers’ and HR workers’ attendance at HR seminars and events was also a contributory factor for some case firms. The discussion highlighted, however, that managers’ prior ideologies still presented a constraining effect on some HR workers’ selection autonomy and discretion. In addition, only one case POE had adapted its hiring practices to reflect recent legislative amendments. This shows that coercive legislative pressures were very weak institutional forces for shaping the case firms’ selection practices.

The next section seeks to draw conclusions from the research findings in relation to the research objectives and research questions. It then outlines potential implications for, and contributions to, research design and methods, theory development, managers and firms, and policy makers. The chapter concludes by discussing some limitations and areas for future research.
9 Conclusions and Contributions

9.1 Overview

KIFs are an emerging organisational form in China that have proliferated under the central government’s calling to build ‘strategic emerging industries’ (SEIs) within a knowledge economy. This study has made a significant step towards understanding one of the most important human resource management challenges facing such firms – hiring knowledge workers. The study had two specific objectives. The first was to explore hiring strategies and practices used by privately owned knowledge-intensive firms (KIFs) in China and how these align with HRM and business strategies to facilitate acquisition of human and social capital. By collecting data from eight case firms (seven privately owned KIFs and one state-funded training school), the present study has offered an in-depth account of KIFs hiring approaches in China, and explicated the strategies that KIFs used to link human and social capital hiring strategies with wider business goals. The findings showed that the KIFs used a wide range of hiring sources and most attracted knowledge workers using strong employment inducements, including high salaries, training, and career development opportunities. Some firms had also implemented ‘talent hiring strategies’ that segregated potential new hires into different talent levels. KIFs’ social capital hiring strategies, on the other hand, relied less on guanxi, and more on worker referral systems and headhunting to attract talented individuals.

The second research objective sought to investigate organisational and external environmental contexts that shape the use of certain hiring practices and strategies and also how these contexts enable or constrain approaches to hiring. The study met this objective by synthesising extant Western and Chinese HRM research to provide an analytical framework of organisational and external environmental factors relevant to explore hiring in the Chinese context. The organisational factors included: (i) organisational life cycles; (ii) sources of HRM knowledge and management ‘blueprints’; (iii) human capital and business strategies; and (iv) social capital and business strategies. The external
environmental factors included: (i) industrial policies and business innovation environments; (ii) national human resource development; (iii) labour market supply and demands; (iv) labour market intermediaries; and (v) employment legislation and regulation.

The two research objectives, along with reviews of the literatures, informed the five research questions proposed for investigation:

1. What characteristics do HR functions in privately owned KIFs exhibit? What are HR workers’ roles and responsibilities? What sources inform HR workers’ and managers’ knowledge of hiring and HRM?
2. What are the effects of organisational and external environmental contexts on privately owned KIFs’ hiring practices and strategies? How do such factors affect how KIFs align hiring with wider business strategies to acquire human and social capital?
3. How do privately owned KIFs use employer branding strategies and employment inducements to attract prospective hires?
4. What types of hiring sources do privately owned KIFs use and why?
5. What selection methods and criteria do privately owned KIFs use to select new hires? How much autonomy and discretion do managers afford HR workers when selecting new hires? How has legislation affected KIFs’ approaches to hiring and selecting workers?

This final chapter seeks to draw conclusions from the findings to show how the study has addressed the research questions. It then outlines potential implications for, and contributions to, research design and methods, theory development, managers and firms, and policy makers. The chapter ends by discussing some limitations, as well as potential areas for future research.

9.2 Research conclusions

Several conclusions arise from the research. For purposes of consistency and clarity, this section organises the conclusions around the research questions.
The first research question explored HR functions, work organisation, and sources of HRM knowledge in China. This question addressed some of the bedrock issues that previous studies on HRM in China have not examined in detail. The findings revealed considerable variations across these issues between firms in terms of their different ages, histories, and workforce sizes. Larger firms, for example, had generally moved towards functional HR role specialisation. In particular, the findings evidence some degrees of attitudinal changes in managers’ acceptance of strategic HRM and the strategic orientations of HR functions. However, this was not universal across the case firms, nor did firm size seem to play an important role in managers’ perceptions of HRM. Rather, managerial ‘blueprints’ and prior ideologies were important explanatory factors. For instance, some HR workers with formal HRM knowledge expressed frustration that managers underappreciated their competencies. In some POEs, tensions existed between HR workers’ needs to identify with their occupations and that of managers’ and owners’ control over hiring and selection decisions. That is, HR workers believed that their formal HRM knowledge and experience legitimised their stakes to contribute to final selection decisions. But despite the ‘talent’ and human resources rhetoric widely promoted by the Chinese government, some owners and managers still showed reluctance to treat HR workers as strategic business partners.

Thus, although managers’ perceptions have changed towards the importance of HRM, the main conclusions drawn from these findings are that prior ideologies risk interfering with KIFs’ transition towards implementing hiring and HRM in truly strategic ways. Indeed, some firms demonstrated disconnects between managers’ changing HRM beliefs and how they actually behaved in practice. This carried implications for autonomy and discretion levels afforded to HR workers by managers and firms’ owners. Nonetheless, the reverse was true in quite a few cases, in that managers’ HRM blueprints supported a strategic role for their HR departments.

The second research question explored hiring in external and organisational contexts. This question extended the findings of the first research question to
examine different causal explanatory factors that determined variations in KIFs’ hiring approaches. For example, the findings revealed how competitive business strategies influenced KIFs’ hiring strategies and practices. In a few cases, strong links between hiring and business strategies emerged not only from managers’ perceptions of the importance of HRM, but also as a response to external environmental pressures. In any given region and industry, state-owned firms (SOEs), foreign invested firms (FIEs), joint venture firms (JVs), and domestic private firms (POEs) must compete within the same labour markets to attract experienced managers and ambitious graduates. Whereas FIEs previously presented the greatest competitive challenge to POEs, the interviewees in this study broadly concurred that SOEs now present the greatest threats. That is, managers and HR workers believed that SOEs were able to attract well-educated and capable individuals by offering stability, as well as good welfare and benefits. Thus, SOEs seem able to attract high calibre graduates who might otherwise pursue careers in the private sector.

