TRANSFER AND INTEGRATION OF HUMAN RESOURCES MANAGEMENT KNOWLEDGE WITHIN DYNAMIC SUPPLY CHAINS: CASES FROM THE AUTOMOTIVE AFTERMARKET DISTRIBUTION SYSTEM IN CHINA

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Abstract

This thesis explores the scope for the transfer and integration of human resource (HRM) knowledge to provide the basis for the development of more productive and efficient supply chains, in the specific case of the aftermarket distribution channels of multinational companies in the automotive industry in China. Most studies of human resources management, supply chain management, and knowledge transfer have focused on internal transfer within multinational companies and there has been more limited research on the transfer of such knowledge across organisations in the supply chain, particularly in relation to distribution channels. Thus the starting point for the research was to understand the preconditions, mechanisms and effects on the distribution supply chain of the transfer and integration of HRM knowledge.

To explore these issues the thesis compares and contrasts a poorly performing supply chain (that is Company J’s supply chain) with two more successful supply chains in the automotive aftersales market (that is those of Company M and Company S). The aim was to identify whether the poorly performing supply chain could learn from the other two cases through a detailed exploration of the motivators and mediators that facilitate or hinder processes of HRM transfer and integration, and the outcomes of these processes on the performance of the supply chains and the manufacturers and distributors within the supply chains. A qualitative research approach was utilised. Data was gathered through one-on-one, semi-structured interviews with senior-level management, mid-level management, and frontline staff from the manufacturers and wholesale distributors in the three automotive aftermarket distribution channels and analysed using computer-assisted coding software, NVivo.

In line with the extant literature, the thesis findings support the proposition that a relational supply chain network based on trust facilitates HRM knowledge transfer and integration, and provides a basis for competitive advantage in the supply chain. At the same time the findings suggest some important extensions to current knowledge and understanding of the processes and impact of HRM knowledge transfer. Firstly the research found that consideration should be given to recategorising the classic division between tacit and explicit knowledge with respect to HRM into fundamental and differential categories, in order to more clearly differentiate the type of strategic HRM knowledge transfer that could provide the basis for competitive advantage. Likewise the study found that it is not the mechanism of transfer- whether through systems or by inter-person channels- that should be the criteria to categorise knowledge, as a blended approach involving both types of transfer mechanisms was associated with better transfer effectiveness. Third the type of HRM to be transferred needs to fit the specific needs of distributors within the supply chain; in practice the best fit for this part of the supply chain can be considered a mix of paternalistic and transaction HRM, rather than the so-called ‘best’ practice HRM.

Finally although there was potential in principle for the underperforming supply chain to learn from the experiences and practices of the higher performing supply chains, the extent to which Company J was likely to be able to emulate the more successful chains was constrained by significant internal barriers to learning (for example the pressure for short-term gains and the time needed to build trust, the lack of internal HRM expertise and the lack of local decision-making authority). However, an even more major constraint on the learning process came from the dynamic changes in the aftermarket distribution system that had the potential even to disrupt the trust–based partnerships in the exemplar supply chains. Thus the scope for applying the lessons from past practice, which has been the major focus of the comparative investigation of the three supply chains, may be limited by both the variations in internal conditions and by the fact that the key challenges for future development may be different from those faced in the automotive aftersales market in the past.

Keywords – Human Resources Management, Supply Chain Management, knowledge transfer, knowledge integration, Multi-National Company, Small and Medium-sized Enterprise
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Dedication
This thesis is dedicated to my son Lang Yu. What I want to share with him is that it is a big fortune if someone has a dream and pursues it. The journey is at least as important as the destination, which we would be better to enjoy.

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The Author

Mr. Yu has an MBA from Napier University and a Master’s degree in Human Resources Management from Renmin University of China, and a Bachelor’s degree from Harbin Engineering University.
List of Abbreviations

Business to Business: B2B
Business to Customer: B2C
Collectively Owned Enterprise: COE
Corporate Executive Officer: CEO
Electronic Data Interchange: EDI
Electronic Supply Chain Management: eSCM
Enduring Relational Exchange: ERE
Enterprise Resource Planning: ERP
European Union: EU
Foreign Invested Enterprise: FIE
General Electric: GE
General Manager: GM
Headquarter: HQ
Human Resources: HR
Human Resources Management: HRM
Information Technology: IT
Interimistic Relational Exchange: IRE
Joint Venture: JV
Key Performance Indicator: KPI
Learning Management System: LMS
Multi-National Company: MNC
Online to Offline: O2O
Organisational Citizenship Behaviour: OCB
Original Equipment Manufacturing: OEM
Performance Management: PM
Privately Owned Enterprise: POE
Public-Private Partnerships: PPP
Sales, Spare parts, Service and Survey shops: 4S shops
Small and Medium-sized Enterprise: SME
State Owned Enterprise: SOE
Supply Chain: SC
Supply Chain Management: SCM
Supply Chain-Fit: SC-Fit
United States: US
Wholesale Distributor: WD
Work-Family Conflict: WFC
Work-Life Balance: WLB
Chapter 1 Introduction

Effective and efficient Supply Chain Management (SCM) has become a primary competitive advantage offering enhanced profitability, optimized cost, improved services and products, and more satisfied customers (Chan and Qi, 2003; Poirier and Quinn, 2004; Mohammed, Shankar and Banwet, 2008). In a Supply Chain (SC) context, the nature of the network between members, whether it is transactional-oriented or relational-oriented, has been widely studied (Cooper, Ellram, Gardner and Hanks, 1997; Leuthesser, 1997; McAfee, Glassman and Honeycutt, 2002; Sillanpää, Shahzad and Sillanpää, E., 2015). Close collaborative relationships in the SC tend to increase opportunities for knowledge transfer between the members. Knowledge transfer is a classic research arena with a large number of prior studies focused on intra-company transfer within Multi-National Companies (MNCs) (Minbaeva, et al., 2003; Williams and Lee, 2009), typology of knowledge transferred (Jasimuddin, Klein and Connell, 2005; Ma, Qi and Wang, 2008 cited in Wei, Bai and Cheng, 2016, p.297), channels of transfer (Goh, 2002), as well as the business characteristics that impact the extent of knowledge transfer (Kotabe, Martin and Domoto, 2003). Some earlier studies have pointed to the directions of the knowledge transfer from more powerful (Marchington, et al., 2009) or larger (Eurofound, 2011) to less powerful or smaller organizations, while others examined a reverse direction from the acquired company to the acquirer (Cooke and Huang, 2011). Indeed, knowledge transfer should be one mechanism that helps realise a competitive edge within the SC. The complex relationship in the SC makes the study of knowledge transfer in this context especially important and interesting. However, up to now there has been very limited evidence revealing the knowledge transfer process and direction in the supply chain context.

Among all the domains of knowledge that could be transferred in the supply chain, Human Resources Management (HRM) is one arena with increasing strategic impact on organizational business or SC performance (Gowen and Tallon, 2003). The present study focuses on HRM-related knowledge transfer in the SC context, aiming at help reveal such facts as how HRM knowledge is transferred, and why within-SC relationship enables the flow of HRM knowledge and mutual learning. More importantly, findings in this study may help integrate theories from the HRM and knowledge transfer, and offer suggestion to the SC practitioners.

In order to theorize the mechanisms of HRM knowledge transfer in SC, this research firstly examines what role trust plays in the SC network and how the trust cycle develops and affects the knowledge transfer in the SC. Trust is known to have significant impacts on relationship commitment (Moorman et al. 1992, cited in Wei, Bai and Cheng, 2016, p.298) and inter-firm trust can promote knowledge transfers (Young-Ybarra and Wiersema, 1999 cited in Willette, Teng and Singh, 2016, p.3, Muthusamy and White, 2005 cited in Willette, Teng and Singh, 2016, p.3). Trust building, however, involves cycles, either virtuous or vicious. There are conflicting theories on whether HRM should be adjusted to fit specific conditions or whether there is a ‘best’ practice HRM that applies regardless of cross-societal cultural context (Hou, Huang and Napier, 2002; Yeung, Warner and Rowley, 2008; Han and Han, 2009; Warner, 2010; Yuan and Chia, 2011), enterprise ownership (Chiu, 2002; Gong
and Chang, 2008; Ngo, Lau and Foley, 2008; Huang and Gamble, 2011), origin of investors (Walsh and Zhu, 2007; Zimmerman, Liu and Buck, 2009; Ma and Trigo, 2012), business scale (Goodall and Warner, 1997; Cunningham, 2010; Kim and Gao, 2010) or market dynamics (Warner, 1997; Hempel and Chang, 2002; Zhu, Zhang and Shen, 2012; Zhu, et al., 2013). Learning ability has also been found to facilitate knowledge transfer (Goh, 2002; Minbaeva et al., 2003) but it is less well known whether this factor would moderate the SC knowledge transfer.

There was a practical stimulus for this study related to the researcher’s personal industrial experience. The researcher’s employer was facing challenges in its distribution in China, losing both market share and the commitment of its distributors, and making a loss. The HRM knowledge transfer and integration in the SC appeared to be a possible solution to solve this business problem. There were different business practices and results in the HRM knowledge transfer and integration in the supply chain, though there was a lack of clear theoretical guidance. Some manufacturing companies have won the competition by effectively transferring HRM practices in their distribution channel and enhancing the HRM competence within their distributors. Other companies, in contrast, totally ignored this aspect and struggled in their distribution business. As an industrial practitioner, the researcher had a strong motivation to understand what happened in the HRM knowledge transfer in the SC context, the similarities and differences in the ‘successful’ or ‘not so successful’ cases, and identify the model of and key influential factors in the HRM transfer process. Meanwhile, the researcher was passionate to understand what his employer and similar companies could learn and adopt from others’ success and to explore how feasible it was to copy these practices, transferring and integrating HRM into SC.

Both the current academic gap and the business demand led to a specific research direction – the mechanisms of HRM knowledge transfer and integration in a supply chain context. Based on the wide literature review, an area was identified which had received very little attention in existing research. This research addressed the ‘best practice’ versus ‘best fit’ HRM debates from a supply chain perspective, and answered such questions as i) what HRM knowledge is transferred in the supply chain; ii) what are the consequences of HRM knowledge transfer; iii) what transfer channels are used; and iv) what factors affect the effectiveness of the transfer process in the supply chain.

To answer these questions, this study takes a qualitative research approach to the investigation of three MNC supply chains in the automobile aftermarket business in China. The core focal manufacturing MNC among the three supply chains is the researcher’s employer. Its business result in relation to distribution is considered ‘poor’. To explore the successful practices in the SC, another two MNCs with better business performance were compared. Semi-structured interviews have been leveraged as the major approach to collect qualitative data from 63 interviewees and explore the three cases (Chapter 3). The research started from a comprehensive comparison among the three SCs to ensure that the three focal MNC manufacturers are comparable with similarities in industry,
business nature and global market position, and with differences in business results, SC relationship and efforts in HRM knowledge transfer and integration in the distribution channel (Chapter 4).

All the three supply chains are composed of overseas headquartered MNC manufacturers and local Small and Medium-sized Enterprise (SME) Wholesale Distributors (WDs) in China. Specific HRM practices and challenges were examined in these three SCs and the questions raised included whether one should expect the effective HRM practices that might be transferred within the supply chain to be similar irrespective of size, ownership and function and whether different types of HRM knowledge transfer and integration required different mechanisms of transfer, for example, through the use of systems or personnel.

In order to understand whether the success of HRM transfer and integration in SC can be learned and broadly applied, the pre-requisites to do so successfully were explored for MNC manufacturers’ subsidiaries in China. However, one fact that shaped the research was the increasing realisation of the changing nature of the market and of the consequent options for both MNCs and distributors in the future in the light of trends in both technological and market change. This led to consideration of the feasibility of learning from past experiences in the context of dynamic markets and technological change (Chapter 6).

To sum up, the final purpose of this study is to make a comparison between those manufacturers that have problems with their distribution system and their successful counterparts. Findings from this study help them to find out what they can do in HRM transfer to enhance their distributor’s capability. In doing so, this study examines the motivators and mediators that facilitate or hinder processes of HRM transfer and integration, and the outcomes of these processes.
Chapter 2 Literature Review

2.1 Introduction

This research aims to explore how the transfer of Human Resources Management (HRM) knowledge and practices between the manufacturers and the distributors may or may not be used to build a competitive edge across the total supply chain. Accordingly, it is necessary to review the existent relevant literature in the areas of HRM, Supply Chain Management (SCM) and Knowledge Transfer (Figure 2-1). Given the fact that this study is conducted in China, a rapidly emerging economy, which has attracted a large number of Multi-National Company (MNC) manufacturers and developed solid supply chains in various industries, prior research on the institutional environment dynamics of China’s market needs also to be examined1.

![Figure 2-1 Research Focused Disciplines](image)

2.2 Supply Chain Management

This section explores the definition, composition and scope of supply chain. The types of interfirm relationship are identified and the findings of the determinants of the SC relationship in extant research studies are summarised.

2.2.1 Importance of SCM

A supply chain consists of multiple entities (organisations or individuals) that work together, from sources to customers, to provide raw materials, produce goods and services, deliver finished

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1 Three well-ranked journals: Human Resource Management (USA), Human Resource Management Journal (UK) and The International Journal of Human Resource Management have been thoroughly searched for the relevant research. Meanwhile, other general academic research engines have been used with keywords searching for broad exploration. Some studies from consulting firms and industry have been reviewed and selectively adopted too. HRM studies in the SCM context have been referenced also.
products, and dispose of used products (McAfee, Glassman and Honeycutt, 2002; Fisher, Graham, Vachon and Vereecke, 2010). SCM refers to the planning and management of sourcing and procurement, conversion, and all logistics management activities. It is an important mission for SCM to coordinate and collaborate with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers, integrating supply and demand management within and across companies in the chain (Canadian Logistics Skills Committee, 2005).

More and more organisations are said to be focusing on core competences and outsourcing non-core functions. Firms’ decisions to concentrate on core competences lead to greater specialisation and consequently to greater outsourcing (Cavinato, 1992) and increase the requirements on how to effectively manage the supply chain. Competition is not based only at the individual company level now. Competitiveness in the total supply chain has become the performance differentiator. Effective value chain management has been acknowledged as primary for the sustainable competitive advantage of organisations (Mohammed, Shankar and Banwet, 2008). The effective management of an organisation’s supply chain can help to reduce costs, improve services and products, increase customer satisfaction, and ultimately raise a company’s profits and level of competitiveness (Chan and Qi, 2003; Poirier and Quinn, 2004). The integrated supply chain, featured with the coordination, joint actions, and problem-solving activities etc., has a significant positive effect on suppliers’ performance in the chain (Huang, Yen and Liu, 2014).

2.2.2 Supply chain relationship: transactional vs. relational

The nature of the relationship between a firm and its suppliers and distributors in the supply chain are determined or affected by a range of factors, including management factors (for example, time constraints and experience) (Cooper, et al., 1997 cited in McAfee, Glassman and Honeycutt, 2002), cost factors (for example, transaction cost drivers of specific assets), market factors (for example, uncertainty and frequency, market and business share) and specific needs (for example, geographic coverage, special skills) and history with customer (Gardner, Cooper and Noordewier, 1994). The relationship can be categorised along a spectrum from a pure arm’s length to an extremely close business-to-business relationship (Cooper, Ellram, Gardner and Hanks, 1997), with the relationship-oriented at one end and the transactional-oriented at the other (Figure 2-2). Relationship-orientation is a long-term partnership characterised in terms of the content of the communication between the channel partners and the frequency and richness of the interactions (Leuthesser, 1997), while transactional-orientation is a short-term network mainly focusing on cost. In a relationship-based approach to supply chain management, firms treat channel members as partners (McAfee, Glassman and Honeycutt, 2002).
In the supply chain, the supplier–buyer relationship and supplier development are built into the process of supplier assessments, competitive pressure, supplier incentives and direct involvement (Figure 2-3) (Sillanpää, Shahzad and Sillanpää, 2015). Compared to the relationship continuum (Figure 2-2), supplier assessments, competitive pressure, and supplier incentives are more related to the transactional-oriented end and direct involvement, including investing human and organisational resources to develop supplier’s performance and competence (Sillanpää, Shahzad and Sillanpää, 2015), more to the relationship-oriented end.

2.2.3 Determinants of the supply chain relationship

a) Interfirm cooperation

One influence on the type of relationship may be the form of the interfirm cooperation. For example, five types of interfirm alliances or cooperative forms were identified by a Eurofound study (2011), including: i) joint ventures (JVs), that is equity-based alliances with a separate legal organisational entity invested by parent firms; ii) clusters, that is geographically proximate groups of independent but interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by commonalities and complementarities; iii) Public-Private Partnerships (PPP), that is contract-based voluntary public and private collaborations aimed at providing some public services or infrastructure; iv) strategic alliances/networks, that is a formal relationship within a supply chain to pursue a set of agreed goals or to meet a critical business need (Maloni and Benton, 1997), while remaining independent, retaining flexibility, a light legal burden and the ability to end the relationship fairly easily (Johnson, Cullen, Sakano and Takenouchi, 1996); and v) virtual company networks, that is a temporary alliance of enterprises to execute a specific contract.
One question is why companies start to collaborate in different ways in the supply chain. Some of the most common reasons include the opportunities to enhance specialisation, realise economies of scale, focus strategically on core competences, reduce costs, learning possibilities for technology and product innovation, or support the development of human capital (Rubery, Grimshaw and Marchington, 2010; Eurofound 2011). For strategic alliances, the main rationale behind it is entering new markets, developing new business opportunities and/or new products/services, and enhancing competitiveness in domestic and/or global markets. For smaller companies, notwithstanding the unequal distribution of power, such alliances allow them to join forces with major players in a particular sector, and as such strengthen their own market position, protect that position as a result of being, to some degree, exclusively a business partner of a major player, ensure a certain volume of business, and learning, sharing, and exchanging knowledge, technology, and best practice with the partner (Eurofound, 2011). To sustain competitiveness, firms must develop long-term relationships with their stakeholders including customers, suppliers, employees and competitors (Lambe, Spekman and Hunt, 2000 cited in Richey R.G., et al., 2011).

Cost competitiveness is crucial in supply chain. Transaction costs have been studied a lot, which are the costs of ‘all the information processing necessary to coordinate the work of people and machines that perform the primary processes’ (Malone, Yates, and Benjamin, 1987 cited in Willette, Teng and Singh, 2016, p.2). Members in a supply chain may have more opportunistic behaviours due to lack of understanding or information of each other (Kumar and Van, 1996 cited in Willette, Teng and Singh, 2016, p.3). Trust was found to be one determinant of transaction costs reduction (Dyer and Chu, 2003; Willette, Teng and Singh, 2016).

b) Interfirm trust

Trust is ‘a psychological state comprising the intention to accept vulnerability based upon expectations of positive intentions or behaviour of another’ (Rousseau et al., 1998 cited in Wong, 2012). Zaheer et al. (1998), as cited in Delbufalo (2012), defined trust at the organisational level as referring to the extent to which organisational members have a collectively held trust orientation towards the partner firm. Interfirm trust is ‘one party's expectation that the other party can be relied upon to fulfill obligations, behave in a predictable manner, and act and negotiate fairly even when the possibility for opportunism exists’ (Zaheer et al., 1998 cited in Cai, Jun and Yang, 2010). Trust has been categorised and defined as reputation-based trust: ‘a subjective expectation an agent has about another's future behaviour based on the history of their encounters’ (Mui, et al., 2002 cited in Tejpal, Garg and Sachdeva, 2013, p.53); competence-based trust: ‘the firm belief in the competence of an entity to act dependably, securely, and reliably within a specified context’ (Grandison and Sloman, 2000 cited in Tejpal, Garg and Sachdeva, 2013, p.53); and action-based trust: trust of party A to party B for service X is the measurable belief of A in that B behaves dependably for a specified period within a specified context (in relation to service X) (Olmedilla et al., 2005 cited in Tejpal, Garg and Sachdeva, 2013, p.53). From the perspective of trust development stages, trust is divided into
computational trust and relational trust. Computational trust is rationally calculated as its expected profit greater than or equal to the expected losses, while relational trust is perceptual (Zhang, 2015 cited in Han, 2015, p.1775).

From a supply chain’s perspective, Delbufalo (2012) categorised all the outcomes of the inter-organisational trust in supply chain relationships into direct economic outcomes, indirect outcomes and relational outcomes with the detailed items listed in Table 2.1.

Table 2.1 Outcome of Inter-Organisational Trust

<table>
<thead>
<tr>
<th>Direct economic outcomes</th>
<th>Indirect outcomes</th>
<th>Relational outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Exchange performance (subjective performance)</td>
<td>• Contract flexibility</td>
<td>• Affective commitment</td>
</tr>
<tr>
<td>• Performance: efficiency and productivity</td>
<td>• Cooperation</td>
<td>• Behavioural uncertainty</td>
</tr>
<tr>
<td>• Financial performance</td>
<td>• Duration of collaboration</td>
<td>• Calculative commitment</td>
</tr>
<tr>
<td>• Purchasing cost reduction</td>
<td>• Functionality of conflict</td>
<td>• Expectation of continuity</td>
</tr>
<tr>
<td>• Cycle time reduction</td>
<td>• Information sharing</td>
<td>• Future purchase intentions</td>
</tr>
<tr>
<td>• Strategic flexibility</td>
<td>• Innovativeness</td>
<td>• Joint responsibility</td>
</tr>
<tr>
<td>• Task performance</td>
<td>• Interdependence</td>
<td>• Loyalty</td>
</tr>
<tr>
<td>• Transaction costs</td>
<td>• Investment in relation-specific assets</td>
<td>• Perceived risk</td>
</tr>
</tbody>
</table>

Table 2.1 Outcome of Inter-Organisational Trust (continued)

<p>| | | |</p>
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<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>• Relationalism (solidarity; flexibility; mutuality)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Satisfaction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Support for change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Willingness to invest</td>
</tr>
</tbody>
</table>

Source: author adaptation of Delbufalo (2012, p.387)

c) Power distribution in the supply chain

Within MNCs, the extent to which practice transfer takes place is dependent upon the power play between a parent and its subsidiaries (Chen, et al., 2012 cited by Chiang, Lemański and Birtch, 2017, p.239). In interfirm strategic alliances, powerful members may have mandate requests on their partners to join their training (Eurofound, 2011). In order to understand how HRM develops across organisations, a much more in-depth analysis is required of how power is distributed in different partners. Power is a function of dependence of parties upon one another (Dwyer, Schurr, and Oh, 1987 cited in Handfield, 2004, p.12). The volume of business with a supplier impacts the ability of a buyer to impact a supplier (Lascelles and Dale, 1989 cited in Handfield, 2004, p.12). Lusch and Brown (1996, cited in Handfield, 2004, p.12) held that the more dependence a buyer has upon a supplier, the more likely the buyer is to have a long-term orientation. Power has been categorised into referent, legitimate and coercive by French and Raven (1959, cited in Handfield, 2004, p.11). Handfield (2004) has compared the three types of power and their relationships to calculus-based trust, knowledge-based trust and identification-based trust (Table 2.2).

Table 2.2 Power vs. Trust

<table>
<thead>
<tr>
<th>Coercive power</th>
<th>Calculus-based trust</th>
</tr>
</thead>
</table>
Expectation that the other party will punish in situation of non-conformance | Trust sustained through deterrence, punishment
---|---
Expert power | Knowledge-based trust
Power due to perception of knowledge in a given area | Knowing the other party so that their behaviour is anticipatable
Referent power | Identification-based trust
Basis of referent power is in identification of one party with the other, a feeling of oneness | Identification with the other party’s desires and intentions

Source: Handfield (2004, p.11)

The relationship in the chain may vary when either the supply chain is not exclusive but one of many or when it is not a supply chain for a major player, which is quite common in the distribution. The competence of the HR function is found to be significantly correlated with the organisation’s ability to manage people to achieve a competitive edge (Bowen, Galang and Pillai, 2002). Where a powerful lead firm has a well-resourced HR department, it may offer welcome guidance to its under-resourced partners on innovative HR practices or even share access to training provision. HRM is one of the expert powers. The organisational structure and role and responsibilities of HRM both inside and outside the organisation can promote or limit the cross-boundary impact on the supply chain. ‘Unequally-balanced relationships… can have adverse consequences for the generation of distinctive capabilities among interdependent organisations…’ The power also links to the dominant status in the chain, which depends on the differences in the relative status and access to resources among partner organisations and types of support and shared investment between organisations (Marchington, et al., 2009).

In summary, SCM plays an increasingly important role in competition nowadays. There is a wide range of interfirm relations, from short-term transactional to long-term relational. The relationships within supply chain have been determined by i) the form of interfirm cooperation, ii) interfirm trust, and iii) relative powers distributed within the chain. These considerations lead to the following propositions to inform our research:

**Proposition 1:** Where the aim is to improve overall operational effectiveness and competitive advantage and not just to minimise cost, relational with trust supply chain arrangements are more likely to be effective than transactional arrangements.

**Proposition 2:** Differences in the power distribution between companies within the supply chain will influence SC relationships and HRM integration strategy.

### 2.3 Institutional Human Resources Management

HRM, including human resources (HR) practices, policies, and philosophies, is affected by internal and external environments of organisations (Jackson, 1995). Human Resources Management in this study broadly covers the specific HRM practices in the whole employment cycle: recruitment, development, performance management, incentive, engagement, retention and succession. It also includes the less tangible leadership style, organisational culture and values proposition of
employees (what the employees value and appreciate). Although HRM is normally looked at within specific companies, here we also consider the scope for transfer of HRM beyond the organisational boundaries in a supply chain context. HRM in this study means any form of people management. It is not limited to some specific HRM practices such as the Western type: an individualised /market driven way of managing people.

This section explores current studies on the influences on the form that HRM takes within companies operating in China. It is divided into three parts, first related to the characteristics of the company, including enterprise ownership, size and corporate culture; second, the influence of societal and national characteristics, including the country of origin of the investors, the impact of Chinese national culture and values, and the impact of rapid changes in the Chinese context on HRM; third, the implications of both company characteristics and the interplay of different but also changing societal contexts on the effectiveness of different HRM approaches across the supply chain. HRM is evolving within China. Here we consider in what ways and what the future trends in China could be. Is there a common best HRM across various environments and organisations? HRM is expected to improve business performance but how is the effectiveness of HRM measured both within the enterprise and the SC? This section reviews the existing research on these questions.

2.3.1. Impact of the characteristics of the company

a) The effect of the form of enterprise ownership

The form of ownership, whether Foreign Invested Enterprise (FIE), State Owned Enterprise (SOE), Collective Owned Enterprise (COE), Private Owned Enterprise (POE) and Sino-Foreign JV, may differentiate the workforce profile, HRM practices and HRM performance. Five main studies can be identified that have explored these issues revealing differences in both HRM practices and in employee characteristics and attitudes by ownership type (Table 2.3).
Table 2.3 The Effect of the Form of Enterprise Ownership on HRM

<table>
<thead>
<tr>
<th>Research study</th>
<th>Sample</th>
<th>Ownership researched</th>
<th>Comparative analysis across ownerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chiu, 2002</td>
<td>300 employees in Shanghai in 6 companies</td>
<td>SOE, POE and sino-foreign JV</td>
<td>• POE workers: tend to be unmarried, younger and recruited from places outside urban Shanghai;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POE workers: the most optimistic with respect to career outlooks for themselves and the organisation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POE workers: the most positive on operational effectiveness;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POE workers: the highest degree of role ambiguity;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POE workers: the lowest degree of employee participation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• SOE workers: the oldest in age.</td>
</tr>
<tr>
<td>Wang, Bruning and Peng, 2007</td>
<td>167 organisations in China</td>
<td>FIE, POE, Chinese public-owned enterprise (including SOE and COE)</td>
<td>• POE has the strongest link between organisational goals and HR practices, followed by FIEs, and then public-owned enterprises;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• FIE emphasises most on humanistic goals, such as employee participation, employee satisfaction, work life quality, and employee development, followed by POEs, and then public-owned enterprises;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• FIE pays more attention to improved management, employee relations, employee satisfaction, participative decision making, quality of work life, employee development and growth, and a warm and friendly atmosphere.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The three types of organisations do not differ from each other on most of the high-performance HR practices, such as selection pools, performance contingent pay, internal promotion and internal recruiting practices, except in their levels of recruitment autonomy.</td>
</tr>
<tr>
<td>Gong and Chang, 2008</td>
<td>478 companies</td>
<td>SOE, FIE, POE and Sino-foreign JVs</td>
<td>• SOE’s provision of employment security was greater than FIE, POE and JVs;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POE, JV and FIE are similar in the provision of career advancement opportunities, but greater than SOE.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POEs in China with increasing strength do not have primitive or backward management practices and may have embraced more effective management practices to retain and motivate employees.</td>
</tr>
<tr>
<td>Ngo, Lau and Foley, 2008</td>
<td>600 sampled enterprises with 80% from the manufacturing sector</td>
<td>SOE, FIE, POE</td>
<td>• SOEs are less likely to use Strategic HRM (SHRM) and HR practices than FIEs and POEs;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• POEs and Sino-foreign JVs significantly score higher on career advancement than SOEs, also higher but not significantly different from FIEs.</td>
</tr>
<tr>
<td>Huang and</td>
<td>1,900 employees in</td>
<td>SOE, FIE</td>
<td>Respect for authority can operate as a constraint on employee participation with related employee satisfaction.</td>
</tr>
</tbody>
</table>
| Gamble, 2011 | 22 retail stores in 9 Chinese cities | • FIE employees at frontline level rather than managerial level have a lower level of respect for authority. They have significantly higher levels of both employee participation and satisfaction than SOE counterparts.  
• No such differences were found at managerial level. |
Chiu (2002) found that POEs tend to hire a workforce with a different profile, unmarried, younger and migrated from places outside urban Shanghai, compared to SOEs and JVs. POEs have the highest degree of role ambiguity. POEs, JVs and FIEs seem to be more positive in career advancement than SOEs (Chiu, 2002; Gong and Chang, 2008; Ngo, Lau and Foley, 2008). The link between organisational goals and HR practices is the strongest for POEs, followed by FIEs, and then SOEs/COEs (Wang, Bruning and Peng, 2007).

Wang, Bruning and Peng’s research (2007) revealed that humanistic goals, such as employee satisfaction, work life quality, and employee development, are emphasised most in FIEs and least in SOEs and COEs. Ngo, Lau and Foley (2008) claimed that SOEs are less likely to use the Western Strategic HRM (SHRM) and HR practices than FIEs and POEs.

There are no consistent research results on employee participation. Chiu (2002) found that SOEs have the highest employee (samples composed of 88% workers and 12% in supervisory positions) participation, followed by JVs and then POEs (Chiu, 2002), while Wang, Bruning and Peng (2007) found that employee participation (based on the survey with HR manager and staff from HR seminar) is emphasised most in FIEs and least in SOEs and COEs. Huang and Gamble (2011) found that FIE employees at frontline level rather than managerial level have significantly higher level of employee participation than SOE counterparts, which might be due to their lower level of respect of authority. However, no such differences were found at managerial level. These apparently contradictory tendencies may imply that FIEs have emphasised efforts in the employee participation in the last 10 years and employees at frontline well perceived these practices. For SOEs, the economic reform towards the market-driven type of corporate governance may have reduced the power of frontline employees and their willingness to participate in business decisions. The shift in authority to the management team in SOEs in recent years may explain the reason why there is no difference identified between FIEs and SOEs at managerial level.

The form of enterprise ownership affects preferences for employee profile such as the level of education and their age. The clarity in roles, utilisation of Western Strategic HRM and career advancement etc. are different in different ownership forms. There are no commonly consistent findings on what the best HRM practices are across different ownerships. FIEs’ HR practices may be radically different from those of local companies (Cooke, 2004). POEs in China with increasing strength cannot be said to have primitive or backward management practices and may have embraced more effective management practices to retain and motivate employees (Gong and Chang, 2008). In this research, the three manufacturers are FIEs, and WDs are POEs. They may have different focuses and advantages in different aspects which support their own business realities due to the nature of their ownerships.

b) The effect of business scale
Different sizes of organisations may apply different HR practices (Delaney and Huselid, 1996). This may be due to stronger cultural influences on SMEs as Zhu, Chen and Warner (2000) found, based on the 14 cases in Taiwan, where flexible HR practices in the Asia Pacific were more likely to be found in the locally-owned small-sized firms. Large employee size and foreign ownership are associated to a moderate degree with more formalised HR practices. Based on the 114 questionnaires from 114 SMEs (less than 500 employees) and 43 (from 13 companies) interviews in Jiangsu province, China, Cunningham (2010) reported that the role of the HR/personnel function in SMEs is very different from the Western HRM concept. The top three functions are recruitment, training & development and labour relations, whereas HR has least involvement in top management, suggesting they cannot be considered as a ‘strategic partner’. However, the HRM in SMEs is noticeably different from traditional Personnel Administration which is typically ‘monitoring, controlling and punishing’ (Goodall and Warner, 1997). Cunningham (2010) believed that the development of the HR/personnel function in SMEs is halfway between the old Personnel Administration and Western HRM approaches towards to a more market-driven system. Senior managers and line managers have acknowledged the importance of the HR/personnel function but they have difficulties in implementing Western-type approaches in practice. For example, their training is more about general knowledge than about sophisticated and specialised practices. In his study, evidence was found that the traditional Chinese culture (i.e., relationships, harmony and preservation of face) and national institutions (i.e., the role of the state) has an impact on people’s behaviour and influences the extent of the adoption of Western HRM practices in SMEs.

For SME entrepreneurial firms in emerging markets, including China, which are internationalising, the stage of development and employment regulation of the target market/country affects the investment in HRM. The market with more stringent employee regulations drives more investment in HRM to meet international standards. Founders with general management experience are more inclined to invest in HRM in response to firm internationalisation but no such relationships are observed with respect to their international experience (Khavul, Benson, and Datta, 2010). When entrepreneurial firms from emerging countries have more foreign partnerships, there is a greater propensity on their part to invest in HRM practices (Khavul, Benson, and Datta, 2010). Newman and Sheikh (2012) investigated the relationship between organisational reward and employee commitment in SMEs through survey data from 286 employees of 11 SME organisations in China. Extrinsic rewards were found to be strongly related to both affective commitment (the extent to which the employee identifies with, and is emotionally attached to the organisation) and continuance commitment (the need of the employee to continue working for the organisation due to the perceived opportunity costs of leaving the organisation) which are consistent with previous research that salary and fringe benefits are determining factors for the commitment of Chinese employees (Chiu, 2002; Yu et al. 2003 cited in Newman and Sheikh, 2012, p.361), while this relationship has been found to produce conflicting results in Western studies (Mottaz, 1988 cited
in Newman and Sheikh, 2012, p.361; Loscocco, 1990 cited in Newman and Sheikh, 2012, p.361; Eby, et al., 1999 cited in Newman and Sheikh, 2012, p.361; Malhotra., et al., 2007 cited in Newman and Sheikh, 2012, p.361; Williamson, et al., 2009 cited in Newman and Sheikh, 2012, p.361). Newman and Sheikh’s explanation is that greater importance is placed on extrinsic benefits in an emerging economy for a better standard of living. Satisfaction with supervision positively affects affective commitment consistent with the findings on large Chinese firms (Wang, 2008), but in SMEs the supervisors could be the real owners. In contrast to studies on Western firms (Self, et al., 2005 cited in Newman and Sheikh, 2012, p.361; Chiaburu and Harrison, 2008 cited in Newman and Sheikh, 2012, p.361), co-worker support is not found to be related to organisational commitment but this could be because the owners/supervisors have more overwhelming influence than the co-workers in SMEs. Newman and Sheikh’s finding that role clarity positively influences affective commitment in SMEs supports earlier studies of bigger organisations. However, it could be especially true that the jobs are often unclearly defined and job descriptions are missing in SMEs. Contrary to the positive influence of autonomy (the ability of the employees to decide the way and manner in which to carry out their jobs, Malhotra, et al., 2007 cited in Newman and Sheikh, 2012, p.354) on affective commitment in early studies in big or non-Chinese setting organisations, (Eby, et al., 1999 cited in Newman and Sheikh, 2012, p.354; Malhotra, et al., 2007 cited in Newman and Sheikh, 2012, p.354), Newman and Sheikh’s (2012) more recent study found that both autonomy and training provision did not influence affective commitment, but only continuance commitment in SMEs. They believed that this may be due to the high levels of power distance in China where individuals may be less willing to seek responsibility and take control of their work. However, the autonomy and training have positive influence on continuance commitment, which means when employees have autonomy and good training, they worry about losing them (Newman and Sheikh, 2012).

‘Size is an important determinant of HRM practices... Large firms tend to employ a more formal, standardised, sophisticated HRM system... [and] small firms...adopt informal and less standardised HRM practices’ (Kim and Gao, 2010, p.4).

Kim and Gao (2010) found a significant positive relationship between organisation size and HRM formality. Informal practices help for effective teamwork, strong social network and high employee motivation, while formal HRM enhances consistency and fairness with better transparency. The different stages of organisational life cycle may require different set-up of formal or informal HRM when organisations move from one stage to another. Informal may be good for an early formative stage but may become a bottleneck to further expansion. Family firms may need to balance between formal HRM practices and informal organisational culture when they grow.

c) Corporate culture in supply chain
A third influence on HRM from the characteristics of the company is organisational culture, that is the presence of shared values, beliefs, assumptions, and patterns of behaviour (McAfee, Glassman and Honeycutt, 2002; Wang, Guidice, Tansky and Wang, 2010) in a specific organisational context. Corporate culture is a unique kind of organisational culture in a business environment. Corporate culture can be the basic assumptions and values of business leaders (Wei, Liu, Zhang and Chiu, 2008). Corporate culture is a dependable leading indicator used to anticipate behaviour norms in the organisation (McAfee, Glassman and Honeycutt, 2002). Wang and his colleagues (2010) identified the positive impact on innovation from an innovation- and teamwork-oriented culture in the China context. Corporate culture is not a mediator between SHRM and company performance but an antecedent of SHRM which affects firm performance (Wei, Liu, Zhang and Chiu, 2008). Cultural values, as a human resources contributor, affect a firm’s overall strategic development and a company’s success or failure (Zhang and Albrecht, 2010). Zhang and Jia (2010) found, in China’s pharmaceutical industry, that high-performance HRM practices have a stronger positive relationship with perceived organisational support and corporate entrepreneurship in a team-oriented culture than in an aggressive culture, suggesting that organisational culture is moderating the relationship.

Organisational culture has an impact beyond the organisation boundary. Research confirms that shared values positively influence both commitment and trust between a firm and its channel members (McAfee, Glassman and Honeycutt, 2002). In contrast, cultural conflict typically leads to both employee and member dissatisfaction, which in turn contributes to higher direct and indirect supply chain costs (McAfee, Glassman and Honeycutt, 2002). Achieving alignment of HRM is problematic in multi-employer networks if participating organisations have conflicting goals that hinder the creation of a strong cross-organisational culture (Marchington, Rubery and Grimshaw, 2011). SC culture shapes the expectations and behavioural norms among chain members (McAfee, Glassman and Honeycutt, 2002). If partners in the chain are all strong in branding, a strong partnership-specific culture is prevented (Marchington, Rubery and Grimshaw, 2011).