Perceptions of skills shortages presented another type of external pressure influencing links between firms’ hiring approaches and business strategies. Skills shortages were a contentious area of discussion for interviewees in that several managers argued that Western scholars and practitioners had misinterpreted the issue or overstated the severity of the problem. Indeed, findings from the present study suggest that Chinese HRM scholars need to provide greater clarity when using the term ‘skills shortages’. Chinese HRM scholars tend to subscribe to accounts provided by global management consultancies, such as McKinsey and Manpower. Such consultancies, however, have agendas that rarely align with ‘impartial’ scholarship. Starbuck (2010) argued that consultancies “Tell their clients what they ought to want to know” (p. 1401). Moreover, consultancies tend to report on skills shortages that affect foreign-invested firms in China (their primary target audience), not domestic firms. As a result, scholars all-too-often refer passingly to ‘China’s growing skills shortages’, as if the country functions as one single, homogenous labour market.

Richardson (2007) argued that skills shortages arise when (i) there are too few people available in external labour markets with ‘general’ (non-firm specific)
skills and (ii) the training time to develop such skills is long. But by the interviewees’ accounts, there were no severe or worsening shortages of individuals with technical skills – at least no worse than in Western countries. Indeed, by most interviewees’ accounts, the capacity of education and training establishments was generally sufficient to meet their firms’ skills demands. Thus, the real issue facing KIFs in this study was output ‘quality’, not output ‘quantity’. Managers and HR workers expressed great concern about finding individuals with personal qualities such as adaptability, reliability, and positive attitudes. They also felt it important that prospective hires possess healthy minds and sound morals – two socio-cultural attributes that rarely feature in Western definitions of talent, but that were deemed highly important by the interviewees for successful working relationships in China. Such socio-cultural attributes may also provide indicators of prospective hires’ potential to build social capital. In China, social capital supports KIFs by providing sources of competitive advantage in environments where successful business transactions function on strong connections (guanxi) and harmonious working relationships.

Thus, in relation to the findings for research question two, the study concludes that although privately owned KIFs face a number of environmental pressures, many firms have responded by successfully aligning their hiring strategies with wider business strategies. This was most notable in those firms with talent segmentation strategies that divided prospective hires into high-end, mid-end, and low-end talents. In some instances, managers reported having implemented strategies to build talent reserves that would support core business objectives into the future. These strategies reflect the openness of some POE managers to strategic HRM (Zhu et al. 2005), as well as the effects of mimetic and normative isomorphic forces on HRM convergence (Björkman 2002).

Research question three explored KIFs’ responses to competitive pressures and tight labour markets by examining employer branding and inducements. KIFs need to stand out in highly competitive labour markets by signalling to prospective hires that they offer employment opportunities that are superior to their rivals. The findings indicated that effective employer branding and
inducements were particularly critical to small KIFs with low labour market visibility. These issues were also important for KIFs that had expanded into new regions and thus where their brands were less well known to job seekers – that is, the liabilities of newness. As a result, the case firms used a variety of inducements to enhance their legitimacy and reputations as choice employers. To successfully attract workers for knowledge-based roles, several of the KIFs sought to pay market-leading salaries to attract individuals away from FIEs and SOEs – a practice typically associated with foreign firms in China.

Although paying high salaries was an effective way to capture interest, KIFs had to rely on other branding strategies and inducements to signal added value to knowledge workers. These methods positioned POEs somewhere in between FIEs and SOEs. That is, on one hand, privately owned KIFs were keen to promote opportunities for training and career development in ways similar to FIEs. On the other hand, a few of the privately owned KIFs relied on providing SOE-type welfare and benefits such as free living accommodation and paternalistic organisational cultures. As RealCo’s HR manager pointed out during on-campus university events, “It is important to project messages that students will have bright futures in our firm: good training, excellent salaries, and a friendly and supportive culture”. In this way, the case firms enhanced their legitimacy and reputations by replicating the positive organisational attributes of their labour market rivals in order to appeal to job seekers. Thus, the study concludes that effective employer branding and attractive employment inducements are important because KIFs need to entice knowledge workers who have, *ceteris paribus*, strong employment prospects with other firms.

The fourth research question explored the hiring sources that Chinese KIFs use to communicate their employer brands and inducements. These fitted into standard classifications based on formal and informal sources, as well as self-initiated applications. In general the findings lead to three conclusions. First, the breadth of sources used by Chinese KIFs is far broader than anything reported in previous studies of hiring and HRM in China. The research identified twelve distinct sources that KIFs used to attract interest in vacancies. This suggests that in recent years domestic firms have broadened their channels in order to
enlarge their talent pools. This has occurred due to increased competition for skilled workers, but also because hiring sources have diversified. For example, the growth of the Internet has created new opportunities for firms to advertise vacancies online through non-corporate recruitment web sites. Moreover, legislative amendments have opened up new markets for labour market intermediaries such as headhunters, employment agencies, and training schools. On the supply side, these new sources have opened up more channels to job seekers. Thus, firms have had to broaden their attraction strategies and hiring sources to ensure that job vacancies and employer branding receive maximum exposure.

Second, the study has shown how Chinese KIFs preference certain hiring sources over others depending on whether they are hiring for knowledge-based or job-based roles. This suggests that managers perceived certain hiring sources to have greater utility for attracting individuals with superior human and social capital. Yet the use of particular hiring sources did not always correspond to managers’ and HR workers’ perceptions of their effectiveness (e.g., on-campus university visits). But consistent with previous studies, managers and HR workers perceived informal sources, especially worker referrals, as highly effective for knowledge-based and job-based roles. These findings increase our understanding of how strategic hiring contributes directly to building KIFs’ knowledge assets. But they also suggest that managers and HR workers do not require substantial formal training in HRM. Understanding what hiring sources lead to the best post-hire outcomes can arise from sense-making processes. Many of the case firms based hiring source decisions on tacit knowledge and experience. That is, HR workers had learned to associate certain sources with certain outcomes; they understood implicitly which sources worked well and which did not. This may explain why although most firms preferred to hire HR workers with relevant qualifications and experience, these were not essential prerequisites.

Third, the present research also provides new insights into the prevalence and utility of guanxi (personal connections) for hiring among POEs in knowledge-intensive industries. The findings suggest a need to distinguish theoretically
between firms that hire workers ‘by’ guanxi and those that hire workers ‘for’ guanxi. Hiring ‘by’ guanxi occurs when influential external stakeholders (e.g., the government, suppliers, business clients) compel firms to hire ‘recommended’ individuals. This is usually on the understanding that this will lead to some positive gains for firms (e.g., new or extended business contracts, cheaper supplies, lower taxes). Individuals hired ‘by’ guanxi may or may not possess human capital with strategic use values. By contrast, hiring ‘for’ guanxi entails hiring outside individuals with strong personal connections who can help firms to achieve their goals. Hiring ‘for’ guanxi is a conscious, strategic decision to hire individuals for their social capital, rather than their human capital. In a peculiar sense, individuals hired ‘for’ guanxi exhibit traits similar to quintessential knowledge workers: they possess abilities to solve business problems creatively using social connections as forms of expertise. Social capital serves as their primary knowledge asset, which may provide firms with sources of competitive advantage under certain circumstances. Nonetheless, hiring by guanxi served only a marginalised role in the present study because the KIFs competed mainly on product innovations and specialist services driven by human and social capital.

The fifth research question asked about KIFs’ approaches to selection. The case firms generally relied on a limited set of selection techniques that resembled those used by many Western firms: CVs, references, and document checks; telephone and face-to-face interviews; written tests; and personality questionnaires. The prevalence of personality questionnaires was somewhat unexpected, but their use may reflect the availability of Western HRM information on the Internet, and also the growth of consultancy services in China providing proprietary personality questionnaires. It is unlikely that HRM degree courses had substantially enlightened HR workers about personality questionnaires because many of the interviewed HR workers had transferred to this occupation from non-HR backgrounds. Nonetheless, the most troubling findings from question five, at least from job seekers’ perspectives, was firms’ explicit disregard for employment legislation designed to protect job seekers from discriminatory selection practices. Although one could point blame directly at firms, there are few incentives for managers to abide by the laws when local
enforcement is weak and when some employment laws read more like policy guidelines than actual legislation (Brown 2010).

9.3 Research contributions

9.3.1 Research design and methods contributions

Before considering some of the theoretical contributions of the research, this section outlines some of the broader contributions arising from the study’s research design and methods. Three of these contributions relate to: (i) knowledge-intensive firms, as the focus of the study; (ii) China, as the empirical research site and context of the study; and (iii) case studies vis-à-vis deductivist survey methods, as the major research design.

The first major contribution relates to the most fundamental aspect of the research: knowledge-intensive firms. KIFs are a salient force behind many countries’ industrial policies focused on building higher value-added, knowledge-based economies. This emerging category of firms has fundamentally altered studies of employment, industries, and labour markets vis-à-vis traditional industries based on capital-intensive and labour-intensive work. Such developments have compelled scholars to reassess the basis of competitive advantage in firms presupposed to function largely on intangible knowledge assets – that is, human, social, and organisational capital. Research suggests that KIFs not only work and organise differently to non-KIFs, but require different approaches to human resource management. However, past studies have suffered from several limitations in their attempts to understand management by KIFs.

One such limitation is a lack of conceptual clarity over what actually constitutes KIFs. Fuzzy conceptual boundaries have led scholars to describe all manners of firms as ‘knowledge-intensive’. Poor abstractions of core phenomena result in ‘chaotic concepts’ (Sayer 1992), as well as potentially erroneous assertions and conclusions. The present study avoided this problem and has added to
knowledge about KIFs by utilising an adapted conceptual framework based on research by von Nordenflycht (2010). This framework distinguishes between four types of KIFs (technology developers, neo-professional services firms (PSFs), professional campuses, and regulated PSFs) that differ along three dimensions: intellectual capital intensity, physical capital intensity, and workforce professionalisation. Thus, rather than relying on assumptions about archetypical KIFs, as have many previous studies, the present research used a theoretical framework to guide selection of the seven privately owned case firms. This added credence to the argument that the chosen POEs were, in fact, ‘knowledge-intensive’.

The impetus to theoretically justify the choice of case firms was also important considering a further limitation apparent in previous studies. That is, much research on KIFs to date has focused mainly on US and European contexts (e.g., Alvesson and Robertson 2006; Collins and Smith 2006; Kaše et al. 2009; Swart et al. 2003). Thus, the second contribution is that the present study has filled a substantial research gap by focusing on China. The research has answered calls to “broaden the scope of analysis to include organisations from non-Western contexts characterised by different values” (Lam and Lambermont-Ford 2010, p. 63). China has provided an important empirical research site from which to investigate KIFs. The country is rapidly evolving to satisfy the World Bank’s criteria for a knowledge economy: (i) an economic and institutional regime that incentivises knowledge creation and entrepreneurship; (ii) an educated and skilled population; (iii) an innovation system linking firms, universities, research centres, and consultants; and (iv) information and communication technologies that facilitate effective information processing and sharing.

Driven by the government’s S&T industrial policies, China has developed a number of high-tech industrial zones positioned at the forefront of the country’s knowledge economy. Several studies have investigated HRM issues within high-tech zones in the West (e.g., Baron et al. 1999), but HRM scholars have neglected this important context in China. The present study has contributed to narrowing this research gap and shed light on the hiring and HRM challenges
faced by firms in the early development stages of the organisational life cycle. Some of the hiring challenges were not that dissimilar to young firms in the West, for example, the liability of newness to attract prospective hires and the constraints of small firms suffering from labour market ‘invisibility’. However, some factors were evidently unique, such as local governments’ ‘visible hands’ to help young firms on high-tech zones to grow through preferential policies and to access supplies of human capital through on-site training schools.