Corporate culture has been influenced by multi-factors such as societal, professional (nature of job or role expectations) (McAfee, Glassman and Honeycutt, 2002) and organisational. Company culture according to the resource-based view of the firm is one characteristic that contributes to competitiveness but cannot be easily imitated and thus serves to differentiate organisations (Barney and Wright, 1997). When we raise our horizon from one organisation to a supply chain level, the complexity could be very different. It is a challenge to cultivate or integrate into one culture in the supply chain since each member has its own version and may also hesitate to share its development if it is a core competence. It also depends on whether the supply chain is based on a dominant client or whether the suppliers have multiple clients. Meanwhile, it is also arguable whether there could be a best culture for all members in one supply chain.
In summary, existing research on Chinese companies suggests that HRM is affected by the three key characteristics of the company identified as ownership, business scale and corporate culture. There are no common best HRM practices identified for both Foreign Invested Enterprises and Private Owned Enterprises. They are practicing HRM differently, but both types could be potentially effective in their business situations. Business size affects the role, importance and formality of HRM, and the affordability of choices to manage employee commitment. Although the alignment of organisational values and cultures in the level of supply chain enables the commitment and trust and reduces transaction costs between SC members, it is hard to achieve such an alignment in a supply chain context since distributors may be fully committed to several supply chains. Moreover, the SC members, such as manufacturers and wholesale distributors, could have different characteristics in ownership, size and corporate cultures. All these factors may have a mixed impact on HRM transfer in the supply chain.

2.3.2 Influence of country of origin on HRM

a) The effect of country of origin of foreign investors

We have already found that FIE HRM practices vary compared to those found in Chinese-owned companies. A further issue is whether, within companies under FIE ownership, HRM practices vary according to whether the investors come from different countries of origin – US, European Union (EU) and Asia. The current research explores the evidence on these differences (Table 2.4).
Table 2.4 Impacts on HRM of Country of Origin of Foreign Investors in China

<table>
<thead>
<tr>
<th>Research study</th>
<th>Sample size</th>
<th>Countries of origin</th>
<th>Employment practice</th>
<th>Distinctive results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farley, Hoenig and Yang, 2004</td>
<td>286 Chinese foreign subsidiaries</td>
<td>• US • Japan • Germany</td>
<td>• Appraisals • Internal promotion • Salary • Hiring and recruitment • Benefits • Corporate values • Career development • Employment policy • Job structure</td>
<td>• Financial control from the foreign parents, ownership structure in the JVs and years of business in China affect HRM practices. • The parent MNCs started with their global strategic imperatives for HRM practices, then localised them for a better cultural fit in China.</td>
</tr>
<tr>
<td>Ma and Trigo, 2012</td>
<td>141 surveys and focus group interviews of second year MBA students and MBA graduates in Beijing, Shanghai, Guangzhou and Shenzhen</td>
<td>• US • EU • Japan</td>
<td>• Shared values • Promotion mechanism • Organisational structure • Management quality • First-level supervision • Concern for people • Cooperation • Communication • Rewards system and relationship climate • Intrinsic satisfaction • Participation</td>
<td>• The China subsidiaries of US, European and Japanese MNCs adopted different HRM approaches. For example, United States (US) MNCs offered competitive salaries and incentive programs; higher use of performance-oriented policies for pay and promotion; adoption of internal promotion policies; provision of training and development opportunities; fair performance appraisal; and comprehensive HR infrastructure and systems. The Chinese staff in the US firms exhibited the lowest levels of turnover intentions among the three groups of MNCs. • The offer of secure employment by the Japanese subsidiaries was not sufficient to secure retention.</td>
</tr>
<tr>
<td>Walsh and Zhu, 2007</td>
<td>3 JVs and 7 wholly-owned FIEs in Beijing and Shanghai</td>
<td>• Japan • US • EU</td>
<td>• Employment profile • Trends in employee recruitment and retention • Contractual changes in employment • Developments in remuneration systems • Employee involvement and participation</td>
<td>• The nationality and ownership form of parent company had the most visible effects on remuneration, worker representation and employee selection. • MNC parent companies involve little in the HRM policies and practices of their Chinese subsidiaries directly. • It is a trend for Asia-regional sub-units of MNCs to provide the linkage between the parent company and China subsidiaries.</td>
</tr>
</tbody>
</table>
### Patterns of control and decision making including the character of relations with the parent company and the role of expatriate management

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Sample</th>
<th>Findings</th>
</tr>
</thead>
</table>
| Zimmerman, Liu and Buck, 2009 | 316 JVs in Beijing, Tianjin, and Qingdao | - Employee tenure and average contributions to pension funds were significantly related to the national origin of the foreign JV partners.  
- Tenure was the highest in Hong Kong/Taiwan, moderate in Japanese/Korean, and lowest in EU/US firms.  
- The variation in tenure between nationalities was partly mediated by the human resources practices adopted. |
Comparing the foreign (EU, US, and Japan) invested China subsidies, Walsh and Zhu (2007) found that parent company nationality and ownership form had the most visible effects on remuneration, worker representation and employee selection (Table 2.4). Ma and Trigo (2012) found that while Japanese counterparts followed many traditional Japanese management features, like seniority-based pay and promotion, employee turnover and intentions were more positively affected by the US subsidiaries’ provision of more competitive salaries and incentive programs, higher use of performance-oriented policies for pay and promotion, adoption of internal promotion policies, provision of training and development opportunities, fair performance appraisal and comprehensive HR infrastructure and systems. The employees in the US subsidiaries had the most positive perceptions of their HRM with lowest turnover intention, while the Japanese subsidiaries were at the other extreme. This suggests that the impact of the form of HRM depends also upon the host country context; in China, the offer of secure employment by the Japanese subsidiaries was not sufficient to secure retention. However, there are conflicting findings in other research. Zimmerman, Liu and Buck (2009) found that employee tenure was found to be significantly related to the national origin of the foreign JV partners. The longest tenure and use of long-term contracts were found in overseas Chinese (Hong Kong/Taiwan) JVs, with more moderate rates in Japanese/Korean, and the lowest in Western (EU/US). The long-term contract was found to be highly significantly related to employee tenure with a virtually linear relationship. Zimmerman, Liu, and Buck (2009) found that the variation in tenure between nationalities was partly mediated by the firms’ use of particular human resources practices such as the long-term employment contract.

Farley, Hoenig and Yang (2004) claimed that years of business in China affect HRM practices, with data of investors from the US, Japan and Germany. The longer the time since entry into China, the more likely the firm was to pay more attention to campus recruitment, job rotation, and personal references and head-hunters in recruitment practices (Table 2.4).

Walsh and Zhu (2007) claimed that generally, parent company headquarters (EU, US and Japanese in this study) exerted little direct influence over Chinese HRM policies and practices even though headquarters collected HRM data such as labour cost, turnover and other HR KPIs. American-owned companies tend to adapt to local Chinese conditions and authorise local subsidiaries to modify global policies and planning practices. In most cases, it was left to regional APAC headquarters (seven of the 10 cases studied) and expatriate managers to bridge or integrate local Chinese operations into the global systems (Table 2.4).

b) Influence of Chinese culture on HRM in China

No supply chain operates in a vacuum. Globalisation even increases complexity as it brings with it multi-society cultures. Eurofound (2011) summarised the socioeconomic factors that influence employees’ bargaining power and shape work environment (Table 2.5). Normative or cultural influences is one key social element together with other more economic relevant factors such as
education, training, social stratification, living standards, welfare, household system, labour market and development stage of emerging market.

Table 2.5 Socioeconomic Factors on HRM

<table>
<thead>
<tr>
<th>Socioeconomic factors</th>
<th>Researcher, publication Year</th>
<th>Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and training</td>
<td>Grimshaw, et al., 2011 cited in Eurofound 2011</td>
<td>Skills profile</td>
</tr>
<tr>
<td>Social stratification, standards of living and the welfare state</td>
<td>Grimshaw, et al., 2011 cited in Eurofound 2011</td>
<td>Perceptions of fairness in pay structures</td>
</tr>
<tr>
<td>Household-level systems, household, family and gender norms potentially</td>
<td>Grimshaw, et al., 2011 cited in Eurofound 2011</td>
<td>Expectations about working time, family and equal opportunities</td>
</tr>
<tr>
<td>Labour market conditions</td>
<td>Grimshaw, et al., 2011 cited in Eurofound 2011</td>
<td>Recruitment, job security</td>
</tr>
<tr>
<td>Stage of development of emerging markets</td>
<td>Hitt, et al., 2005 cited in Eurofound 2011</td>
<td>How firms interact with each other, and learn from each other in all respects.</td>
</tr>
</tbody>
</table>

Source: author adaptation of Eurofound (2011, p.19)

Human and cultural aspects alone can decide the success or failure of an alliance (Lajara, Lillo and Sempere, 2003). Societal culture includes those enduring sets of values, beliefs and practices that distinguish one group of people from another (Dimmock and Walker, 2000). Societal cultures broadly cover facial expressions, personal space, posture, gestures, etiquette, body contact and appropriate conduct in handling different sexes (Forster, 2000). People’s behaviour has been largely influenced by culture (Forster, 2000).

National cultures and values such as Confucianism remain extremely important to HRM practices in China and Asia (Yeung, Warner and Rowley, 2008). The continuity of traditional Chinese values, such as hierarchy, perseverance, thrift and harmony, is empirically still observable in current HRM practices but with varying degrees of emphasis (Warner, 2010). Culture is not static. For example, binary, analytic and logic thinking are typical of the Western style. However, when the Western analytically and logically derived technologies become available through globalisation (Yuan and Chia, 2011) this has led to changes in, and some transformation of, Chinese traditional thinking. Though traditional culture still significantly influences most people in Chinese societies (Mainland China, Hong Kong and Taiwan) with Confucian ethics as the essential part, Chinese culture is also dynamic and capable of change (Lin and Ho, 2009). Lin and Ho (2009) argued that mainland China and Hong Kong have unfavourable environments for maintaining the Chinese traditional cultures due to the rapid changes in economy and politics, and this is evident in the finding that the younger generation under the age of 25 tends not to be loyal to their employers. Furthermore, though Hong
Kong, Taiwan and Singapore are all clustered as Chinese-culture-based country or regions, studies have found their HR practices, for example in appraisal, to be divergent rather than convergent (Paik, Vance and Stage, 1996).

China’s culture, characterised for example as Confucian or collectivist, has specific impacts on HRM practices. Table 2.6 has listed the recent relevant research findings on this topic.
Table 2.6 Chinese Cultures’ Impact on HRM

<table>
<thead>
<tr>
<th>Research study</th>
<th>Sample size</th>
<th>Research theme</th>
<th>Distinctive results relevant to culture</th>
</tr>
</thead>
</table>
| Fu and Kamenou, 2011    | 66 interviews from 21 MNCs’ subsidiaries in China | Investigating how Chinese employees perceive HR policies and practices transferred from parent enterprises; Exploring the extent to which Chinese cultural values influence these HR policies and practices. | * Guanxi, valuing seniority and the importance of ‘human factor’ (human’s subjectivity with flexibility) are the three Chinese cultural values affecting HR policies and practices within MNCs in China operations, which appear to be interlinked and be embedded within the Chinese collectivist culture.  
* Staffing (job rotation), performance and appraisal, training and development and reward management were shown to be influenced by the Chinese cultural values. |
| Glover and Siu, 2000    | 2 FIEs      | Exploring HR barriers to quality management.                                    | * The assumptions of Western quality management are not easily transferred to the Chinese context.  
* Western models emphasise the involvement of employees in quality improvement, assuming both that individuals will want to be involved and will have the interest and enthusiasm to be so. This is found to be very different in the Chinese context where influential Guanxi, poor levels of general education and a lifestyle lacking exposure to consumers leads to limited willingness to be involved. |
| Han and Han, 2009       | 168 Chinese companies | Exploring network-based recruiting and applicant attraction.                  | * Network-based recruiting practice is popular in China, especially in those large and indigenous SOEs.  
* Network-based recruiting practice has significant positive impact on HR managers’ perceived recruiting effectiveness, while mass media recruiting practices has no such impact.  
* The strength of social ties through which the companies were introduced to the applicant had positive effect on applicant attraction. |
| Jackson, 2002           | 529 managers in America, Hong Kong (China), Japan, Korea, Poland, Russia, Australia | Examining the way value is attached to people in organisations across cultures. | * Positive relationship between collectivism and humanism (seeing people as an end in themselves).  
* The level of instrumentalism is negatively related to the level of maturity of HRM system. |
<table>
<thead>
<tr>
<th>Authors</th>
<th>Sample Size</th>
<th>Research Focus</th>
<th>Findings/Implications</th>
</tr>
</thead>
</table>
| Kim and Gao, 2010       | 205 family  | Identifying factors affecting the formalisation of HRM practices in family firms.                                                                                                                                  | - The unique historical and cultural heritage deeply embedded in the minds of the Chinese and Chinese firms.  
- China’s collectivist, Confucian culture coupled with its underdeveloped market institutions sustains a high level of informality. |
|                         | firms in China |                                                                                                                               |                                                                                                                                                  |
| Lin and Ho, 2009        | 504 individuals in China (mainland), Taiwan, Hong Kong | Examining Confucian dynamism, culture and ethical changes in Chinese societies.                                                                                                                                   | - Mainland China and Hong Kong have unfavourable environments for maintaining the Chinese traditional cultures due to the rapid changes in economy and politics.  
- The younger generation under the age of 25 tends not to be loyal to their employers. |
| Liu, Kwan, Lee and Hui, 2013 | 233 employees in China | Investigating the impact of workplace ostracism as perceived by employees on their family satisfaction.                                                                                                         | - Family satisfaction can be affected by the servant leadership and workplace ostracism.  
- Employees’ perceived workplace ostracism is positively related to their work-family-conflict (WFC) and negatively related to family satisfaction. WFC negatively mediates the relationship between workplace ostracism and family satisfaction |
| Wong, 2012              | 255 employees in three international JVs in China | Examining the antecedents and consequences of employees’ trust in management and trust in supervisor.                                                                                                          | - Positive effects from job security and procedural justice on trust in management.  
- A significant effect from interactional justice on trust in supervisor and a significant and positive relation between trust in supervisors and trust in management.  
- The employees’ trust in management has a negative effect on turnover intention, while both the employees’ levels of trust in management and in supervisors have positive effects on their level of Organisational Citizenship Behaviour (OCB).  
- Trust in supervisor has a stronger effect than trust in management.  
- Employees’ perceived job security has a negative effect on their levels of turnover intention. |
| Yuan and Chia, 2011     | 21 interviews with top managers and HR managers in Chinese companies | Explore the effect of traditional Chinese thinking and its particular effects on HRM practices.                                                                                                                | The principle of Zhongyong significantly affects Chinese HRM practices:  
- preference for modest and reserved people in recruitment and selection.  
- harmonious and balanced relationship between the superiors and subordinates.  
- relatively mild, lenient and gentle leadership style.  
- soft, flexible and conflict-free way of communication and negotiation. |
<table>
<thead>
<tr>
<th>Author(s) and Year</th>
<th>Methodology</th>
<th>Research Focus</th>
<th>Key Findings</th>
</tr>
</thead>
</table>
| Xiao and Cooke, 2012 | 122 interviews from part-time EMBA programs in two Chinese universities | Investigating major sources of work–life conflicts encountered by workers. | - Many of the HR initiatives adopted by organisations to help employees enhance their work–life balance are of a collective nature, providing bonding opportunities among employees and between employees and their family.  
- Financial and material rewards are deployed as the main mechanisms to address work–life conflicts caused by work intensification. |
- Perceptions of distributive and interactional justice contribute to turnover intention. |
| Zhang, Farh and Wang, 2012 | 166 employees in 75 Chinese companies | Exploring organisational antecedents of employee perceived organisational support. | The perceived organisational support in China includes:  
- China cultural-specific factors: care for disadvantaged employees and care for employees’ family.  
- Some common factors in the Western literature: procedural justice, supervisor support, distributive justice, interactional justice, job training and career development. |
| Zhang, Tsui, Song and Jia, 2008 | 545 managers in China | Exploring the joint role of the employee–organisation relationship and supervisory support in initiating trust among middle managers. | The mutual investment employee–organisation relationship approach could initiate trust in employees.  
- Support from the immediate supervisor is both synergistic and fundamental.  
- The emphasis on interpersonal relationships is over impersonal systems in the high-context, relation-oriented culture in China. |
| Zhang, Kwan, Everett and Jian, 2012 | 230 married managers in China | Investigating the impact of servant leadership as perceived by followers on their work-to-family enrichment. | The servant leadership is mediating organisational identification and moderating work climate for sharing family concerns.  
- Perceived servant leadership is found to effectively promote employees’ work–life enrichment. |

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2 Distributive justice was predicted by empowerment and psychological contract fulfillment.  
3 Procedural justice was predicted by psychological contract fulfillment and communication.  
4 Interactional justice was predicted by organisational communication.
China’s collectivist and Confucian culture and its associated underdevelopment of market institutions lead to a high level of informality (Kim and Gao, 2010) (Table 2.5). Jackson (2002) found a positive relationship between collectivism and humanism (seeing people as an end in themselves) (Table 2.6). Guanxi, valuing seniority and the importance of ‘human factor’ (human’s subjectivity with flexibility) are the three Chinese cultural values, embedded within the Chinese collectivist culture, affecting HR policies and practices such as staffing (job rotation), performance and appraisal, training and development and reward management (Fu and Kamenou, 2011) (Table 2.6).

Work–Life Balance (WLB), defined as ‘the extent to which the job allows you to balance your work and your other interests’ (CEB, 2016), has become an issue of concern among HR professionals and policy makers in recent years in China (Xiao and Cooke, 2012) (Table 2.6). Though high levels of WLB are more positively associated with work and life satisfaction in individualistic cultures such as France, compared with those in collectivistic such as China (Haar, Russo, Sune and Malaterre, 2014), WLB becomes increasingly important in the Chinese social values over recent years\(^5\). HR initiatives adopted to help employees enhance their work–life balance are collective in nature, providing bonding opportunities among employees and between employees and their families, compared to the Western multinational corporations (Xiao and Cooke, 2012) (Table 2.6). Family satisfaction is positively related to employees’ productivity (Parasuraman and Simmers, 2001 cited in Liu, Kwan, Lee and Hui, 2013), and family satisfaction is affected by the servant leadership (Zhang, Kwan, Everett and Jian, 2012; Liu, Kwan, Lee and Hui, 2013) defined as a form of leadership with a specific focus on fulfilling follower needs to grow, develop, and prosper (Greenleaf, 1977 cited in Zhang, Kwan, Everett and Jian, 2012) (Table 2.6). For the Chinese, harmony becomes the ontological foundation regulating the transforming, cyclical and everlasting process of human communication and dictating the human interaction. For Confucians, the ultimate way to achieve the state of harmony is through Zhongyong, the ‘middle way’ thinking, which significantly affects the Chinese management (Yuan and Chia, 2011) (Table 2.6). Chinese HRM practices have been largely affected by the ideal of Zhongyong, for example, the preference for modest and reserved people in recruitment and selection; harmonious and balanced relationship between the superiors and subordinates; relatively mild, lenient and gentle leadership style; and the soft, flexible and conflict-free way of communication and negotiation (Yuan and Chia, 2011) (Table 2.6).

Employee perceived organisational support is expected to be a key driver of employee motivation, performance, and organisational commitment. Zhang, Farh and Wang (2012) found that perceived organisational support in China includes China cultural-specific factors, including care for disadvantaged employees and care for the employee’s family (Table 2.6).

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\(^5\) Work-life-balance ranked the top 9th among the 38 attributes of employment attraction in 2012 and ranked the top 5th in 2016 (Corporate Leadership Council, 2012; 2016)
Personal connections (Guanxi), one of the key cultural factors, play an important role in resourcing practices, especially in the recruitment and selection processes. Network-based recruiting practice is popular in China, especially in those large and indigenous SOEs, and perceived more effective than mass media recruiting practices by (Han and Han, 2009) (Table 2.6). Glover and Siu (2000) found that the assumptions of Western quality management, that individuals will want to be involved in quality improvement activities and will have the interest and enthusiasm to be so, are not easily transferred to China where there is limited willingness to be involved in the Guanxi-oriented context of China (Table 2.6). ‘The emphasis [is] on interpersonal relationships over impersonal systems in the relation-oriented culture in China’ (Zhang, Tsui, Song and Jia, 2008, p.125) (Table 2.6).

Tsui, Pearce, Porter and Tripoli (1997) proposed four distinct approaches to capture the nature of the employment relationship between the employer and the employee from the employer’s perspective: mutual investment (a long-term orientation in both the inducements offered and the contributions expected), overinvestment (inducements are high and expected contributions are low), underinvestment (with low inducements but high expected contributions), and quasi-spot contract (emphasises a short-term relationship and monetary rewards without long-term investments in employees). Zhang, Tsui, Song and Jia (2008) advanced the empirical research with the model of Tsui and found that the mutual investment approach could initiate trust in employees, but support from the immediate supervisor is both synergistic and fundamental. The interpersonal relationships should be emphasised over impersonal systems in the high-context, relation-oriented culture in China (Table 2.6). Wong (2012) found that though both the employees’ levels of trust in management and in supervisors have positive effects on their level of Organisational Citizenship Behaviour, the trust in supervisor has a stronger effect than trust in management (Table 2.6). It could be interpreted that the direct relations between employee and supervisor might be more meaningful and impactful than the more remote relations with top management.

Business leaders’ cultural background may impact the HRM practice also. Frear, Cao and Zhao, (2012) contended that Corporate Executive Officer (CEO) embeddedness in the Chinese institutional environment is related to the adoption of Western-style HR practices in FIEs. FIEs with older Chinese CEOs are less likely to adopt Western-style HR practices than those with young Chinese or old foreign CEOs, especially in staffing and compensation practices. Foreign investors also need to enhance their inter-cultural awareness and localisation to diminish the industrial conflicts in China (Choi, 2008). Gamble (2000) argued that the development of a core of culturally-literate expatriates could be a valuable resource for MNCs.

c) HRM dynamics in the changing environment in China
The Chinese context and culture is changing and so is the practice of HRM. In 1988 Glinow and Teagarden (1988) pointed to fundamental differences between China and the US in the work environment that derived from the US employment-at-will approach compared to the China model of an assigned job. This led to differences in termination of poor performers, pay differentiation, HR practitioner background, and assumptions about people, performance, training and development, and rewards. However, since then reforms are evident, and the increasing number of JVs brings an infusion of new operating styles and new perceived values (Cyr and Frost, 1991). Reforms in employment (life employment to contract employment), payment systems and the social insurance system were introduced in the early 1990s to China (Leggett and Bamber, 1996; Warner, 1996). Urbanisation has pulled large populations from rural areas to cities (Leggett and Bamber, 1996). China’s management–labour relations, employment and human resources were closer to external Western or Asian models after the 10 years of reform since the 1980s (Warner, 1997). Referring to the study on the success of indigenous high-technology in Taiwanese cases, Hempel and Chang (2002) reported that the Taiwan Chinese hierarchically authoritarian management culture is close to a more responsibility-oriented culture, which in turn is close to Western culture.

Referring to the three case studies on SOE and SOE-controlled enterprises, Zhu, Zhang and Shen (2012) contended that Chinese HRM has been transforming from paternalistic HRM to the coexistence of paternalistic, transactional and differentiated HRM as China’s economy transforms from paternalistic socialism to market socialism. The paternalistic and transactional HRM are compared in Table 2.7. Differentiated HRM involves a mix of paternalistic and transactional HRM practices. The shift has been accompanied by reduced employment security and welfare benefits for workers. Increasing labour cost has changed the national competitive edge from low-cost export-oriented to high-value or high-technology-oriented global market and mass domestic market. Mainland China’s labour used to be cheap, abundant (Poon, 1996) and young, widely leveraged for global trading. Now the workforce is becoming increasingly expensive due to the lack of supply with decreased absolute workforce population and older (Cai, 2013). A strategic role for the HR function and implementation of ‘Western’ HRM practices is becoming more prevalent in China, although the legacy of traditional practices endures and new challenges are emerging (Zhu, et al., 2013).

Table 2.7 Summary of Differentiation between Paternalistic and Transactional HRM

<table>
<thead>
<tr>
<th>Comparison</th>
<th>Paternalistic HRM</th>
<th>Transactional HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumption</td>
<td>Paternalism</td>
<td>Marketised</td>
</tr>
<tr>
<td>Target relationship</td>
<td>Long term/familistic relationship</td>
<td>Short term/contractual relationship</td>
</tr>
<tr>
<td>Exchange scope</td>
<td>Open-ended social exchange</td>
<td>Work-related economic exchange</td>
</tr>
<tr>
<td>HRM strategy</td>
<td>Building human capital</td>
<td>Buying human capital</td>
</tr>
<tr>
<td>HRM focus</td>
<td>Commitment, citizenship behaviour</td>
<td>Cost reduction, efficiency</td>
</tr>
<tr>
<td>Reward system</td>
<td>Paid on position level, length of service and group performance</td>
<td>Paid on position significance and individual contribution</td>
</tr>
</tbody>
</table>
In summary, HRM has been affected by the factor of country of origin of foreign investors. The investors from the US, EU and Asia might have different HRM practices preferred and adopted in their China operations due to the different origins of their global headquarters. Their business history in China might also affect how much HRM to adopt into Chinese conditions. China has its observable cultures and values such as Confucianism, collectiveness and Guanxi etc. These societal contexts, which might be different from the assumptions in Western countries, could largely define what HRM practices or leadership might be well accepted and effective. The practices of HRM have been evolving in the last three decades during the Chinese economic reform. These might be in the process of transforming from paternalistic to transactional but still reflect core Chinese value-based practices.

2.3.3. Implications of company characteristics and national institutional and culture difference for identifying effective HRM practice for the supply chain

a) ‘Fit' vs. ‘best' HRM in the globe and China

To identify what might be an effective HRM system in China, Su and Wright (2012) summarised the 35 high-performance HRM practices from 10 early empirical studies (see the left part of Table 2.8). The most frequently identified practices (times identified in the 10 research studies) are: participation teams/involvement groups (six times), grievance procedures/complaints system (five times), selection process/employment test/staffing selectivity (five times), promotion from within (five times), hiring criteria (four times), employment security (four times), training time (four times), feedback for development (four times), competitive pay level (four times), performance-based pay (four times), and incentive/profit/gain sharing (four times). It is interesting to find that there is no single HRM practice identified as the high performance HRM practice across the 10 studies in China. The most commonly identified practice is the participation teams/involvement groups which only accounts 60% of the studies. All other high-performance HRM practices were identified in no more than half of the studies.

To have a complete picture of studies of high performance HRM in China, another three recent China-specific studies have been added. These include a study by Zhang and Li (2009) on HRM and business performance in China’s pharmaceutical industry (based on questionnaires addressed to the general manager, marketing director, HR directors and finance directors with samples from 136 companies of SOEs, POEs and FIEs) with respect to the use of high performance work practices (including extensive training, participation, detailed job definition, result-oriented performance appraisal, internal career opportunities, and profit sharing was significantly related to
firm’s market performance). Zheng, Morrison and O’Neill (2006) identified a high level of employee commitment as the key HRM outcome for enhancing business performance in their study of SMEs and on that basis identified four high performance HRM practices for Chinese SMEs, namely performance-based pay, participatory decision-making, free market selection, and performance evaluation. Based on a sample of 465 Chinese firms, Akhtar and his team (2008) found training, participation, results-oriented appraisals and internal career opportunities to be the strategic HRM dimensions that affect company performance. Together with Su and Wright’s summary, the complete Table 2.8 maps out a holistic view of the high performance or ‘best’ HRM practices. Among the three newly-added research, only two common high performance HRM practices in China were identified, which are ‘participation teams/involvement groups’ and ‘formal performance appraisal’. The practice of ‘participant teams/involvement groups’ has been furthered supported as the most ‘common’ high performance HRM, but still however only identified in 69% of the 13 studies. The practice of ‘formal performance appraisal’ was identified in two of the 10 early studies. For all other 34 practices, there is a clear inconsistent pattern emerging.

Further inconsistency is revealed by some studies that focus on some specific HRM practices rather than the overall high performance or ‘best’ HRM practices. For example, Wang and Wang’s (2008) study of HRM strategies in China from an entrepreneurship perspective (involving 606 managers and executives from 103 firms in 11 cities and provinces in China) found performance management to have significant positive effects on organisational performance, competitiveness, profitability, and market share. However, career development is negatively related to competitiveness at a marginally significant level, and no significant effect is found for career development with regard to profitability and market share. Froese and Xiao (2012) studied 191 white-collar workers from seven German automotive companies in Shanghai and found that job autonomy and performance appraisal satisfactions have stronger influences on organisational commitment than pay satisfaction. Chinese white-collar workers in the new era emphasise performance and personal influence on their job more highly than pay. Leaders’ profile will affect the HRM preference. All these specific studies support the effectiveness of some HRM practices but exclude or ignore some others. It is hard to find any universal consistency.
## Table 2.8 Summary of High-Performance HR Practices

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Source: author adaptation of Su and Wright (2012, p.2068-2069)
HRM varies in different types of organisations such as categorised by ownership and scale, in different culture context, in different time. HR practices also vary depending on the nature of industry, technology, production methods and economic environment such as the national industrialisation strategies – import substitution industrialisation vs. export-oriented industrialisation (Kuruvilla, 1996). All these empirical studies lead to a clear conclusion that it is impossible to identify one standard package of high performance HRM practices globally. Even in the same country; there is not a homogeneous model of HR in China (during the research of China reform) (Benson and Zhu, 1999). HRM is very contextual, the ‘good’ or ‘best’ HRM should be the environment-fit solutions. The recent research on ‘contextual HRM fit and flexibility’ by Samnani and Singh (2013) defines fit as organisational fit, the ‘link between HRM system and other relevant organisational systems’ and environmental fit, ‘HRM system and the environment, which can include competitors and legislation’. Firms should match HRM practices to strategies and context, and achieve the synergy of sets of mutually reinforcing practices (Bowen, Galang and Pillai, 2002; Chow, Huang and Liu, 2008). Whether a practice is ‘good’ or not also depends on the perspective. For example, supplier employees’ high discretion may not be expected by clients who would prefer to exercise control. ‘Good’ or not depends on who you are in the supply chain. ‘Good’ practices are relative and subject to context.

Is there a common best approach to HRM across societal and cultural contexts? Luthans and his colleagues (1997) argued that there is no ‘one best way’ for HRM in the transnational environment. International HRM attempts to make the best ‘fit’ between the country/cultural environment and HRM practices. If there are best internal HRM practices, they ought to be the ones best adapted to cultural and national difference (Hou, Huang and Napier, 2002). The differences in culture and philosophies complicate the issue further and arguably make it difficult to establish a standard of HRM ‘best’ practices in the China context. A lack of fit with a national environment in a recipient country makes HRM practices less effective (Ferner, et al., 2005 cited in Chiang, Lemański and Birtch, 2017, p.245). Many HR criteria for selection, performance appraisal and promotion may be similar between Western countries and China, but there is a high demand to localise the practices and methods to fit local cultural values and norms (Björkman and Lu, 1999). There could be a hybrid solution with variable references integrating Western, Chinese, SOE, and private (Cooke, 2004). Three approaches to designing supply-chain-oriented HR systems were proposed as exportive, adaptive, and integrative (Lengnick-Hall, Lengnick-Hall and Rigsbee, 2013).

‘(1) an exportive approach in which all of the micro and macro components of the HR system of the dominant firm are replicated by other firms in the supply chain, (2) an adaptive approach in which the principles are common across member firms but programs and practices reflect local, firm-specific conditions, and (3) an integrative approach in which the principles are common across members’ firms but practices can be drawn from
any source based on their effectiveness’ (Lengnick-Hall, Lengnick-Hall and Rigsbee, 2013, p.373).

Since there could be no common ‘best’ HRM along a supply chain, adaptive and integrative approaches might be the most possible ways to transfer HRM rather than the copy and paste exportive approach in the SC.

b) Measuring HRM effectiveness

HRM practices could be very institutionally diverse, but their expected impact or performance on HRM itself and business could be consistent. For example, ‘good’ HRM practices are those that help to improve employee competence, motivation, contribution and well-being (Guest and Conway, 2011 cited in Holman, et al., 2012, p.10). Six earlier relevant studies on the effectiveness of HRM have been compared (Table 2.9). From an enterprise’s perspective, the measurement of HRM effectiveness includes employee turnover (attrition), commitment, employee tenure, goal alignment between employees and organisation, development, competence, and internal promotion. The measurement of HRM's impact on business includes sales growth, profit and return, market share, labour productivity, and the extent to which targets are achieved.
Table 2.9 Measurement of HRM Effectiveness

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<tr>
<th>HR functional performance</th>
<th>HR impact on business performance</th>
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<tr>
<td>Zheng, Morrison and O'Neil, 2006</td>
<td>Zhang and Albrecht, 2010</td>
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<td>• Commitment</td>
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<td>• Goal alignment between employees and organisation</td>
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<td>Zheng, Morrison and O'Neil, 2006</td>
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<td>Zhang and Albrecht, 2010</td>
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<td>• Overall performance</td>
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Comparing and integrating the impact of inter-organisational trust (Table 2.1) and enterprise-level HRM (Table 2.9), the effectiveness of inter-organisational HRM (HRM knowledge transfer and integration in SC) could be classified into three levels. Level 1 could be the relational outcome, which is measuring the relationship among the SC members, including satisfaction and loyalty for past and expectation of continuity and willingness to invest for future. Level 2 could be the HR function outcome, focusing on HRM knowledge transferred, HRM practices integrated, joint action including problem solving and HRM performance, such as turnover rate, employee commitment and competence. Level 3 could be the direct business outcome, as measured by mainly business growth, profitability and market share.

In conclusion, HRM is very situational. There is no best HRM across institutional environments. HRM is affected by organisational ownership and business scale. It is hard to claim which ownership is better in HRM. For FIEs including wholly-owned foreign investment and Sino-foreign JVs, the country of origin of foreign investors such as US, Europe and Asia have an impact on HRM practices in their Chinese subsidiaries. Small scale organisations are more informal, while large ones are formal. Chinese cultural elements, for instance, Confucianism, collectivism, harmony, Guanxi, trust, valuing seniority, and family caring, all have impact on the local HRM practices. Corporate culture and SC culture can exact positive impact in business, but SC culture will be hard to establish due to the difficulty of interfirm alignment. HRM in China is dynamic, becoming more similar to Western HRM but remaining obviously Chinese in the maintenance of some traditional practices such as paternalistic HRM. Though there is only ‘fit’ rather than ‘best’ HRM, there are consistent criteria to measure HRM effectiveness. The SC HRM knowledge transfer can be measured in three levels: SC relations, HR functional performance in knowledge receivers, and business performance in knowledge receiver and sender. This leads to the following proposition to guide our research:

**Proposition 3:** There is no best HRM in the SC. For interfirm transfer of HRM to be effective it should fit the members of SC and be adapted to the China environment. The SC-Fit HRM transfer is affected by MNCs’ awareness/experience of Chinese culture and HRM expertise.

### 2.4 Knowledge Transfer and HRM Diffusion in Supply Chain

This section focuses on three issues of knowledge transferred. First, it addresses the question of ‘why’—the rationale for knowledge transfer involving HRM knowledge and management practice along the supply chain. Second, it explores ‘what’ kind of HRM knowledge is transferred. Third, it explores ‘how’ HRM knowledge is transferred— the directions and nature of HRM diffusion including the transfer media, the issue of learning motivation and ability, and societal context of HRM transfer in China.

#### 2.4.1 Why HRM diffusion may be necessary in the supply chain
Intra-organisational sharing of knowledge has been the subject of much research. MNCs are running global businesses and one of their most critical strategic resources is the knowledge that is located within their organisation (Williams and Lee, 2009). Furthermore, one of their competitive competences is their ability to facilitate and manage inter-subsidiary transfer of knowledge (Minbaeva, et al., 2003). Overseas MNCs in the Chinese context tend to transfer their management system from their home country to the local subsidiaries (Ngo, Lau, and Foley, 2008).

In interfirm relationships, there are two primary types of HRM–SCM links: i) applying HRM and SCM to managing relationships with other firms in the supply chain (Fisher, Graham, Vachon and Vereecke, 2010; Holman, et al., 2012), and ii) diffusing or aligning HRM practices across supply chain members (Fisher, Graham, Vachon and Vereecke, 2010). HR has been found to play a unique role in facilitating and even accelerating the inter-organisational relationships (Jick, 1990). In the second type of HRM–SCM links, HRM is deeply integrated across organisational boundaries.

Growth in outsourcing and the formation of inter-organisational partnerships has meant that more employees have found themselves working alongside staff employed by other organisations, trained and developed by client organisations or even working under the direction of managers from partner organisations (Rubery, Grimshaw and Marchington, 2010). Inter-organisational relationships are growing in volume and diversity (Rubery, et al., 2004). MNCs contribute to the development of the human and social capital that may enhance supplier firms’ competences and enable them to focus more on becoming customer oriented, and develop quality consciousness and flexible work practices (Wilkinson, Eberhardt, McLaren and Millington, 2005).

Collaboration in the supply chain, taking the form of inter-organisational cooperative behaviour and knowledge sharing, is linked to better supply chain performance (Marchington, et al., 2009). Knowledge sharing is positively related to relationship orientation, which is ‘related to the desire for relational governance, which concerns the development and maintenance of the relationship of a company with its partners’ (Palmatier, et al., 2008 cited in Cheng and Fu, 2013, p.475). Mutual training programs between suppliers and customers have been found to increase commitment and long-term unity (Noel, Ulrich and Mercer, 1990).

Marchington, et al., (2009) argued that the HR function can contribute to a wide range of business functions including wide involvement and increased buy-in from diverse sets of interest groups in implementation of new partnership arrangements, innovation in services and business approaches, execution of performance management and providing a framework for shared standards across boundaries. Managing HR across organisational boundaries can also be used to help protect the organisation’s reputation and brand image by ensuring, for instance, that suppliers provide employees with working conditions that customers perceive as decent or acceptable. Importantly, managing HR across organisational boundaries provides a mechanism by which HR practices can
be diffused throughout the supply chain (Marchington, et al., 2009). If managed well, HRM can help to create a sustainable competitive advantage even when competitors adopt similar SCM ‘best practices’ (Gowen and Tallon, 2003). A sustainable competitive advantage must exhibit four dimensions: value added, rareness, imitation cost barrier, and organisational structure for implementation (Barney and Wright, 1997). All four dimensions may be activated by HRM factors such as employee training and managerial and employee support (Canadian Logistics Skills Committee, 2005).

However, HRM may be one of the most critical bottlenecks for distributors in the supply chain. Small businesses often lack the technical and managerial expertise found in larger businesses (Chaganti & Parasuraman, 1996 cited in McDowell, Harris and Gibson, 2013, p.22). Small businesses often face a struggle to establish legitimacy which prior research has found to be important for access to capital and other resources necessary for operation and growth (Connell, 2009 cited in McDowell, Harris and Gibson, 2013, p.22; Lerner, 1999 cited in McDowell, Harris and Gibson, 2013, p.23). The typical weaknesses of Chinese SMEs lie in their limited capacity without an independent HR department to attract and retain staff, manage performance and reward, develop coherent training programmes, and promote corporate values and culture construction (Gao and Mitchell, 2010).