The third contribution derives from the use of case study methods to supplement the vast number of past studies using deductivist, quantitative research designs (Quer et al. 2007; Tsui 2004). The latter have resulted in fairly superficial ‘snapshots’ of HRM in China, with little consideration of major contextual issues that affect managers’ actions and decisions such as institutional systems and national cultures. Following Tsui’s (2004) argument about ‘partial induction’, the case study design used in the present study permitted investigation of a familiar issue (hiring) in a novel context (China), which enabled “the discovery of new insight” (Tsui 2004, pp. 506-507). The case study design supported the critical realist ontology by mobilising theorises of organisational and external contexts that enabled and constrained KIFs’ hiring strategies and practices. This contextual approach has highlighted causal explanatory factors of hiring approaches in China (e.g., managerial blueprints, sources of HRM knowledge) that few scholars have previously examined and may wish to explore in future studies. The final section of this chapter discusses areas for future research.

9.3.2 Theoretical contributions

The present study has made a number of valuable contributions to theory. First, the study has devised an analytical framework that synthesises organisational and external environmental factors to usefully explain variations in privately owned Chinese KIFs’ hiring strategies and practices. This framework combines a diverse range of existing research and theories. But perhaps the most unique contribution derives from the inclusion of ‘HRM knowledge and management blueprints’. Many KIFs in China are small and have a young history in the
country’s economy. This raises questions about how individual KIFs implement their HRM practices and strategies. The analytical framework postulated, and the interviewees attested, that some firms rely on managers’ prior ideologies or ‘blueprints’ to enact HRM practices and strategies. Past research has not explored such propositions in detail. In addition, with the lack of a national professional HRM association in China and the recency of many HRM courses, the framework also theorised about possible sources of HRM knowledge for HR workers. The findings confirmed that the Internet and HRM texts served “brokering [roles] in introducing Western HR theories and practices to Chinese readers” (Cooke 2005b, p. 205). Thus, the analytical framework may provide a useful tool to examine other areas of HRM in China, not just hiring.

Second, the study makes an important theoretical contribution to understanding hiring beyond mainstream functionalist perspectives, particularly in the area of employer branding. The findings on employer branding support the sentiments of Martin et al. (2011), who argued, “Research in this field needs to catch up with practice… it is worth much more academic ‘airtime’ than it gets at present” (p. 3634). The study has shown that effective employer branding, coupled with strong employment inducements enables small KIFs to overcome labour market invisibility and to compete with much larger rivals to attract talented job seekers. In fact, employer branding and employment inducements are perhaps the most important elements of KIFs’ hiring strategies. KIFs compete almost exclusively by trading and transacting with their knowledge assets. Their ability to do so depends, in the first instance, on their abilities to attract the best and the brightest by signalling that they are employers of choice. Thus, the present study’s findings have implications for examining KIFs’ employer branding and inducement strategies beyond the Chinese context.

Third, the study makes a theoretical contribution to understanding cultural perspectives on ‘talent’. The findings showed that Chinese managers and HR workers differed markedly in their definitions of talent compared to most Western perspectives. That is, managers’ and HR workers’ definitions tended to emphasise personal qualities such as positive attitudes, as well as cultural qualities, such as ‘healthy minds’ and sound morals. These findings carry
implications for how KIFs' develop strategies to attract talented individuals and the selection criteria they use to distinguish between which prospective hires to employ. Thus, although the firms in this study used talent segmentation (high-end, mid-end, and low-end) similar to some Western firms, managers used culturally different criteria to place prospective hires into these bands. The findings also have implications for theorising about skills shortages, or ‘talent shortages’ as the interviewees referred to it. As the previous chapter discussed, talent shortages factored into four themes: (i) personal qualities; (ii) talent wastage; (iii) mismatches between firms and job seekers’ expectations; and (iv) generational shifts. This considerably broadens theoretical perspectives on the possible causes of talent shortages in China. It moves discussions beyond traditional explanations that interpret shortages as deriving from deficiencies in the country’s educational system and from a lack of management training and development provisions.

9.3.3 Managerial implications

Managers of privately owned KIFs in China face several challenges when seeking to attract and select the most talented individuals. On one hand, managers need to ensure that their employer branding strategies and inducements set their firms apart from their labour market rivals. Experts typically have opportunities abound, which means that KIFs must offer salaries, rewards, and development opportunities that signal significant value vis-à-vis competitors. On the other hand, managers also need to ensure that their hiring processes are not so dissimilar that they risk their firms’ images and reputations as ‘professional’ employers. For KIFs, hiring should convey degrees of integrity and professionalism, which reflects positively on firms’ cultures and work designs. Selection provides a window for prospective hires to glimpse into firms’ inner workings. Through selection, managers have to demonstrate that experts and knowledge workers should choose their firms because they offer employment experiences that other firms may find difficult to match. But these opposing issues create paradoxes for managers, as firms need to convey that their firms are ‘similar to competitors, but different’. But what firms really should convey to job seekers is that their firms are ‘similar, but better’. Indeed, the
present study’s findings revealed that POE managers perceived that their firms are at a disadvantage in labour markets relative to SOEs and FIEs.

As such, privately owned KIFs should seek ways to model the most attractive inducements of their rivals and then proceed to improve on these. This requires collecting competitive intelligence on SOEs, FIEs and other successful POEs, as well as monitoring prospective hires’ experiences during selection processes. Firms can then analyse and interpret these data to inform their talent hiring strategies. For example, KIFs should carefully observe what types of welfare and benefits SOEs deploy. KIFs should consider how they can integrate these into their HRM systems while managing related costs. KIFs could also look to marginally increase salaries for workers in knowledge-based roles by examining other business areas for potential cost savings. But at the same time, KIFs should recognise that high salaries and good benefits alone may be insufficient to satisfy and retain experienced managers and experts.