HRM is thus one area where MNCs may usefully transfer its management capability internally within and across the supply chain. It is also the area where companies are developing their suppliers and building the buyer–supplier relationship through site visits and training and education programmes (Sillanpää, Shahzad and Sillanpää, 2015). This diffusion is thus found to be both necessary and useful but is not without its challenges. Examples of these inter-organisational challenges found in the literature include: i) problems optimising the performance of cross-functional and inter-organisational teams (Flynn, Huo and Zhao, 2010); ii) the need to help employees understand and deal with cross-cultural differences when supply chain partners are located in other countries (Levy, 1997); and iii) the problems of managing co-located employees (e.g., on-site vendor-managed inventory) (Fisher, Graham, Vachon and Vereecke, 2010). Meanwhile, there is a major downside of networking from an employer’s perspective as poaching of staff may increase (Rubery, Grimshaw and Marchington, 2010). Staff exchanges from the smaller partners to the big partner have been found to lead to tensions and were subsequently undertaken with caution (Eurofound, 2011).

In summary, HRM could have critical impact on the performance of the supply chain and the collaboration between members. SMEs are typically weak in their operation management and human resources management, while MNCs are more resourceful and experienced in HRM and
intra-organisation knowledge transfer. Though there are difficulties identified in diffusing knowledge inter-company, SC HRM could turn into a strategic competitive advantage if managed well.

2.4.2 What is the nature of the knowledge transferred

Knowledge has been categorised as explicit and tacit (Ma, Qi and Wang, 2008 cited in Wei, Bai and Cheng, 2016, p.297) or defined as one continuum with explicit and tacit at opposite ends (Jasimuddin, Klein and Connell, 2005) (Figure 2-4).

![Figure 2-4 Nature of Knowledge: Tacit–Explicit Continuum](image)

The different features of tacit and explicit knowledge have been widely studied with generally consistent findings. Table 2.10 lists details from the perspectives of content, difficulty of communication or articulation, the media used to transfer, the location of the knowledge, the ownership of the knowledge, difficulty of knowledge storage, the impact of the transferred knowledge and strategies to manage the transfer.
Table 2.10 Comparative Features of Tacit and Explicit Knowledge

<table>
<thead>
<tr>
<th>Features</th>
<th>Research</th>
<th>Tacit knowledge</th>
<th>Explicit knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jasimuddin, Klein and Connell, 2005</td>
<td>Skills and experience of employees</td>
<td>Documents, codes, tools</td>
</tr>
<tr>
<td>Articulation or communication</td>
<td>Spender, 1995 (cited in Jasimuddin, Klein and Connell, 2005)</td>
<td>Difficult</td>
<td>Easy</td>
</tr>
<tr>
<td></td>
<td>Polanyi, 1966; Nonaka and Takeuchi, 1995 (all cited in Wei, Bai and Cheng, 2016, p.297)</td>
<td>Difficult</td>
<td>Easy to acquire and can be exploited quickly</td>
</tr>
<tr>
<td>Transfer media</td>
<td>Boje, 1991; Connell et al., 2003; Johannessen et al., 2001 (all cited in Jasimuddin, Klein and Connell, 2005)</td>
<td>Face-to-face contact, storytelling</td>
<td>Information technology and other archives</td>
</tr>
<tr>
<td></td>
<td>Goh, 2002</td>
<td>Interpersonal means: mentoring, teamwork, face-to-face conversation</td>
<td>Technology-driven and structured processes such as information systems</td>
</tr>
<tr>
<td></td>
<td>Polanyi, 1966; Nonaka and Takeuchi, 1995 (all cited in Wei, Bai and Cheng, 2016, p.297)</td>
<td>Active personal involvement of the knowledge exporter</td>
<td>Transmittable in formal, systematic language</td>
</tr>
<tr>
<td>Ownership</td>
<td>Jasimuddin, Klein and Connell, 2005</td>
<td>Organisation and its members</td>
<td>Organisation</td>
</tr>
<tr>
<td>Storage</td>
<td>Boiral, 2002; Connell et al., 2003 (all cited in Jasimuddin, Klein and Connell, 2005)</td>
<td>Difficult</td>
<td>Easy</td>
</tr>
<tr>
<td>Impact</td>
<td>Kotabe, Martin and Domoto, 2003</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Polanyi, 1966 (cited in Wei, Bai and Cheng, 2016, p.297)</td>
<td>Arguably more valuable</td>
<td>Arguably less valuable</td>
</tr>
<tr>
<td>Strategy to manage the transfer</td>
<td>Hansen et al., 1999 (cited in Jasimuddin, Klein and Connell, 2005)</td>
<td>Personalisation</td>
<td>Impersonalisation</td>
</tr>
</tbody>
</table>

Source: author adaptation of Jasimuddin, Klein and Connell (2005, p.104)
As the summary in Table 2.10 shows, tacit knowledge such as skills and experience of employees (Jasimuddin, Klein and Connell, 2005) are abstract, non-codified, and difficult to articulate and communicate. The normal media to transfer tacit knowledge will be interpersonal interactions such as face-to-face contact, mentoring, and team work. Tacit knowledge is mainly located in human brains is therefore difficult to store for an organisation and its members to take ‘ownership’ of it. Explicit knowledge such as documents, codes and tools (Jasimuddin, Klein and Connell, 2005), could be easily codified, easy to articulate and communicate. Technology-driven and structured processes in formal and systematic language such as information are the media of transfer. Explicit knowledge could be easily stored in computers or artefacts. Organisations own explicit knowledge. Tacit knowledge could be arguably more valuable than explicit knowledge (Polanyi, 1966 cited in Wei, Bai and Cheng, 2016, p.297; Kotabe, Martin and Domoto, 2003). The explanation from Wei and his team (2016) is that the explicit knowledge is focused on non-core knowledge transacted not only with the strategic, relational partners but also partners with transactional features such as no long-term commitment of cooperation in the supply chain. Referring to the different nature of knowledge, personalisation could be the proper strategy for tacit knowledge, while impersonalisation could be the choice for managing explicit knowledge (Hansen, et al., 1999 cited in Jasimuddin, Klein and Connell, 2005).

2.4.3 How HRM knowledge is transferred

a) The direction of transfer

Three directions of HRM transfer practices in MNCs can be identified: forward (from the parent to subsidiaries), horizontal (among subsidiaries) and reverse (from subsidiaries to the parent (Edwards, 1998 cited in Chiang, Lemarski and Birtch, 2017, p.237). Based on the study of a UK-owned retail firm in China, Gamble and Huang (2009) reported the two-way diffusion between the firm’s parent UK operations and Chinese subsidiaries. Integration was also limited by the size and strength of parent organisations (Marchington, et al., 2009; Marchington, Rubery and Grimshaw, 2011).

From an inter-company perspective, there is a clear pattern across some of the joint ventures and strategic alliances, where the HRM practices of small dependent partners are shaped either by the specified requirements or broader influences of larger dominant partners. For example, companies in a dominating position may impose their standard of environment, health and safety on their partners (Eurofound, 2011). The type of interfirm relationship also affects employment terms and conditions (Eurofound, 2011). There could be some reverse influence from smaller organisations to bigger ones in HRM if they have some better HRM practices. Cooke and Huang (2011) found evidence that reverse diffusion existed in the practices of performance review in China’s IT industry. Two of the four sampled wholly-owned foreign enterprises (acquirers) were aware of the need to adjust their Western performance appraisal practice to suit the local context and employees. The
acquirers learned and changed their performance review practices. At the same time, the diffusion from acquirers to acquirees also happened in relation, for example, to the approach to systematic and long-term total rewards.

b) HRM diffusion in SC and the transfer media

Based on recent research into the mechanisms of HRM transfer practices and diffusion within MNC, Chiang, Lemański and Birtch (2017) categorised the mechanisms as formal (explicit guidelines, policies and procedures) and informal (company norms, uncodified interactions). Table 2.11 lists the practices of formal and informal mechanisms based on the studies of Chiang’s team (2017) and Goh (2002).
### Table 2.11 Mechanisms of HRM Transfer and Diffusion

<table>
<thead>
<tr>
<th>Formal</th>
<th>Informal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Incentive systems rewarding employees’ involvement in the transfer and diffusion process (Cross and Prusak, 2003 cited in Chiang, Lemański and Birtch, 2017)</td>
<td>• Personnel movement (Fu, 2012 cited in Chiang, Lemański and Birtch, 2017; Kane, Argote and Levine, 2002)</td>
</tr>
<tr>
<td>• Cross-subsidiary teams promoting the use of common best practices (Mudambi and Navarra, 2004 cited in Chiang, Lemański and Birtch, 2017; Tregaskis et al., 2010 cited in Chiang, Lemański and Birtch, 2017)</td>
<td>• Various forms of social interaction and networking within MNCs (e.g. companywide HR workshops and social events) (Edwards and Ferner, 2004 cited in Chiang, Lemański and Birtch, 2017; Tempel, 2001 cited in Chiang, Lemański and Birtch, 2017)</td>
</tr>
<tr>
<td>• Various forms of recognition (e.g. recognising active units in corporate publications) and financial incentives (e.g. allocating investment) (Edwards and Ferner, 2004 cited in Chiang, Lemański and Birtch, 2017)</td>
<td>• Experiential workshops (Tregaskis et al., 2010 cited in Chiang, Lemański and Birtch, 2017)</td>
</tr>
<tr>
<td>• Standard operational meetings (Chiang, Lemański and Birtch, 2017)</td>
<td>• Expatriates indirectly control and facilitate transfer and diffusion (Brenner, 2009 cited in Chiang, Lemański and Birtch, 2017; Evans et al., 2011 cited in Chiang, Lemański and Birtch, 2017)</td>
</tr>
<tr>
<td>• Staffing policies facilitating the sharing of hands-on experience (Lazarova and Tarique, 2005 cited in Chiang, Lemański and Birtch, 2017)</td>
<td></td>
</tr>
<tr>
<td>• Technology enabled system such as IT (Goh, 2002)</td>
<td></td>
</tr>
<tr>
<td>• Support structures and processes such as organisational design, reward system and available time (Goh, 2002)</td>
<td></td>
</tr>
</tbody>
</table>

Source: author adaptation of Chiang, Lemański and Birtch, (2017, p.243)
Formal or informal mechanisms may be leveraged differently in various organisations. Devins and his colleagues (2005, cited in McDowell, Harris, and Gibson, 2013) found that SME practices in the supply chain are less sophisticated and based more on personalised communication rather than complex processes. Organisations might learn from inter-company personnel movement—hiring from other companies. The knowledge transfer between groups via personnel movement was found to be affected by the new member’s social identity (which group or organisation he or she belongs to or used to belong to) and knowledge quality. Kane, Argote and Levine (2002) differentiated group social identities through perceptual, linguistic, and outcome interdependence manipulations in their tests. Knowledge is found to be more likely to transfer from a new member to a recipient group when both parties are aware of the new member’s superior social identity (belonging to a larger organisation) or when the new member possessed superior knowledge. When the new member’s superior social identity was well known, the knowledge was adopted when it was superior but not when it was inferior. However, the superior knowledge was rarely adopted when the superior social identity of a new member is not known by the recipient group (Kane, Argote and Levine, 2002). So, when employees with superior knowledge from more successful companies join less successful ones, they may have better chances of embedding their superior knowledge in the new organisation. The recipient companies may value and expect this kind of knowledge transfer through external hiring.

c) Learning ability and motivation in knowledge transfer

The efficiency of knowledge transfer may also relate to the learning ability of an organisation and its employees. Minbaeva and his colleagues (2003) found that absorptive capacity of the MNC subsidiary facilitates transfer of knowledge from other parts of the MNC. The greater the absorptive capacity, the higher the level of knowledge transfer. Both aspects of absorptive capacity, employees’ ability and motivation, need to be present in order to optimally facilitate the absorption of knowledge from other parts of the MNC. However, their research is based on one representative (general manager or HR manager) from one MNC subsidiary. The motivation is management’s perception of their employees’ motivation which may or may not be valid. Meanwhile, the organisation’s motivation, rather than the employees, may be more critical to the export or import of knowledge but this is not addressed in the research. Some MNCs’ subsidiaries may try not to transfer in their parent company’s HRM practices to reduce dependency (Chen, Chen, & Ku, 2012 cited in Chiang, Lemański and Birtch, 2017, p.242).

Knowledge recipients’ lack of motivation, absorptive capacity, and retentive capacity may reduce the effectiveness of knowledge transfer (Goh, 2002). Motivation of source and recipient units are likely to be critical in initiating and implementing knowledge transfer, and absorptive capacity becomes significant during the implementation of knowledge transfer. Perceived reliability of the knowledge transferred is also a key element affecting the initiation and implementation of
knowledge transfer (Szulanski, 2000). HRM can encourage firms to develop valuable interfirm relationships and create knowledge sharing routines, both of which are critical if supply chain partners have sufficient capacity to absorb and exploit new knowledge (Fisher, Graham, Vachon and Vereecke, 2010).

d) The influence of the Chinese societal context on HRM transfer

i) Societal factors: legal context, Guanxi and trust in Chinese environment

Institutional theory points out that a firm’s business decisions rely on economic, social, cultural, and political forces shaped by various institutions, such as governments, social networks, powerful organisations (Lau, et al., 2002 cited in Cai, Jun and Yang, 2010, p. 257; Scott, 2001 cited in Cai, Jun and Yang, 2010, p. 257) and the legal system. The legal environment in China has been improving, but the legal system is generally immature and hard to use as an effective way to protect rights in the contract Table 2.12). The weak legal structure may reduce the role of contracts in shaping interfirm relations. 'Contracts are formal, written agreements between two or more business partners that provide a legally bound, institutional framework in which each party’s rights, duties and responsibilities are specified' (Luo, 2002 cited in Wang, Yeung and Zhang, 2011, p.115). The roles and responsibilities of members and their relationship within the supply chain are normally formalised in business contracts with protection from the legal system. Outside of China, for example in studies in the UK, the nature of the supply chain contract has been found to have a strong influence on the diffusion of HR practices through the supply chain (Holman, et al., 2012). Contracts with a higher number of HR-related clauses, which set out the practices a supplier has to adopt, had a greater direct impact on the diffusion of HR practices within UK case studies (Holman, et al., 2012). If the length of contract is too short, prospects of renewal too uncertain, contract price too tight for financing the training, and training is too specific for a narrow range of tasks rather than more general training, training investments will be negatively affected (Rubery, Grimshaw and Marchington, 2010). Though these two studies are not specific to the Chinese context, they may imply that when China becomes a mature market, the legal system may increase its impact.

Table 2.12 Summary of Comments on Chinese Legal Environment

<table>
<thead>
<tr>
<th>Research</th>
<th>Key statement about legal environment of China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glover and Siu, 2000</td>
<td>The legal system is still developing. Many regulations are not solid and are open to interpretation by local officials.</td>
</tr>
<tr>
<td>Gwartney, Lawson, and Easterley, 2006 cited in Fuller, 2010</td>
<td>The protection of intellectual property rights is notoriously weak.</td>
</tr>
<tr>
<td>Ma, 2012</td>
<td>Labour law has been effective from 2008, and the execution is improving.</td>
</tr>
</tbody>
</table>
Zhang, Tsui, Song and Jia, 2008 | Weak implementation of legal infrastructure.
---|---
Zhang, Lin and Liu, 2010; Zhang, 2010 | The low cost of law breaking promotes SMEs to take risks.
Zhao, Flynn and Roth, 2007 | The legal systems are underdeveloped and it is difficult to use the legal system to ensure partners fulfil contractual requirements.
Zhou and Poppo, 2010 | Legal enforceability in China is low and inconsistent due to intervention from government, lack of independent law enforcement and frequently unjustified law changes

‘Guanxi’, that is social networks of informal, personal relationships and exchanges of favours (Lovett et al., 1999 cited in Cai, Jun and Yang, 2010, p. 260) in China’s cultural context takes on particular importance. Guanxi and trust have obvious impacts on knowledge transfer between SC members. However, trust in China is rare (Zhang, Tsui, Song and Jia, 2008) (Table 2.13).

Table 2.13 Summary of Findings on the Impact of Trust and Guanxi

<table>
<thead>
<tr>
<th>Research</th>
<th>Key statement of impact of trust and Guanxi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huff and Kelley, 2003 cited in Zhang, Tsui, Song and Jia, 2008</td>
<td>The trust level in China was found to be low within organisations and externally across organisations such as suppliers, customers and joint venture partners comparing to US, Japan, Korea, Malaysia, Taiwan and Hong Kong.</td>
</tr>
<tr>
<td>Moorm an et al. (1992 cited in Wei, Bai and Cheng, 2016, p.298)</td>
<td>Trust has significant and positive impacts on relationship commitment, explicit knowledge trading, tacit knowledge trading and cooperative performance.</td>
</tr>
<tr>
<td>Wang, Tseng and Yen, 2012</td>
<td>Guanxi and trust positively influence within company knowledge sharing.</td>
</tr>
<tr>
<td>Willette, Teng and Singh, 2016</td>
<td>Partners with higher levels of trust in an alliance are more prone to invest assets specific to the relationship such as personnel training. Trust was found to have more influence than shared IT in reducing transaction costs.</td>
</tr>
<tr>
<td>Young-Ybarra and Wiersema, 1999 cited in Willette, Teng and Singh, 2016, p.3; Muthusamy and White, 2005 cited in Willette, Teng and Singh, 2016, p.3</td>
<td>Inter-organisational trust can promote mutual knowledge transfer between firms.</td>
</tr>
</tbody>
</table>

In China, the mixed environment with its reality of a weak legal system and strong cultural and social forces of Guanxi/trust differentiates the impact of legal (including contract) and Guanxi/trust (Table 2.14). Managers rely on Guanxi rather than contract when they do not believe in legal protection (Zhou and Poppo, 2010). Wang, Yeung, and Zhang (2011) argued that contracts could curb opportunism in manufacturer–supplier collaboration, which facilitated knowledge transfer and improved innovation performance. However their research found that in fact trust appeared to be more sustainable than contracts in driving innovation. Guanxi, rather than legal protection, does
have a direct, positive impact on information sharing (Cai, Jun and Yang, 2010). Partners with established confidence and trust in the supply chain may leverage looser and low-cost practices than cautious contracting to form alliances (Gulati, 1995). An organisation’s commitment to its relationship with partners is found to have significant and positive impacts on tacit knowledge transfer and cooperative performance (Wei, Bai and Cheng, 2016).
<table>
<thead>
<tr>
<th>Research</th>
<th>Sample size</th>
<th>Research theme</th>
<th>Distinctive results relevant to culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cai, Jun and Yang, 2010</td>
<td>398 Chinese manufacturers</td>
<td>Legal and Guanxi</td>
<td>Legal protection as an institutional force does not significantly affect the information integration in the supply chain, while Guanxi does have a direct, positive impact on information sharing.</td>
</tr>
<tr>
<td>Liu, Luo and Liu, 2009</td>
<td>225 paired firms</td>
<td>Transactional (legal stipulations and economic incentive systems) and relational (inherent and moral control through consistent goals and cooperative atmospheres) mechanism</td>
<td>Transactional mechanisms are more effective in managing opportunism and relational mechanisms are more powerful in improving relationship performance (the benefits from the relationship: profitable market position, attractive discount, improved customer base or satisfaction, support from marketing policy, and quality support in continuous marketing and selling). Performance is more significantly enhanced with both mechanisms.</td>
</tr>
<tr>
<td>Wang, Yeung and Zhang, 2011</td>
<td>315 firms</td>
<td>Contract and trust</td>
<td>An inverted U-shaped relationship between contracts and firms’ innovation rate. A positive and linear relationship between trust and innovation performance. Trust is more important than contract for improving innovation. Contract works in the stage of establishing the SC network, but trust is more sustainable and could be a differentiator to drive the innovation.</td>
</tr>
<tr>
<td>Zhou and Poppo, 2010</td>
<td>399 buyer–supplier exchanges</td>
<td>Legal and relational reliability</td>
<td>When managers believe the legal system protects their interest, they tend to use explicit contracts rather than relational reliability. When they do not believe in the legal system, they rely on relational reliability.</td>
</tr>
</tbody>
</table>
ii) Trust building

Trust relations in China are important but rare, and could be therefore be a differentiator for competition. In the integrated trust development model (Doney and Cannon, 1997), there are five cognitive trust building processes: calculation, prediction, capability, intentionality, and transference. In capability trust building process, the trustor assesses the trustee’s ability to fulfil its promises. Trust building is a reciprocal construct in which trust becomes a cause whenever it leads a trustor-party to develop a confident belief of being vulnerable to the actions of a trustee-party, and trust becomes an effect of change when it is signalled back to trustor-party, being the feedback resulting from actions of the trustee-party (Daudi, Hauge and Thoben, 2016).

Trust is a history-dependent construct (Greenberg, Greenberg, and Antonucci, 2007 cited in Daudi, Hauge and Thoben, 2016). ‘Trust is built and managed through interactions of the trustor and trustee parties’ over a considerable time period (Daudi, Hauge and Thoben, 2016). HRM knowledge transfer and integration are part of the interactions. Trust is produced from relationship history and/or forthcoming expectations (Nguyen and Liem, 2013 cited in Daudi, Hauge and Thoben, 2016). Gulati (1995) found that familiarity between organisations based on and differentiated by the existence and frequency of prior ties breeds trust. McDowell, Harris and Gibson (2013) found that more communication (frequently and informally, any information that might help the other party, proprietary information, and events and changes that may affect the other party) between these organisations and higher levels of the quality of information (accurate, timely, adequate, complete, and credible) received by SMEs resulted in a higher level of trust between these organisations in their working relationship.

Goh (2002) integrated the cited significant factors (support structure, knowledge recipient, type of knowledge and propensity to share) on knowledge transfer into a conceptual framework to explain how effective knowledge transfer works (Figure 2-5). Close relationship is one critical factor affecting the quality of knowledge transfer. Trust enables collaboration, which drives up propensity to share knowledge and share effectively.
In summary, HRM SC knowledge transfer and integration can provide one form of competitive advantage by strengthening the SC relationship and enhancing the partners’ capabilities. Knowledge is one continuum spreading from explicit to tacit, which is differentiated by the difficulty and channel of transfer. The diffusion direction will be mainly from the bigger and more powerful side to the smaller and less powerful side, though there could be limited reverse diffusion intrafirm (e.g. within MNCs) and interfirm knowledge transfer leverages two kinds of channels, system and interpersonal. The learning motivation and ability of knowledge recipients will facilitate knowledge transfer. In China, a weak legal environment (Zhang, Tsui, Song and Jia, 2008) means that legally protected contracts are not sufficient to protect business interest, especially the intellectual property rights. Trust takes on even greater importance in facilitating knowledge sharing but trust is also influenced by, and to some extent dependent upon Guanxi, the informal social network (Cai, Jun and Yang, 2010). However, trust is relatively rare in China (Zhang, Tsui, Song and Jia, 2008) and takes time to establish and is hard to copy, which, as we have argued, makes it a possible differentiator in the supply chain driving partners’ decision to take a collaborative, win–win and long-term approach, that is to develop a relational partnership. These considerations provided the following four propositions to guide the research:

**Proposition 4:** MNC manufacturers transfer HRM from its subsidiaries to SME distributors to increase its market competitiveness through system and interpersonal channels.

**Proposition 5:** In the Chinese institutional and cultural context, Guanxi and trust more than contract affect knowledge transfer and further HR integration. Relational partnership with trust between MNC manufacturers and WDs positively facilitates the HR knowledge transfer and integration leading to better SC performance.
Proposition 6: Trust is a reciprocal cycle. It can be reinforced by further positive interactions in a virtuous cycle or weakened by negative interactions in a vicious cycle. The trust cycle affects the HRM knowledge transfer and integration in the same direction as the trust evolves positively or negatively.

Proposition 7: The learning ability of WDs will influence the effectiveness of HRM diffusion between MNC and local partners.

2.5 Environmental Dynamics

China has been undergoing dramatic changes in last decades. The competition landscape has been shifting. Companies are changing their strategies accordingly. Uncertainties and business challenges on growth and profitability are increasing, which requires a further review on sustainability of SC relationships, the feasibility of building SC trust and the strategic importance of HRM SC diffusion in competition. All these dynamic factors affect HRM knowledge transfer and transfer in the SC now and in the future, and may eventually affect the SC performance. For example, the positive supply chain integration and performance relationship may be moderately weakened by demand uncertainty and will be strengthened by technological uncertainty (Huang, Yen and Liu, 2014). Market uncertainty conditions the impact of relational and calculative trust in the supply chain. Relational trust is more strongly associated with supplier performance than calculative trust when supply-side market uncertainty is high (Poppo, Zhou and Li, 2015).

2.5.1 Market dynamics in China

Based on earlier studies, Luo (2007) summarised the shifting competitive and regulatory parameters in China after 25 years of the open-door policy and proposed some strategies for MNCs to follow. He pointed out that the market where MNCs were operating has been changing with increasing competition from local enterprises. Also, MNCs are shifting from high-end niche to mid-end massive-market competition, from major metropolitan market to less developed broader market. Some of his suggested strategies for MNCs are to shift from production relocation to value-chain localisation, including investment in training distributors, suppliers and customers et al., shifting from relying on parent company competence transfer for competitiveness to building China-specific competence around brand, distribution, localised management team, among others. This may also mean shifting from alliance building to alliance restructuring as the initial rationales for entering alliances have become irrelevant. Such transformations might help MNCs to transfer from being foreign investors to strategic insiders.

The market keeps changing in the globe and China in the past decade. The emerging market is becoming more competitive. In the Fortune 500 list ranked by a company’s total fiscal revenue, there are 110 Chinese companies in 2016⁶, compared to 23 in 2006, including firms from mainland China,

Taiwan, and Hong Kong. The global economy has stagnated since the 2008 financial crisis. China’s GDP growth has slowed down from 12.7% in 2006, peaked at 14.2% in 2007, then dropped to 6.9% in 2015, referred to as the ‘new normal’ by the central government. Tseng, Wang and Wang (2012) analysed the evolutionary process of supply chain collaboration based on one valve manufacturer in Taiwan with its own newly established casting component plant in mainland China. The variance of order allocation between self-owned plant and external suppliers reshaped the relationship with its external suppliers. The changes in the business environment challenge the status quo of supplier relationships. Investing profitably in China has been increasingly difficult (Beamish and Jiang, 2002). The value of different members in the supply chain is shifting. The risks and pressure for higher business efficiency are evolving and increasing. In a supply chain, buyers’ and suppliers’ rational response to reduce their own risks and to optimise efficiency in the new market environment may result in the collapse of a long-existing supply chain (Tseng, Wang and Wang, 2012).

2.5.2 Alignment of HRM and shifting business strategy

A business’s strategic focus has a direct impact on HRM practices in the supply chain. A long-term strategic alliance committed to providing high quality products and good customer service is more likely to ensure employment and working conditions are similar between the partners, or at least are improved in the weaker organisations. In a strategic alliance along a supply chain that relies on cheap goods, the client pays little attention to employment and working conditions at the supplier unless there is a good business reason for doing so (Eurofound, 2011). A dynamic tension can exist between motives of actors to promote the diffusion of ‘good’ HRM practices and motive to achieve low costs through cost-based competitive tendering that might inhibit the development of ‘good’ HR practices (Holman, et al., 2012). Based on industry data relating to beverage (139 firms) and electronics (157 firms) firms from the 1996 Chinese national industry census, Li’s research (2003) on SHRM and MNCs’ performance found that a low-cost-oriented strategy is more likely to lead to short-term and temporary employment, lower education level in the workforce, less monetary income to employees and a higher proportion of managers and supervisors among the total workforce, which may lead to a higher turnover rate and lower productivity. Strategy, which is contextualised in a commodity chain, is a good determinant of HRM policies (Morris, Wilkinson and Gamble, 2009).

Chow, Huang and Liu (2008) assessed the configurations (HRM systems which are internally coherent and consistent with both the firm’s strategy and with the broader external context) in the China context focusing on the business strategies (cost, quality, and innovation) and HR practices (based on commitment, market, compliance, and collaboration). HR configurations were found to be significantly able to predict overall outcome performance (a composite measure of productivity, the quality of products and services, research and development capability, and market share) and employee turnover but not sales and profit growth. Configuration theory with respect to HRM has been partially

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supported in the study of Chow and et al. For example, an innovation business strategy and commitment based HRM have a combined significant positive effect on sales and profit growth. Another study, based on 62 manufacturing Chinese-Western JVs and wholly foreign-owned subsidiaries in China, found that HRM-strategy integration was an even stronger predictor of performance (the foreign parent company's satisfaction with the subsidiaries' profitability and overall performance, and the subsidiaries' profitability and overall performance compared with other foreign-owned subsidiaries in the same industry in China) (Björkman and Fan, 2002) than the HRM system itself. Zhang and Li (2009) tested the effect of HR contingency theory in China's pharmaceutical industry. High performance HR practices (training, participation, job definition, result-oriented performance appraisal, internal career opportunities, and profit sharing) had positive and statistically significant effects on the market performance (perceptions of firm performance on total sales, sales growth, market share, competitive position, and overall performance), similar to the effects from innovation strategy. However, the interaction between high performance HR and innovation strategy was found to negatively affect the market performance. These three studies supported that HRM-strategy contingency (interaction) may affect business results positively or negatively.

Alignment is important, both in terms of ensuring a fit between HRM and the partnership goals and in engaging worker commitment to these goals (Marchington, Rubery and Grimshaw, 2011). The alignment of HRM and strategy at an individual enterprise level is crucial for its success, same as at the SC level. The nature of environment – stable or dynamic – might affect the sustainability of business strategies and therefore also the alignment between HRM and strategies. Alignment may be more sustainable and work better in a more stable environment.

2.5.3 SC partnership and HRM transfer in dynamic market

The type of interfirm relationship seems to determine the extent to which the HR policies of the different partners are aligned. The scope for HRM alignment has been greater in joint ventures, PPPs and strategic alliances than in clusters and virtual company networks. In some of the alliances, there was partial alignment in key areas through the larger companies' selection of the smaller organisations as partners (Eurofound, 2011). An overall relationship-based strategy occurs when the firm aims to establish long-term relationships with major supply chain partners (e.g., customers, suppliers, and distributors) and with the majority of its own employees. However, the internal policies do not always match the external policies down the supply chain. In terms of strategic fit, HRM strategy and marketing strategy, supplier and distributor goals should be consistent and complementary. In order to support a relationship or partnering strategy with channel members, some firms pursue an employment-for-life strategy that entails specific human resources methods for staffing, training, compensating, and evaluating personnel (McAfee, Glassman and Honeycutt, 2002).

Integrating HRM is problematic in multi-employer networks where the HR policies differ between participating organisations and when they are implemented by managers from different organisations who may be selected, trained, appraised, and rewarded in diverse ways (Marchington, Rubery and
Grimshaw, 2011). Achieving consistency in HRM and the associated perceptions of fair treatment among the workforce is problematic in multi-employer networks where a range of different HR practices is used (Marchington, Rubery and Grimshaw, 2011). When networked organisations are managed, problems of consistency and fairness in human resources policies include grievance and disciplinary procedures, working hours or opportunities for employee voice. Inconsistencies may occur in the application of disciplinary procedures, hours of work, holiday entitlement, pensions, information dissemination (Rubery, Grimshaw and Marchington, 2010).

SC HRM knowledge transfer and integration become more complicated in a dynamic and uncertain environment. Demand uncertainty, supply uncertainty and technological uncertainty could be the sources of environmental uncertainty (Davis, 1993 cited in Fynes, Bu’rca and Marshall, 2004, p.179). In a study of 200 manufacturing companies in Ireland’s electronics sector, the impact of environmental uncertainty in moderating effects between supply chain relationship and performance were explored. Fynes and his colleagues (2004) found that the greater the level of demand or supply uncertainty, the stronger the relationship (measured in communication, co-operation, adaptation and trust) between supply chain relationship quality and supply chain performance statistically, although the test did not support this relationship for technological uncertainty. Also, this research explored the environment uncertainty effect between SC relationship and SC performance, but not the effect of environment uncertainty on the SC relations. Huang, Yen and Liu (2014) re-examined Supply Chain Integration (SCI) and supplier’s performance relationships under uncertainty based on 189 samples from a Taiwanese cooperative supply chain network of the Central Satellite Production System. They found that the positive SCI-performance relationship can be moderately weakened by demand uncertainty and strengthened by technological uncertainty. The interpretation on the impact of technology uncertainty is that ‘SCI facilitates the transfer of complex knowledge and sensitive information among partners and thereby contributes to overcoming the impact of technological uncertainty’ (Huang, Yen and Liu, 2014). The technology uncertainty is mainly subject to the technology applied in supply chain members rather than one that might potentially reshape the partnership among members.

Trust in SC plays a critical role in HRM knowledge transfer and integration. Trust is essential for effective collaboration but participating organisations may have to work hard at establishing trust – and at diffusing trust throughout their organisations (Marchington, et al., 2009). However, trust is dynamic. Current trust is a function of initial trust, and the trust change, positively or negatively, resulting from underlying dynamics which are caused by factors such as goal adjustment, interaction style, organisational style, organisational structure, alliance composition and development phases (Tseng, Wang and Wang, 2012). ‘The extent of partner interactions, especially those involving information exchange, enact a consequential effect on existing trustworthy. The effect stems from partners’ interaction behaviours realised while exchanging information’ (Jonker and Teur, 1999 cited in Daudi, Hauge and Thoben, 2016).
It takes time to establish trust relationships. However, the time allowed to do it may vary due to the market changes. Based on Macneil’s (1980) conceptualisation of exchange, Lambe, Spekman and Hunt (2000) bifurcated the exchange continuum (Figure 2-6). Interimistic relational exchange (IRE) and enduring relational exchange (ERE) have been differentiated by time-pressure short-term (IRE) and long-term relational exchange (ERE). IRE is a kind of close, collaborative, fast-developing, short-lived exchange relationship. ERE has a long-expected life span and IRE has a short one. The trust in ERE develops over time, while IRE has limited time to develop trust. Exchange partners may rely more on partners’ reputation, prior extra-exchange relationship interaction and commitment from relationship-specific investment (Lambe, Spekman and Hunt, 2000). The dynamic environment may affect the life cycle of relational exchange, which eventually affects the relationship and knowledge transfer.

Williams, Esper and Ozment (2002) raised some propositions about the impact of electronic Supply Chain Management (eSCM) on strategic alliances and partnership in the supply chain. They proposed e-supply-chain organisations will put less relative value on long-term partnerships and strategic alliances, when compared to traditional supply chain organisations. Firstly, internet-based eSCM replaced the cost-heavy Electronic Data Interchange (EDI) which has been characterised as the ‘glue’ binding supply chain members together (Bowerson, 1988 cited in Williams, Esper and Ozment, 2002). The reduced technical expenditures eases both entering and terminating an interfirm network. Secondly, different from the ‘one-to-one’ nature of EDI, eSCM is a more open platform featuring ‘one-to-many’, ‘many-to-one’ and ‘many-to-many’ relations between SC members, offering more choice of potential partners. Thirdly, eSCM decreased to a large extent search, qualification and transaction costs (Cross, 2000 cited in Williams, Esper and Ozment, 2002) compared to the traditional SCM, and thereby encouraged exploration of new partners. Fourthly, eSCM is able to ‘balance the cost benefits of arms’ length approach and structural benefits’ (Williams, Esper and Ozment, 2002, p.712) and reduces the value attached to long-term partnerships. Williams, Esper and Ozment also made the proposition that a different leadership style will be required in eSCM. For example, the proposition is made that transformational leadership (that is where transformational leaders have the holistic view of their organisation and others, their personal behaviours as well as employees’ and organisational) will

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**Figure 2-6 Exchange Continuum and Interimistic Relational Exchange**

Source: Lambe, Spekman and Hunt (2000, p.215)
be more effective than autocratic leadership and participative leadership in eSCM context. Golicic and her colleagues (2002) explored the impact of e-commerce on supply chain relationships through eight qualitative case studies, and drew a different conclusion that supply chain relationships become more relevant and help to deal with uncertainty and dynamic market structures. Wang, Yeung and Zhang (2011) found that when environmental uncertainty is higher, the positive effect of trust on firms’ innovation in the SC context is strengthened, which is not applicable to the impact of contracts.

There is not a consistent result in the current research on the uncertainty and SC relationships. Williams, Esper and Ozment. (2002) lead to a direction that internet-enabled business rebalances the values of relational-oriented and transactional-oriented SC networks, reducing the value attached to the relational-oriented end, while Golicic, Davis, McCarthy and Mentzer (2002) concluded that SC relationships are the solution to handle uncertainties. The relationship between market dynamics and SC relationship could be complex and conditioned rather than simply in one direction. Different types of change may have different impacts on the relationship. However, the relevant research on the change and dynamics in supply chain collaboration is very rare. Daudi, Hauge and Thoben (2016) claimed their framework (Figure 2-7) as the first approach describing trust dynamics, including the five aspects goal adjustment, interaction style, organisation structure, alliance composition and development phases.

![Figure 2-7 A framework of Aspects Constituting Trust Dynamics](image)

Source: Daudi, Hauge and Thoben (2016, p.4)

In conclusion, the market has been changing and will keep changing. The Chinese macro business environment is more mature and competitive with increasing cost, tougher competition, changed positioning in the global market and newly created conditions (IT and logistics etc.) for an innovative business model. All these changes stimulate the adjustment of organisations’ strategies. To achieve
better performance in business, the HRM of one company should fit to its external macro business environment and its specific SC conditions, and align to its overall business strategies. A dynamic market may fundamentally challenge the SC trust in the traditional or old context. It will also question the feasibility of the SC success based on the HRM knowledge and integration in the old market environment. It is thus necessary to take into account the effects of the changing macro environment.

2.6 Conclusions

2.6.1 Literature Review Summary

This chapter has reviewed studies in the four relevant principles, Supply Chain Management, Human Resources Management, knowledge transfer and market dynamics, in China. Supply Chain Management is becoming critical in the competitive process. The interfirm relationship, transactional vs. relational, is a strategic choice for companies to decide whether and how to manage or leverage SCM as a competitive edge. The types of interfirm alliances or cooperative forms, trust level, and distribution of the bargaining power in SC may affect the decisions on the choice of relationship in the SC.

There are still conflicting arguments for ‘best’ or ‘fit’ HRM. The criteria on how to justify whether an HRM practice is effective or not could be in a convergent trend, but the specific HRM practices to achieve the effectiveness across various institutional environments could be divergent. Factors such as organisational ownership, business scale, the country of origin of investors, and the societal and SC cultural context all point to diversity in effective HRM transfer.

The integrated SC HRM should be able to build stronger interfirm networks and improve SC competence. The larger, more powerful, SC members will most probably customise and diffuse their HRMs in the SC. Relational partnership facilitates more valuable tacit knowledge transfer through interpersonal channels than transactional networked SC through formal systems.

The Chinese institutional context leads to more reliance on the Guangxi and trust than on the contract and legal protection to manage the SC network and HRM transfer. However, the uncertainties due to the market dynamics may challenge this assumption in the future. The time allowed to build SC trust may be shortened. The SC alignment on business strategy will be more difficult to achieve due to many choices and pressures. HRM-SCM should be further reviewed for future business development.