Some of the interviewees in the present study acknowledged that experts with experience of working in foreign or high-profile firms found it difficult to integrate into their firms’ cultures and work designs. Therefore, domestic private KIFs must provide such individuals with realistic job previews to avoid perceptions of psychological contract breaches and any early exits that may ensue. This issue relates to managing early expectations. Another recommendation is for KIFs to strengthen strategic links between hiring sources and employer branding. KIFs should scrutinise which hiring sources produce the highest calibre individuals and concentrate branding efforts in these areas. Some of the case firms in this study had already begun to strengthen such relationships. For example, RealCo attracted university students by conducting on-campus presentations that showcased positive organisational attributes. Realistic job previews can also form part of attraction strategies that leverage informal hiring sources. For instance, firms could establish dedicated web site sections that ‘referred’ workers could visit to read case studies about existing workers (none of the case firms had such sections on their web sites).
By adopting such recommendations, firms would inevitably need to consciously acknowledge the importance of strategic hiring and the value of HRM systems. This may require a leap of faith by managers with inert HRM blueprints, as well as by managers of firms where HRM has yet to adopt any formal or strategic roles. It would also require managers to re-evaluate roles of HR workers and HR functions. Elevated levels of dissatisfaction expressed by some experienced HR workers in the present study suggests that managers should consider how best to support the needs of these individuals. Even those managers who do not accept truly strategic roles for HRM should recognise that HR workers actually represent a significant cost to their businesses. That is, as KIFs grow, there will inevitably be pressures to hire HR workers, which adds to overhead costs. But by investing in HR workers' training and development, such costs should amortise over time as HR workers demonstrate capabilities in selecting talented new hires who can support firms’ goals. Moreover, some HR workers in the present study described their willingness to move to other firms with greater recognition of strategic HRM should such opportunities arise in the near future.

The present study’s findings suggest that additional implications may arise for managers of foreign firms (FIEs) operating in China’s knowledge-intensive industries. As domestic private KIFs strengthen their hiring strategies and labour market positions, foreign firms need to respond accordingly. If FIE managers currently complain of difficulties finding experienced senior managers and professionals in China, then this situation is almost certainly set to intensify. Interviews conducted with members of the training school on Xi’an’s software park showed that high-tech zones are actively pursuing experts in other regions. Although high-tech zones discourage intra-province poaching, inter-province poaching presents a significant threat to FIEs located in first-tier regions such as Beijing and Shanghai. To manage these threats, FIEs need to monitor competition from large POEs in their industries. They need to understand what hiring strategies POEs are using and what employment inducements they offer. FIEs’ appeal may begin to decline as more and more large POEs start to offer market leading salaries in line with their growing size and capabilities within the organisational life cycle. FIEs should strengthen and reaffirm ties with key universities to ensure that their employer brands remain strong among graduate
demographics. Such firms should, too, undertake local competitive intelligence on their largest domestic rivals to understand the changing dynamics of hiring, labour markets, and job search behaviour.

9.3.4 Policy implications

The Chinese government is at an important crossroads in its attempts to facilitate the country’s transition towards a knowledge economy. Policymakers face enormous challenges in terms of regulating regional labour markets; ensuring adequate supplies of highly skilled and well-educated workers across regional economies; and expanding new business and job opportunities in the services sector and strategic emerging industries (SEIs). At national levels, the central government has initiated a series of policies to assess talent-related policies, laws, and regulations, and also to coordinate talent initiatives across the entire country in areas such as training and talent mobility. At local levels, high-tech zones currently provide valuable services to KIFs by offering training for recent graduates in technical knowledge that underpins practical skills relevant for work environments. However, the present study’s findings highlight a continuing disconnect between what firms want and what graduates offer. Such scenarios are not unique to China, but there are some core differences. China has a burgeoning pool of talented individuals graduating in engineering and scientific disciplines. Yet many of these individuals lack exposure to creative tasks and team working. Educational policymakers and practitioners are aware that the current system of rote learning is stifling talent development. But the results of this study further highlight needs for the government to equip graduates with personal skills and qualities that complement theoretical knowledge. Industry, too, has a role to play; however, graduate internships are not that common in China and part-time working for students even less so.

Another implication for the government and policymakers relates to employment laws. Recent updates to the labour contract law (2008) and the introduction of the employment promotion law (2008) have made strikingly little difference to firms’ hiring approaches. Discrimination against certain classes of job seekers remains widespread. Firms openly discriminate under impressions that job
seekers have little legal recourse and knowing that local law enforcement remains weak. Rigorous enforcement at local levels is difficult because China’s system of rule by law permits regional governments to interpret laws with considerable degrees of flexibility. There is no immediate cure for systemic discrimination. But rather remediation will require radical legislative reforms at the top level, as well as initiatives to educate job seekers about their rights. Such actions are unlikely to play out in the near future because the state would prefer to avoid an uprising from disadvantaged job seekers. On the other hand, job seekers are not the only labour market actors feeling negative effects of weak law enforcement. Firms have also experienced detrimental consequences stemming from laws designed to regulate new labour market intermediaries. Managers in the present study reported having received telephone calls from headhunters both during and out of work time. But without strong legal recourse and clear legislative guidance, firms may be unaware of their entitlements to pursue legal action against contractual breaches over poached workers. Thus, state policymakers still need to re-evaluate local mechanisms to ensure greater compliance and monitoring of hiring and labour market activities.

As part of the state’s push towards building knowledge-intensive industries, the central government is under pressure to support all actors and intermediaries in employment and labour market relations. In its attempt to raise the profile of HRM in the country, the government has created a HR qualification to support the development of HR workers, which has received modest uptake by practitioners. Despite this, the present study’s findings reveal that some HR workers feel that they do not receive enough guidance and support to excel in their occupations. As a result, some HR workers have begun to organise informally to discuss good practice and to share their experiences. Others have turned to the Internet and textbooks to broaden their knowledge, or rely on previous experience of working in foreign firms. These problems emanate partly from the recency of HR courses in China, as well as the lack of a national professional HRM association, such as the CIPD in the UK and the SHRM in the US. Nonetheless, the central government is unlikely to support the development of a national professional HRM body that is independent of the state. By doing so, this would undermine the importance and relevance of the
Ministry of Human Resources and Social Security (MOHRSS), which currently provides examinations for the state’s HR qualification. However, regional governments have sufficient leverage to build and support HRM development at local levels. To raise the profile of HRM, local governments could establish provincial level professional HRM associations in collaboration with businesses, HR practitioners, and educational establishments. Such associations may already exist in some capacity in certain regions, but the observation in this study that HR workers had to meet informally still suggests a lack of support for these groups of workers.