2.6.2 High-level Research Model and Focus

In summary, based on the above comprehensive literature review, it is proposed in the downstream part of the SC between manufacturers and wholesale distributors, that to be competitive or even survive, MNCs need to establish a relational network with trust along their SC in the Chinese Guanxi-influenced institutional context. HRM that is fit for both the SC and for China is required and has to be
built and transferred through structured systems and interpersonal channels from MNC manufacturers to WDs. The degree of fit in the HRM transfers is driven by the MNCs’ expertise in China and SC HRM. The power distribution between manufacturers and WDs, and the learning motivations and ability of WDs, may influence the efficiency of the transfer process. The integrated SC HRM knowledge will strengthen the SC relationships, enhance partners’ HRM and business performance, and ultimately lead to MNCs’ success in distribution. However, the dynamic Chinese market is leading to huge uncertainties and challenges the feasibility of the current findings.

Figure 2-8 is the high-level research model derived from the above discussion. The relationship in the supply chain could be a deliberate choice in certain contexts of internal (own organisation) and external (supply chain level, industrial level and societal level) conditions. The relational network in SC might lead to HRM knowledge transfer and integration through the inter-person channel and structured system, moderated by the motivation and learning ability of knowledge exporter (manufacturers) and receiver (wholesale distributors). The HRM knowledge to transfer could involve knowledge of different types, tacit or explicit, from MNC manufacturers to mall and medium-sized WDs. There could be some factors affecting the transfer efficiency in the process. Eventually, the HRM knowledge transfer and integration from manufacturers to WDs would impact the SC relationship, HRM competence of WDs, and the business performance of manufacturers and WDs.

Figure 2-8 Research Model of SC HRM Knowledge Transfer and Integration Mechanism

This research also addresses the gaps identified in the current academic literature on HRM knowledge transfer and integration in a supply chain context. Specifically, these include:

1. The impact of SC relationship commitment on the different types of HRM knowledge transfer (that is explicit vs. tacit or other new categorisation from this study)
2. The impact of trust on the SC and SC HRM knowledge transfer in China’s institutional environment
3. The content and features of the HRM solutions that can be considered to ‘fit’ a supply chain context in China
4. The impact of a dynamic market on the possibilities of strategy/HRM alignment and HRM knowledge transfer in a dynamic market
Chapter 3 Research Methodology

3.1 Introduction

The study undertaken in this thesis to explore the influences on and mechanisms of HRM knowledge transfer and integration in the SC was guided by the insights into the range of factors to be considered as revealed by the review of the literature and by the research gaps identified in the extant research. Both of these contributed to the development of seven propositions for exploration as outlined in Chapter 2. Specifically, the research investigates how HRM knowledge is transferred and integrated across firms, what specific content is transferred, under what conditions and with what impact on the SC. Through this investigation, the study was designed to contribute to the theories on nature of knowledge to transfer and SC relationship, ‘Best’ HRM vs. ‘Best-Fit’ HRM in a SC, knowledge transfer in China’s institutional context, and the relationship between knowledge transfer and market dynamics. This is a relatively new area with less-established theories. In a complex and dynamic supply chain context, the case study method involving primarily qualitative research can provide broad and in-depth contextual information.

This chapter elaborates the rationale for the selected methodology, that is the qualitative multi-case study and for the research design including case selection, interview sampling, and instrument of data collection. It also explains the data collection process and the measures taken to ensure good quality and high integrity. The data analysis part pictures the process and instruments used to analyse the massive qualitative data to facilitate analytical generalisation.

3.2 The Research Design and Its Rationale

3.2.1 Qualitative case study

Qualitative research has the following characteristics: research with no number; concerned with meaning; focused on emergent themes; flexible; reflexive; sensitive to processes; providing a holistic view; and focused on participants rather than subjects, etc. (Cassell and Symon, 1994). To achieve the aim of this study, that is establishing an HRM knowledge transfer model in SCs and expanding theoretical understanding, exploratory qualitative methodology based on a multiple case study design (Yin, 1994) is appropriate (Strauss and Corbin, 1990). Furthermore, an essential aim of the case studies’ research was to establish a comprehensive understanding of the dynamics, interdependencies and complexities of the relationships (Dubois and Araujo, 2007). This study calls for a deep holistic view of complex phenomena in the supply chain context.

During the case investigation, some creative ideas or findings can be expected to come out from data collections through interviews (Eisenhardt, 1989). Within-case and cross-case patterns have been researched following guidance provided by Eisenhardt in Building Theories from Case Study Research (1989). This study defined some general concepts in this field and identified the patterns through a
wide lens. This research focused on a relatively new but impactful arena for both theory and business knowledge. The relevant industrial experiences of the researcher, guided by robust academic research processes, was beneficial in exploring the meaning of phenomena or behaviour, and in applying the findings in a real industrial setting. The research applies the comparative case study methodology. Typically, the study of multiple cases generates more robust outcomes than single-case research, especially in the context of inductive theory building (Eisenhardt and Graebner, 2007 cited in Baškarada, 2014). Multi-case study will help to explore the cause and effect through comparative analysis. A multi-case study approach also strengthens the research validity through data source triangulation (Yin, 2013). Multi-case research has been selected in this study and, considering these advantages, the data collection and analysis will be more complex than for a single-case.

3.2.2 Case selection

A conventional guideline to select proper cases is that the cases should be representative of the investigated phenomenon (Buchanan, 2012). Referring to Yin’s theory (2009), each case in multi-case studies should be selected to predict similar (literal replication) or contrasting results (theoretical replication) (Baškarada, 2014). This study aims to explore contrasting scenarios comparing the best cases and worst cases, which could be representative and generalised in theory.

The automotive industry and its aftermarket business are representative in the size of market, distribution model through distributors, and nature of supply chain relationship between big manufacturers and small distributors in China’s institutional environment. China has the largest automotive market in the world. Its automotive aftermarket is huge, and its distribution model in supply chain is very typically organised through WDs, as is common in other industries such as electronics and fast moving consuming goods. Globalisation is a major trend in recent decades, and China has been one of the top foreign investment countries. It is the third largest Foreign Direct Investment inflow destination, after the US and Hong Kong in 2015, with 13.56 billion USD investment (UNCTAD, 2016). The competition in China’s auto aftermarket is severe between global and local market players. Knowledge transfer, even including HRM, has been widely practiced within MNC headquarters and their subsidiaries. Considering all these factors, three supply chains of MNC manufacturers with overseas headquarters who are operating in China in the automotive industry were selected for intensive research. These cases resemble the typical SC and HRM knowledge transfer mode. One sampled SC provided a ‘worst’ case scenario, while the other two fell into the ‘best’ case scenario. These three SCs provided, therefore, a strong basis for analysing the similarities and differences while being a feasible and manageable sample during the DBA period.

The company at the centre of this research, Company J, is a US-based Fortune 500 MNC established over 100 years ago. The two comparator companies, M and S are also Fortune 500 companies but in contrast have their origin and company headquarters (HQs) in Europe. All are global leaders in the automotive industry, including the aftermarket industry, but while automotive sales account for close to 100% of Company M’s business, it is only a partial share of Company J’s and Company S’s business.
All three have significant activities in China and are well established in both the Original Equipment Manufacturing (OEM) market and the aftermarket, but Company J is the most recent entrant through acquisition around 20 years ago, while Companies M and S have longer histories at 30 years and 100 years respectively. Both Company S and Company M make profits, while Company J has been making a loss since 2011. Companies S and M provide good comparators for Company J being a relatively good match by size, industry, business model, headquartered region, years of history, global market position, and global HQs, although they differ with respect to the years of experience in China and business results (Table 3.1).

Table 3.1 Comparison of the Three Comparative Manufacturers

<table>
<thead>
<tr>
<th>Category</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Global Fortune 500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Auto and other industries</td>
<td>Automotive</td>
<td></td>
</tr>
<tr>
<td>Business model</td>
<td>Aftermarket through distribution and key account in OEM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headquartered</td>
<td>US</td>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td>Years of history</td>
<td>100+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global market position</td>
<td>Leader</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Years of China experience</td>
<td>20</td>
<td>100+</td>
<td>30</td>
</tr>
<tr>
<td>China business result</td>
<td>At loss</td>
<td>Profitable</td>
<td></td>
</tr>
</tbody>
</table>

3.2.3 Interview samples

Representativeness and quality in the interview responses for the specific research purpose were the two guiding principles used to select the interviewees (Alvesson and Ashcraft, 2012). To ensure the sampling was representative and comprehensive, several dimensions were taken into consideration, including organisations (manufacturer vs. WDs), geography (east, south, west, north, northeast, and northwest), position (senior, middle and junior), function (owner/GM, sales, sales support, HR, and logistics) and employment status (current employees vs. ex-employees) (Figure 3-1).
Company J was the core organisation to explore. Thirty-four interviews (54% of the total 63 interviews) were focused on Company J to enable a deep and comprehensive exploration on the core supply chain issue. Another sixteen interviews on Company S (25%) and thirteen interviews on Company M (21%) were considerately conducted to provide thorough comparative case studies in SC HRM knowledge transfer and integration along the distribution channel. For each supply chain, the plan was to collect data from both sides: the MNC manufacturers and their WDs (Figure 3-2). A total of 19 WDs were selected, 13 from Company J’s SC, three from Company M’s and three from Company S’s. One of the 13 WDs in Company J’s case was a sub-wholesale distributor who buys from Company J’s WD rather than from Company J directly. All other 18 WDs in the research directly source products from the three manufacturers.
Employing multiple sources of evidence to measure the same phenomenon is one strategy for improving construct validity (Yin, 2009 cited in Baškarada, 2014). To present an objective picture with possible triangulation analysis, the interviewees represented different seniorities (top, middle and junior, Table 3.4) and different functionalities (sales, sales support functions, logistics, and HR, Table 3.5).

Due to the accessibility and the consideration of the longitudinal nature of supply chain development, the interviewees from the three manufacturers included current employees and ex-employees. This provided another means of triangulation to avoid the bias or concerns due to the current employment. For the three manufacturers, nine ex-employees were interviewed (32%) (Table 3.2). However, the WDs’ interviewees were all current owners, management and employees. One reason is that owners are very stable in WDs unless they quit their business, and the other consideration is the difficulty of accessing WDs’ ex-employees who may be mobile anywhere in the country.

Table 3.2 Current vs. Ex-employees for the Interviews

<table>
<thead>
<tr>
<th></th>
<th>J</th>
<th>M</th>
<th>S</th>
<th>J WD</th>
<th>M WD</th>
<th>S WD</th>
</tr>
</thead>
<tbody>
<tr>
<td># of ex-employee interview</td>
<td>2</td>
<td>2</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td># of current employee interview</td>
<td>12</td>
<td>4</td>
<td>3</td>
<td>20</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Total # of interviews</td>
<td>14</td>
<td>6</td>
<td>8</td>
<td>20</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>% of ex-employee/total interviews</td>
<td>14%</td>
<td>33%</td>
<td>63%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

It could be more straightforward and less biased to describe and compare facts across cases, such as the manufacturers and WDs’ organisational structure and HRM practices. However, the research reliability of cross-case comparisons based on interviewees’ perceptions, such as of trust between manufacturers and WDs, could be a challenge. Even when interviewees were asked to use the same evaluation scale, such as from one (least) to ten (most), the identical rating could mean different things in different cases since the interviewees may evaluate based on their own and different experiences, benchmarks and expectations. Interviewees with common employment experience among Companies J, S and M provided an ideal sample to ensure consistency in the relative comparison of perceptions. Fortunately, it was possible to access eight such interviewees (29% of the all interviews with manufacturers) (Table 3.3).

Table 3.3 Interviewees with Cross-Organisation Employment Experience

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Company J</th>
<th>Company M</th>
<th>Company S</th>
</tr>
</thead>
<tbody>
<tr>
<td>JJJ05</td>
<td>V</td>
<td>V</td>
<td></td>
</tr>
<tr>
<td>MMM03</td>
<td>V</td>
<td>V</td>
<td></td>
</tr>
<tr>
<td>MMJ05</td>
<td>V</td>
<td>V</td>
<td></td>
</tr>
<tr>
<td>SSH03</td>
<td>V</td>
<td></td>
<td>V</td>
</tr>
<tr>
<td>SSM05</td>
<td>V</td>
<td></td>
<td>V</td>
</tr>
<tr>
<td>SSM06</td>
<td>V</td>
<td></td>
<td>V</td>
</tr>
</tbody>
</table>
All of the three supply chains are managing business all over China. To have a reasonable data distribution avoiding misinterpretation due to geographical reasons, the interviewees were selected from all over China: Northeast (Changchun, Dalian, and Shenyang), North (Beijing), Northwest (Xinjiang), East (Shanghai and Wuxi), West (Chongqing and Chengdu) and South (Guangzhou) (Figure 3-3). Shanghai and Guangzhou are the colocations of Companies J, M and S’s WDs selected to increase the data collection efficiency.

Figure 3-3 Interview Geographic Distribution

3.2.4 Instrumentation: semi-structured interviews

Of the three types of interviews, structured, semi-structured and unstructured, the semi-structured interview allows researchers flexibility to refocus the questions or prompt for more information (Baškarada, 2014) and understand the interviewees better (Daymon and Holloway, 2002 cited in Baškarada, 2014). The semi-structured interview emerged as the most appropriate to this research since there were limited key and focused questions within the research scope which also allow interviewees to articulate their own responses and the researcher to explore unanticipated themes.
(James, 2013). Furthermore, there was some supplementary public information and a few company documents referred to in this study.

Each interview was designed to last for one hour, shortened from the two-hour-long pilot interviews. The interview guidance was prepared with comprehensive questions (Appendix 3.3). Not all questions were addressed in every interview due to the time allowed and the interviewee’s knowledge. The focus of each interview was reviewed and adjusted taking into consideration what information was missing and what data was expected from the next interview(s). It was a continuously improved data collection process. One hour is a reasonable and acceptable length for interviewees. Fifty-five (87%) interviews were face to face, and the other eight (13%) were phone interviews to provide supplementary information. Due to the nature of semi-structured interviews, some follow-up questions were not able to be prepared before interviews. It required competent interview skills. All the interviews were conducted by the researcher directly which helped to control any research variance due to the interviewers. In the China context, especially saving face and indirect expression, the interview skills to listen and to validate the implications are crucial for data accuracy. For example, the co-owner/GM (JWH08) of JWD08 commented that ‘the trust between Company J and me is at nine of ten (the highest). I should save their face in my comments’. The possible implication outside the exact words in the China context is that ‘nine’ was not the real trust level. The follow-up validation question, ‘if there is no face-saving consideration, what could be the actual trust level (between Company J and your company)?’ found that the real perception was at six rather than nine.

To have a first-hand transcription for further data analysis, thereby avoiding the discrepancy between minutes and memory, 62 (98.4%) interviews are recorded with the agreement from interviewees. Only one interview (1.6%) was not recorded due to the interviewee JWM17 not agreeing to the recording. However, notes from the interview were taken and the researcher orally repeated and recorded recollections in the first five minutes after the interview to ensure the memory was still fresh and clear.

### 3.3 Pilot Study

A pilot project was undertaken at the end of 2013 to ensure the robustness of the research process. Four face-to-face interviews were conducted with Company J’s WD sales director, channel development manager, and owners of Company J’s two biggest WDs. The average interview time was 109 minutes. There were some experiences learned and leveraged in the larger scale research.

These included the experiences that the participant information sheet helps to manage the interviewees’ expectations and prepares the interviewees for the incoming discussion. Furthermore, executives’ approvals and participant consent forms were able to reduce potential concerns on ethics to a great degree, even in China where there is a lot of ambiguity. It was also good to give interviewees a heads-up that they would be asked to agree to record to avoid surprises. Interviews of one and half to two hours in length proved to be too long. WD owners found it challenging to address the generic
questions like the China HR context and legal context etc. These less specific questions were deleted. The questions were condensed to fit a 60-75 minute interview. For questions addressing importance and status, I introduced the one (the least important/the worst perceived) to ten (the most important/the best perceived) scale to provide a possible comparative analysis. When I interviewed Company J’s WD sales director, he had quit the company and it was close to his last working date. He had a very open mind in the conversation. It gave me a hint that ex-employees could be very valuable since they could be more open to share their real opinions. Also, long serving managers in WDs were able to provide information on changes over time due to having been influenced by the succession of Company J’s managers.

The questions were designed in English and orally interpreted into Chinese at the interview site. It caused inconsistent messages and were not in a good flow. Learning the language of the elite (their terms in their circle) is one strategy to asking questions (Ostrander, 1993). I prepared the standard interview questions in Chinese after the first piloted interview. The questions were even explained further when I interviewed WDs who have a different business language which should be plain and simple.

The workload was much more than I expected, especially when the interview was conducted in Chinese and transcription and analysis were required in English. For a two-hour interview, it took me seven to eight hours to transcribe. It took more than 12 hours to transcribe a Chinese interview to English directly. The translation was a major concern to ensure a consistent and high-quality analysis. The strategy then adopted was to conduct interview and first level analysis in Chinese with further analysis and results processed in English. The transcription work (Chinese to Chinese) has been outsourced. I personally reviewed every transcription referring to the records to ensure the quality.

The interview did not progress in a linear direction. In the China context, the interviewees normally will not correct the interviewer even if it is different from their comments as long as it is not against their points. A disadvantage of a DBA researcher is the confusion of the practitioner role and researcher role (James, 2013). Albert Hunt pointed out the difficulties of establishing the appropriate identity of the researcher (Hertz and Imber, 1993). My experiences and current position in Company J may bias myself as a neutral researcher, which may also confuse the interviewees. The participant information sheet and interview guide helped to remind interviewees and myself to stay in the role of natural researcher instead of practitioner with a stake in the business.

The interviewees proved to be not very responsive when asked to confirm the write-up during the pilot. Part of the reasons could be the lengthy summary. The other reason could be the local habit or interviewees’ busy schedule. The subsequent decision was to not provide the write-up unless there was a request. Actually, there was no request in the whole study. Meanwhile, the WD owners in fact did not respond to emails much and it appeared that most of them are not very good at email communication. Key informants’ review on the case report as recommended by Yin (2009 cited in Baškarada, 2014, p.8) as another strategy for improving construct validity (Baškarada, 2014) was not
feasible in this work. However, the other two strategies, using multiple sources of evidence (representative interviewees and public information) and maintaining a chain of evidence (word by word transcription) have been largely leveraged.

3.4 Data Collection Process

Making the right contacts in the right order makes access easier (Ostrander, 1993). I worked my way first to the top directly and obtained the approval and support on this research from Company J’s executives. With the endorsement from Company J’s executives, the access to its employees and mid-level management was straightforward. The access to Company J’s WDs was through the introductions of Company J’s sales regional managers and sales representatives. The access to Companies S and M was through a strong personal network. The access to Company S’s and Company M’s WDs was through the introductions by Company S and M’s leadership. This is the most feasible approach, especially for the time-taking interviews. Cold visits and cold calls in the current Chinese environment are very challenging to collect accurate data.

I collected the data as per the process mapped in Figure 3-4. I identified the locations where I planned to collect data and contacted my personal network to introduce the interviewees in Companies J, S and M. I did change two locations (cities) due to access issues but this did not change the overall planned geographical distribution. One was from Shanghai to Wuxi for Company S’s WD, and the other one was from Changchun to Shenyang for Company M’s WD.

![Data Collection Process through Interview](image)

Snowball sampling was my major data collection approach – an informant recommends another informant (Noy, 2008; Cassell, 2013). It is effective in the research of social networks and in exploring knowledge in a dynamic nature (Noy, 2008). The snowball sampling chain for this study is mapped out in Figure 3-5. When I booked the time with the interviewees of Companies J, S and M, I asked them to arrange more interviews in their WDs, ideally in the same location such as Guangzhou (South), Shanghai (East) and Shenyang (Northeast). Appointments were made with WDs’ owners/top management by manufacturers’ interviewees. The interviews with WD employees were mostly in the office and recommended by WDs’ owners/top management. The WD employees interviewed were mainly from sales positions and some HR/Administration roles. This snowball sampling method worked very well since the interviewees introduced were the right ones in the same supply chain and could perfectly describe the interactions and relations (dot lines in Figure 3-5) and elaborate their experiences and perceptions from different perspectives. Meanwhile, the accessibility and data quality
through personal introduction were better ensured in China’s network-oriented environment. One concern on the snowball sampling was the manipulated introduction, such as WDs recommending preferred or compliant employees. To minimise this research noise, we did not ask WD owners/GMs to invite their staff until we had finished the interviews with them at the site. We interviewed the relevant position holders who were in the office. This process embedded the feature of randomness in the sampling (those who were in the office by chance not by arrangement). Another concern could be the recommendations from the manufacturers with respect to which WDs to investigate. This risk was largely managed by the researcher’s geographic selection for the research. There was only one WD in each selected city for Company S and Company M. For Company J, there were more than one WDs in one city. The researcher tried to interview all WDs in the same city, and succeeded in doing so in Dalian, Beijing, Chongqing, Wuxi, Shanghai and Guangzhou.

![Snowball Sampling Chain](image)

**Figure 3-5 Case S and M’s Snowball Sampling Chain**

In the beginning of every interview, I shared the interview information sheet (Appendix 3.1), clarified my role as an independent researcher rather than Company J’s leader, and emphasised how I would maintain data confidentiality. Then I conducted interviews with the recorder. The consent letters (Appendix 3.2) were signed immediately by the face to face interviewees. Oral agreement was obtained for phone interviews.

The 63 interviews were conducted between October 2013 and March 2015. All eight phone interviews with manufacturers and WDs were through the interviewees’ mobile, which allowed them flexibility to find a place to talk confidentially. Sixteen interviews were conducted in restaurants, coffee bars, tea houses or the breakfast area of a hotel due to the Chinese social network style, 35 interviews were conducted in private offices or meeting rooms, three interviews in the cubic area of the office, and the remaining one was on the high-speed train. Interviews can be set up carefully and need not be limited to the amount of time negotiated (Thomas, 1993) especially in a social network environment like a tea house etc. outside of the office. There were some interruptions during the interviews, either by some people asking for approvals or by phone calls, especially in the office.

The duration of interviews varied due to the interviewees. The more senior the interviewees were, the more knowledge and opinion they had to share in a longer interview time (Table 3.4). The interviewees, WD owners/General Managers, sales and sales supporting functions, sales and supporting functions
in manufacturers, spent longer time with more information shared (Table 3.5). However, two of Company J’s HR leaders and one WD HR/Administration leader spent an average of only 24 minutes in the interviews, much shorter than the average 72 minutes interview time of the other six interviewees who were very relevant to channel partner training in Companies J, S and M.

Table 3.4 Number and Average Interview Time by Interviewees’ Seniority

<table>
<thead>
<tr>
<th>Interviewee seniority</th>
<th># of interviews</th>
<th>% of total interviews</th>
<th>Average interview length</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior</td>
<td>26</td>
<td>41%</td>
<td>60’</td>
</tr>
<tr>
<td>Middle</td>
<td>27</td>
<td>43%</td>
<td>51’</td>
</tr>
<tr>
<td>Junior</td>
<td>10</td>
<td>16%</td>
<td>35’</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>100%</td>
<td>52’</td>
</tr>
</tbody>
</table>

Table 3.5 Number and Average Interview Time by Interviewee’s Functionality

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Roles of WD Interviewee</th>
<th># of interviews</th>
<th>% of total interviews</th>
<th>Average interview length</th>
</tr>
</thead>
<tbody>
<tr>
<td>WD</td>
<td>Owner/GM/Deputy GM</td>
<td>17</td>
<td>27%</td>
<td>68’</td>
</tr>
<tr>
<td>WD</td>
<td>Sales</td>
<td>13</td>
<td>21%</td>
<td>28’</td>
</tr>
<tr>
<td>WD</td>
<td>Sales support (marketing director)</td>
<td>1</td>
<td>2%</td>
<td>66’</td>
</tr>
<tr>
<td>WD</td>
<td>Logistics</td>
<td>3</td>
<td>5%</td>
<td>11’</td>
</tr>
<tr>
<td>WD</td>
<td>HR</td>
<td>1</td>
<td>2%</td>
<td>16’</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>Sales</td>
<td>15</td>
<td>24%</td>
<td>59’</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>Sales support*</td>
<td>9</td>
<td>14%</td>
<td>64’</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>HR</td>
<td>4</td>
<td>6%</td>
<td>48’</td>
</tr>
<tr>
<td>Total #/Grand average interview length (’)</td>
<td>63</td>
<td>100%</td>
<td>52’</td>
<td></td>
</tr>
</tbody>
</table>

Remarks: Manufacturer’s sales support functions include marketing, channel development, sales support; total interview time of the 63 interviews: 55 hours

3.5 Research Integrity

At the beginning of the 55 face-to-face interviews, the hard copy participant information sheet was provided in a Chinese/English format to ensure correct understanding on the research project, confidentiality and rights (for phone interviews, the same information was communicated orally and confirmed).

My role in the profession during the data collection was as Company J’s Director in Asia Pacific. This may have been of some concern for some interviewees, limiting their frank feedback. When I interviewed Company J’s employees, I emphasised the need to differentiate my researcher’s role and job responsibilities. One helpful thing was that I had transferred from the business group under research to a corporate central function. There were fewer concerns and almost no interest conflicts
in the business operations. The early familiarity with Company J’s interviewees helped to the open communication.

My professional role in the industry may also affect the interview quality of some of Company J’s WDs which were running Company J’s competitive business. They may worry about confidentiality. They may suspect that I had some business agenda. Some WDs may have expected me to take some message back to Company J since I was a member of Company J’s management team. An opening introduction on the purpose and confidentiality of the interview was used to help to minimise the impact. The participant information sheet further moderated WDs’ concern due to the written commitment with a channel to raise problems if commitments were not honoured.

The interviewees from Companies S and M may have had similar concerns with respect to my professional role. Companies J, S and M were all in the automotive industry. Though their products were different and they did not compete directly with each other, they competed for the similar kind of people in the market sometimes. Moreover, they all knew each other and may have concerns about sharing some company specific information with someone in the same industry. The confidentiality and anonymity of the researched organisations and interviewees largely reduced these concerns. Meanwhile, the credibility of the persons who introduced me was one key factor increasing their frankness and openness. The interviewees from Companies M and S were introduced to me by some highly respected people who used to supervise or mentor the interviewees. The trust-based network worked well for gaining access and for good quality data collection.

Employees for interview were recommended by WDs’ owners/top management after my interview with them. This might have some potential implications. First, there may be concerns that I would share my interview findings with their bosses. This was specifically addressed at the beginning of the conversation with reassurances that all the information would be confidential, even from their supervisors. There were four interviews with very specific set-ups. One was with the logistics staff (JWD04) of Company J’s WD (JWD09). Due to space limitations, the interview was arranged in the public area with the owner’s wife and two colleagues nearby. The interviewee’s responses, particularly in relation to issues of trust and fairness, could have been affected. This interview was concluded in five minutes with courtesy as there were concerns on the quality in this improper set-up. Another interview was with the GM (SWH04) of Company S’s WD (SWD02) who invited his sales manager and finance manager together. It was very obvious that the GM dominated the interview and the other two managers followed the direction of the GM in their responses. Group interviews or focus group discussions with participants who are in reporting relationships may be difficult in the China context since the subordinates, especially, may have concerns about giving their individual opinions and about saving their boss’s face. The data from this interview was treated as one interview with the GM. The third interview was with the sales manager and assistant sales manager of Company J’s WD (JWD05). The assistant manager used to be in the manager’s position and was succeeded by the current manager. Although there was no obvious evidence that the assistant manager tried to follow the same tone of the manager, their responses were very consistent and treated as one interview. The fourth
interview was with the owner/GM (JWH05) of JWD09. His son who was in the family business joined the interview without invitation and tried to make his father’s straightforward and frank responses more diplomatic (saving Company J’s face). To ensure the data integrity, only JWH05’s interview was collected in the analysis. His son’s response was not applied.

In interviews for nine of the 13 J WDs, the researcher was accompanied by Company J’s sales representatives. However, because WDs may have concerns in speaking frankly, especially to give negative comments, in front of Company J’s sales representatives who might have a direct interest conflict, all Company J’s sales representatives were politely asked not to be present during the interviews themselves. Only the owner (JWH14) of Company J’s WD (JWD07) specifically requested that the interview should be one-on-one without Company J’s sales representative.

Eight interviewees have common employment experiences in Companies J and M or S, or all three manufacturers. The focus of the interviews with informants with cross-manufacturer experience varied by subject according to the missing information required and interviewees’ relevance (Table 3.6). Comparative information and relative evaluation across the three SCs helped the triangulated analysis.

Table 3.6 List of Interviewees with Employees across Companies J, S and M

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>J</th>
<th>M</th>
<th>S</th>
<th>Interview focused organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>JJJ05</td>
<td>V</td>
<td>V</td>
<td></td>
<td>J</td>
</tr>
<tr>
<td>JJH07</td>
<td>V</td>
<td>V</td>
<td>V</td>
<td>J</td>
</tr>
<tr>
<td>MMM03</td>
<td>V</td>
<td>V</td>
<td></td>
<td>M</td>
</tr>
<tr>
<td>MMJ05</td>
<td>V</td>
<td>V</td>
<td></td>
<td>M</td>
</tr>
<tr>
<td>SSH03</td>
<td>V</td>
<td>V</td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>SSM05</td>
<td>V</td>
<td>V</td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>SSM06</td>
<td>V</td>
<td>V</td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>SSH08</td>
<td>V</td>
<td>V</td>
<td></td>
<td>S</td>
</tr>
</tbody>
</table>

3.6 The Analytical Process

This study engaged with three supply chains. The core, and also easily accessible case, of Company J’s chain was analysed first, also as the pilot, to establish the analytical framework for the other two cases. Case M and case S were analysed following the same structure of case J, then the comparative analysis was processed across the three supply chains (Figure 3-6).

![Figure 3-6 Multi-Case Study Analysis Process](image)

My research sought to enrich the theories from the current limited study on the HRM knowledge transfer and integration in the supply chain context. The qualitative data was inductively used to
develop and expand theory using the following systematic approach. The initial analytical step was to develop categories through open coding system, screening line by line in the transcript by interview questions. The initial coding attempted to reflect and elaborate issues through the interviewees’ eyes (Kenealy, 2012). The code was developed from one transcript and supplemented by further transcripts in the process of interviews. The early stage findings were utilised to ensure the relevance of the research direction and to develop a more selective focus in the next set of interviews. For example, the questions on American and European societal cultures were removed due to interviewees’ lack of knowledge and weak relevance to the core research. Interview questions were also more targeted to different interviewees in the process. Another example is that frontline WD employees were found unable to comment on the relationship between manufacturers and WDs since they were not at that high level in the organisation. These questions were omitted with frontline employees in the further interviews. The key words selected were scattered everywhere without clear themes, categories or rational structure. The next step was to link the codes, consolidate similar ones into high-level categories and create subcategories. For instance, attachment, loyalty and trust have been grouped as one subcategory of manufacturer’s attractiveness to WDs. The defined organisation structure, functions, clear roles and responsibilities, policies and processes, and information technology system were consolidated and categorised as one of the knowledge transfer media system for comparison to another one, inter-person. The qualitative analysis software, NVivo 10, has been leveraged for case J for first version thematic coding framework (Appendix 3.4). The third step is to refine and select the categories into the general analytical frameworks based on guiding theories: supply chain relationship, trust, Guanxi, HRM in supply chain, culture, ‘best’ vs. ‘fit’ HRM, knowledge transfer, HRM diffusion, bargaining power distribution, and partnership in dynamics (Table 3.7). For example, trust and bargaining power are categorised as motivation moderators in the knowledge transfer framework.

These three steps were not linear in the whole study. It was cycled at three major research levels: the pilot study, individual cases (J, S and M), and the comprehensive cross-case overall research.

Table 3.7 Finalised Analytical Framework

<table>
<thead>
<tr>
<th>1) Macro context</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) China market</td>
</tr>
<tr>
<td>b) Distribution channel and construction</td>
</tr>
<tr>
<td>c) Business challenge</td>
</tr>
<tr>
<td>d) Market dynamics</td>
</tr>
<tr>
<td>2) Company profile</td>
</tr>
<tr>
<td>a) Industry</td>
</tr>
<tr>
<td>b) History</td>
</tr>
<tr>
<td>c) Business status</td>
</tr>
<tr>
<td>d) Consistency of distribution channel strategy</td>
</tr>
<tr>
<td>3) Organisational systems of control and strategies</td>
</tr>
<tr>
<td>4) Factors that make manufacturers and WDs attractive to each other</td>
</tr>
<tr>
<td>a) Industry attraction</td>
</tr>
<tr>
<td>b) Business model shift</td>
</tr>
<tr>
<td>c) Brand impact</td>
</tr>
<tr>
<td>d) Multi National Company (MNC) status</td>
</tr>
<tr>
<td>e) Business scale</td>
</tr>
<tr>
<td>f) Profitability</td>
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<tr>
<td>Number</td>
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</tbody>
</table>
3.7 Summary

The qualitative research method, multi-case study, was designed and applied in our project which aimed to explore the less-established theoretical field, that is HRM knowledge transfer and integration in Supply Chain. Three supply chains in the automotive aftermarket were purposely selected representing the ‘good’ and ‘bad’ cases for comparison. The semi-structured interview was the major instrument used to collect data from 63 informants accessed through a snowball approach. The interviewees were carefully selected to ensure that the representativeness and quality enabled the possibility of triangulated analysis. The construct validity was well taken care of by the multiple sources of evidence employed. The research protocol: process, interview guide, one-person (researcher) data collection, recording and analysis enhanced the internal reliability. The applied research design and methodology provided a clear direction for the research and suggested the need for a focus on data collection that was well balanced between breadth and depth. The process of the synchronised data collection, analysis, supplementary literature, and modelling on the three levels of study, interview, SC, and cross SCs eventually drove the identification of key findings for both theory and practice.

The systematic and structured analysis of each supply chain allowed a robust comparative analysis across the three cases. The findings are presented in the three following chapters: Chapter 4 describes the business cases and analyses the core business challenges faced by Company J and comparing these with the other two cases M and S, drawing on the perspectives and insights provided by both the manufacturers and the WDs. Chapter 5 analyses the mechanism of what, how and in what direction HRM knowledge is transferred and integrated in the SC. It also explores the influential factors affecting the transfer and integration process and their impact on the SC. Chapter 6 takes the exploration further by considering to what extent Company J is in a position to learn from Companies S and M and under what conditions, and how the applicability of Companies S and M’s early success could be affected by market changes and uncertainties. Chapter 6 concludes by presenting a generalised theoretical framework of HRM knowledge transfer and integration in the dynamic supply chain context.
Chapter 4 Three Aftermarket Automotive Component Supply Chains: A comparative analysis of the development of the supply chain characteristics and relationships

4.1 Introduction

The core business issue investigated in this thesis is how Company J can develop an effective distribution system in light of its failure to utilise large-scale investment in production capabilities to increase market share. There are two heavily invested manufacturing centres in the east and west of China, each with more than 150 million USD investment. The east centre has gradually moved up to its expected capacity in the last five years since 2011, but up until 2015 there was almost no actual demand for the west manufacturing centre – although it was ready to start producing in 2013. In 2016 there have been some unstable sales orders. The unexpected low sales volume means that the return on investment has thus not been realised. Reaching the financial break-even has been one of the top Key Performance Indicators (KPIs) for Company J in China. The depreciation cost without any, or only a low level of, production is a heavy financial burden. This thesis set out to explore whether the problems with Company J’s market position lie within its distribution supply chain and what can be done to solve any problems that might be identified.

To investigate these issues, the research has explored problems for Company J in China along the supply chain through interviews with Company J and the first stage of supply chain, Wholesale Distributors (WDs). The different interviewees across functions and seniority in Company J and its WDs help to present the overall comprehensive reality.

The core hypothesis is that greater integration along the supply chain might help, including transfer of HRM. To investigate this hypothesis the study also investigated two alternative supply chains, Company S and Company M, in the automotive aftermarket industry, known to have adopted an integrative approach – partnerships and transfer of HRM practices – from whose experience Company J might be able to learn and transfer best practices.

This Chapter 4 does four things:

i) First, it sets out what has been learnt through the study with respect to the nature of the market and distributional challenges facing Company J – i.e. the problem to be investigated. The researched market business model is the traditional distribution from manufacturers to WDs, sub-WDs, retailers, and then to end users. Company J has been losing market share and dedicated and loyal WDs to the local competitors. Company J’s brand has been negatively damaged with respect to quality, while the local brands are well recognised by clients and distributors. The relationship with WDs is also found to have been severely damaged as a consequence of problems in supply, commercial policies and lack of care for WDs’ interests.

ii) Second, it compares and identifies the similarities and the differences between the three case study supply chains, revealed through the intensive interviews. The focus is first on the revealed characteristics of the client, the MNC, in terms of both markets and organisational arrangements and
strength and role of the brand. All three manufacturers are global Fortune 500 MNCs listed in the US or Europe with more than one hundred years of history. They are all global market leaders. S and M are also China market leaders with good branding but not Company J. Company J’s China business is micro-managed by its global headquarter, while Company S and Company M are much more localised in decision making and management. The research findings show that both Company S and Company M have very consistent channel development strategies, while Company J has been changing its direction and strategies together with high turnover of local management teams and short-term expatriate assignment.

iii) Third, it identifies, through interviews with ex-employees and current employees of the three manufacturers, the main stages in the development of the distributional supply chains for the three cases and the characteristics of the key organisations involved from a longitudinal perspective. Company S and Company M are found to have both started with transactional relationships with their WDs, and only learned over time how to manage and develop distributors. They have been developing their supply chain partners for years. In contrast, Company J is found to have made inconsistent efforts to develop its WDs and is still, today, more in this initial stage, heading for the channel development stage. In the meantime, many WDs for Companies S and M are found to have grown up from small mom and pop shops to medium-sized or large-sized structured organisations, but most of Company J’s traditional WDs are found to be still small in size.

iv) Fourth, it analyses and clarifies the nature of the revealed relationships between the MNCs and WDs, in terms of benefits expected from each other, the level of commitment on both sides and extent of options for each party. Company J’s WDs are found to have plenty of options to move to alternative products or other products. In contrast, Company S’s WDs are found to take 80% of their business from Company S, which is a requirement from Company S. However, the interviews also suggest that not only do both Company S and its WDs maintain a high level of commitment to each other, but also from WDs’ perspective, Company S is still considered the best or one of very few most competitive options. In comparison, WDs in Company M’s industry are found to normally have mixed product lines partnering with different manufacturers. Company M’s WDs tend to take Company M as the primary high-end brand in their portfolio, supplemented with mid and lower market suppliers. As the high-end market leader, Company M and its WDs are also found to have a high level of commitment to each other and the WDs do not have better options. The WDs tend to have dedicated teams running Company M’s brand. Moreover, the WDs of Company S and Company M have grown their business and advanced their management competence, including HRM, with support from the client companies and their strong commitment to long-term partnerships relates to the advanced management platform offered by the two manufacturers. However, WDs of Company J are found not to have the same experiences, though they may desire them. What Company J offered to WDs beyond the product does not seem to have differentiated it from the competition.