9.4 Limitations of the study

There are some limitations inherent in the present study. The study focused solely on hiring from firms’ perspectives. However, hiring is a two-way process where firms attract and select prospective hires and prospective hires find and choose firms of interest. By focusing only on firms’ perspectives, the study has omitted to explore what types of employer branding and inducements actual job seekers respond most favourably to and what types of ownerships job seekers find attractive. Nonetheless, this was a conscious decision given the limited amount of time available to collect data while resident in the field. A further limitation relates to cultural dissociations present in the research design. It is possible that some of the interviewees distorted their accounts of sensitive topics in the presence of a non-native researcher during the interviews. In order to preserve their firms’ reputations, some interviewees may have underreported degrees of discrimination in their selection procedures, or the utility of guanxi for hiring. However, such assertions are purely speculative. The initial brief reassured the interviewees of their rights to confidentiality and thus most interviewees appeared to speak candidly about their opinions and experiences. The presence of a native Chinese assistant also helped facilitate trust during the interviews. Chapter 5 outlined additional limitations relating to the research design, including the template analysis technique.
9.5 Future research

Based on the aforementioned research findings and limitations, there are several potential areas that researchers could explore in future studies. As the previous section noted, this study focused exclusively on firms’ perspectives of hiring. This means that there are various other actors in China’s labour markets and employment relations that researchers could investigate. First, research could examine perceptions of hiring and job search by current job seekers. The present research highlighted managers’ and HR workers’ perceptions of different ownership types and their attractiveness to job seekers. As such, future studies could seek to confirm or disconfirm such perceptions. Some potential questions include: What types of ownerships and employment inducements do certain types of job seekers find most attractive and why? What are the benefits and drawbacks for knowledge-based job seekers who rely on personal connections (guanxi)? What strategies do job seekers use? Researchers could also extend this to investigate new hires’ experiences of hiring. Those individuals who have recently found work can provide insights into experiences of their firms’ approaches to attraction and selection. Suitable research questions might ask new hires: What were new hires’ experiences of selection? Did they feel that the criteria and selection methods were fair and equitable? Why did new hires select their firm over others? What hiring sources did they pursue and why? Did the types of inducements used to brand the firm during attraction materialise after new hires signed employment contracts?

To complement future studies on job seekers’ and new hires’ perspectives, researchers could further explore roles of labour market intermediaries. Foreign and domestic headhunters and employment agencies are fairly new actors in labour markets and employment relationships in China. They have grown in number and influence as a result of legislative amendments. However, many studies to date in this area have only focused on intermediaries’ influences from a legal perspective relative to the labour contract law and employment promotion law. Few studies have systematically considered the types of activities that such intermediaries undertake and how they form their business strategies. Some pertinent research questions include: Which types of firms are
the primary users of labour market intermediaries and why? What is the level of competition between different types of intermediaries? What are the major challenges associated with finding suitable candidates to supply to firms? Such questions would perhaps require broadening the types of regional labour markets under investigation in order to make meaningful comparisons. China’s regional labour markets are highly diverse and thus differentiations may exist across intermediaries’ activities. This point could also apply to investigations of job seekers and new hires. By examining new entrants, researchers could further explore employer branding issues – that is, does foreign brand reputation capital confer enhanced labour market visibility for new entrants?

Another recommendation for future studies is to examine hiring by other ownership types. SOEs, in particular, have undergone substantial changes in HRM over the past decade, which carries implications for hiring. SOEs still employ a substantial number of workers, despite declines since the end of the 1990s, and there is evidence that SOEs remain employers of choice for many talented job seekers. Some important research questions include: What are the major hiring sources used by SOEs? What roles does employer branding play for SOEs relative to POEs and FIEs? To what extent is guanxi still important for SOEs? How do SOEs link hiring, HRM, and competitive business strategies? Similar questions arise for foreign-invested firms, which face increasing labour market competition from domestic firms. FIEs tend to report the highest instances of skills shortages in China, so in-depth studies of FIEs’ hiring strategies and practices would seem relevant. It would be particularly interesting to examine hiring strategies and practices of those FIEs that are well-established in China versus those that are fairly new entrants to Chinese markets. For the latter group, researchers could explore the strategies that firms use to navigate China’s complex labour markets and how they cope with domestic competition. An important issue is whether new entrants directly transfer their hiring practices to the Chinese context, or whether they adapt these to fit Chinese values and culture. Researchers might also consider the implications of relationships between foreign-invested firms in China and the growth of the human resources outsourcing industry.
A final area for future research relates to other HRM practices by KIFs in China. Systematic studies of single HRM practices are rare in Chinese HRM literatures, especially those based on intensive, qualitative designs. As the present study has demonstrated, such research designs can uncover rich and detailed accounts of HRM in China. This study has also highlighted the importance of single HRM practices as employment inducements used by KIFs to attract prospective hires. Single HRM inducements are worth pursuing by researchers in order to build a picture of HRM by KIFs after workers sign employment contracts. That is, hiring enables KIFs to acquire human and social capital, but other types of HRM practices allow KIFs to develop these further. In particular, researchers could examine how KIFs implement training and development, as well as performance appraisal and reward systems. Such studies could explore roles of HR workers, which would further build on the present study’s work on HR workers’ influence vis-à-vis managers’ and owners’ HRM blueprints. The present study has arguably only scratched the surface of examining HRM as an occupation in China. However, this is an important area for future research because HR workers are at the forefront of China’s HRM revolution. There is still much to learn about the changing aspirations and competence levels of HR workers in China, as well as the evolving roles of HR functions within different types of firms.
REFERENCES


Tsui, A. S., Bian, Y. and Cheng, L. (2006b). Explaining the growth and development of the Chinese domestic private sector, In Tsui, A. S., Bian,


APPENDIX 1: EXAMPLE INTERVIEW QUESTIONS
HR functions and work organisation

- Can you tell me about your firms’ HR function:
- Who works there?
- What are their backgrounds, experiences, and qualifications?
- How is work organised in the HR function?
- What is the importance of the HR function in your firm?
- What level of investment does the firm put into developing HR workers?
  What types of training does the firm offer to HR workers?