The challenges faced by Company J in its distribution channel have been identified in this chapter. This study on Company J is concerned with its automotive aftermarket in one distinct business unit in
China with business in both the Original Equipment Manufacturer (OEM) market and aftersales market. Though Company J has other successful business units operating in China and the global market, these are not relevant for this study as the business we are concerned with here is managed independently with respect to strategy, operation and governance. Although there are some internal corporate HRM systems available for all business units, there is no enterprise-wide process, system, guideline or resources for HRM integration in the distribution channel as this comes under the responsibility of each independent business unit operating in different industries.

Company J is the largest world player in its industry with more than one third share of the global OEM and aftermarket in this product category, and with the second biggest competitor owning less than 10% of the global market. However, while Company J is clearly the market leader in overall global competition, especially in the US and Europe, it is not in China. Its overall business share in China is around 10%. The top two competitors, Company CA and Company SA, in 2014 together took 49% of the total aftermarket share in China, while Company J took less than 5%’ (JJM06, Company J’s commercial excellence manager). Its China business has been losing money in the five years up until 2015. The heavily invested manufacturing capacity has not been utilised.

However, China is the largest auto market and Company J anticipated major expansion of the Chinese automotive industry and resumed its paused investment in manufacturing capacity soon after the financial crisis in 2010. To research these issues required both exploring the nature of the problem within Company J and its supply chain and comparisons across similar supply chains. The next section thus compares the characteristics of both Company J and the two chosen exemplar companies, M and S.

Company J’s product brand was found to be strong and popular before 2010 in the distribution channel, clearly valued as a top-end high-quality product. WDs fought for its dealerships. However, Company J appears to have gone through a vicious cycle from negative influencers to detrimental results. The production was suspended by the local government due to some suspected environmental issue, and eventually was shut down. Company J experienced very serious supply shortage for half a year and unstable quality from the new plant production in 2010 to 2011. WDs reported that they were first hurt by the supply shortage. The market had a very negative response to its unstable supply and poor quality. The damage to Company J’s brand image appears to have continued to the present day. The quality issues arose due to the rush to launch the new manufacturing facilities which were not able to produce products to match those early products. There were some imported products to support the China market, but their design did not match. The damaged brand is still in the process of recovery as it takes time to improve the image.

4.2 Company Profile Comparison: Industry, History and Business Status

For an effective comparison of supply chains, it was important to identify similar types of companies in similar markets: this meant large multinationals in the automotive industry operating for a significant time period in China. Even within this group of companies there is potential for significant differences
which may have an impact on supply chain development and effective distribution. These can be grouped under the following characteristics: history of the development of the companies – country of origin, global expansion and entry into China (Table 3.1, Chapter 3); current ownership and forms of governance or control between headquarters and subsidiaries; characteristics of the product, the markets, competitors and factors shaping market share – overall and in China; the construction of the distribution channel; key developments in each of the three supply chains and comparison of the current dominant distribution channels in each.

Among the three global Fortune 500 MNCs in the study, Company S and Company M have stronger brand recognition than Company J in China. Company M is one of the top two global market leaders, enjoying a 14% market share in 2013, only 1% below the market leader, and is also one of the top two in the China market. Its product is visible to consumers and therefore differentiable by quality and brand. However, end consumers are not able to identify the Company S brand in their vehicle, so that brand recognition stems more from national advertising and name recognition rather than on differences in quality of products. Nevertheless, Company S is the most preferred brand for drivers in China, Malaysia, Thailand, Russia and the United States and is a global market leader, enjoying a 13% market share by volume in 2011. Company J has not achieved similar brand recognition to Company S and Company M in China even though its product is in an intermediate position between that of Company M and Company S, being more identifiable and differentiable by quality than that for Company S but less than Company M’s product.

The key distributional challenge according to interviewees from all three companies was said to be the aftermarket sales. The OEM market works on the standard Business to Business (B2B) model and involves therefore relatively few client relationships. In contrast, the aftermarket is a Business to Customer (B2C) model and requires extensive networks and relationships, particularly in the rapidly expanding consumer market in China. The distribution challenge for Company S and Company M was modified by the fact that their brands are much better known and recognised than that of Company J in China. Company J’s industry is highly environmentally sensitive. The product can have direct negative effects on health while Companies S and M are not so environmentally sensitive. Companies S and M are competing with major global competitors and emerging local ones, while Company J’s competitors are mainly local competitors. Both Company S and Company M make profit, while Company J has made a loss in the last five years. Together with the relevant information from Table 3.1 (Chapter 3), the overall profiles of the three MNCs are compared in the Table 4.1. The similarities of the three MNCs in business size, history, type of business, and market leader position in the global market etc. offer a comparative platform to analyse the factors affecting the differences in their Chinese operations. These differential factors, such as brand awareness and market position, might change the distribution of bargaining power in the supply chain. The expertise in local business and the decision-making authority in China might affect the process efficiency of HRM knowledge transfer in the chain.
Table 4.1 Profile Comparison of Companies J, S and M

<table>
<thead>
<tr>
<th>Category</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Global Fortune 500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headquartered</td>
<td>US</td>
<td>Europe</td>
<td>Europe</td>
</tr>
<tr>
<td>Listed in</td>
<td>US</td>
<td>Europe and US</td>
<td>Europe</td>
</tr>
<tr>
<td>Years of history</td>
<td>100+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weight of business in auto market</td>
<td>Partial business</td>
<td>Close to 100%</td>
<td></td>
</tr>
<tr>
<td>Business type</td>
<td>OEM: key account</td>
<td>Aftermarket: distribution channel</td>
<td></td>
</tr>
<tr>
<td>Product visibility</td>
<td>Mediocre</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Environmental sensitivity</td>
<td>High</td>
<td>Mediocre</td>
<td></td>
</tr>
<tr>
<td>Global market position</td>
<td>Leader</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of business in China</td>
<td>Acquired</td>
<td>Self-grown</td>
<td></td>
</tr>
<tr>
<td>Global HQ’s expertise in China</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>China decision making</td>
<td>Global decision</td>
<td>Local decision</td>
<td>Local decision</td>
</tr>
<tr>
<td>Years of experience in China</td>
<td>Around 20</td>
<td>More than 100</td>
<td>Around 30</td>
</tr>
<tr>
<td>China market position</td>
<td>Follower</td>
<td>Leader</td>
<td>Leader</td>
</tr>
<tr>
<td>Major competition in China</td>
<td>Local competitors</td>
<td>Global MNCs and local competitors</td>
<td></td>
</tr>
<tr>
<td>Brand awareness in China</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>China business result</td>
<td>At loss</td>
<td>Profitable</td>
<td></td>
</tr>
</tbody>
</table>

4.3 Organisational Systems of Control and Strategies

The heavy investment, based on too-optimistic sales forecasts of around 150 million USD, in its new production capacity was idle for at least three years due to the lack of sales orders. The challenge for Company J is to develop an effective distribution channel in China to enable it to realise returns on its manufacturing investment and to turn China into a profitable part of Company J’s automotive aftermarket business. The short-term goal –financial breakeven – outweighs long-term ones. In the past five years, Company J has been losing money and is perceived as variable and unpredictable in strategies, U-turns and lack of consultation. There was no support offered for the WDs for their investments in retailing business made under Company J’s advice when Company J changed strategy, refocusing on wholesale during 2010 to 2011. In addition, according to interviews from both the MNC and the WDs, the supply shortage and unstable product quality due to the old plant shut-down by the government (2011–2012) and rushing into production in the new plant, hurt the channel further (2012). WDs reported that they felt that they are the ones to have been sacrificed for Company J’s immature model and uncertainties. In particular, Company J brought in new WDs, which undermined the trust between the established WDs and Company J, which was low anyway due to the early poor experiences in supply, product quality and profit.

In Company J, the relationship between the China management team and its global headquarters is reported to be characterised by a lack of trust. Most regional decisions such as organisational structure, business strategies, business models and even tactical business operations are managed remotely in
the US. Company J’s global leaders, or leaders from overseas in the China expatriate assignments, are only two or three years in length, a practice which promotes short-term-driven decisions and means that the expatriates tend not to have a good understanding of China and local business, as the following quotes outline:

‘I feel that Company J does not respect China market. When there is no respect, there is almost no trust... They (Company J) do not understand you (local management) [due to the lack of local market intelligence]’ (SSH08, Ex-China General Manager of Company J). ‘All [local] strategies have been rejected (by Company J’s global HQ) … What kind of empowerment they (global HQ) have awarded? ... None. Even business travel could not be approved in local team… Furthermore, there was one more management layer added above the local team… We were totally controlled’ (JJH01, ex-sales director of Company J).

‘The market was messy under the management of Mr. KP (expatriate Vice President for aftermarket) because he did not understand China’ (MMJ05, channel excellence consultant of company).

Furthermore, the morale of the local team was reported to be low, and the local management team turnover rate to be high. In Company J’s organisation, there is one Vice President or General Manager for aftermarket business and one sales director for WD business at a time. From 2010 to 2016, there were four different local sales directors for WD business and four Vice Presidents/General Managers in charge of the aftermarket business (including two US expatriates).

In contrast, interviewees reported that Company S and Company M make most local decisions through their localised China management team and that there was a good balance in the authority between their global headquarters and local management team.

4.4 The Market in China

China has become the largest automotive market for new cars, exceeding the US with 13.64 million cars sold in 2009\(^9\). In 2015, China sold 21.1 million cars of the world total 82.9 million\(^10\). The macro automotive industry environment in China is applicable to the three manufacturers. China’s market is geographically broad. The end users are immature in product and usage knowledge and have little component brand awareness. The retailers and WDs have a big influence over end users’ choice. The aftermarket business is much bigger than the OEM business scale and more profitable.

The alternative producers for Company M and Company S in China are very similar in the global market. Company S and Company M are the top-end market leaders and profitable. In contrast, Company J’s main competitors are the two local market leaders with different competition games in China. Company J is not the leader in the aftermarket and is running the business at a loss.

The aftermarket for Company J’s product follows the complete vehicle market trend but later with a two-year delay. The aftermarket which Company J is in has been growing in double digits in the last six years in China, even during 2009 global financial crisis. The market experienced short supply

\(^9\) money.163.com, 2010
during 2009 to 2012, and then the supply has exceeded the demand in the market since 2013, with newly-added capacity. The aftermarket size is about two times that of OEM and is much more profitable. The commercial margin (%) in the aftermarket could be potentially 50% higher than in the OEM business. This is because OEM customers are giant automotive brands such as General Motors, Ford, Volkswagen, Toyota, KIA, and Chery etc. which have huge demands for millions of new vehicles. The OEM customers normally have very strong bargaining power compared to the component suppliers such as the three manufacturers in this study. The aftermarket customers are largely individual consumers who need to replace wearing parts or charge consumable goods for their private cars. The aftermarket business is a classic B2C model mediated by WDs. There is a pulling force from OEM business to aftermarket. End users tend to replace their parts with the same brand of the original one in the vehicles, though they may not know the brand. Company J’s product is for cars and there is not a product for trucks and buses as offered by Companies S and M.

The market in China is immature. In developed markets, the consumers have been living with autos for generations. The Do-It-Yourself model for Company J’s product is becoming popular. Automotive parts can be bought from hypermarkets or supermarkets like AutoZone in Walmart and be replaced by the end users. In China, cars have only been used for family transportation in recent years. Consumers do not have brand awareness for components or product knowledge. They do not know, and cannot differentiate, brands and quality. Most of them have never opened the top of the vehicle. They do not replace the component preventively and do not intentionally go looking for selected component and service providers until there is a problem. This kind of consumer behaviour leads to many random and urgent services. Some high-end consumers maintain and repair their cars in pricey 4S (Sales, Spare parts, Service and Survey) shops. No matter what kind of consumers, they heavily rely on many WDs and retailers’ recommendations and services.

There are many alternative producers for Company J’s product in China’s market. As already stated, the two largest domestic producers, CA and SA, take almost half of the market and there are hundreds of smaller local producers. Company J’s sales director (JJH07) for WD business commented that ‘the China market is different from the global market. The competitors are all (almost) local ones. The games are totally different… The local competitors take advantage of low cost and flexible commercial policies which Company J cannot copy due to [Company J’s high ethical] code of conducts and business structure’. Company CA is a private company with 30 years’ history and now publicly listed, and Company SA is a State-Owned Enterprise (SOE) with 60 years’ history and also publicly listed. Both Company J’s major competitors have grown fast, especially Company CA. Company J’s extradvice manager (JJM13) regretted that ‘in 2008, Company CA was almost at the equivalent sales volume of Company J at three million units a year (including OEM and aftermarket business) … In 2013, Company CA sold over 20 million units, while Company J was about four to five million units… Company J benefitted a lot from its global OEM customers and network… but it (aftermarket) lagged behind the competition in the fast-growing market’.
According to the sales director of Company J (JJH07), local companies CA and SA even paid more attention to quality. Company CA and Company SA, have both improved their brand awareness and recognition in recent years in China. The product quality has been recognised and accepted by more and more OEM customers and they have become qualified suppliers to many local and global OEM customers together with Company J. In contrast, Company J has been reducing prices to maintain and increase market-share. The outcome is that there is not much difference in price in the OEM business, with Company J charging a slightly higher price, just a few percentage points different. The price in the aftermarket to WDs is very similar between Company J and its two main competitors.

One fact that differentiates the market for Company J’s product relative to Companies M and S is environmental sensitivity. In the last five years, the Chinese government has tightened the environmental protection governance and engaged in intense intervention to inspect, suspend and even close production due to pressure from the public. The relevant health problems, such as sick children, have been reported and increased the public’s awareness and high social sensitivity. The environment protection governance has influenced all market players, including Company J and its main competitors, Company CA and Company SA. They have gone through the experiences of production suspension and closure. Furthermore, hundreds of small plants were shut down in 2011–2012.

For Company S, China will become its largest market in four to five years according to its forecast. The marketing manager (SSM02), who has been with Company S for ten years, commented that ‘there were not many WDs many years ago, but now there are more and more...The business in wholesale has grown ten times [during the last ten years]’. For example, during 2004 to 2012, one WD in Changchun city grew its business to four times larger and another WD in Wuxi city grew to 11 times larger (SSM07, city sales manager of Company S). The market was adjusting in 2013–2014 with around 10% growth. There are at least four other big, global MNC alternative producers and many big local producers in competition in China. The MNCs are taking the lead in the high-end market and local suppliers are playing more in the mid and low-end market.

The business nature of Company S’s industry is very similar to Company J in that the aftermarket (in B2C model) size is much bigger than that of OEM (in B2B model) and is much more profitable. However, compared to Company J, there could a relatively weaker pulling force from OEM business to aftermarket due to the product nature. Consumers cannot identify Company S’s brand in their cars and do not have much knowledge to differentiate the different brands and products among the several big producers. The Chinese users would be unlikely to maintain their vehicles by themselves with Company S’s products. They rely on professional service suppliers. The brand and product selection normally follows the recommendations from the service providers such as 4S shops and repair stores.

In Company M’s market, the top global industry players are all in China and doing equally well in general, which is similar to their global market positions. The top three global leading brands are also the market leaders in the China market, including Company M. ‘The (world) top players have all come
to the China market now, and Company M is not the only one big... There is huge competition pressure from other brands. Company M has higher requirements on its WDs’ (MMJ05, Company M's ex-WD sales and franchisee consultant). The local market players are growing and becoming more formal. For example, Company HZC is one local brand that has grown up from a local small SOE to one of the world’s top ten brands and a Chinese Fortune 500 company. Both Company M’s WDs, MWD01 and MWD02, were found to be selling Company HZC’s products. The deputy General Manager (MWH05), who has been with MWD02 for almost 20 years, had witnessed Company HZC move in the same direction as Company M, building the dealership network and enhancing its WDs’ management capability. ‘There is still a gap between Company HZC and Company M right now. Many market players are learning and copying Company M’s practice but they have never exceeded yet’ (MMM04, M training manager).

From the end user’s perspective, Company M's product category is very visible. Consumers can identify and differentiate brands from the appearance. They can easily identify the original equipment brands. However, as the products are among the same tier of brands, there is very low brand loyalty in the replacement market. The brand is easy to switch with the recommendations from the service providers such as 4S shops and street repair shops.

4.5 Distribution Channel and Construction

Company J’s automotive aftermarket in China is based on an acquired business from Company DE in 2005. In contrast, Company S and Company M have grown their business mainly with hands-on experience and step by step over decades. Figure 4-1 shows the various possible distribution models in the automotive aftermarket channel that can be identified and which are still in the process of evolving. Path 1 and Path 2 are the traditional distribution models whereby manufacturers sell through WDs, or WDs and sub-WDs, to retailers who then sell to the end users. All the three manufacturers were found to use both Path 1 and Path 2, but Companies S and M have been much more active in developing WDs than Company J in Path 1 and Path 2. Path 1 and Path 2 are the only ones found to be used by Company J so far. Although these first two paths are still dominant for Company S and Company M, they have been exploring other paths alongside the traditional paths (discussed in detail in Chapter 6). For example, Path 3 has one more layer, Tier III sub-WD. Paths 4, 5 and 6 involve more direct contact with the retailer or end users. Path 4 involves WDs directly connecting to end users, eliminating all transactions in between, Path 5 is the retail franchise business model to provide fast maintenance service and products to end users directly, while Path 6 involves manufacturers working with non-franchisee retailers directly. Path 7 is direct selling to end users from manufacturers without any partners in between. All the three manufacturers were reported to have been studying the Path 7 model, but there is no solid move so far (see Chapter 6). The different practices of the three manufacturers are listed in Table 4.2.
Table 4.2 Comparison in Aftermarket Distribution Model

<table>
<thead>
<tr>
<th>Path number</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Path 1</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Path 2</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Path 3</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Path 4</td>
<td>N/A</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Path 5</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Path 6</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Path 7</td>
<td>No (exploring)</td>
<td>N/A</td>
<td>No (exploring)</td>
</tr>
</tbody>
</table>

Remark: N/A = information Not Available

According to the owner/GM (JWH06) of JWD10, Company J used to mainly follow the Path 2 model with some usage of Path 1, but then in early 2010 tried to migrate from Path 2 to Path 1, cutting out the sub-WDs and moving WDs further towards the retailers. Then in 2011, Company J changed strategy and returned to the Path 2 focused direction. Company J appears to have adopted a primarily transactional relationship with its WDs, adding large numbers of new WDs, and focusing on the short-term sales volume by pushing through the WDs’ next layer, sub-WDs. It stopped guiding and developing WDs on how to pull business through retailers and end users. More recently it has been studying possible solutions, such as Path 6 (working with retailers without distribution in the middle) and Path 7 (selling to the end users directly online) to shorten the channel but has not yet apparently taken any solid action in the market.

For Company S, the core focus between 2004 and 2012 is found to have been, as with Company J, on Paths 1 and 2 but in contrast to the transactional approach, the strategy of Company S was focused on how to develop the competence of WDs in those paths. Since 2010, however, Company S is also reported to have been exploring other solutions. According to the summary from the ex-channel
excellence manager (SSM05) who served Company S from 1998 to 2010, there were four phases in Company S’s business development, specifically on the relationship with WDs (Table 4.3).

Table 4.3 Channel Development Phases for Company S

<table>
<thead>
<tr>
<th>Phase</th>
<th>Year</th>
<th>Characteristics</th>
<th>Elaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1995–2001</td>
<td>Pure transaction relationship</td>
<td>‘Money for products...We did not care whom they (WDs) sold to and whether they made money. We did not know and did not care’ (SSM05).</td>
</tr>
<tr>
<td>II</td>
<td>2001–2004</td>
<td>Close transaction relationship</td>
<td>‘There was some consideration from partnership’s perspective... From 2001, we cared about the actual selling from WDs to retailers. We paid attention to WDs’ profitability and capability’ (SSM05).</td>
</tr>
<tr>
<td>III</td>
<td>2005–2011</td>
<td>Close partnership</td>
<td>‘...we were deeply involved in WDs’ operations, developing market hand in hand (with WDs)’ (SSM05).</td>
</tr>
<tr>
<td>IV</td>
<td>After 2011</td>
<td>Closer relationship and exploration for new model</td>
<td>Much closer relationship with WDs (SSM05); Exploration on the franchise model or joint venture with WDs; WD and retail integration (SSM05).</td>
</tr>
</tbody>
</table>

The same respondent also reported, however, that when, during 2002 to 2004, Company S transitioned itself from the transaction model to partnership with WDs, it did not know how WDs ran their daily operations and thus did not have the expertise to add value to the channel partners. Thus, in order to learn and improve, Company S sent its managers to run the WD’s business, acting as WD’s General Manager (GM) in 2001 in one city as a pilot. They learned how to manage the WD business, and then modularised and standardised the systems. In 2003, Company S started to transfer its enhanced business model and operation best practices to the other eight cities. Later on, from 2005, Company S further advanced its WD development program from Phase II and extended all WDs. What Company S has been practicing now in the channel (Chapter 5) can be traced back to the pilot period (SSM07, city sales manager).

Company M’s distribution model is still concentrated on Path 1 and Path 2, but Path 5 has already been very well developed in China. ‘Currently, 40% of its WDs’ business is from the franchisees on average’ according to the information from Company M’s training manager (MMM04).

The evidence also suggests that WDs have developed their organisational capacities in the last two decades. The essential departments or teams in WDs are sales, finance and logistics (warehousing and shipping). It is common practice for WDs in the three distribution channels studied not to have a dedicated HR department or HR professionals. Only the few big WDs, such as SWD02 and MWD01, had an HR or HR and Administration department. The owners and GMs in WDs were normally the same persons and were also hands on in running the HR functions. In a typical organisation structure (Figure 4-2), the dotted line boxed functions can be considered optional, dependent upon the WD’s business scale. In a few cases such as JWD08, SWD02 and SWD03, the owners were investors who
did not manage the business directly. The GMs of JWD08 and SWD03 own some company share. However, for some WDs who belonged to some bigger companies, their HR is managed by their headquarters (for example JWD05). In smaller WDs, GMs normally acted as super sales managers. The customer network is at the core of the WD business, and this is normally controlled by owners/GMs.

WD’s organisation and business scale varies a lot in the automotive aftermarket (Figure 4-3). SSH08, the executive who experienced the industries of Companies J, S and M, summarised that normally, WDs from Company M’s industry are the largest, followed by Company S’s (20 to hundreds of employees) and then Company J’s WDs (from four employees to around 20). It is the normal business range from 300 million to 2 billion RMB for Company M’s WDs. The 50 million RMB business might be the very minimum for WDs serving remote and underpopulated regions. Company J’s WDs are the smallest in size with the normal business volume ranging from a few million up to 100 million RMB. Company S’s WDs business size is between that for Companies J and M, with a normal range from several dozens of million to several hundreds of million RMB.

Though there are variances of workforce education level among WDs, there are some trends in general, listed in Figure 4-4. The bigger the organisation, the better the education of the workforce, according to interview reports. WDs developed from Company S and Company M industries tended to have better education. For smaller WDs, especially the ones with core business in Company J’s product category, most employees had high school or trading school education. In medium-sized WDs, gradually, more employees had associate degrees. In large organisations, some employees had bachelor degrees. The owners with better education tended to hire better educated staff. WDs with their core business in Company J product, even if large, tended to have less educated employees, especially if their owners do not have much school education, like JWD09 and JWD10. These WDs
tended to hire very few employees with associate degree and above. The detailed examples of employee education profile are listed in Appendix 4.1.

The interviewed WDs believed that they do not need to hire highly educated people. Owners/GMs of WDs, such as JWH12 and JWH09, believed that the graduates were not grounded and less skilled. The jobs in WDs are simple and straightforward, requiring hard work and execution rather than creative activity. WDs’ customers, the repair store owners, are less educated. They prefer people who can talk the same language. Meanwhile, it is difficult for WDs in Company J’s industry to attract and hire highly educated staff due to the small size of the businesses and labour-intense nature of the work (Appendix 4.2).

There are also reasons to support the trend towards hiring better educated staff identified in the interviews. For example, the cooperation with the manufacturer may increase the bar for employee’s education (SWH04, GM of SWD02). Talent supply is another element. China universities produced 7.65 million graduates with associate degree and above in 2016. The middle schools and trading schools graduated a similar number of students who would not pursue further education but enter into the labour market. ‘It is easier to hire university graduates than operators’ (MWH05, deputy GM of MWD03).

![Figure 4-4 Education Profile of WD Staff](image)

Based on the available information from 17 WDs and reference information of manufacturers in this study, the WD owners of Company M and Company S are more senior in age than Company J’s on average. Three owners of Company J’s 11 WDs, those whose age can be identified in the interviews, are aged around 50 and above. 100% of the owners of the six WDs of Company S and Company M studied here are at age 50 and above. One of the six has been succeeded by the owner’s daughter. Based on the summary from M’s training manager (MMM04), ‘close to half of the owners of the overall 70-80 WDs nation-wide, are in their 50s’. The WDs owners at a senior age start or start to plan the family succession, which embeds another layer of business uncertainty to manufacturers.

### 4.6 Attraction Factors between Manufacturers and WDs

Manufacturers and WDs come together in one distribution channel for various reasons. What makes a WD attractive to manufacturers is consistent across the three cases. The interviewees report that it is financial capability, distribution network, local market intelligence, access to the local market, low

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11 [http://career.eol.cn, 2016](http://career.eol.cn)
cost operation model, and high flexibility and agility in managing ambiguity (Appendix 4.3). These attractions, or the value added by WDs, could be dynamic when the external environment changes, and might affect the manufacturers’ future commitment to the current channel partners.

The basis of the attraction of WDs to the three manufacturers appears to be the opportunities for sustainable profitability, now and/or in the future, the association with an international brand, a high-quality product and/or service, access to OEM customers, and learning opportunities from MNCs. Different issues emerge when WDs are analysed further from two perspectives: whether the WD’s core business is based on one manufacturer’s product category and the years of business experience with the manufacturer (Figure 4-5). We divide WDs between those who have a new business relationship with manufacturers, which is less than two years, and those that have a longer established relationship, which is more than two years. The very experienced executive, SSH08, based on his leadership experiences in Companies S and J, and Company M’s competitor, truly believed that ‘two-year in business relationship…between WD and manufacturer is one milestone for WDs to decide whether or not to carry on the business’.

There are common and unique benefits to pursue in the relationship with manufacturers for WDs in different categories (Figure 4-5). All WDs care about long-term sustainable profitability the most. When one manufacturer’s product is the WD’s current core business (Box III and IV), the near-term profit is weighted more as they need to survive from this business. When most of the WDs’ business comes from other products, such as from Company M or S industries (Box I), the business could be more of a strategic investment with less pressure for immediate profit. For the new WDs (Box I and IV), they have limited experiences with manufacturers (Companies J and S in this study). Most old WDs (Box II and III) have grown up with Companies J, S and M from mom and pop shops. Those WDs with Company J’s product category as core business expect to learn from Company J to enhance their management, but those whose core business is with Company M and Company S industries have already been developed in business and management by M and S companies so they do not have such expectations from Company J. The specific considerations are listed in Figure 4-5.
Figure 4-5 Manufacturer’s Attraction Drivers by WD Categorisation in Old/New and Core/Mixed Grid

<table>
<thead>
<tr>
<th>Core business in one manufacturer’s product category now</th>
<th>Non-Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td></td>
</tr>
<tr>
<td>Old, Core</td>
<td>Old, Non-Core</td>
</tr>
<tr>
<td>II Old, Non-Core</td>
<td>III New, Non-Core</td>
</tr>
<tr>
<td>- Risk management through diversifying business (J and M)</td>
<td>- Brand impact (J)</td>
</tr>
<tr>
<td>- Profit (losing money with J)</td>
<td>- Business sustainability: government environment protection and long-term commitment (J)</td>
</tr>
<tr>
<td>- Losing trust (specific with J)</td>
<td>- Business model shift (J)</td>
</tr>
<tr>
<td>- Switching brand cost (S)</td>
<td>- Future technology upgrade (J)</td>
</tr>
</tbody>
</table>

JWD02, JWD12
MWD01, MWD02, MWD03
Not available for S

WDs from adjacent aftermarket expanded business to J: JWD01, JWD03, JWD04, JWD06, JWD08, JWD11

I Old, Core
- Brand impact (J, S and M)
- Profitability (J, S and M)
- Management and operation enhancement through learning (J, S and M)
- OEM pulling business (J and M)
- Market support (J)
- Business momentum and habit (J)
- Another alternative options (J)
- Maintain the business scale (S)
- Attachment to S due to S’s caring to WDs (S)
- High-end portfolio (M)

JWD05, JWD07, JWD10, JWD13
SWD01, SWD03

IV New, Core
- Brand impact (J and S)
- Profitability (J and S)
- Management and operation enhancement through learning (J and S)
- Multi National Company status (J and S)
- Business sustainability: government environment protection and long-term commitment (J)
- Business growth potential (J)
- OEM pulling business (J)
- Employee recruitment support (J)
- Industry attraction (S)

Competitors’ WDs converted to J: JWD08, SWD02
Not applicable for M

Old
New

Business relationship with the manufacturer

Company J’s WDs carried over from the acquisition of Company DE are mainly in the Old, Core box. Most of Company J’s old WDs have major business in Company J’s industry. Some of them have introduced competitive products and very few of them do business with Company J as an exclusive supplier. They care about Company J’s global branding, the potential for improving profitability, and for support in advanced management techniques, developing the market and training. They were found to be either tied to Company J by their long-term experiences and habits or because they did not see better supplier choices. Some WDs, such as the old one, JWD10, were in a process of migration from Box I (Old, Core) to Box II (New, Non-Core) through diversification. JWD10 had been aggressively diversifying its business portfolio since 2009 such that by the end of 2013, 40% of its business was not in Company J’s industry. The owner’s commitment to further diversification is obvious. The main consideration was to avoid risk in one product line and with one manufacturer, based on the lessons learned with Company J and the unpromising future for distributors in this channel.
Since Company S has a requirement for 80% or above of the WD’s total revenue to come from its business, the profitability of its current business with Company S is crucial to the survival and growth of WDs. Maintaining business with Company S ensures the scale of business and upgrading of the management and operation capability. The cost of brand switching and feeling of belonging to Company S are also the key considerations for WDs staying with Company S. Detailed comments are documented in Appendix 4.4.

Box II: Old, Non-Core

There are no WDs clearly categorised in Old, Non-Core for Company S in this study. In contrast, JWD12 and JWD02 have moved their major business to competitors. Profit and trust drive WDs’ decision whether to remain with the manufacturer or not with respect to their core business. JWD02 and JWD12 are losing money and trust in Company J and are trying to diversify or focus on alternative brands to manage the risk. For the three WDs of Company M in this study, they are all old WDs. 100% of their business is from Company M industry. However, they have multiple manufacturers as suppliers for top-end to low-end market. The middle and low-end products are supplied by the local manufacturers. Company M is absolutely the major supplier for the WDs’ high-end market. However, it does not take the majority of the WDs’ overall business. Company M’s share is 30-35% in MWD01, 25-30% in MWD02, and 20% in MWD03. Company M has obvious image for the high-end products as differentiated from local competitors. However, Company J does not have that advantage. Channel distributors, retailers, end users and OEM customers have accepted major local suppliers well, though Company J has a slightly better image which can drive slightly better price and profit.

Company M’s attraction factors for WDs are its global top brand, enriching high-end product portfolio, well perceived quality and service, and superior technical and sales support. It is easy for WDs to sell products in Company M’s brand to retailers and end users. There are fewer quality issues. Profitability is another attraction factor. Franchisees value the profit opportunities. They can grow their business if they follow the way of Company M to operate with enhanced management and operations. Detailed comments are documented in Appendix 4.5.

Box III: New, Non-Core

Only Company J has WDs that are classified as New, Non-Core in this study. All the six WDs of Company S and Company M have years of strong business relationships with the two manufacturers. The WDs of Company J in Box III are normally the new market entrants from adjacent markets such as the industries of Company S and Company M. They have concerns about their capability to add value as distributors and would like to shift their business model towards becoming solution providers. Some WDs are concerned about their current product portfolio. When there is a major technology upgrade or revolution, some of their products in the current business may become obsolete. They need to take preventive action and be prepared early. International brand, business sustainability, and foreseen government tightening of environmental policies all make Company J attractive to the New, Non-Core WDs. Detailed comments are documented in Appendix 4.6.
Box IV: New, Core

The WDs of Company J in the New, Core category are newly-converted competitors’ WDs. However, the competition for good quality WDs is tough. Company J’s commercial excellence manager (JJM06) reviewed his experience in recruiting WDs. Company J targeted the most competitive candidate WDs in the market but some of their current suppliers, such as Company CA, fought back threatening ‘if you (WDs) run Company J’s business, we cannot partner any more … 15 to 18 WD candidate WDs withdrew from the process in the 88 [WD recruiting] cases’ (JJM06). The benefits that the converted WDs expect to gain include brand, sustainable profitability, attracting business from OEM and management support. SWD02 is a newcomer from another industry. The key consideration to become Company S’s WD is the industry. The industry attractions include its limited investment requirements, low risk and high flexibility. The industry has low exit risk. The product warranty is long. The business turnover rate is high. The learning opportunities with Company S are also highly valued by SWD02. Detailed comments are documented in Appendix 4.7.

4.7 Business Challenges of Company J and Performance Comparison of Manufacturers

The deteriorating profitability is the biggest challenge for Company J’s WDs. The current profit is very thin or non-existent. WDs maintain Company J’s business in the hope of future profits. Without profit, they cannot grow and it is even hard to survive. WDs were forced into diversification due to product shortage but this means many continue to diversify, no longer so dependent upon/dedicated to Company J. When WDs do business with Company J’s competitor manufacturers, they report that their experiences are actually not so bad. They may carry on the new model. Meanwhile, their working capital may be tied up in other business and cannot be used to support to Company J’s business anymore or as much as before. WDs’ solutions may thus eventually become Company J’s challenge.

Cross-region selling is one common problem that is driving down the price. To avoid the competition among WDs for the same brand, WDs are designated to a specific region or industry. Manufacturers will not allow WDs to sell in other regions or industries to maintain the price and profitability. WDs’ commission from Company J is based on the sales target and actual volume. The more products are sold, the higher percentage commission will be. In order to meet the sales target and obtain the commission, some reported that they (WDs) sold cross-region secretly at lower prices. They use the better commission to compensate the loss due to the lower price.

WDs’ resources are scarce. Most WDs have grown up from mom and pop shops. The step-by-step organic growth is the default practice and mind-set. They are very conservative and unwilling to grow through credit. Another growth limitation is the cash flow. It is manufacturers’ common practice to tie up WDs’ cash in their product inventory. One purpose is to create a pushing force to WDs, and the other is to prevent WDs running competing businesses or diversifying products. The overall turnover rate is low in the traditional channel. WDs’ capital management is ineffective in cash flow.
Company S and Company M have been very successful in the China market. They are the market leader with top market share and healthy profitability (Table 4.4). They are perceived as top brands in their own industries by OEM, WDs, retailers and end users, which enables them to drive up the price and profit. Their WDs are much more stable and loyal than Company J’s. Only one of the six WDs in this study is new, which actually acquired one old WD business. They have been benefitting a lot in organisational development from Company S and Company M’s knowledge transfer. Even if facing the similar challenge in deteriorating profit and cross-region selling, their WDs maintain the major business and strong relationship with Company S and Company M as WDs highly appreciate the intangible benefits from Company S and Company M. WDs of Companies S and M are much better developed in operations and management compared to Company J’s. In the market, WDs of Companies S and M are perceived as the best distributor resources when automotive manufacturers are seeking partners in the automotive aftermarket industry.

Table 4.4 Direct Economic Outcomes of Companies J, S and M from SC Integration

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Dimension</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct economic outcomes (WDs)</td>
<td>Market position</td>
<td>Middle</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Direct economic outcomes</td>
<td>Profitability</td>
<td>Loss</td>
<td>Profitable</td>
<td>Profitable</td>
</tr>
<tr>
<td>(manufacturers)</td>
<td>Market position in</td>
<td>Not market</td>
<td>Market leader</td>
<td>Market leader</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td>leader</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.8 Alternating Distribution Strategies of Company J

Company J has been exploring different business models to grow its China business. Its strategy is not consistent and its management team has not been stable over the last six years. As earlier mentioned in this chapter, in 2010–2011, Company J’s strategy was to encourage and support WDs to invest and develop retailers so that the business could transfer from pushing to pulling. Retailers could sell more so that they would buy more from WDs and Company J. This was the market deep penetration strategy. Later in 2011, Company J’s expatriate leader took charge and changed the direction back to focus on wholesale. Company J increased the number of WDs or sub-WDs largely in the following years till now. The old WDs suffered and complained a lot. Some eventually changed their own strategies. In 2014–2015, besides growing the number of WDs, Company J put some efforts into developing its own sales competence model and WD competence model. These practices have been tried, stopped, and re-launched under the leadership of different management teams. The achievement of short-term sales volume and profits remain the top priorities and longer-term strategies are not persistently pursued.

In contrast, Companies S and M are very consistent in their channel strategies. They are in a more mature stage than Company J. Company J is still in transaction mode, while Company M and Company S have been in partnership with WDs for years. Company S and Company M are advanced in new
models such as franchise, especially Company M, while Company J is studying Company S and Company M market practices. Company S is consistent in its business strategies with innovative business market practices. Company S has been persistent in two strategic initiatives which shaped its market leading position in the last ten years, WDs’ competence development and continuous brand building (SSM06, ex-marketing manager of Company S). Company S has been exploring new initiatives to break the growth bottleneck. It was the first aftermarket manufacturer focusing on the 4S stores, and then dedicated to competence development of the WDs. Company M focused and developed WDs in its early stage. In recent years since 2010, Company M has focused on retailers, including franchisees. Company M is studying and piloting how to integrate and synergise the channel (Chapter 6). Company M can easily replace a WD without much business impact. For example, in Shanghai Company M has three sales representatives. Company M knows all the retailers and commercial terms. Company J are not able to do so.

4.9 Summary

This chapter provides strong evidence that Company S and Company M are good exemplars for this comparative study of Company J as they are very similar as MNC global industry leaders and in the same automotive aftermarket industry in the same China business environment. However, they have been running their distribution channel differently with different business results.

Through the in-depth interviews and comparative analysis, Company J’s business problem has been clearly defined: its damaged brand and the destroyed WDs’ trust due to its poor product quality, shortage of supply and inconsistent strategies. Its WDs have been diversifying their product portfolios and becoming less committed.

The relationship in the supply chain has been investigated from a longitudinal perspective. Company S and Company M have long-term and consistent relational partnerships with their WDs, with better business performance and stronger WDs developed, while Company J is in a transactional network with its WDs, focusing on short-term benefit with poor business performance. Company S and Company M have stronger trust with their WDs than Company J. The comparative analysis on the distribution strategy and business performance across the three supply chains supports Proposition 1: Where the aim is to improve overall operational effectiveness and competitive advantage and not just to minimise cost, relational with trust supply chain arrangements are more likely to be effective than transactional arrangements.

The attraction drivers between manufacturers and WDs have been identified. Seven distribution models, traditional, new and potential ones, have been mapped. WDs’ current values expected by manufacturers, such as access to the local market in a cost-effective approach, might help to evaluate whether WD partners would be still able to serve the purpose in the future. The attraction drivers of manufacturers to WDs help to identify the reasons why WDs select certain manufacturers. The different values or attraction to each other may affect the bargaining power in the chain. The SC
member which offers more value, such as business growth, branding or training, to other members may have stronger bargaining power. Learning opportunities arising out of the relationship provide support for the values of inter-firm knowledge transfer. Some WDs of Company J have been found shifting their position within the grid of old/new and core/mixed WD categories (Figure 4-5), which is leading to questions concerning future trends and their impact on SC relationships (Chapter 6).

The explored differences in both the decision-making authority of the local team and in the trust levels within the three MNCs between their global headquarters and local teams led to further investigation on whether knowledge transfer in the supply chain is a feasible choice for all overseas-headquartered MNC manufacturers with Chinese subsidiaries (Chapter 6). Furthermore, the characteristics of WDs’ business in relation to organisational size, structure and workforce profile prompted an evaluation of the characteristics of, and specific challenges in, SMEs’ HRM. This helped to address the question whether HRM knowledge should and could be transferred between SMEs and MNCs in the supply chain. Meanwhile, this study also explores the transfer mechanism: how HRM knowledge is transferred and integrated in the SC (Chapter 5). Overall, the research interviews both confirmed, but also extended, our understanding of Company J’s issues in its distribution channel. They also enabled us to identify the similarities and differences in the industry, business model and governance (global versus local) between Company J and the other two successful SCs and to map the nature of SC relationship and the main stages of SC development. All these findings led to the next level research on the HRM in SC.
Chapter 5 Determinants and Working Mechanisms of HRM Knowledge Transfer and Integration in the Supply Chains

5.1 Introduction

This chapter explores the actual practices of HRM knowledge transfer mechanism in the supply chain, including the motivations for and directions of transfer, the transfer channels, and the influences of the societal context, referring to the research model (Figure 2-7) proposed from early research (Chapter 2).

Specifically, this chapter is divided into six main sections to explore six dimensions of the HRM knowledge transfer model in the supply chain. First, we consider the motivation factors, both pull and push, to initiate the transfer. Here we also consider the effect of inter-firm trust on the transfer of tacit or explicit knowledge through a comparison among the three chains, and investigate whether there is evidence of positive virtuous cycles or negative vicious cycles. The motivation of learning from manufacturers, a potential attraction of manufacturers for WDs (Chapter 4), is also studied.

Second, we investigate the knowledge transfer direction and the rationale for transfer. In the third section, we explore both the specific HRM fields that are transferred and match the HRM fields to the transfer media, differentiating between systems and inter-person channels following the categories used in the current literature (Chapter 2). This analysis extends the inter-person channel from personal interactions between members in the supply chain to include the hiring of people from other members in the same or different supply chains in order to transfer knowledge. In the fourth section, the Chinese institutional factors, contractual vs. relational, are investigated to validate their impact or otherwise on the HRM knowledge transfer.

The fifth section explores the process factors that affect the HRM transfer effectiveness. Since there is no common ‘best’ practice HRM solution (Chapter 2), the actual transferability of HRM along the SC is one big question to address. The differences and similarities between manufacturers and WDs are compared, and the specific HRM challenges in WDs identified. The advantages of WDs in HRM are summarised and used to consider what the characteristics of HRM could be that might best fit the needs of the supply chain. A range of other factors are examined and compared to elaborate their impact on the transfer process. These include, on the MNC manufacturers’ side, their Chinese cultural awareness, their local team decision-making authority, their SC HRM expertise, and, on the WDs’ side, their learning ability. Finally, the concluding section explores the extent to which the purpose of HRM knowledge transfer in SC, that is to enhance the business results, is achieved in the three cases with respect to both WDs and the manufacturers, using a three-level business impact framework to evaluate the impact of HRM knowledge transfer in the SC (Chapter 4). This concluding section also enriches and modifies the literature-review-based model (Figure 2-7) with an overall framework for understanding the transfer and impact of HRM transfer and integration, and identifies in what ways our understanding has been changed or enhanced through this empirical exploration.
5.2 Motivation Factors to Enable the HRM Knowledge Transfer from Manufacturers to WDs

There are two kinds of motivation factors enabling or disenabling the HRM knowledge transfer in the supply chain at organisational level. The trust relationship will motivate or demotivate WDs to learn from manufacturers. The bargaining power distribution will determine how much manufacturers can force WDs to absorb and implement the HRM knowledge and practices. Strong motivation, whether the result of pull factors (through trust) or push factors (through power), helps to drive the actual integration efforts. There is also the issue of learning motivation at the individual level – whether individual employees or owners would like to learn.

5.2.1 Pull factors: the organisational trust relationship

The trust relationship between manufacturers and WDs affects the HRM interactions and beyond. The owner/GM of MWD01 (MWH03) clearly stated that ‘I will listen more if we have a good relationship. If the relationship is poor, they (manufacturers) won’t offer us guidance and I won’t listen to them’. All the staff of the three manufacturers and their WDs interviewed believe that the long-term win-win strategic partnership should be the right relationship (Appendix 5.1 and Appendix 5.2). For instance, the ex-commercial director of Company S (SSH08), who also used to lead Company J’s China business as GM, commented that ‘the partnership is necessary if manufacturers and WDs would like to have a sustainable growth. The relationship should be mutually beneficial’. The marketing manager of MWD03 (MWM07) also believed that ‘it should be a win-win relationship between manufacturers and WDs’, and the sales director of MWD03 (MWH06) expressed that ‘manufacturers and WDs are in the same chain of interest... The life cycle of the business network will become shorter if the relationship is transactional’. Though all wish to have a strategic partnership, some manufacturers are concerned that some WDs may become their competitors (JJJ05, Company J’s frontline sales representative) and some WDs are concerned that manufacturers over-manage their business and that they could be easily replaced (JWH01, owner/GM of JWD01). Trust is perceived as a high or most important factor in the relationship between manufacturers and WDs in almost all the interviews with manufacturers and their WDs (Appendix 5.3). The trust between manufacturers and WDs appears to decide the relationship. If WDs do not trust manufacturers enough, they adopt a just ‘wait and see’ attitude and will not invest (JWH06, owner/GM of JWD10). They will ignore the manufacturers if they do not trust them. The interviews revealed that manufacturers believe that trust is built through every detail over a long time, including product quality, lead time, aftersales service, organisational capability, manufacturer employees’ personal competence and ethical/caring behaviours, organisational culture, future vision, and strategy (Appendix 5.4). However, these are also said to be not enough for long-term trust. The benefits received from the relationship, such as improved sales revenue and profit (SSM07, SWH07) and intangible value added in organisational development (SSM04), need also to be in evidence (Appendix 5.4).

The WDs reported that they select manufacturers for their dealership based on their initial trust of the targeted manufacturer, including reputation-based and competence-based trust. For example, the
managing director (JWH08) of Company J’s new WD, JWD08, talked about his considerations for partner selection. He commented that ‘I know that this brand (Company J) will add value to our image… Its background and competence promise the future successes’. The GM (SWH04) of Company S’s new WD, SWD02, shared that ‘Company S is one top company in the world Fortune 500. WDs do not need to put efforts into branding… It has some advanced management’. Overall, Companies S and M are said to have superior credibility according to word of mouth in the market, a factor which attracted the WDs. Company J is said to be much less attractive than Companies S and M (details compared in Chapter 6). WDs’ early interactions with manufacturers can be said to be driven by the calculus-based trust. WDs make their business decisions based on the computational trust, with specific cost, benefit, and risk analysis. HR knowledge transfer normally starts from the explicit-nature knowledge since its transfer is low-cost and low-risk for manufacturers and WDs. When the transfer makes a positive impact to the business and SC relationship, the interactions become the causes leading to deeper trust, which leads to deeper level of knowledge transfer eventfully from explicit knowledge to more tacit knowledge transfer with more commitment and investment. The positive dynamic trust fuels the virtuous cycle (Figure 5-1). HRM appears as one element together with other business factors in the trust construct cycle. For example, the sales director (JJH07) pointed out that some manufacturers compensated WDs’ hiring in some cases. This kind of practice reduces the bar of the computational-based trust and enables a further level of HR knowledge transfer and HRM integration. It may trigger more joint efforts in market development, which successfully enables further partnership. The more HRM knowledge is transferred and HRM is integrated, the better the organisational and business results and the more trust has been built. The managing director (SWH07) of SWD03 described that ‘in the past years, Company S has invested a lot, training WD employees and developing WDs’ organisational capability… WDs, including me, have been upgraded [in management capacity]. We, like school students, are progressing from primary schools, to high schools and then to universities with post graduate degrees… WDs in the dealership with other competitive brands can feel our [faster] growth though we may start business in a similar time… By doing business with Company S, I have become more professional [than other WDs in the industry] and ahead of competition in five to ten years. My business is bigger, and my management is more advanced… It is beyond the business itself. The partnership embraces our growth and enhancement… My trust level to Company S is at least eight (out of ten) … The trust is based on the historic partnership, commonly recognised culture and mutual understanding’. SWD03 has also embedded S’s values through years of partnership.
The trust cycle could be vicious not virtuous (Figure 5-2), that is initial trust may be weakened by negative further interactions. JWD10 is one of Company J’s biggest WDs and provides an example of the potential for negative interactions. There used to be strong trust between JWD10 and Company J but they then experienced problems of lack of supply, poor quality and pricing adjustment (much higher). The owner/GM (JWH06) complained that ‘I missed the relationship in the early (good) days… Company J has no influence on my people management now… They used to focus on my team development, hiring, performance management and vision planning… Later on, all had gone… The trust level is at five to six (out of ten) now with the lowest trust point at five’. If trust is undermined, the HRM knowledge transfer can be expected to move from the tacit end to the explicit end in the knowledge continuum. Fewer or inconsistent interactions will lead to less trust. Again, knowledge transfer and HRM integration are only part of the overall business interactions. The evidence collected suggests that Company J has experienced such a vicious cycle. In 2011, Company J encouraged its WDs to hire people expanding the retail business. There was some initial training and mentoring on how to manage the new business model from Company J. Later on, Company J changed its strategy, but by then WDs had added headcount, increased inventory and extra facilities, investments which could no longer generate the expected return. This kind of event reduced the trust, leading to a ‘wait and see’ response when Company J tries again to encourage its WDs to invest in their organisation development. The owner/GM (JWH06) of JWD10 stated that ‘I feel that it is transactional relationship only [now between Company J and me]. I do not have expectations on the next step. What I can do is to wait and see. All WDs of Company J have a similar attitude to mine’. Trust is the effect of early experiences and also a rationale for future interactions. It is hard to switch from a vicious cycle to a
virtuous cycle, as Company J has been trying to do to recover trust over the last several years. Every interaction becomes a trust dynamic, positive or negative for the revised trust in Figure 5-2.

The relationship between Company J and its new WDs is in the exploratory stage, while the relationship with the old WDs has been damaged, and has even passed the turning point for a positive direction based on the comments from several generations of leaders in Company J (details in Chapter 6). It is more transactional, although with some features of a partnership. WDs do not see the prospect of a win-win partnership with Company J, while Companies S and M have higher trust relationships with their WDs (details in Chapter 6). Their trust is beyond the computational-based and can be considered relational trust.

Together with the findings on the positive business results from relational networks compared with the negative results from transactional ones in the three SCs in Chapter 4 (Table 4.1), Proposition 1 has been supported in that where the aim is to improve overall operational effectiveness and competitive advantage and not just to minimise cost, relational with trust supply chain arrangements are more likely to be effective than transactional arrangements. Meanwhile, this case study also supports Proposition 6, that trust is a reciprocal cycle. It can be reinforced by further positive interactions in a virtuous cycle or weakened by negative interactions in a vicious cycle. The trust cycle affects the HRM knowledge transfer and integration in the same direction as the trust evolves positively or negatively.

5.2.2 Push factors: manufacturer’s bargaining power

When the WDs fail to buy into new SC initiatives through lack of trust, the bargaining power of the WDs and manufacturers may be the deciding factor in how much the initiatives can be implemented. The strong bargaining power normally held by manufacturers could allow them to insist on trying something new even if channel partners in the beginning may be sceptical about the desirability of
these changes. The city sales manager (SSM07) shared one extreme case at Company S. ‘Before 2000, our approach was [simply] forcing WDs when we could, not convincing them… [If a WD did not follow us,] I would shut it down and open a new one’. Early success, even from enforced initiatives, could build on the initial trust further. Threat of switching used as one of the competitive pressures (Figure 2-3, Chapter 2) could depend upon the relative power in the channel. Compared to individual WDs, all three manufacturers have much stronger bargaining power, but in relative terms, Companies S and M are stronger than Company J (details in Chapter 6). It is a consensus that both manufacturers, Companies S and M, and their WDs, believe that Companies S and M have overwhelming bargaining power. This emerges without doubt from all interviews (Appendix 5.5 and Appendix 6.5), while there are inconsistent views on whether Company J or its WDs have greater bargaining power. For instance, Company J’s channel excellence manager (MMM05) and senior marketing manager (SSM06) both remarked that Company J is weak in bargaining since it is not the market leader and could be replaced easily (Appendix 5.5). This finding supports Proposition 2, that differences in the power distribution between companies within the supply chain will influence SC relationships and HRM integration strategy. The more bargaining power, the easier the stronger SC members find it to transfer and integrate their HRM knowledge and practices in the SC.

5.2.3 Individual learning motivation

Learning willingness at the individual level relates to how eager the person is to learn no matter how fast they can learn. Based on the one (lowest) to ten (highest) scale measurement on learning willingness during the same interviews, the employees in the three manufacturers were found to have better learning willingness than the ones in WDs. However, the WD owners of Companies S and M were found to have much stronger learning willingness than their staff and even very close to the manufacturers’ employees (Figure 5-3). There is only one data point to evaluate the learning willingness of WD owners of Company J. The evaluator was the ex-marketing manager (SSM06) of Company S who had become the senior marketing manager in Company J by the time of the interview. SSM06 may benchmark against WD owners of Company S due to her early employment experience in Company S, so it could be too early to make a judgement that WD owners of Company J have lower learning motivation than WD employees.
Learning Willingness Comparison of WDs

The WD owners of Companies S and M have strong willingness to learn because they own the business and face the competition in the dynamic market, as argued by the marketing manager (SSM02) and sales manager (SSM07) of Company S (Appendix 5.6). Compared to Companies S and M, WDs do not have systematic methods to motivate their employees to learn. There is a big gap between the owners and their employees in learning willingness. Both the owner/GM (JWH20) of JWD13 and the owner/GM (JWH12) of JWD11 accounted for their employees’ lower learning willingness mainly by their low education profile. Age, career aspiration and job requirement are the other factors mentioned. The owners of Company J’s WDs, for example, JWH01 and JWH15, believe that the age of 35 differentiates learning willingness. The younger they are, the stronger their learning willingness is (Appendix 5.7). The sales manager (JWH03) of JWD05 accounted for the low learning willingness of his team by the limited career opportunities. Some professional jobs, such as finance, require certification and affect learning motivation, based on the comments of the marketing manager (MWM07) of Company M’s WD (MWD03). From an organisational perspective, the channel excellence trainer (JJJ09) of Company J said that ‘the learning willingness also relates to the cooperation time between manufacturers and WDs’. The newer WDs have stronger learning motivation. [The WD owners] want their employees to master the skills faster and to be able to sell immediately’. The WD owners’ learning willingness, that is whether they can be developed or not in the long-term, is normally one of the key considerations in manufacturers’ WD selection process. The senior channel development trainer (JJM10) of Company J who used to be the area sales manager, was in the process of modelling the standard WD selection and development process. WD’s ‘developable ability’ is one key aspect. It is apparent that there is a clear gap between the WD owners and their employees in the SCs of Companies S and M. WD owners may largely affect the learning environment in their organisations, offering learning resources and rewarding employee’s learning behaviours and their

![Figure 5-3 Learning Willingness Comparison of WDs](image-url)

*Figure 5-3 Learning Willingness Comparison of WDs*

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enhanced knowledge and skills. However, the motivation of individual employees to learn could also influence how much personal effort they make towards learning in the WD organisation.

5.3 Knowledge Transferred from MNC Chinese Subsidiaries to Wholesale Distributors

The tendency for a one directional relationship, with manufacturers influencing WDs’ HRM but not vice versa, has been clearly identified in the three supply chains studied, though there are variances in the consistency and strength (richness and depth) (Figure 5-4). HRM knowledge transfer and HRM practice integration from manufacturers to WDs have covered a wide range of arenas, from WD’s organisational design, hiring and selection, compensation and benefits, learning and development, and succession, through the business processes of selecting WDs, establishing business networks and the continuous development of WDs. There are responsive or proactive interactions from WDs to manufacturers, but there is no business and HRM integration identified in this study. The WDs do not have the motivation and power for backward integration of HRM to occur (Appendix 5.8). All three manufacturers (J, S and M) and their WDs have consistent interpretations on this. For instance, the sales regional manager (MMM02) of Company M said that ‘there is almost no impact [from WDs to Company M]. At most, they complain about some unpleasant cooperation with certain persons. It can be ignored. Company M won’t change its persons as WDs wish unless the relevant person is truly not capable’. M’s training manager (MMM01) firmly commented that ‘we are directing totally. We are influencing their (WDs’) HRM and they are not influencing ours at all’. The deputy GM of MWD01 (MWH02) echoed the same message from a WD’s perspective: ‘We [WDs] cannot influence any decisions of manufacturers. We follow the manufacturers totally … It is absolutely impossible [to influence Company M’s organisational structure and its people]’. 

In these three cases, all manufacturers have the inspiration to integrate and most WDs want to be integrated. The sales director (JJH07) of Company J has had direct working experiences in all of the three manufacturers studied. He expressed the view that WDs in the three chains have some similar concerns. For example, some WDs worry about being over-controlled by manufacturers. Integration between WDs and Companies S and M is broader, deeper, and more consistent than with Company J. As one extreme case for Company J, the managing director (JWH08) of JWD08 claimed that ‘there is no influence [on my HRM from Company J]’. As global Fortune 500 MNCs, Companies J, S and M
are in a different league in terms of size and power than their individual WDs and have stronger bargaining power. There is no evidence provided in these three cases on the integration willingness, effort and practices from WDs to manufacturers. Too-long communication processes without accessibility to the manufacturers’ key decision makers, concerns about the potential negative consequences if WDs provide frank (negative) feedback (JWH12, owner/GM of JWD11) and inapplicable HRM practices, such as intense human-touch management (JWH09, owner/GM of JWD03), are the major reasons found as to why WDs do not put effort in to integrating with manufacturers’ HRM.

The manufacturers’ management did not see the value and had no motivation to be integrated, now or in the future, by WDs due to WDs’ small-scale and inapplicable systems, processes, and governance (SSH03, S’s ex-commercial director). Companies M and S are consistent with Company J in this aspect, no backward integration efforts from WDs to manufacturers were found (Appendix 5.8). However, there are some two-way interactions. WDs were found to provide market and competition information and were invited to provide feedback on manufacturers’ sales representatives’ performance. WDs’ feedback helps manufacturers to adjust their organisation and resource allocation. Company J established the aftersales service team and the customer specialist (phone service) team based on WDs’ complaints (JJM12, J’s area sales manager). Company S changed its hiring preference from high-calibre graduates from top universities to candidates who may not have studied in good schools but have demonstrated a strong will to pursue success. The WDs preferred to select candidates who had experienced hardship in their life and had shown determination in their struggles for survival and better living since this experience may spur candidates on to strive for success in the job. Actually, this change was based on the WDs’ feedback that the high-calibre graduates did not work well in their business environment because it was more critical to have hardworking employees than better educated employees (SSH03, S’s ex-commercial director).

Part of Proposition 4, MNC manufacturers transfer HRM from its subsidiaries to SME distributors, has been supported. The details of every perspective of the HRM knowledge transferred and integrated are compared later in this chapter.

5.4 HRM Knowledge Transfer Content and Media

This research finds that HRM knowledge transfer and integration is broad and comprehensive in almost all HR functions. System and inter-person are the two mechanisms to transfer and integrate HRM in the SC. The system channel includes the manufacturers’ formal organisational structure, any systematically-defined policies, responsibilities and requirements on their employees, and IT systems such as Enterprise Resource Planning (ERP) and Learning Management System (LMS) to integrate WDs’ HRM, and documentation. Inter-person means the interaction of individuals. Based on the literature review (Chapter 2, Session 2.4.3), different channels may be leveraged to transfer knowledge
of a different nature (e.g. tacit and explicit), so we analysed the cases in a matrix by knowledge and transfer mechanism (system and inter-person).

5.4.1 Transfer media: system and inter-person

System media includes organisation set-up, IT system and documentation (Table 5.1). All three manufacturers have dedicated training teams to develop WDs. Company J’s WD development function reports to the business leader, and its HR department has no responsibilities and no performance requirements relevant to developing and integrating WDs (Appendix 5.9). Company S’s channel excellence team dedicated to developing WDs reported to the business leader from 2006 to 2009. Since then, it has been part of the HR department. Company S’s ex-employee (SSM05), who provided evidence in relation to his role as the area sales manager during 1998–2006 and the senior consultant in developing WDs during 2006–2010 in the HR team, explained the rationale of the reporting line shift of the channel excellence team. In the early stage of establishing the distribution channel, there were many business interactions between WDs and Company S. This was the reason why the channel excellence team reported to business. But later on, in-depth HRM expertise in the distribution channel was required when the distribution channel was stabilised. As the HR department hosted the HRM expertise so that it was reasonable to change the reporting line to the HR function. Company M’s dedicated WD and franchisee training teams report to the HR function. All three manufacturers have ERP systems to integrate WDs’ operations with information on business transactions and inventory. Only Company S has WDs’ HR data in the system besides the business data. All three have eLearning platforms offered to WDs, while the contents of Companies S and M are richer. Companies S and M have better systematic documentations with detailed working instructions, manuals and training materials than Company J (Table 5.1).

Table 5.1 HRM Knowledge Transfer Media: System

<table>
<thead>
<tr>
<th>System</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>WD development</td>
<td>Report to business</td>
<td>Reporting line changed from business to HR</td>
<td>Report to HR</td>
</tr>
<tr>
<td>Organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERP coverage</td>
<td>Business</td>
<td>Business and HR</td>
<td>Business</td>
</tr>
<tr>
<td>eLearning offering</td>
<td>Limited</td>
<td>Rich</td>
<td>Rich</td>
</tr>
<tr>
<td>Documentation</td>
<td>Limited/high-level</td>
<td>Broad coverage/detailed</td>
<td>Broad coverage/detailed</td>
</tr>
</tbody>
</table>

Inter-person media, mainly based on human touch, is indicated as meetings, conferences, joint market visits, joint projects, coaching (formal or informal), mentoring (formal or informal), and informal communication between manufacturers and WDs, mostly initiated by the manufacturers.

5.4.2 Matrix of HRM knowledge vs. transfer media

System media works like the bone structure, and inter-person media acts as blood, nerves and muscles in a healthy bio-system. Knowledge of an explicit nature can be easily coded and transferred through the well-established systems, but inter-person communication plays an important role in HRM
tacit knowledge transfer and integration which is hard to achieve through system media only. The marketing manager (SSM02) of Company S highlighted critical individual influences through personal trust, buy-in and commitment for future, information customisation and personal chemistry. Transfer of one type of HRM knowledge transfer is not limited to one kind of media, system or inter-person. The transfer channel can be combined with a different focus in a matrix with both media. It is quite obvious that Companies S and M have utilised both system and inter-person media more than Company J has in most of the HRM practices (Figure 5-5).

Figure 5-5 HRM Knowledge Transfer and Integration by Channels
WD’s organisational set-up is one of the key considerations when manufacturers are selecting new WDs, together with other factors such as financial capability, customer relations, business strategies, leadership mind-set, and workforce profile. For example, WDs must have a dedicated sales team for
Company M if they have a complex product portfolio from low end to high end (MWM07, marketing manager of MWD03). Company M trains its WDs on how to design its organisation (MWH03, owner/GM of MWD01). Company S is also ‘involved in WDs’... organisational design’ (SSM04, S’s area sales manager). Based on his direct experiences across the three SCs, the sales director (JJH07) of Company J commented that Company J and its industry are less mature in channel development such as the engagement in WDs’ organisation design. Company J has no strict requirements on its WD’s organisation set-up, but there is some personal advice from its sales representatives based on their own early experience.

WDs’ are not mandated to follow the manufacturers’ processes in hiring and selection. The intervention exists in all three cases as a kind of guidance or suggestion (SSM02, S’s marketing manager). Company M has strategic and systematic initiatives to develop the talent source in trading schools for its WDs and franchisee retailers (MMM06, M’s training manager). Due to the lack of dedicated HR professionals, the hiring function is normally managed by WD owners, business leaders, or a very few by finance or administration functions. Company J becomes involved in their WDs’ hiring on a case by case basis. The intervention depends on the individual competence of the sales representative, personal relationship with WDs, and the WDs’ mindset. For example, the owner/GM (JWH15) of JWD06 and the owner/GM JWD04 (JWH09) much appreciated the support on hiring from Company J’s sales representative. However, the owner/GM (JWH14) of JWD07 did not feel any involvement from Company J. Company S has been involved in its WDs hiring by making suggestions when WDs hire general managers, deputy general managers, and sales representatives (SWJ08, sales representative of SWD02). Company S has requirements for middle-level managers of WDs, but there is not much involvement in hiring. Company S’s ex-area sales manager/channel excellence manager (SSM05) described that Company S sponsored some WD’s hiring in an ad hoc approach, ‘for example, when WDs can only afford to hire three sales representatives with its profit, [if] Company S asks WD to hire one more..., Company S finances it’. Candidate introduction is one approach to hiring intervention. In one case, for instance, the sales manager (SWM06) was recommended to SWD03 by Company S 12 years ago when he applied for a job with Company S. His trading school education and English capability did not meet Company S’s requirements but met all of the WD’s. Referring to the information from Company M’s training manager (MMM01), Company M has hiring guidance developed for WDs. It trains WDs on hiring tactics with videos of good and bad interview practices.

Company M has a partnership program with one vocational school supporting the development of a talent pool for its WDs and franchisee retailers. Company M develops and delivers courses to the targeted students and then organises hiring events for WDs and franchisee retailers to select. The program started in 2013 with hundreds of hiring cases being referred to Company M’s training manager (MMM01). There is also personal level intervention from M’s commercial team. For example, the ex-WD sales and franchisee consultant (MMM05) successfully convinced a WD to add two more to their headcount, and he himself joined the interview and selection process with the WD.
Learning and development in HR is one function with direct influence on WDs through transferring knowledge. Companies S and M offer training to WDs and further down the SC to retailers. Company M has started to develop successors for WD owners. The training manager (MMM04) of Company M commented that 'it is critical whether the second generation of WD owners can succeed the leadership... We (HR) built a comprehensive program for WDs to develop their successors'. The eLearning has been utilised in all three manufacturers. Company J has just established a dedicated eLearning platform for WDs in 2015. There are 20 to 30 online courses covering products, branding, technology, selling skills and personal networking (SSH03, Vice President of Company J). Companies S and M have been offering WDs online learning resources for years. There are hundreds of eLearning courses offered. Face to face trainings are available in the three manufacturers, though the content and coverage are different. Companies S and M are more comprehensive than Company J. Both Companies S and M have integrated the learning with WD employees’ skill certification which eventually affects their income or personal market value. Company J does not have such practices. Company S also has skill competition for retailers (Table 5.2).

Table 5.2 Learning and Development Comparison

<table>
<thead>
<tr>
<th>Learning &amp; Development</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target participants</td>
<td>WD owner’s successor development</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Retailer covered</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>eLearning availability</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Experience</td>
<td>New</td>
<td>Experienced</td>
<td>Experienced</td>
</tr>
<tr>
<td>Offering</td>
<td>Limited</td>
<td>Rich</td>
<td>Rich</td>
</tr>
<tr>
<td>Other development approaches</td>
<td>Face to face training</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Coaching/mentoring</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Power sales</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>(6-month on-site guidance for new/key WDs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skill certification</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Skill competition</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

It is quite common in the market that manufacturers train WDs on product knowledge (Level 1 in Figure 5-6). The next level (Level 2) is to develop WDs on how to sell products. Another higher level (Level 3) is to develop WDs in business operations and company management. The highest integration will be up to the culture and value level (Level 4).
Company J’s training is up to Level 2 and partial Level 3 but follows an inconsistent approach. Both Companies S and M have integrated their WDs from Level 1 to Level 4. Company J had downsized its channel excellence team during 2010–2013, which evolved into a sales support team in 2014 mainly offering eLearning to WDs in 2015–2016. The learning and development activities offered by Company J’s frontline sales are not standardised but ad-hoc.

According to the interview with its training manager (MMM04), Company M has one training centre offering training to WD owners, sales managers, sales representatives and finance professionals. Company M is putting effort in to engaging WDs owners so that they can buy in and adapt to changes. There are four-phase development programs for WD owners. Company M has one WD commercial manager certification program, in which WD managers need to pass a theory test. Company M also prepares future WD leaders. The mandatory training required by Company M is targeted to the WD positions in logistics, customer service and sales. The relevant persons need to pass the examination and be certified. Company M designed its WD courses, including team management, meeting organisation (how to organise meetings), operation management and finance essentials. The account managers in Company M mentor WDs’ sales representatives when they visit the market together. Company M also has full-time coaches for channel partners and has formalised regular meetings with WDs guided by a detailed check list.

The city sales manager (SSM07) of Company S provided the evidence that Company S offers modularised and easy to memorise online and offline training. The training contents include brand, product, selling points, standard process, and negotiation skills. Company S teaches WD sales managers how to run daily and weekly meetings. The regular agenda of meetings includes reviews on the target achievement (KPIs) against plan, case study, and problem solving. There is a monthly scorecard review on the revenue of different product lines, number of customer visits and customer profile by categories: WD customers/key account customers, potential customers, and customers with transactions. There are also operational process indicators measuring the planned progression rates, such as investment, market promotion and poster layout. Company S trains WDs owners on how to manage profitability, control cost, and interpret financial report and sales data. Referring to its own six-
level certification system for sales professionals. Company S embeds a similar system in WDs. It is a three-level certification scheme for sales professionals. Company S has requested that only certified employees can be in the relevant WD positions. The pay should be linked to the certification subsequently.

The managing director (SWH07) of SWD03 highly valued Company S’s training offerings. Company S’s staff coach the WDs’ team directly when they visit customers jointly. They provide feedback and suggestions. There is practice sharing across regions. The GM (SWH04) of SWD02 explicitly stated that Company S has one scheme for WDs’ key staff. It is tied up with WDs’ commission. The leaders in Company S’s supporting functions, such as department managers in HR and logistics, offer coaching to WD owners every year. The initiative was started in 2006 and is still running. HR is the organiser connecting Company S’s back-office departments and the WDs. There is a direct contact point between Company S’s HR team and the WDs. Company S’s core leadership team, with members from sales, marketing, HR, SCM, and technology functions, owns this coaching initiative. The ex-marketing manager of Company S (SSM06) talked about another partnership practice. 3. A dedicated sales team in Company S, called ‘power sales’, develop the key and new WDs on site for several months until the WDs are on the right track.

Succession within the family business is crucial for the sustainability of WD business when the first generation of WD entrepreneurs become senior in age (MMM04, Company M’s training manager). Among the three case studies, only Company M has made efforts to address this fundamental uncertainty. One key initiative between HR and the commercial team is to develop WD owners’ successors. The second generation of WD owners has many variable profiles. The training manager (MMM04) has been with Company M since 1998. He commented that some of the second generation of WD owners are well educated. Around 10% of them have overseas education. Some learned by experience in big companies, and some are in charge of small projects in their own business. The HR team of Company M chaired one comprehensive program to develop WD owners’ second generation for succession. This program was budgeted by Company M’s commercial team. Included in the program is one week of headquarters visit in Europe, which enables participants’ understanding of Company M’s industry and its global presence. This program aims to correct WD successors’ misperception that Company M is in the low-end industry. Some second generation WD owners do not hold a favourable view of the industry and believe it to be a slow money-making industry requiring hard-work and without promising growth in the future. This program also includes topics on operation and finance management. There is no examination. HR has delivered change management, self-awareness and leadership courses. The program started in 2012 and then stopped because the project manager left and the commercial team did not focus on carrying it on. This program helped to strengthen WDs’ confidence in the sustainable future growth with Company M’s partnership, as commented on by the training manager.

According to the owner/GM (JWH06) of JWD10, performance management and compensation and benefits are some areas which WDs have difficulty in managing. Company M has integrated WDs’
performance management to the deepest level, followed by Company S. Company M has mandatory requirements on how WDs should manage the employee performance, such as their goal-setting, incentive plans and evaluation of those who have responsibility for the business with Company M. Company S offers guidance to its WDs. Company J has a more ad-hoc approach depending on the WD’s request and Company J’s sales representative’s capability. Company J is planning to do more in WD’s performance management. All three manufacturers measure their WDs’ overall performance in business targets such as sales volume. However, performance management in Company M and Company S has gone beyond assessing lagging business indicators. There are leading indicators in WD’s performance management system: managing working process, employees’ behaviour and organisational capability. The manufacturers’ measurement on WDs drives how WDs measure their own employees. WDs embed Companies S and M’s competence development program and certification system into their own employees’ overall performance management which decides the total compensation and benefits (Table 5.3). Company J has not been systematically and consistently involved in WDs’ performance evaluation (JWH06, owner/GM of JWD10), though Company J has motivation to do more in line with what Companies S and M have been doing (Appendix 5.10).

Table 5.3 Manufacturers’ Involvement in WDs’ Performance Management

<table>
<thead>
<tr>
<th>Performance management/Compensation &amp; Benefit</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integration approach</td>
<td>Ad-hoc personal communication</td>
<td>Guided advisory</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Business target included</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Behaviour target included</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Competence development</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Certification-related pay</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Company S has been involved in its WDs’ compensation and benefits plan, including bonuses. Pay and compensation are linked to the job level, certified differently as junior, middle and senior in sales positions. Company S’s sales representatives also share best practices for WDs’ reference when they make decisions on compensation and benefits. WDs get additional commission from Company S when they demonstrate the expected behaviours and deliver the business results. The HR/administration manager (SWM05) of SWD03 clearly stated that SWD03’s performance evaluation refers to Company S’s practices.

Company M measures and audits WDs’ business development plan, strategic direction and progression. Company M’s ex-area sales manager (MMM03) noted that Company M paid WDs’ sales managers’ salaries and measured their performance in the early days to develop them. The measurement included sales volume, accounts receivable, product portfolio, customer satisfaction and aftersales quality. According to Company M’s training manager (MMM04), Company M has annual
Performance evaluation and incentives for WD sales team based on their target achieved, distribution network developed, and customers visited. WDs have a comprehensive report for Company M with information on business targets, accomplishment, bonuses and sales expenses etc. The business target accomplishment rate accounts for a 70% weighting in the overall evaluation. Company M and its WDs can track daily accomplishment against targets in the system. The winners will have additional incentives from Company M by the year end. WDs have integrated Company M’s business practices, which are developed jointly by Company M’s business and HR teams. Company M has some regular market promotions with dedicated sales incentives for WD sales. Company M gives advice on the structure of compensation and benefits, suggests what kind of compensation and benefits should be for, what kind of positions, and how to incentivise and increase pay after promotion, while the WDs make the final decisions. In the WDs, either the dedicated sales team for Company M’s business have their own performance management directed by Company M or the WDs integrate Company M’s performance requirements as part of the WDs’ overall evaluation, as the sales manager (MWM04) of MWD02 illustrated.

Culture Integration is a much deeper level integration beyond the organisational structure, knowledge, and practice levels, which has been visualised in the learning and development pyramid (Figure 5-5). As the sales director (JNJ07) of Company J described, ‘[if] a well-integrated culture is demonstrated, that WD would like to carry on the business for three to five years even when they cannot make profit. They would like to cascade the business to their kids and grandkids... [However] Company J has not involved WD in the culture immersion... Our current WDs will switch to other brands if they cannot make money today’. Company S’s ex-commercial director who is also Company J’s ex-China GM (SSH08) explicitly expressed that Company S requires its staff to demonstrate its culture and core values, honesty, integrity and respect for people in every business interaction, with its partners. Company S has done more to implement its culture than Company J (SSM05, S’s ex-area sales manager/J’s ex-channel excellence manager). The managing director (SWH07) of SWD03, who used to lead Company S’s channel excellence department, truly appreciated Company S’s culture integration in the distribution channel. He said that ‘the Health, Safety and Environment are important. Company S is trying every effort to transfer to its partners... After a long-term partnership with Company S, the [supply chain] partners recognise them (Company S’s values] as competitiveness... With similar values, all can understand the rationale for the business practices. For instance, safety is always mentioned in every Company S’s meeting. Business opportunities can be given up for safety reasons. All these have influenced WDs’ operations and laid out the culture foundations for WDs. Many WDs are small and have not shaped their own culture. They have Company S’s sub-culture. Many WDs have the characteristics of Company S’s culture... For example, Company S’s employees remind WDs’ employees to use the safety belt when they drive. They will not go [on trips] until all safety belts are done up. This behaviour has been affecting WDs quietly... This is the core of Company S which WDs can leverage to attract and retain people. It is the company’s differentiator’. In Company M’s case, the owner/GM (MWH03) of MWD01 commented that ‘in Company M’s training, they (Company M’s employees) are embedding their culture and management model’.
HR is a very practical function with high flexibility and customisation requirements based on specific context. The specific HRM challenges and priorities could be very different in different organisations. Company J’s sales director/Company S’s ex-regional sales manager (JJH07) believed that WDs who are small businesses may not be able to adopt many MNC’s practices. The practices adopted should be based on their development stage and business reality. The HRM knowledge is hard to transfer through standardised documentation coded and decoded through systems. All HRM knowledge is both explicit and tacit in nature, for instance, how to design organisations, plan headcount, interview, select, pay, incentivise, develop and retain talented people. Leadership, culture and values etc. are even harder to build and transfer, even through inter-person channels. There are more similarities in system media across the three value chains, but Companies S and M have standardised more processes, procedures and information through structured organisation, comprehensive IT systems, and well-documented practices, offering to more target audiences in WDs across much broader topics. Meanwhile, Companies S and M have invested, committed and leveraged more inter-person channel media, which transfers and integrates HRM knowledge to a deeper level.

5.4.3 Extended inter-person media through interfirm people exchange

Knowledge transfer can take place when the persons with knowledge and skills move across organisations in (Figure 5-7) or across supply chains (Figure 5-8). When people, especially at management level, are moving around from one organisation or industry to another, their knowledge and previous practices will be taken away and shared on the new organisation platform, especially when the platform is immature. This effect is enlarged when they have more authority in higher positions and flexibility with less-structured organisational systems and processes. The sales director (JJH07) of Company J summarised his findings based on personal hands-on experiences from the three studied industries. Some WDs do hire from manufacturers. The managers hired from manufacturers know their culture and network, enabling the integration between WDs and manufacturers. Among the three distribution channels, there are almost no people exchanges between Company J and its WDs. Company J’s employees normally leave and join other manufacturers. Most of them join other automotive industries. Only three exceptional cases were identified. There were three sales managers from Company J who joined other manufacturers in the same industry based on the information from the owner/GM (JWH20) of JWD13, who has been in business with Company J for more than 20 years (including earlier acquired business).