Hiring in organisational and external contexts

- Can you tell me about the challenges of hiring in your industry and region?
- Which types of firms present the greatest competitive threats to your firm in terms of attracting talented job seekers?
- Do you perceive that there is a shortage of skilled workers?
- What are the major constraints on your firm’s ability to attract suitable job seekers?
- What types of strategies does your firm use to ensure a strong pipeline of talented people?
- How does the firm’s hiring strategies relate to its business strategies?
- How does your firm promote and sell itself to job seekers? What strategies and practices do you use to attract people?
- What difficulties does your firm encounter when trying to attract highly skilled people?
- Can you tell me about all the types of hiring channels that you use to attract job seekers? How do these channels vary depending on the types and levels of workers that the firm seeks to hire?
- To what extent is guanxi relevant for hiring by your firm?

Selection approaches

- What types of selection criteria do you use to choose between different types and level of job candidates and why? How do you select these criteria and who is responsible for doing so?
• What types of techniques or methods do you use to select between prospective hires and why?
• Who makes selection decisions in your firm? What are your thoughts on why this is the case?
• What are your opinions on recent changes to the labour contract law and the employment promotion law?
• Has your company adapted its hiring process to accommodate these changes?
• What are your thoughts on the legal protection of certain classes of job seekers? Is discrimination ever an issue in your firm’s selection process?
Example 1: Case firm 2 (AutoCo)

**Power system applications, software development engineer**

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<th>Release Date: 2010-12-13</th>
<th>Work experience: 2 years minimum</th>
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<td>Language: English Proficiency</td>
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<tr>
<td>Number: 5</td>
<td>Education: Bachelor’s degree or above</td>
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**Responsibilities:**
Power automation system application software design and development

**Requirements:**
1. Power system automation or protection, or computer technology major;
2. Bachelor’s degree or above, with ideally more than 2 years’ work experience;
3. Proficient in C++ programming;
4. Familiar with TCP/IP network programming, UNIX\LINUX;
5. Power system application development experience is preferred;
6. Hardworking, willing to study, be good at uniting colleagues.

Resume Delivery Address: sf____@______com

Example 2: Case firm 7 (RealCo)

**Job Title: Consultant (Architecture, Planning and Design)**

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**Requirements:**
1. Master’s degree or above in architecture, planning or design related fields;
2. Minimum of one year’s work experience in similar industry;
3. Real estate background, familiar with planning analysis, or product research;
4. Demonstrate market sensitivity, communication and comprehension ability, logical thinking and excellent execution skills when undertaking projects;
5. Strong team spirit and customer awareness;
6. We are seeking male applicants.

**Responsibilities:**
1. Project consultancy and providing advisory services to clients;
2. Provide technical support for project development, writing development reports, helping to facilitate project contracts;
3. Project innovation, overseeing work methods, sharing knowledge.

Contact: 0411-88____
### Example 3: Case firm 6 (AppsCo)

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<td>Wages</td>
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<td>Published</td>
<td>2010-5-2</td>
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**Job Description:**

1. Application of pattern analysis for product design, solution design and project support.
2. Information system design and development work.
3. Responsibility for project management and implementation.
4. Comply with the company’s development process and project management practices.
5. Undertake development projects and survey work.

**Requirements:**

1. Three or more years of business management software development and software product analysis experience; medium-sized project experience.
2. Bachelor degree or above in computer science;
3. Ability to accurately write compliance requirements, general design documents;
4. Strong communication skills and documentation writing ability;
5. SQL Server, Oracle or DB2 database experience; with J2EE platform development experience, familiarity with Tomcat platform development environment;
6. Be familiar with Rose and other tools for system design; experience of UML object modelling;
7. Ability to think clearly, good communication skills, expression and comprehension. Must be able to demonstrate initiative;
8. Desire to progress in program design and development as a long-term career path;
9. Familiarity with a various commonly used technologies on the market and be able to grasp the direction of technology development.

[Apply for this job]
1. **HR functions and work organisation**
   1.1. Background, education and experience
       1.1.1. State’s HR qualification
       1.1.2. HR versus non-HR backgrounds
   1.2. Roles and expertise (generalist versus functional)
   1.3. Types of HR knowledge
       1.3.1. Formal/evidence-based/tacit knowledge
   1.4. Firms’ investments in HR workers’ training and development
       1.4.1. Firm size
       1.4.2. Financial restrictions

2. **Hiring strategies and practices**
   2.1. Labour market competition
       2.1.1. Job seekers’ attractions towards SOEs/FIEs/POEs
   2.2. Skills/talent shortages
       2.2.1. Personal qualities
       2.2.2. Talent wastage
       2.2.3. Mismatches between firms and job seekers’ expectations
       2.2.4. Generational shifts
       2.2.5. TrainingCo ‘poaching’ from outside provinces
   2.3. Hiring constraints
       2.3.1. Reputational capital and labour market visibility
       2.3.2. Geographical expansion and the ‘liabilities of newness’
   2.4. Hiring strategies and business strategies
       2.4.1. Talent management and segmentation approaches
       2.4.2. HRM strategic orientation and importance
           2.4.2.1. Long-term versus short-term
   2.5. Employer branding and inducements
       2.5.1. High salaries necessary, but not sufficient
       2.5.2. Career development and learning
       2.5.3. Experts: authority, autonomy, and support
       2.5.4. Promotion opportunities
       2.5.5. Organisational culture and welfare
       2.5.6. Realistic job previews
   2.6. Hiring sources
       2.6.1. Differences for Knowledge-based versus job-based roles
       2.6.2. Perceived effectiveness
       2.6.3. Formal: Online corporate web sites versus external web sites/
              university graduates and researchers/ job fairs/ training schools /
              newspapers
       2.6.4. Informal: In-house and outsourced headhunting/ worker referrals/
              guanxi
       2.6.5. Self-initiated applications