![Figure 5-7 People Movement between Manufacturers and WDs](image)
There are some cases of two-way people exchange between Company S and its WDs. Company S
has had more than 20 employees in the past years joining its WDs but with a success rate (percentage
of the number of ex-employees of Company S who are still managing business in WDs/total number
of ex-employees of Company S joining WDs) of only around 30% (SWH07, managing director of
SWD03 who used to lead Company S's commercial excellence team). 'Now it is very rare that
Company S’s staff join WDs’ (SSM02, Company S’s marketing manager). Company S does not have
policies promoting or preventing such moves since there are pros and cons'. Maybe the low success
rate demotivates employees on both sides (WDs and Company S) from such kind of people movement.
It is Company M’s uniqueness that it normally does not hire from its industry, since Company M would
like to build its sales force specialised in its own business approach. Based on 14-year tenure,
Company M’s training manager (MMM04) summarised that Company M’s WDs hire very few MNC
professionals. Most hiring is not successful. The high-level staff from manufacturers, such as at
director level, do not fit due to the lack of hands-on operational experience. The low-level employees,
such as at sales representative level, have hands-on experience and understand the operations and
execution well, but they do not have the holistic view of business that is required for a general manager.
Almost all Company M’s sales representatives who joined WDs as sales managers reporting to WD
owners are not successful. The seven or eight successful cases among 20 to 30 cases in the past
years are the sales managers from Company M who joined WDs with some ownership share and run
businesses independently. Company M used to have a plan to enable employees who want to run
their own distribution business with Company M, but now it is suspended since Company M’s
management is not sure about the pay back and risk. Appendix 5.11 is the summary of comments on
people exchange. There is some staff movement between manufacturers (Figure 5-8). Both
Companies S and M are more mature than Company J in the distribution business. Company J
appreciates the value from other advanced businesses like Companies S and M, and learns from them.
Company J hired from Companies S and M and copied some systems and practices. However, there
is no case found that Companies M and S hired from Companies J in the automotive commercial
teams in this study. There is two-way people exchange between Companies S and M. Some WD
employees of Company M joined the international manufacturers (MMJ05, Company M’s ex-WD sales
and franchisee consultant/Company J’s channel excellence consultant).

![Figure 5-8 People Movement among Manufacturers](image)

The growing WDs may offer manufacturers' employees new career possibilities. The managing
director (SWH07) of SWD03 is one living example. His supervisor (SSH01, ex-GM of Company S) in
Company S believed that the SWD03 offered SWH07 a great external career opportunity when there
was no advancement opportunities within Company S. When there is people movement from
manufacturers to WDs, the ex-manufacturer employee already has some embedded HRM knowledge. The focus is how to integrate into WDs’ operations. WD’s improving compensation has made it feasible from an income’s perspective, which used to be one of the big barriers (JJH07, sales director of Company J). The compensation and benefit difference between manufacturers and WDs are diminishing. Company M’s training manager (MMM04) shared his observation that ‘WDs’ pay is actually not low. They have large variables [in their total package]. They may have low fixed compensation and less benefits slightly… They have more flexible compensation. They have more intensive short-term incentives’. WD’s different skill-set requirements and manufacturers’ concern for losing talented people and advantage in the bargaining power due to the insider’s insights of its ex-employees (SSH01, ex-GM of Company S), could be the challenge for this channel of knowledge transfer and integration. This study provides the evidence that when WDs, especially in the industries of Companies S and M, grow to a certain scale beyond that of SMEs, they intend to enhance their business and management by buying talented people and their knowledge, skill and experiences from organisations like MNC manufacturers, though the success rate is not very high (around 30% of cases in Companies S and M).

5.5 Contractual vs. Relational (Guanxi/trust) Mechanism and HRM Knowledge Transfer

Business contracts, as a mechanism to protect interests, is not perceived as important in this study from both sides – manufacturers and WDs – in the China context. Contracts are in the template provided by the MNC manufacturers, which has been proposed and reviewed in every interest of the manufacturers by a professional legal team (JWH06, owner/GM of JWD10). The contract is signed annually (MWH05, deputy GM of MWD02). WDs may not read the contract terms in detail when they sign (SSM07, city sales manager of Company S). The contract itself as a format does not differentiate across the three supply chains, but other effective supplementary practices do vary. For example, the financial policies to incentivise knowledge transfer (not limited to HRM knowledge) and behaviours lead to HRM knowledge and transfer (SSM07, city sales manager of Company S). The trust beyond the contract makes a major difference. The oral commitment is treated as seriously as the contract (JWH05, owner/GM of JWD09), which enhances or destroys the trust and relationship in the supply chain. JWD09, one of Company J’s biggest WDs, almost gave up the partnership due to two non-delivered oral promises (detailed in Chapter 6) as the owner took it so seriously. It is a question of credibility and trust. WDs believe in the promises of Companies S and M, while WDs of Company J are likely to doubt the company’s word and suspect there to be a hidden agenda. This study supports Proposition 5 that in the Chinese institutional and cultural context, Guanxi and trust more than contract affect knowledge transfer and further HR integration. Relational partnership with trust between MNC manufacturers and WDs positively facilitates the HR knowledge transfer and integration leading to better SC performance.

5.6 Process Efficiency Factors of Knowledge Transfer
Knowledge transfer in the supply chain is a process. The process efficiency has been moderated by several factors. One is the transferability of the HRM itself, whether the HRM to transfer will work in the SC partners. Another factor is MNCs' societal cultural awareness, specifically Chinese culture awareness. Other factors include the local decision-making authority, how much decision-making power the MNCs have in their Chinese management team; HRM expertise, how good they are at their own HRM and SC HRM; and SC partners’ learning ability, how fast WDs can learn.

5.6.1 Process effectiveness factor: supply chain HRM transferability

WDs in the three distribution channels have demands for learning support from manufacturers J, S and M to address their HRM challenges and grow their business. However, their demands depend on the current status of their HRM competence and manufacturers’ capability to transfer. What WDs have interest in, in relation to learning support, is something that works, is affordable and can address their challenges in managing HRM. Company J’s area sales manager (JJM12) and frontline sales representative (JJJ14) emphasised that what WDs want to learn is something useful to grow their business.

1) Differences and similarities between MNC manufacturers and local WDs

The three cases have compared and analysed HRM department organisational set up, employee profile, internal development and promotion vs external hiring, speed of decision making, decision maker, organisational agility, long-term vs short-term view, organisational formality, family culture, employee attraction, retention and industry competitiveness in compensation and benefit (Table 5.4 with detailed quotations in Appendix 5.12). Though there are variances among the WDs of Companies J, S and M, benchmarking to the manufacturers, WDs share almost all features, which is the reason to combine them as one group in the analysis here.

Most WDs do not have HR departments. The three manufacturers have comprehensive dedicated HR organisations. They normally hire people that have graduated from good local or overseas universities. WDs hire less educated folks. WDs, typically the big ones, are starting to hire people with associate degrees or bachelor degrees who may have graduated from universities outside of Tier I several years ago. WDs are not as formal as the MNC manufacturers. However, it does not mean that the more formal the organisation, the better their performance. The formality should fit to the business situation. For example, the training material (MMM04) of Company M did not believe that its WDs needed to be too formal considering the nature of the industry in its current stage. Without formal structure and processes, WDs are more results driven. Company J is under high stress to meet a breakeven target, and it is therefore results-driven on more short-term results. Companies S and M are more balanced, focusing on processes and results.

When employees choose WD organisations to join, job stability, company future, products, and brand are critical (Appendix 5.13). Employees value the compensation and benefits, leadership, and company culture. The owner/GM’s leadership and culture are highly valued by WD employees. Most
frequently mentioned are the family-like, humane and caring atmosphere, the high trust, harmonised, or cohesive culture, and the emphasis on team work (Appendix 5.14). The family culture with humanity and caring is shared by WDs across the three distribution SCs. The WD owners are referred to by employees as being like parents (MWH05, deputy GM of MWD02), and the owners themselves also believe that they are pretty good at their humane management (MWH03, owner/GM of MWD01). From the employees’ perspective, for example, the sales manager (JWM02) loved the family-like environment in JWD01, and the logistics employee (SWJ01) was attracted by the humanity of the owner of SWD01 (Appendix 5.14).

WDs offer more internal promotion rather than external hiring for a manager’s role. They are not very attractive in the talent market, so they focus on retention and development. The owner/GM (JWH05) of JWD09 stated clearly that ‘I promote capable people as at least they know our industry’. Meanwhile, as they normally do not offer high packages for external hires, they have to rely on more internal development and promotion. Tenure is one of the key considerations in pay. WDs have concerns about paying new hires more than the current staff. Companies S and M’s teams are also very stable. They do not hire many externally. Their internal development and promotion are more common than Company J. Both owner/GMs of JWD10 (JWH06) and JWD13 (JWH20) criticised the amount of Company J’s external hires with too few internal promotions.

Table 5.4 HRM Comparison between Manufacturers and WDs

<table>
<thead>
<tr>
<th>Category</th>
<th>WD</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dedicated HRM department</td>
<td>Most WDs, except very few big WDs, have no HRM department</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Formality</td>
<td>Informal</td>
<td>Formal</td>
<td>Formal</td>
<td>Formal</td>
</tr>
<tr>
<td>Family culture</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Employee profile</td>
<td>Low-middle (with an improving trend in education)</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Focus between internal promotion vs. external hiring</td>
<td>Internal promotion</td>
<td>External hiring</td>
<td>Internal promotion</td>
<td>Internal promotion</td>
</tr>
<tr>
<td>Speed of decision</td>
<td>Fast</td>
<td>Slow</td>
<td>Middle</td>
<td>Middle</td>
</tr>
<tr>
<td>Decision maker</td>
<td>One-person (typical)</td>
<td>Organisation</td>
<td>Organisation</td>
<td>Organisation</td>
</tr>
<tr>
<td>Result driven vs. process driven</td>
<td>Result</td>
<td>Result</td>
<td>Process &amp; Result</td>
<td>Process &amp; Result</td>
</tr>
<tr>
<td>Agility</td>
<td>High</td>
<td>Low</td>
<td>Mid</td>
<td>Mid</td>
</tr>
<tr>
<td>Long-term vs. short-term view</td>
<td>Long</td>
<td>Short</td>
<td>Long</td>
<td>Long</td>
</tr>
<tr>
<td>Attraction</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Retention</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Industry competitiveness in compensation and benefit</td>
<td>Above average among WDs</td>
<td>Average among MNCs</td>
<td>Above average but not in the top among MNCs</td>
<td>Above average but not in the top among MNCs</td>
</tr>
</tbody>
</table>
WDs are agile, informal, fast in decision making, and simple in their processes. The owner/GM (JWH06) of JWD10 was so proud that ‘we (WDs) act fast. We respond immediately, as soon as there is an issue and can make decisions on day one. We can execute the decisions through a call to increase salary or terminate. Company J cannot do so… We find problems fast and it is easy for us to solve… Company J has difficulty in finding the problem’. The owner is normally the one who makes the decision, while MNCs are collective decision makers (JJH07, sales director of Company J). The owner/GM (MWH03) of MWD01 remarked that ‘I, one person, can make the decisions. Manufacturers cannot do so’. The job nature in WD is straightforward and simple, requiring low-profile workforce with strong execution and hard-working characteristics.

The owners of WDs, especially the big ones, manage their business with a long-term view since the business is theirs. The owner/GM (JWH06) of JWD10 believed that employees can quit and find another job, while owners cannot do so easily. He commented that ‘we manage people with long-term view and have low turnover’. The managers in MNCs like Companies J, S and M may only serve two to five years in their current positions. The target achievement during this period in their current roles will affect their next career move or even threaten their longer-term job security if they fail. This leads to the perception of short-term focus in the listed MNCs. However, Companies S and M have much better long-term view than Company J, as they focus on the process. The sales manager (JWM17) of JWD12 criticised Company J. He believed that every employee of Company J is a passenger with a short-term tenure and short-term view. Their focus is just the task within their tenure. Compared to Company J, the ex-marketing manager (SSM06) of Company S, who is now the senior marketing manager in Company J, truly believed in Company S’s strategic persistence in WD development and branding in the last decade.

The compensation and benefits of WDs in the study are generally competitive in their market and industry (Appendix 5.15/5.16). The salary starts low but the annual increase is better. Five of the total of six (83.3%) WDs studied from Companies S and M submit government required social insurances, except SWD02, the newest and smallest WD, while five of the eight (62.5%) WDs of Company J with available information submit social insurances for their employees. The trend is that the bigger the WDs, the better the chances that they will turn in employees’ social benefits. The WDs who are submitting the social insurance do so to try to avoid legal risks and meanwhile to attract and retain people. Besides the low transferability of social benefits in the process, the reasons why some WDs, especially the small ones, do not want to turn in the social insurances could include cost saving and perceptions of low legal risks. Six working days a week is also common to almost all WDs in the three SCs, even though five days is the legal default. The total package offered by WDs has been improving. Management of Companies J and M commented that their WDs’ management team, such as sales leaders, have good compensation and could be as competitive as that for the sales representatives or managers in Companies J and M.

MNCs J, S and M are at industry average or above average. None of them are positioned as companies with high pay among MNCs. Company S’s area sales manager (SSM04) believed that
income may not be the first priority for Company S’s employees. The income is not high in Company S, but there is a fair working environment and personal development. ‘Company S has been emphasising that it does not offer the highest. Its employees will get higher pay in the market for sure when they leave, but many people do not go’. Linking MNC manufacturers and SME WDs in the distribution channel, this study found that WD employees do not compare compensation and benefits with manufacturers’ employees because of differences in personal profiles on the different career platforms (SWH07, managing director of SWD03; JWH15, owner/GM of JWD06). However, they do compare with other WDs, peers or people in the similar industry (JWM02, sales manager of JWD01; JWJ07, logistics staff of JWD08; JWJ13, sales representative of JWD06; JWH14, owner/GM of JWD07). There is one unique career aspiration for WD employees. Many of them, such as sales representative of SWD02 (SWJ08) and sales manager of JWD01 (JWM02), want to own their own business (Appendix 5.17).

MNC manufacturers and WDs are different in business nature and resources and may require different fit HRM solutions considering their organisation set-up, employee profile, HRM practices and company culture.

2) WDs’ HRM challenges

The need to find solutions for ‘pain points’ within HRM may enable a more effective HMR transfer process by providing a sense of urgency. For example, the owner/GM (JWH06) of JWD10 admired the WDs of Company S who do well in performance management with the assistance from Company S, while his pain was not helped by Company J. What are the current challenges in WDs’ HRM?

The first challenge, frequently mentioned in all three channels, is the limited company attraction for good quality hiring. For MNCs J, S and M, they are better perceived as good or top employers in China. The jobs, including sales positions, are considered high profile. Company J’s WDs have more challenges in various HRM aspects, such as performance management, employee motivation, employee development, career opportunities, vision, mind-set, system and structure (Appendix 5.18). Hiring is the most frequently mentioned challenge for WDs, especially by WD owners and top management (Appendix 5.19). It is hard to attract and afford qualified people in the market due to the pay structure which is composed of a small portion of fixed, a big portion of variable, and low starting pay. WD owners such as JWH15 of JWD06 will not hire the person preferring a high percentage of the fixed pay rather than performance-based pay. It is common practice to hire new employees with less pay than the current ones considering seniority embedded in Chinese culture, which limits WDs’ choices. The GM (JWH01) of JWD01 expressed the view that candidates recommended by agents have high expectations on the package while JWD01 needs people to develop from grass roots and will not offer higher positions in the beginning until people perform and prove themselves. The industry where Company J is positioned is not attractive for its heavy manual workload.

The second challenge is performance management and motivation, specifically for Company J’s WDs. WDs have difficulty in measuring non-sales performance (JWH06, owner/GM of JWD10). WDs lack
skills to motivate people for continuous high productivity (JWH06, owner/GM of JWD10; JWH12, owner/GM of JWD11; JWH09, owner/GM of JWD04). The GM (SWH04) of SWD02 was challenged to handle employees with good attitudes but poor performance. There are limited career opportunities in WDs due to their small scale, especially when they cannot open retail stores. Their training is not systematic either, which is the typical challenge brought up by Company J’s WDs, such as by the sales manager (JWH03) of JWD05. Though WDs of Company M did not claim development and career opportunity as challenges, Company M’s staff believe that they are for Company M’s WDs. Appendix 5.20 offers a summary of specific reflections on WDs’ career and development.

The third challenge is vision and mind-set management which is difficult for those WDs who are successful now and aiming to grow further. Most WDs do not even have that awareness. The vision management was addressed mainly by some big WDs of Company J, and WDs of companies of M and S (Appendix 5.21). WDs’ organisation is not well structured. Their functions are mixed. This situation may not be a big issue now, though listed as challenges, but may be a bottleneck for future growth. Most owners, especially of small WDs, are very hands-on and overloaded. This is typically addressed by WDs of Company J (Appendix 5.22).

The fourth challenge is the lack of systematic hiring in WDs. There are not many selection tactics applied in the hiring process. The interview is based on the boss’s personal experiences referring to some general hiring criteria, including personal capability, hard-work, relevant automotive industry experience, and sales experiences. Interview questions are about previous employers, tenure, responsibilities, and future planning. The owner/GM (MWH03) of MWD01 was concerned that his managers did not hire competent candidates who may be more competitive than themselves. Personal introduction through friends and online hiring through portals such as 51job.com and 58.com are the most popular hiring channels for most WDs across the three cases (Appendix 5.23). The on-site labour market is still in place but is not leveraged as frequently as before. Search firms were not mentioned by WDs, which may be due to the high cost. It is the trend for online hiring to replace the introduction as the major hiring channel. However, the hires through introduction have better retention according to the WDs’ feedback. Meanwhile, WDs have some preference for hiring local or none local (Appendix 5.24), which is different from the three manufacturers. In this research, people originally from the same city and its counties are defined as local. People originally from other cities in the same province and other provinces are defined as non-local employees. There are four Tier I markets in China: Shanghai, Beijing, Guangzhou and Shenzhen, three of which have been included in the research (not Shenzhen). Most WD employees in Tier I cities are not local no matter whether the owners are local or not. Local Tier I people have some kind of self-perceived location advantage. They do not prefer the jobs in the automotive aftermarket industry because of hardship and low-profile image. For example, the owner/GM (JWH05) of JWD09 believed that the local Shanghainese would not take this kind of job because of hardship. In the Tier II cities, the local owners tend to hire local. When the owners are not local, the majority of the employees are not local. The rationale for hiring local employees is to manage the risk of cash transitions (JWH03, sales manager of JWD05; MWH03, owner/GM of MWD01), better
local market intelligence (JWH09, owner/GM of JWD04), easy local dialect communication, higher employee stability, and affordable living expenses at home (JWH14, owner/GM of JWD07). The rationale for hiring non-local employees includes hardworking for survival (MWH05, deputy GM of MWD02) and against the disadvantage from local people’s self-perceived advantage (JWH15, owner/GM of JWD06; SWH04, GM of SWD02).

Hiring family members and relatives in WDs is common. Among the 18 WDs across the three supply chains with relevant available data in this study, there are family members/relatives in 11 (61%) WDs (Appendix 5.25). The reasons for hiring family members and relatives are their low cost, their high accountability, expectations of affection and loyalty and concerns to secure the business succession. The reasons identified for not hiring family and relatives are to simplify company governance (Appendix 5.26). Hiring family members and relatives may offer more pros than cons until the WD reaches a later stage of development. Overall, the family members or relatives in WDs are not considered to have much of a negative impact on the business, either because the owners try not to hire relatives or say that they try to be fair to all employees. In SWD03, the owner did not want too many relatives and even those relatives employed are required to keep their relationship confidential. In this WD there was no special treatment for relatives. Company M’s region sales manager (MMM02) shared his observation that there is limited impact from family members or relatives in the WDs with whom he is interacting.

The fifth challenge is that learning and development is not systematic in Company J’s WDs. The different learning initiatives are fragmented and ad-hoc though WDs comment that training is important. Companies S and M’s WDs have leveraged a lot of manufacturers’ online programs and other instructor-led trainings. The different learning activities include training that is internally organised (most common, especially in WDs of Companies M and S) or offered by manufacturers (second most popular activity), external public courses or education, experience learning, network learning or through mentorship (Appendix 5.27) with detailed practices; elaboration in Appendix 5.28. Learning from experiences is the major, and the most natural, learning approach in WDs, with formal or informal experienced mentors. WD owners are also learning from their networks, friends and families.

3) WDs’ advantages in HRM

WDs may have their unique HRM advantages which fit their business nature and organisational resource. What are they? In transferring HRM knowledge it is necessary to consider what things work well in WDs.

In the first place, employee retention is very positive in the WDs in the three supply chains. Almost all the WDs’ turnover rates in the three SCs are less than 10%, especially in the positions of management and office (Appendix 5.29). The labour intense positions such as logistics and warehousing have higher turnover than other positions. WD management teams are very stable. Retention is the countermeasure for WDs facing the hiring challenge.
Secondly, key differentiators in the WDs are their people-orientation, family-like leadership, and flexible work environments. WD owners are playing a critical role in overall management, which is different from a MNC’s management team. There is no clear-cut boundary between the organisation and the employees’ personal lives in most WDs. Owners will extend financial and spiritual help to support an employees’ personal life.

JWD11 offered a car allowance, gifts or a red envelope for different kinds of festivals, and company tour (JWH12, owner/GM of JWD11). JWD01 buys additional transportation insurances. Cars, or subsidies to buy cars, are considered as best practice by some WD owners, such as MWD01. SWD03 is trying to retain people through internal financing projects with guaranteed 8.4% return.

Flexibility, even exceeding the company regulations, is considered as humane. People-orientation and family-like environment mean a lot to employees of Company J’s WDs (Appendix 5.30) and are frequently mentioned by employees of Companies M and S’s WDs around company culture and leadership (Appendix 5.13). High flexibility is typical of the WDs’ working environment, (such as no check in/out clock card in JWD03 and no strict sick leave application process in JWD01), and is preferred by employees (Appendix 5.31). Paternalistic HRM practices are more evidenced in most WDs.

Thirdly, personal trust between management and staff is perceived as highly important, 8.9 on the one (least) to ten (most) scale (with comments in Appendix 5.32), and also quite a positive, 8.2 (Figure 5-9) by WD top management, middle management and staff overall, though there is variance among the three supply chains. The triangulated comparison between the top management and middle management/staff echoed the same results (Table 5.5). WD employees and owners all believe that trust is very important in deciding whether employees would stay or not and they are satisfied with the current trust level. WD middle management and staff believe that the trust is at least as important as the top management believes. The variance in perceived trust level (middle management/staff minus top management) is 0.6 for Company J, -0.9 for Company S and -1.0 for Company M. Overall, the trust level between employees and owners/top management in WDs is at a fair level.
Figure 5-9 Trust Importance and Perceived Level in WDs

Table 5.5 Triangulate Analysis of Trust Importance and Satisfaction in WDs

<table>
<thead>
<tr>
<th>Interviewee category</th>
<th>Importance (# of data points)</th>
<th>Perceived trust (# of data points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>J WD top management</td>
<td>8.3 (3)</td>
<td>8.3 (3)</td>
</tr>
<tr>
<td>J WD middle management and staff</td>
<td>9.4 (4)</td>
<td>8.9 (4)</td>
</tr>
<tr>
<td>J WD total average (all interviews)</td>
<td>8.9 (7)</td>
<td>8.6 (7)</td>
</tr>
<tr>
<td>S WD top management</td>
<td>9.0 (2)</td>
<td>8.8 (2)</td>
</tr>
<tr>
<td>S WD middle management and staff</td>
<td>9.0 (4)</td>
<td>7.9 (4)</td>
</tr>
<tr>
<td>S WD total average (all interviews)</td>
<td>9.0 (6)</td>
<td>8.2 (6)</td>
</tr>
<tr>
<td>M WD top management</td>
<td>9.0 (1)</td>
<td>10.0 (1)</td>
</tr>
<tr>
<td>M WD middle management and staff</td>
<td>10.0 (2)</td>
<td>9.0 (2)</td>
</tr>
<tr>
<td>M WD total average (all interviews)</td>
<td>9.5 (3)</td>
<td>9.3 (3)</td>
</tr>
</tbody>
</table>

In summary, trust is crucial for retaining people and it is a leadership quality. Without trust, employees won’t work for the WDs. Trust is the foundation for deploying all potential and drive for performance. Walk-the-talk, delegation, authorisation, caring and communication are as key drivers for better trust. The Appendix 5.33 lists the specific comments on the trust drivers.

4) Supply Chain Fit HRM

MNC manufacturers and SME WDs are different in their business, organisation and resources. WDs are facing some challenges in HRM, but they also have their effective practices. What works in MNC manufacturers may not be equally effective in private WD business and vice versa (Appendix 5.34).

‘Since Company J and WDs are different in development stage, environment, workforce size, and resources… WDs may need the HRM practices which you (manufacturers) used five or ten years ago. Now you (manufacturers) may have lost that capability… Small companies cannot afford to do as Company J does… In big companies, the policies need to be fair and can incentivise and develop
employees. In private companies, simplicity, effectiveness and efficiency are key. In private companies, requirements should not be complicated and should be processed quickly. Many approval processes are not needed… Company J is too formal and many things cannot be done in WDs’ (JJH07, sales director of Company J). Flexibility and agility in SME HRM operations allow WDs to respond quickly to engage and retain staff, while MNCs tend to follow systems and processes more strictly. Different business scenarios in different development stages may require different effective HRM practices. It is hard for immature SMEs to simply copy mature MNCs.

Learning management systems are commonly established in MNCs, but this is not the case for SMEs unless the MNCs have extended their own system to them. The learning habit could take time to be adopted by SMEs who are used to learning through experiences and mentoring rather than formal training or online learning, just as the sales manager (MWM04) of Company S’s WD (MWD02) commented that he, like most of his colleagues, had a hard time to focus on reading.

It is hard to identify similar roles in MNCs to owners in WDs who are the true decision makers and establish the culture. Their ownership of the business differentiates them from the ownership of management in public companies, which affects the considerations of decision making, such as the long-term vs. short-term impact (sales director of Company J, JJH06). Meanwhile, hiring relatives or people from same hometown may bring the expected benefits, accountable and cost saving (relatives) in the early stage of WDs. This kind of practices support SME WDs at a certain stage of development, of which MNCs may not have the experience or do not appreciate from their MNCs’ perspective. This may lead to the MNCs making assumptions about the lack of effectiveness of WDs' HRM practices. For example, the senior HR manager (JJM08) commented that overall, WDs’ HRM is ‘totally messy’ and almost nothing valuable. MNCs may attract and retain people by offering internal career opportunities, while SMEs cannot do so and their employees aim to start their own business in the future.

WDs are sales organisations in nature. Commission-based pay for sales representatives and managers is generally considered to be fair (JWH19, owner/GM of JWD03; MWM01, sales manager of MWD01). Meanwhile, it is hard to compare between different roles in small-sized companies like WDs, or with other WDs due to differences in business scale or lack of transparency in compensation information, such as annualised pay. For instance, the owner/GM (JWH15) of JWD06 commented that each employee in his team is in a different role. The employees do not experience unfairness when pay differentials apply to different positions. These characteristics are typical of SMEs rather than MNCs. In WDs, fairness is not considered to be an issue by the middle management and employees of WDs. In a one (least) to ten (most) scale assessment during the same interviews, the importance of fairness is valued at 6–7.5 and status of fairness at 5.8–7.5 (Figure 5-10). The triangulated analysis finds that the top management believes that fairness in WDs is more important compared to the views of middle management and frontline staff, and their evaluation on the status of current fairness is much lower than their middle management and frontline staff (WDs of Companies J and M chains but ratings are more similar for the chain of Company S) (Table 5.6). This might imply that WD owners may pay
more attention to and have higher expectations on fairness, which makes fairness not an issue in the
eyes of their teams.

![Bar chart showing Fairness Importance and Perceived Levels in WDs for JWD, SWD, and MWD categories.]

Figure 5-10 Fairness Importance and Perceived Levels in WDs

<table>
<thead>
<tr>
<th>Interviewee Category</th>
<th>Importance (# of data points)</th>
<th>Perception (# of data points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>J WD top management</td>
<td>8.0 (2)</td>
<td>6.0 (2)</td>
</tr>
<tr>
<td>J WD middle management and staff</td>
<td>6.6 (5)</td>
<td>7.7 (3)</td>
</tr>
<tr>
<td>J WD total average</td>
<td>7.0 (7)</td>
<td>7.0 (5)</td>
</tr>
<tr>
<td>S WD top management</td>
<td>7.5 (1)</td>
<td>6.0 (1)</td>
</tr>
<tr>
<td>S WD middle management and staff</td>
<td>7.5 (3)</td>
<td>5.8 (2)</td>
</tr>
<tr>
<td>S WD total average</td>
<td>7.5 (4)</td>
<td>5.8 (3)</td>
</tr>
<tr>
<td>M WD top management</td>
<td>8.0 (1)</td>
<td>6.7 (3)</td>
</tr>
<tr>
<td>M WD middle management and staff</td>
<td>5.0 (2)</td>
<td>8.3 (3)</td>
</tr>
<tr>
<td>M WD total average</td>
<td>6.0 (3)</td>
<td>7.5 (6)</td>
</tr>
</tbody>
</table>

Table 5.6 Importance and Perception of Fairness Triangulated Analysis in WDs

The HR practices should also fit to different business life cycles. What works now may not necessarily
work tomorrow. Company M’s training manager (MMM04) explicitly expresses his thoughts: ‘The
family business nature is very good. The core team is very stable due to the blood ties or geographic
relations. Company M is not as good as them. Their (WD employees’) loyalty is very high and they
think on behalf of the WD owner’s interest. There are pros and cons to this. When WDs become more
than one billion RMB business and would like to hire highly educated and high-profile people externally
to break through, it will be very hard to change the organisation’s DNA’.

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This detailed comparative analysis concludes that there is no one-for-all ‘best’ HRM solution between MNC manufacturers and SME WDs in the supply chain. HRM transfer in the supply chain needs to fit the WDs’ needs in an adaptive approach, which is different from MNCs’ internal HRM systems and practices. This supports Proposition 3 partially, that there is no best HRM in the SC. For interfirm transfer of HRM to be effective it should fit the members of SC and be adapted to the China environment.

5.6.2 Process effectiveness factor: MNC manufacturers’ Chinese cultural awareness and MNC’s local team authority

The emerging China market may require unique solutions and quick responsiveness, which demands strong local market intelligence and decision-making authority for MNCs’ subsidiaries. Companies S and M have better local market knowledge, business innovation and sufficient local authority to make and execute local strategies than Company J (Appendix 5.35). Referring to the explicit reflection from Company S’s ex-key leader in China marketing and business development (SSH03), there is reasonable clarification, balance and integration on the roles and responsibilities between Company S’s global headquarters and its China local team. The general managers and managing directors are all Chinese. Company S’s sales manager (SSM07) revealed two successful stories. Before 2006, Company S’s distribution network management was weak. In 2006, its China team equipped the WDs sales representatives with Global Positioning System and required them to take photos wherever they visited in the market and upload the photos to the IT server as evidence for work records to ensure that they were at work and working on the correct route. This practice was effective and exported to other markets outside China. The other example is the distribution development scheme which was first piloted and deployed in China, and then was transferred to other markets. Company S’s China team was authorised to innovate in business models.

Company M knows the China market well and the China management team has been largely localised. According to Company M’s 2014 annual report, 65% of its top-level managers in the emerging countries are from the local market. China is part of the emerging market though there is no specific information on it available. It is aiming to increase further management localisation up to 80% by 2020. The internal promotion rate was 83% for management positions in 2014. It aims to be 75% by 2020, as it plans for more local external hiring. Company M’s ex-WD sales/franchisee business consultant (MMJ05), who is currently Company J’s channel excellence consultant, believes that ‘Company M is the best at localising its management team especially in the automotive component industry… Company M understands the China market much better than any other brands. Its sales team is in the market every day, and there are strict KPIs to measure their performance… [For example,] since 2007, the sales representatives were required to record market information and synchronise with the system daily, which is also a request for the annual performance appraisal’.

Both Companies S and M are in sharp contrast to the situation in Company J. Company J’s global headquarters is not perceived to have good knowledge of the China market by its local team and
channel partners, WDs. There is not enough local authorisation. Company J’s ex-director (JJH01) in the aftermarket business complained that ‘Company J does not understand the importance of management localisation and does not give local management enough opportunities and authority… All the early [locally made] strategies were shut down [by its global headquarters]. There is almost no authorisation for the local team, and the decision-making process is slow. For example, ‘the market promotion scheme was submitted [to the global management] in December and was approved in the next March… even business travels were not approved [locally]. The local management was not in charge… It was totally controlled by the global team’. 

HRM knowledge transfer and practice integration in the supply chain are part of the overall distribution strategies and business model. When the strategies and business model do not fit to the local market or the local team do not have the authority to localise and execute them responsively, the effectiveness and efficiency in the process will be largely challenged.

This supports part of Proposition 3, that the SC-Fit HRM transfer is affected by MNCs’ awareness/experience of Chinese culture.

5.6.3 Process effectiveness factor: MNC manufacturers’ expertise in supply chain HRM

MNC manufacturers and SME WDs are in different development stages with various resources and may require different HR solutions. Manufacturers’ HRM competence affects how much and how effectively they can customise and integrate HRM in the SC. The sales manager (JWM16) of JWD07 commented that ‘the key [for learning] depends on the usefulness of the subject’. The channel excellence trainer (JJJ09) of Company J said that ‘WDs prefer practical and relevant training rather than theory’. The owner/GM (JWH09) of JWD04 expressed that ‘they (WD employees) do not want to learn … [when] they feel that the things learned are not practical… [However] when the training of WD employees has a financial payback, the owners will be more passionate in their training’. HRM integration normally comes one step later following business process integration. HRM integration evolves from organisational structure, process, policies and skills to the culture and the vision. To manufacturers, such as Company J, internal HRM is normally the first priority (JJM08, senior HR manager of Company J). Only when internal HRM has been well taken care of and when there is strong HRM competence and dedicated resources, can the manufacturers export their HRM to the distribution partners. Companies S and M have moved this step from internal focus to internal and external focus.

HRM integration in the SC is more complex than simply transferring HRM from MNC manufacturers to WDs. Based on the early analysis in this research, manufacturers and WDs are different in many ways; the business, organisation, workforce and challenges etc. What works in MNC manufacturers to attract, develop, retain and engage may not work as well in SME WDs. Meanwhile WDs may not be able to afford MNCs’ solutions. Company S’s city sales manager (SSM07) claimed that the HRM in the WD management model, including organisation structure, compensation and benefits, people development and assessment, is different from Company S’s own system. The successful HRM
integration in SC demands insights from both sides of MNC manufacturers and SME WDs into how to customise and integrate (Figure 5-11). This supports part of Proposition 3, that the SC-Fit HRM transfer is affected by MNCs’ HRM expertise.

![Figure 5-11 HRM Integration Process](image)

Consolidating the analysis of 5.6.1, 5.6.2 and 5.6.3, Proposition 3 has been supported, namely that there is no best HRM in the SC. For interfirm transfer of HRM to be effective it should fit the members of SC and be adapted to the China environment. The SC-Fit HRM transfer is affected by MNCs’ awareness/experience of Chinese culture and HRM expertise.

5.6.4 Process effectiveness factor: WD learning ability

The personal ability to learn knowledge fast affects the learning process. Based on the one (lowest) to ten (highest) scale assessment of the learning abilities of manufacturers’ staff and WD owners and employees, the trend is obvious. The 28 data points (M: two interviews, M WD: three, S: four, S WD: four, J: eight, J WD: seven) (Figure 5-12) indicate that WD owners have better learning ability than their employees. The triangulated analysis reveals a high degree of consistency in the evaluations from both manufacturers and WDs’ perspectives (Appendix 5.36). The data does not show that WDs of Companies S and M have better learning ability than WDs of Company J. One interpretation could be that the same evaluation score may mean different learning ability in the three chains since they have their own benchmarking. Age could be one factor affecting learning ability. The managing director of JWD01 (JWH01) believes that younger (less than 35) people learn fast.
The different learning ability drives different learning preference. Reading is not a popular and effective learning approach for WD employees (MWM04, sales manager of MWD02). More optimised interperson media may need to be leveraged for better learning effectiveness (SSM07, city sales manager of Company S). The learning ability of WDs affects the effectiveness and efficiency of the knowledge transfer process in the supply chain. This supports Proposition 7, that the learning ability of WDs will influence the effectiveness of HRM diffusion between MNC and local partners. Furthermore, the learning ability may require different channels. The lower learning capability may need to leverage a more inter-person channel.

**5.7 Summary – Business Results and Mechanism of SC HRM Knowledge Transfer and Practice Integration**

Table 5.7 maps the relative qualitative evaluation of the impact of HRM knowledge transfer and integration in the SC using the above detailed HRM comparison and criteria of three level outcomes (Level 1, relational outcome in SC members; Level 2, indirect outcome: HRM transferred and practiced in SC members; and Level 3, direct economic outcomes in the focal manufacturers and SC members) of the HRM knowledge transfer and practice integration. Level 1 evaluation is based on the comments from top management of the WDs of all three manufacturers. The manufacturers S and M, in a relational network and with better trust and making more effort in HRM knowledge transfer in the SC, have better SC partners’ satisfaction. Their SC partners were more willing to invest for the future with them and continue the partnership than those WDs of Company J. The SC partners, WDs, of Companies S and M applied more systematic HRM practices than those WDs of Company J (Chapter 5) and so performed better in the Level 2 evaluation. Both Companies S and M and their WDs had better business results. They also were recognised as market leaders. Companies S and M were more
profitable than Company J (Chapter 4). The results of the three-level evaluation strongly support the hypothesis that HRM knowledge transfer and integration in the SC could be one solution to drive the business performance and even differentiate the competition.

Table 5.7 Impact of HRM Knowledge Transfer and Integration in the SC

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Dimension</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1: relational outcome (WDs)</td>
<td>WDs' past satisfaction</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>WDs' expectation of continuity for future business partnership</td>
<td>Low-middle</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>WDs' willingness to invest for future</td>
<td>Low-middle</td>
<td>Middle-high</td>
<td>Middle-high</td>
</tr>
<tr>
<td>Level 2: indirect outcome (WDs)</td>
<td>HRM transferred and practiced</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Level 3: direct economic outcomes (WDs)</td>
<td>Market position</td>
<td>Middle</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Level 3: direct economic outcomes (Manufacturer)</td>
<td>Profitability</td>
<td>Loss</td>
<td>Profitable</td>
<td>Profitable</td>
</tr>
<tr>
<td></td>
<td>Market position in China</td>
<td>Not market leader</td>
<td>Market leader</td>
<td>Marker leader</td>
</tr>
</tbody>
</table>

Based on the above deep-dive analysis in the three supply chains, several elements were identified that were surprisingly different from the early research model (Figure 2-7). These factors are reflected in the modified model (Figure 5-13). First, the tacit knowledge and explicit knowledge were difficult to differentiate from each other by their associated transfer media, that is inter-person and system (Figure 5-5). There is not a clear line separating the inter-person and system transfer channels since both of them are utilised to transfer all kinds of HRM knowledge. So, in the new model, the inter-person and system are combined in the one box for transfer channel. The nature of knowledge might need to be reclassified instead of the tacit and explicit in current theories (Chapter 7).