3. **Selection approaches**
   3.1. Criteria
       3.1.1. Types of criteria
       3.1.2. Flexibility
       3.1.3. Job specifications
   3.2. Methods
3.2.1. CVs, references, document checks
3.2.2. Interviews
3.2.3. Written tests (designed in-house)
3.2.4. Personality questionnaires: efficiency and time savings versus filtering out candidates with ‘extreme’ personalities

3.3. Autonomy and decision making
3.3.1. Differences in autonomy – firm size not implicated
3.3.2. Most firms used group consensus over selection
3.3.3. Instances of on-the-spot hiring by managers for ‘important candidates’

3.4. Employment legislation
3.4.1. Legislation ineffective – no process adaption other than in the largest case firm
3.4.2. Discrimination on several grounds including disabilities and gender
3.4.3. Job advertisements mainly emphasised meritocracy – few instances of overt discrimination
APPENDIX 4: PARTICIPANT INFORMATION
SHEET AND CONSENT FORM
You are invited to take part in a research study as part of a student project. Before you decide, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Please ask if there is anything that is not clear, or if you would like more information. Take time to decide whether or not you wish to take part. Thank you.

Who will conduct the research?  谁来做此项研究?
The research will be conducted by Edward Roome, who is a postgraduate research student at Manchester Business School, Booth Street West, Manchester, M15 6PB, UK. The project is supervised by Professor Bernard Burnes at Manchester Business School.

Title of the Research  研究题目
Hiring by Knowledge-intensive Firms in China
中国知识密集型企业的雇佣

What is the aim of the research?  研究目的
The research forms part of my PhD thesis at Manchester Business School, and aims to explore the experiences and difficulties that domestic private firms in China face when hiring workers. The research also aims to understand what hiring strategies and practices POEs.
此项研究组成爱德华博士研究生在曼彻斯特大学商学院就读的博士学位的一部分, 其目的在于探索在中国民营企业招聘人才过程中的经历和面临的问题. 此项研究还致力于去理解中国民营企业中的雇佣策略和方法。

What would I be asked to do if I took part?  我如果参与此项研究课题所会被问及的问题?
By taking part in the study, you will be asked to undertake a face-to-face interview with myself. I will ask you some questions related to recruitment and selection practices in your organisation and I would be interested in hearing about your views and experiences on these matters. There are no right or
wrong answers to these questions. Rather, I would like to understand your perspective. With your consent, I hope to take record notes of our conversation, which you may access at any point during or after the interview.

Who else is taking part in this study? 还有谁参与此项研究课题?
Interviews are being conducted with managers and HR workers in three cities in China: Beijing, Shenzhen, and Xi’an.

What happens to the data collected? 课题访谈数据会被怎样处理?
After the interview, your data will be entered and stored securely on a password-protected computer which only I have access to. As part of the study, I will combine your data with the information I have collected from other firms so that I can analyse the data together.

How is confidentiality maintained? 怎样保持保密性?
It is very important to me that any information you provide during the interview is treated confidentially. As such, I will ensure that any personal information about you (e.g., your name, location, company, etc.) is anonymised, so that your responses cannot be traced back to you. Also, your individual data will not be shared with anybody else inside or outside your organisation.

What happens if I do not want to take part or if I change my mind? 如果我不想参与或者我改变主意了怎么办?
It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep and be asked to sign a consent form. If you decide to take part, you are still free to withdraw at any time without giving a reason and without detriment to yourself.

Will I be paid for participating in the research? 参与这项研究是有偿的么?
Your participation in the research is greatly appreciated; however, I am unable to offer any payment to compensate for your time.
What is the duration of the research? 课题访谈会有多久？
The interview session will last approximately 60-90 minutes. 采访过程将会持续大约 60-90 分钟。

Where will the research be conducted? 访谈会在哪里进行？
The interview will be conducted within your organisation (in a quiet room, away from other employees). 课题访谈将会在贵企业里进行（一个远离其它员工的安静的环境）。

Will the research be published? 这项研究结果是否会被发表？
It is anticipated that the research results will be published in an academic journal. However, you can be reassured that your individual interview responses and any details about your organisation will remain completely anonymous. 此项研究结果预计将会在某学术文献发表。但是，我们可以确保您，任何您（您的企业）的信息和回答将会完全匿名化。

Contact for further information 联系方式：
If you require any further information, please do not hesitate to contact me: 如果您需要更多信息，请联系：

Tel 电话: +86 18717 332*** Email 邮件: Edward.Roome@postgrad.mbs.ac.uk
Manchester Business School
曼彻斯特大学商学院

Consent Form for Individuals Participating in Student Research Projects
参与博士研究课题同意书

Project Title: Hiring by Knowledge-intensive Firms in China
研究课题题目：中国知识密集型企业的雇佣

Name of Researcher: Edward Roome
研究者：爱德华•鲁姆

Participant: 参与者:

Please read the following and if you are happy to proceed, sign below.
请阅读下文，如同意参与，请在文件下方签名。

The researcher has given me my own copy of the information sheet which I have read and understood. The information sheet explains the nature of the research and what I would be asked to do as a participant. I understand that the research is for a student project and that the confidentiality of the information I provide will be safeguarded unless subject to any legal requirements. He has discussed the contents of the information sheet with me and given me the opportunity to ask questions about it.
我以阅读并理解由研究者给我的参与者须知，参与者须知明确的解释了此项研究的概况和我所需要做的。我理解并明白这项研究是一份博士研究课题，并且我所提供的所有信息的保密性将会被安全保护，除非涉及任何法律要求。研究者已和我讨论过参与者须知的内容，并且提供了问题询问的机会和时间。

I agree to take part as a participant in this research and I understand that I am free to withdraw at any time without giving any reason and without detriment to myself.
我同意参与此项研究并且理解我有权在任何时间，无需任何理由退出此项研究。

Signed 签名: .................................
Date 日期: .................................
Family Name 姓: ...............................
Other Name(s) 名: ............................

Researcher 研究者:

I, the researcher, confirm that I have discussed with the participant the contents of the information sheet.
我，作为此项研究课题的研究者，确认我已和参与者讨论过参与者须知的内容。 

Signed 签字: .................................
Date 日期: .................................