The strategic decision on SC network, relational vs. transactional, is a key factor affecting the HRM knowledge transfer in the SC. This decision is influenced by the current institutional context. The revised model has indicated these elements in detail. This research supports the notion of SC interfirm trust and bargaining power as pull and push motivation factors. Our exploration of the process efficiency factors, HRM transferability, focal company's HRM expertise and learning ability of knowledge recipients, provided findings which were in accordance with our expectations as derived from earlier literature review (Chapter 2). The transfer and integration processes are positively moderated by manufacturers’ efforts at providing HRM solutions that fit the supply chain – high HRM transferability, which is based on supply chain HRM competence and China local market intelligence.
The local management team’s authority from the MNCs to make and execute decisions is one new process efficiency factor identified which was not expected. Meanwhile, the impact from the institutional context in the model guided the researcher to further explore the future trend of the institutional context from a longitudinal perspective (Chapter 6).

The model of HRM knowledge transfer and practice integration in the three distribution channels are very similar, all using system and inter-person channels, but the final business effects are different, moderated by motivation and process factors. Overall, Companies S and M are more effective in transferring and integrating HRM in their distribution with better impact on their business.
Chapter 6 Learning across the Supply Chains: The Scope for and Limits to Learning in a Dynamic Environment

6.1 Introduction

This chapter explores the potential for using the experiences of supply chain development in Company S and Company M to provide a model upon which Company J could draw to resolve its needs for a more effective distribution channel. The findings suggest that the relative success of Company S and Company M is based on the development of long-term relational partnerships built on trust, and that copying this approach could provide a strategy for Company J so long as most business transactions occur within the traditional distribution channel based on WDs. Indeed, the evidence suggests that HRM knowledge transfer, especially that based on tacit knowledge, and the integration of HRM practices can be an important means of differentiating a supply chain from the competition. Further important factors that we have found as contributing to the success of Company M and Company S are the use of the inter-person connections as the most effective means of transferring knowledge and integrating practices between big MNC manufacturers and SME WDs, the customisation of the HRM knowledge to transfer to the WDs’ business reality, and the selection of WDs based on their learning motivation and ability.

However, Company J may face some internal challenges in copying this approach. First, not only did it take Company S and Company M one to two decades to build their distribution channels and develop their WDs, but this also involved building a good trust relationship with their WDs through a virtuous cycle over years. Company J may not be able to spend such a long time doing so since the manufacturing capacity is already there and being depreciated, and also Company J has destroyed the trust with its WDs and left a bad image in the market. Trust recovery can be expected to take time and effort to switch the vicious cycle towards a virtuous cycle. WDs may not have confidence in Company J for a long-term beneficial partnership. Second, trust within Company J between the global headquarters and the local China management is lacking. The global corporate-driven management of Company J limits the ability of the local team to make local decisions. Meanwhile, Company J’s far-away headquarters does not have good enough expertise in the China market. It may take much effort to adjust the power distribution between global and region, especially when the region has failed to deliver annual targets for years. Third, compared to Company S and Company M, Company J does not have equivalent bargaining power with WDs. WDs have choices in selecting different manufacturers. Fourth, the HRM competence of Company J has been found not to be comparable to Company M and Company S’s capability in developing WDs. Company J’s HRM is purely focused on internal issues, and there are no resources and expertise on how to manage HRM in the supply chain. Building the relevant HRM expertise with sufficient resources quickly could be a challenge in the short term.

This chapter also reviews the external dynamic market environment and its impact on the feasibility of copying the successful practices from Company S and Company M. The situations under which Company S and Company M developed their channel and WDs are different nowadays. WDs are
transforming their business portfolio from one product category/one manufacturer partner to one product category/multi-manufacturers or to multi-product categories/multi-manufacturers with increasing bargaining power. New IT technology makes new business models feasible, such as Online (shopping) to Offline (delivery) (O2O). Manufacturers, such as Company S and Company M, have been diversifying the distribution with newly added leaner channels, such as franchise models, to face the changes.

6.2 Learning from Successful Practices in HRM Knowledge Transfer and Integration in Distribution Channels

The cases of Company S and Company M could, in principle, provide Company J with examples of how to move from a transactional to a relational distribution channel. Not only do Company S and Company M have well-established relational partnerships in their supply chains but also their channel partners, WDs, are stable, loyal and competitive in the market. The interviewees report that neither the manufacturers nor their WDs are prone to opportunistically take advantage of each other. Company S and Company M are reported to take the view that it is possible for business relationships to be ‘win–win’ (beneficial to each other) and have supported this view by following consistent practices in this approach for years. In contrast, while Company J is said also to aspire to a relational partnership, its business practices do not support that vision, especially under the stress of seeking short-term returns. It is a typical transactional network, according to perceptions of WDs and Company J itself. The well-established partnership with channel members may therefore be a hard-to-copy competitive advantage. Company J would need to position itself in a clear relational partnership with WDs and stick to subject-supporting strategies for a reasonable period of time until the execution has a chance to deliver business results. Since channel development takes a long time, business indicators of direct financial outcomes, such as sales revenue, profitability and market share, will only reflect the progress of channel development with a considerable lag. Some leading indicators on relational outcomes could instead be tracked and incentivised, for example, WD satisfaction, future purchase intentions, duration of collaboration, expectation of continuity, interdependence (percentage of WD’s business from Company J), or investment in relation-specific assets. WDs should be carefully considered by manufacturers as one of the key stakeholders for any strategy change.

To what extent can Company J learn how to mobilise a virtuous cycle of trust-building from the success of Companies S and M? Before Company J would be able to establish strong enough trust with its WDs, some financial support for the WDs’ early investment in HRM would need to be budgeted. Company S and Company M’s sponsorship for WDs’ additional hiring under their guidance could be one practice from which Company J could learn. This investment could enable a virtuous trust cycle since the initial trust of Company J is low. Once the payback on the investment is realised and turned into positive dynamic trust in the cycle, it might be possible to end the financial support since the momentum would have been built (Figure 5-1). The stability of the manufacturer workforce appears to play a crucial role in the trust relationship with WDs. As the owner/GM (JWH20) of JWD13 shared, ‘there is a big impact when a group of people change. In China, we care about the network… The trust
is high between familiar people. It takes half a year or even a year to work out [for strangers]. With the new sales (of manufacturers), it takes time to work together. If it does not match, either he leaves or I am out of the business'. There have been many changes in the sales and leadership teams in Company J. The trust is difficult to build and maintain with WDs when the persons in charge are changing so fast. Company J would therefore need to learn how to manage its internal employee retention through promotion and development of its core staff.

To what extent can Company J learn how to develop HRM along the supply chain from the examples of Companies S and M? HRM has been identified as crucial for WDs. Company J could review whether its HR department should play a role in the supply chain beyond its own organisational boundary. To leverage the competitiveness of the total supply chain, Company J’s HR department might need to involve HRM development and integration in the distribution channel, extending the scope from internal focus only to the broad supply chain. There could be valuable synergies in knowledge building, employee development, performance measurement, and incentive across the supply chain through knowledge transfer, integration, and teamwork from a holistic view. The joint efforts from the supply chain members could thus be better aligned to enhance the overall HRM impact to business.

To what extent can Company J learn how to build its own HRM competence in the supply chain, which may not be identical to its current competences? The findings support the argument that there is no best HRM. The supply chain HRM must fit with the uniqueness of the supply chain and should be customised for different members. It is not simply a case of transferring the identical HRM knowledge and practices from one organisation to another in the channel. Company J would need to design HRM solutions and embed HRM capability in the WDs. The HRM practices transferred could be different from Company J’s own solutions to address WDs’ prioritised challenges such as improving their attractiveness to new hires, improving performance management and developing management systems. Company J might not know how to run the WD business specifically since it has not had direct hands-on experiences. It might therefore need to refer to Company S’s approach, learning by providing acting management in WDs’ operations to build the relevant expertise. Company J could send its employees to some selected typical WDs and run their business as GMs, learning, summarising and standardising best practices. As WDs have their own advantages in small family businesses like environment, flexibility and agility, the newly embedded HRM should ideally not offset these advantages which MNCs do not have and might not even be aware of.

To what extent can Company J learn how to better utilise inter-person transfers in order to embed tacit HRM knowledge across the distribution channel? The different and typically less educated workforce profile in SME WDs, increases the already difficult transfer of knowledge through system. The WDs confirmed that personal communication is better received as it is easy to understand and enhances Guanxi among individuals between manufacturers and WDs. The formal and informal mentoring and coaching programs were used to transfer the HRM knowledge and integrate HRM practices of organisational design, headcount planning, interviewing, incentive design, performance management, learning and development, and succession. Company S’s power sales practice could also be
considered for newly selected WDs. For example, the daily on-site coaching or management in the first half year of partnership could set the WD up correctly from the very beginning. Company J’s HR department could also assess its own employees’ performance according to how good they are at transferring knowledge and integrating HRM. Company J could also include WD employees’ knowledge, skills and behaviours into its WD commissioning schemes. In this way, Company J could improve the alignment of its channel business objectives, with WD key capabilities especially HRM competence, and its dedicated efforts to transfer knowledge and integrate HRM. All these factors together could provide major gains for the whole supply chain. Skill certification and skill competition linked to personal compensation and incentives could be effective approaches to introduce into Company J’s channel management.

6.3 Internal Development to Enable Learning from More Successful Supply Chains

Company J’s current distribution model is classic, following exactly the same model that Companies S and M have been using for more than a decade; through WD to sub-WD, retailer and then to end users. To be as successful as Company S and Company M, Company J needs to manage its internal challenging factors. These include the problem of long-term commitment in its relational network with WDs, the need to recover its damaged trust with WDs, the need to improve its bargaining power with WDs, to extend its HRM expertise in the supply chain, and to expand the limited authority of its local management team.

Firstly, relational networks between manufacturers and WDs take much longer time to establish than transactional ones. Companies S and M spent years transforming from a transactional to relational WD network with persistent focus. Company J is under strong time pressure to break-even in the China business. Company J might not have the luxury or patience to wait for slowly improved business results by investing in the transformation. There is a clear need to leverage the heavily invested manufacturing capacity to compensate for the financial depreciation costs. The financial result is reported quarterly in the New York Stock Exchange, and this is reported to be driving management crazy over short-period performance. Professional managers are normally perceived to make decisions to maximise short-term outcomes linked to how long they expect to serve in their current roles. The owner/GM (JWH08) of JWD08 was very annoyed and complained that ‘I do not like Company J…who serves God for money will serve the devil for better pay (too practical and short-term oriented)’. The sales manager (JWM17) of JWD12 commented that ‘every one of them (Company J’s employees) is a passenger…who has a short-term view and ensures tasks are accomplished within his or her tenure. They (Company J’s employees) won’t stay long’. When the business is in a tough part of the cycle, the long-term strategies are said to be sacrificed for short-term ones. Company J is said to be exactly in this difficult scenario, which is different from Company S and Company M.

Secondly, trust appears to play a critical role in the relational network but Company J did not have access to trust as its actions had destroyed it. From the WDs’ perspective, trust in the supply chain defines the WDs’ determination to follow manufacturers, the commitment to invest especially for long-
term with uncertainty, and the efficiency of cooperation (Appendix 6.1). However, ‘trust takes a long time to build’ (SSM02, company S’s marketing manager). ‘Trust is an accumulation from previous [tiny] details’ (JJM12, Company J’s area sales manager). ‘Your time, efforts, and engagement can influence WD owners and their teams’ (SSM07, Company S’s city sales manager).

Trust is built through details over a long-term relationship between manufacturers and WDs, and easy to break. Company J has two kinds of WDs. The majority are the newly added WDs, the minority are the old WDs with years of business relations.

‘New WDs with less than one year of business with Company J are still exploring through every connection… It is hard to say trust for the new WDs… The first stage of trust is to know each other, then communicate and get familiar’ (JJM12, Company J’s area sales manager).

Some new WDs were starting to cast doubt on Company J’s reliability through some early poor experiences. For example, oral commitment is a key factor in building trust in the China context. The owner/GM (JWH05) of JWD09 shared two cases. One global executive of Company J made an oral promise of an additional 3% commission for a certain sales volume during his market visit. When JWD09 accomplished the target, Company J’s local management team did not acknowledge and did not deliver the promise. The other case is that another expatriate senior leader promised to celebrate JWD09 if it could achieve a certain sales volume with a special social event. The promise was not delivered either. The owner/GM (JWH05) was very upset with Company J and even almost stopped the business with Company J for these two undelivered oral promises. He complained that ‘to Chinese enterprises including SOEs and private companies, one word is worth 1,000kg of gold, even without documentation. We will keep our promises made at dinner tables’.

Company J’s old WDs appear to have been truly hurt with their trust level reduced to the lowest or almost no trust at all in the past years. Both Company J and its old WDs have the same perceptions on this challenge (Appendix 6.2). Companies S and M appear to have much more consistent higher trust with their WDs (Appendix 6.3). Based on the one (least) to ten (most) scale, some sampled data points of WDs’ trust in manufacturers have been collected during the interviews. The current WDs’ trust in Company J is 4.3, while it is 6.8 in Company M and 6.9 in Company S. The historic trend of WDs’ trust in manufacturers is mapped based on the qualitative description (mainly on trend) and quantitative data points (Figure 6-1, Appendix 6.4).
It takes time to build trust, and it takes much longer time to rebuild trust. Sometimes, it may not be even possible. Trust is mandatory, not optional, to establish a relational network between Company J and its WDs and thus constitutes a big barrier to Company J’s learning from Companies S and M. The trust with its WDs is further challenged by the deteriorating profitability in the industry and increasing number of WDs. The owner/GM (JWH14) of JWD07 commented that ‘[Company J’s] new added WDs fight for the existing customers rather than expanding the market. The overall profit is reducing…Company J is too aggressive and does not partner with WDs’. This market trend increases the difficulty for Company J to follow Companies S and M.

Thirdly, though Company J is more powerful than its individual WDs, it is not as strong as Company S and Company M because it is not the market leader in China and the weighting in the WDs’ business portfolio is not that high. Company J’s sales director (JJH07) commented that ‘manufacturers in China have more bargaining power. Price can be negotiated, but not products (what kind of products to make). They will not buy products when they feel the price is too high’. The owner/GM (JWH20) of JWD13 believed that ‘manufacturers are powerful, and WDs are weak. It is not equal. WDs are very small’. The owner/GM (JWH06) of JWD10 complained that ‘the contract between Company J and me is the most unfair and unreasonable one… Company J has no responsibility, and all problems are in WDs. Company J can stop supply, change technical parameters, and I cannot disagree. Company J can increase the price and I cannot say no… a WD has not much bargaining power’. The owner/GM (JW01) of JWD01 did not like Company J’s practice on inventory management but had few choices. He pointed that ‘there is a high pressure [from Company J]. We have inventory in the channel and warehouse tying up cash’. However, there are also different voices. For example, Company J’s channel excellence developer who used to be Company M’s sales and franchisee consultant (MMM05) commented that ‘Company J’s bargaining power with WDs is very weak, especially when we recruit some new WDs

Figure 6-1 Historic Trend of WDs’ Trust in Manufacturers
who are partnering with the current market leaders… Company J’s share of brand in the same product
category is very low. No single WD could have 20% [share for Company J] nationwide… WDs have
many choices. The products are very similar. There is little differentiation when comparing to
competitors’. Company S’s ex-marketing and commercial manager who is the current Company J’s
senior marketing manager (SSM06), commented that ‘the attachment is weak between Company J
and its WDs. They can replace each other easily’.

Companies S, M and their WDs all believe that the two manufacturers S and M have overwhelming
bargaining power without doubt. The sales director (SWH02) of SWD01 said that ‘we almost do not
have any bargaining power… We had when we developed the market. Now the market has been
developed, we do not have… If we do not carry on Company S’s business, it does not matter to the
manufacturer (Company S). Because the brand is well known and all retailers’ information is
transparent in the system. Company S has all my customers’ information and price… The [brand]
image in the retailer is theirs (Company S's)’. The owner/GM (SWH03) of SWD01 shared his
experience that ‘I must execute the market promotion scheme from Company S’s headquarters and I
cannot change… For the provincial policy or event… Company S can adjust based on my input… Our
bargaining power is very low… If one WD suggests, they won’t care and won’t follow up’. The
owner/GM (MWH03) of MWD01 expressed that ‘manufacturers make polices mainly… WDs cannot
change unless you give up its business’. Company M’s regional sales manager (MMM02) had the
same comments from the manufacturer’s perspective that ‘the only bargaining power for WDs is to
quit [from Company M’s business]. It may affect me for one month’s sales numbers. WDs will balance
using this power. In the end, they do not have power… Company M brand means more than the profit
to WDs’.

The interviewees were asked to distribute in total ten points of bargaining power between
manufacturers and their WDs. Referring to the triangulated analysis of the three interviewees who
used to work in Companies J and S or Companies J and M, they all reported that that Company S and
Company M have much bigger power than Company J compared to their WDs (Figure 6-2, Appendix
6.5). Company J may even have lower power than its WDs (collective team power) taking Companies
S and M as reference. Company M’s ex-area sales manager (MMM03) who used to serve in Company
J as area sales manager too, commented that ‘there are intangible values from Company M to its
channel partners… Company J is kidnapped by its WDs. If you (Company J) do not change policies
[at the request of WDs], they (WDs) won’t buy from you (Company J). Company M’s WDs will try every
effort to hit Company M’s [requested] number even though they may not be able to meet the target.
Company M has brand attraction’. ‘Company J’s brand is not well known. Its bargaining power is less
than Company S… Company J’s WDs may give up if there is no good partnership. Company S’s WDs
dare not. If they do not run business with Company S, other income will be affected too. Company J
does not have such impact’ (SSM05, company S’s ex-area sales manager and channel excellence
manager/Company J’s ex-senior channel excellence manager (SSM05).
Among the three manufacturers, Company J’s bargaining power to its WDs was found to be far lower than that of Companies S and M, whose values to their WDs went beyond the tangible profit from the business. The intangible values such as branding, size of business and enhanced management capability are said to have driven up Company M’s and Company S’s bargaining power. Company J’s WDs were found to have more choices and less opportunity cost should they discontinue the partnership. It could be challenging therefore for Company J to leverage its bargaining power to integrate WDs’ HRM.

All the three manufacturers have been building their product branding in the market to create the pulling force. ‘When the brand becomes stronger and stronger, consumers buy by pulling force in the market… In the recent three years, Company S’s brand maturity and influence on consumers is driving up its bargaining power’ (SSM06, Company S’s ex-marketing and commercial manager/Company J’s senior marketing manager). ‘The stronger the brand, the more bargaining power the manufacturers have. In the beginning stage, WDs’ bargaining power is high because manufacturers rely on WDs… After a while, when their major business comes from the manufacturer and the brand grows… manufacturers’ bargaining power increases and WD’s reduces’ (SSH03, Company J’s aftermarket sales VP/Company S’s ex-commercial director). Company J cannot compare to Company S and Company M in branding investment scale, commitment, and the current market influence.

*Fourthly, the HRM competence affects how much and how effective Company J can integrate its WDs’ HRM.* Compared to Companies S and M, Company J’s HRM is much weaker. Based on the evaluation of manufacturers’ staff and their WDs during the same interviews, in a one (weakest HRM) to ten (strongest HRM) scale, Company J’s HRM was at 6.4, Company S’s at 8.0 and Company M at 7.3. The HRM competence of Company S and Company M is thus considered stronger than Company J. The WDs of Company J and Company M are on a par with respect to rated HRM competence, while WDs of Company S are better rated (Figure 6-3).
To compare whether there is consistency between manufacturers and WDs, a triangulated analysis is further conducted (Figure 6-4, Appendix 6.6). Both WDs and manufacturers themselves believe that Companies S and M are stronger in HRM than Company J, while WDs and manufacturers have different evaluations of their WDs. There is not a consistent result. Manufacturers believe that WDs of Companies S and M are better in HRM than those of Company J, while WDs of Company J believe they have stronger HRM than the WDs of Company M and weaker than the ones of Company S, based on the evaluated numbers.

Figure 6-4 HRM Competence Triangulated Comparison Based on the Evaluators from Manufacturers and WDs

Though the evaluation scale is the same in the assessment, the same number in the same scale may mean different competence levels across the supply chains since the evaluators may have different
benchmarks and criteria for each scale. It is difficult to compare across supply chains. To solve this challenge, another triangulated comparison is made of the perceptions of six interviewees (Appendix 6.7), two with employment experiences of Company J and Company S, two with Company J and Company S experience and two who are WDs’ employees and are involved with both Company S and Company J. This provides consistent findings, namely that Company S and Company M have better HRM. WDs of Company S and Company M also have much stronger HRM than the WDs of Company J (Figure 6-5, Appendix 6.8).

![HRM Competence Triangulated Comparison Based on the Evaluators with Experience across Organisations](image)

In summary, there is a consistent conclusion that Company J is not as competitive as Company S and Company M. WDs of Company J may also have weaker HRM than WDs of Company S and Company M, but they may not have that awareness based on multiple triangulated analysis. It would take time to develop Company J’s HRM competence, especially expertise in managing WDs’ HRM. It is hard to imagine that one organisation without a strong enough HRM function would be able to integrate other organisations’ HRM, such as the WDs. Company J might therefore have a hard time integrating WDs' HRM until its own HRM is competent enough. Company J’s HR department had not been involved in the WDs’ HRM development, and the business staff who were involved in WD development did not have professional HR backgrounds. To be able to apply what Company S and Company M have been doing with respect to integrating the HRM of WDs, Company J would need to build supply chain HRM competences with dedicated resources. The financial breakeven target may limit Company J on how fast and feasible it would be for Company J to build this critical HRM capability.

Fifthly, the missing trust between China and Company J’s global headquarters due to the headquarters’ lack of China knowledge and inconsistent management localisation, and the poor track record of local business performance, may slow down the process of increasing decision-making powers for the China management team. Both Companies S and M were considered by the interviewees to be much better than Company J in knowing the Chinese market, trusting and delegating the China local team to run local business. Among the three manufacturers, the Companies S and M have much better self-
perceptions of their expertise and of knowing and managing the China business than Company J. The WDs’ comments on each of the three manufacturers are consistent with their self-perceptions. With one (least) to ten (most) scale assessment on the competence level of knowing China from the same interviews, Company S is the highest and Company J is the lowest. Both Companies S and M have been in a positive progression with accumulated experiences in China (Appendix 6.9). Together with the qualitative data on the trend descriptions, the overall longitudinal China expertise of three manufacturers is mapped out in Figure 6-6. Company J has an ‘S’ shape which may be due to the too-frequent management changes. In 2009 to 2010, Company J’s aftermarket was led by a local GM with increasing decision-making authority. However, from late 2011, an expatriate was in control and decision-making authority was with the global headquarters. They were found not to have sufficient local business insights such that after the lowest point in 2013, more voices from local managers were heard and there was more scope for local decision making, although Company J’s local expertise must still be considered far lower than the other two companies due to the heavy weight of its headquarters in local China decisions.

![Figure 6-6 Expertise in Knowing China Business](image)

The difference in decision-making authority distributed in global headquarters and the China region could prevent Company J from copying Company S and Company M’s practices, which demand high flexibility and adaptability to the local market. Company J is a very US-centric organisation. Against the trend of management localisation, many global stakeholders in Company J have been involved in China business decisions in a matrix organisation structure. Companies S and M appear to have a much better balance in the decision-making authority between China and global headquarters with increasing weight allocated to the local team. They also have much better management localisation than Company J (Appendix 6.10). Company J does not have a consistent localisation strategy. The
Figure 6-7 visualises the trends between 2010 and 2016 based on the descriptive comments in the interviews. The less localised management with limited decision-making power constrains what Company J could learn and how it could respond quickly to market changes. The detailed comments from interviews are referred to in Appendix 6.11.

It seems that Company J has passed the turning point of the lowest trust in its headquarters. Between 2012 and 2016 Chinese or Chinese face (non-Chinese passport holders) were appointed as Company J’s department heads. The management team has been localised and most expatriates were sent back. Company J’s area sales manager (JJM12) commented that ‘now, the control [from the global headquarters] is becoming less and more authority is awarded in planning and sales budget’. Company J’s channel excellence manager (JJH02) has similar comments: ‘more decisions are taken in China gradually or they (the local team) have found good approaches to influence the global team. The trend is that more and more decisions will be made in China. We need to balance between globalization and localisation. For the distribution business, we rely on the China decisions’.

However, the change might still take time to be effective. Company J’s channel excellence developer (MMJ05) who used to be the sales and franchisee consultant in Company M had seen the change and commented that ‘two years ago, Company J’s market was messy. The expatriate sales VP did not know China. When he left, the management team was localised. It is better now…, but it still does not work. The weak power in regulating channel, [unsuccessful] business performance and market response tell the story’. Though Company J’s headquarters had realised that the expatriate management model in China did not work, it was still taking time for the China team to win credibility and trust, especially when they never delivered the business results as promised. Meanwhile, Company J’s headquarters was still tending to micro manage even though it does not know the China market as well as the other two comparative companies, S and M. This slows down the market response and demotivates local management.

Sixthly, the business scale of Company J’s traditional WDs is much smaller than those of Companies S and M’s WDs. The small business size would make it difficult for the WDs to afford hiring staff from Company J. WDs’ staff are less educated and what they are strong in, normally execution and hard
work, would not equip them to survive in MNC companies like Company J. Thus, it may not be possible for Company J’s supply chain to copy the staff exchange between WDs and manufacturers.

6.4 Impacts of Market Uncertainty on the Adaptability of Early Success

The current automotive aftermarket is different from two or three decades ago when Companies S and M started to build their channels. What worked then may not work today. WDs have been diversifying their business portfolio. They have grown a lot with more resources, better competence, and stronger bargaining power. More new and indeed disruptive distribution business models have been shaped or piloted. The sustainability of one business model has been challenged by shorter pay-back perspective due to the increasing uncertainties. This is due to five main factors.

*Firstly, WDs are transforming their business portfolio and organisation through the partnership with manufacturers.* Referring to a matrix structure, Figure 6-8 shows the number of manufacturers with which WDs partner (one vs. multiple) and the numbers of product category sold (one vs. mixed). A common trend was found across all three supply chains. WDs start from one product category/one major manufacturer (Box I), and then introduce more manufacturers to the same product category ending in multi manufacturers/one product (Box IV) or introduce more product categories from more manufacturers ending in multi manufacturers/mixed products (Box III). Or they migrate from one manufacturer/one product (Box I) to multi manufacturers/mixed products (Box III) directly by introducing more products from other manufacturers. Some common WDs were found that served both Company J and Company S in this study as they had diversified by manufacturer and product. Company S takes a much higher share of the WDs business than Company J in the common WDs since WDs follow Company S’s requirement that 80% or more of the WDs’ business should be from Company S.

![Figure 6-8 WD Migration Path in Product Portfolio and Number of Manufacturer Matrix](image-url)
Company J acquired its China business from another global automotive parts company, DE, in 2005. It took over the manufacturing facilities and distribution channel. Company DE’s around 50 WDs were considered the best distribution resources in the market during the acquisition. Most of their business came solely from Company DE and then Company J, as indicated in one manufacturer/one product (Figure 6-9). Up until 2015, the majority of them still had their core business in Company J’s industry but introduced competitive products, and are therefore found in multi manufacturers/one product, but very few such as JWD07 and JWD13 are still in one manufacturer/one product category now that is doing business only with Company J. Most WDs, no matter whether they started business with Company DE/Company J or competitors such as Company CA/Company SA such as JWD09, have tried to diversify product lines in their portfolio over recent years and have therefore migrated from one manufacturer/one product or multi manufacturers/one product to multi manufacturers/mixed products.

The number of Company J’s WDs from 2005 till 2010 was very stable, in the range of 50 to 60. Linked to the growing size of the Chinese market and Company J’s increased production capacity, the number of WDs has increased from 50 to 325 between 2010 and 2016. The territories of the previous WDs have been divided. The serious supply shortage and unstable quality of the new plant production in 2010–2011 were also driving factors for WDs’ migration out of one manufacturer/one product category. For example, JWD10 used to be Company J’s biggest WD, inherited from Company DE during the acquisition in 2005. In 2010, JWD10’s business came 100% from Company J. In December 2013, the product in Company J’s industry only accounted for 60% of its business and this was shared between Company J and another local brand in which JWD10 had itself become one of the investors. JWD10 worked with ten manufacturers from different product lines in 2013, and therefore migrated to the multi manufacturers/mixed product category.

![Figure 6-9 Examples of WD Migration Path](image-url)
Figure 6-9 has mapped out some more exemplar WDs’ migration paths. The one manufacturer/one product category used to be the major mode in Company S’s distribution channel in early days. With the decreasing profitability, WDs explored different ways to manage the challenge. For example, SWD01 was in the one manufacturer/one product category from 1996 to 2010. Since 2010, it has been diversifying its product portfolio and it is now in multi manufacturers/mixed products category. SWD03 was in one manufacturer/one product from 1996 to 2007. In 2007, it introduced products from Company S’s competitors and moved to multi manufacturers/one product, and from 2010, it has been diversifying product lines ending up in the multi manufacturers/mixed products category. SWD02 is a new WD from another industry which acquired Company S’s previous WD in the market. It is in the category of one manufacturer/one product and on a learning curve for new business relationships. The business of all three WDs of Company S mainly depend on Company S. Company S takes 100% share of SWD02’s business, 77% of SWD03’s, and 80% of SWD01’s. Both SWD01 and SWD02 have entered Company J’s market. SWD01 has become a WD for Company J and another local brand, while SWD03 is the WD for Company J’s local competitor.

The three sampled WDs of Company M are all classified in the category of multi manufacturers/one product. MWD02 is one of Company M’s biggest WDs with 1.5 billion RMB revenue. It has a full product portfolio including global brands like Company M and its direct competitors, and big and small local brands. There are more than five brands in its dealership. Company M takes 25–30% of its overall business. MWD03, with an annual revenue of more than 500 million RMB, is running at least six different brands, including global brands and big and small local ones. Company M takes 30% of its truck business. The product categories cover different layers of the market, high and low ends. The three WDs started from local brands and added Company M to its high-end portfolio. Company M is their major supplier in their high-end market.

The manufacturer’s and WD’s relationship has become more complex. WDs may not be committed to one manufacturing partner. Manufacturers may not be able to copy what worked when the distribution arrangements involved one manufacturer/one product in the new context of multi manufacturer/one product or multi manufacturers/mixed products relations.

Secondly, the new market entrants may disrupt the market completion. Though the traditional new entrants, Type A, join from Box I where one product line with one manufacturer is still the most common case, there is another group of new entrants, Type B, entering the market from Box III (multi manufacturers with mixed products) recently, and could be a trend (Figure 6-10). They are the third-party platforms integrating different manufacturers and service providers offering solutions with products and services, normally based on the IT technology in an O2O model described earlier. The current players, manufacturers or WDs, may need to decide whether to join them, become them or do nothing. Any changes will shift the current partnership and affect future partnership.
Thirdly, these changes present multi strategic choices for manufacturers and WDs and bring up another challenge: the strategy alignment between Company J and its WDs. Alignment is important, both in terms of ensuring a fit between HRM and the partnership goals, and in engaging worker commitment to these goals (Marchington, Rubery and Grimshaw, 2011). WDs have more choices in products and business models, their strategies may not be necessarily aligned to Company J. Company J’s business could be only part of WDs business portfolio. HRM strategy should support and align to the overall business strategy for better business performance. If strategies of WDs do not align to the manufacturer, it will be very hard for Company J to transfer its HRM (Figure 6-11) as the integrated overall HRM may not support the WDs’ overall business. The strategy consistency is another key factor affecting the alignment. If manufacturers keep changing their strategies, WDs most probably have difficulty in following. Company J’s WDs have experienced this before. Though Company M has successful business overall, there is conflict between Company M and its WDs when they face markets directly in a new business model. It is difficult to collaborate when they are competing for business at the same time.
The alliance composition in the SC has been changing. The relationship between manufacturers and WDs in Company J’s industry has been shifting from one WD in one regional (province or city) market, to multi WDs in the same market. One WD with one product in partnership with one manufacturer is shifting to one or mixed products with multi-manufacturers. The commitment level to each other is much lower than before. Should Company J develop WDs who do not focus their business with Company J? There are also new market entrants from other automotive industries or totally new business models, like the solution providers on e-commerce platforms to integrate all kinds of manufacturers, which may attract manufacturers or WDs to join. When all players are evaluating different options, it is a challenge to align and commit in one model with long-term investment.

Fourthly, WDs, especially the non-traditional WDs from Company J’s industry, are on a bigger scale with increasing bargaining power, while MNCs may have better local business insights and have become less reliant on WDs’ market intelligence. Company J’s WDs may come from various markets, and some of them may have been developed well by other manufacturers such as Companies S and M. Company J may not be able to develop them or it is not necessary to do so. WDs have been growing in business and management capability in the last two decades. WDs have more choices in the same product category, other product lines, or business models nowadays. The overall trend in the industry is that WDs have gained and will gain more bargaining power compared to manufacturers. There is increasing collective bargaining power of WDs. The justification for the trend of bargaining power is consistent across the three channels. The benefits from WDs to manufacturers have been evolving at the same time. The ex-executive of Company S (SSH01) commented that ‘WDs need to be aware that the whole industry is transforming. WDs’ advantage of better local knowledge, network…or [flexibility] for hard-to-handle cases is diminishing with more and more formalisation. When manufacturers’ branding becomes stronger and stronger, it is not very difficult to manage without WDs in B2B business… In B2C business, Company S may still need such kind of support, for example, in accounts receivable, bad debts, and services’. Complex factors are reshaping the bargaining power in the supply chain in multi-dimensions. The goal of the partners in the supply chain may vary based on our study. Manufacturers value WDs and expect them to access end users in different geographical
markets where they themselves have difficulty accessing. Enabled by internet technology, manufacturers are trying to flatten the layers in the chain as they now have other options in accessing retailers or even end users. WDs are playing a less critical role in the channel. Company J needs to evaluate whether it still needs to focus on WD development, which could be outdated in the near future.

The macro environment in the China market has been undergoing many changes. O2O is a particularly big one. Consumers place orders and pay online through a manufacturers’ portal or third-party platforms. It can potentially reshape the traditional distribution model, which enables the direct connection between manufacturers and retailers, or manufacturers and end users. It is threatening to the traditional WDs. Since the uncertainties in the macro and micro environment are increasing now, WDs are balancing the independence, risk and resources leverage.

Fifthly, manufacturers have been exploring and piloting new distribution models (Figure 4-1). Company M and Company S have been responding to these market challenges. They have migrated focus from WD development to retailers’ development. Both Company S and Company M are directly managing and developing key/franchisee retailers, including HRM system and practices. As the new channel is immature, Companies S and M are balancing their relations with WDs and cover their interest well so far. For example, the franchisee retailers need to source products from close-by WDs in Company M’s model. Both Company S and Company M are exploring new business models for direct access to end users bypassing all partners in between, though there is not a clear solution so far. Since 2010, Company S has been exploring the new distribution channels, piloting in Path 4 (WD to end user) and Path 5 (franchisee). Path 7, the direct selling from Company S to end users, has not yet been found in practice in this research. In Company M’s distribution model, although again concentrated on Path 1 and Path 2, Path 5 has already been very well developed in China. Started in 2009, by 2015 there were more than 1,000 franchise stores in China. The franchised stores are the one-stop service with mixed automotive parts from Company M and other component manufacturers. Company M manages retailers directly who have a certain level of business volume. In Path 5, the franchisees are managed directly by Company M, but their products are supplied by the close-by WDs assigned by Company M to avoid channel conflicts. Currently, 40% of the WDs’ business is from the franchisees, on average (MMM04, Company M’s training manager). Some WDs own their retailing stores in franchisee or non-franchisee model. Path 5 is becoming more important and is growing fast. In 2014, Company M has 2,250 franchisees worldwide, more than 1,000 of which were in China. Company M expects to have more than 5,000 franchisees by 2019 around the globe.

6.5 Summary

Overall, the external market is very dynamic. WDs have been diversifying their business profile to reduce risks and improve profitability. The bargaining power between manufacturers and WDs has been shifting, with more weight towards WDs. The non-traditional new entrants (WDs from the adjacent market), and the new business models that have evolved inside supply chains (franchisee and online to offline) or that have been brought in (total solution providers) are changing the value of different members in the supply chain. All these dynamics lead to the question of how sustainable a
particular business model could be. The life cycle of one business model and relationship between supply chain members could become shorter and blur the differentiation of relational and transactional networks. These external market dynamics is one key element added to the HRM knowledge transfer and practice integration model (Figure 6-12), which fundamentally challenges whether there is a reasonable window of time for Company J to copy Company S and Company M’s early success to build a sustainable relational supply chain network through supply chain HRM integration.

Figure 6-12 HRM Knowledge Transfer and Practice Integration Mechanism in a Dynamic Supply Chain Context
7.1 Introduction

This study has extended the research scope by considering downstream SC HRM knowledge transfer and integration between manufacturer and distributor (Figure 7-1) in contrast to the classic focus on either relationships between a focal manufacturer and its suppliers (Wilkinson, Eberhardt, McLaren and Millington, 2005; Sillanpää, Shahzad and Sillanpää, 2015) or in a general supply chain context from supplier to manufacturer, distributor and then customer (McAfee, Glassman and Honeycutt, 2002 Wei, Bai and Cheng, 2016).

Figure 7-1 Extended Research Focus: Manufacturer to Distributor Relationship in the Supply Chain

This chapter identifies our empirical study's contributions to the integrated HRM knowledge transfer model, including the contents and nature of the HRM that is transferred and integrated, the channels used for transfer, and the moderating factors affecting the effectiveness of transfer. Specifically, this chapter advances the current theories on i) the impact of the relational SC network and HRM knowledge transfer, ii) the role of trust in the relational SC network, iii) the importance of best 'fit' rather than best practice HRM in the SC context, and iv) the impact of dynamic markets on the SC strategy and HRM alignment in SC, and eventually on the likelihood of, and scope for, SC HRM integration.

7.2 Key Influential Factors for HRM Knowledge Transfer and Integration in Supply Chain Strategy

There are four key influential factors determining the effectiveness and impact of HRM knowledge transfer and integration in a SC context. Whether relationships in the SC should be transactional or relational is a strategic choice for focal companies and depends upon their competitive strategy, and whether they want to stand out from the competition through the integrated SC HRM. However, trust among the SC members is a prerequisite to be able to execute the choice of a relational SC strategy. The ‘fit’ of the HRM transferred drives the process effectiveness of HRM transfer and integration. The alignment in strategy in a dynamic SC context determines how sustainable the relational network choice can be and whether it could be turned into a kind of competitive edge.

7.2.1 The influence of SC relationships on HRM knowledge transfer and integration in SC

Our study provides support for the argument that commitment to the SC relationship affects the knowledge transfer, which in turn leads to differences in performance, measured by i) direct economic outcomes of WDs and manufacturers such as profitability and market position, ii) indirect outcomes of WDs – the HRM transferred and adopted in WDs, and iii) relational outcomes such as WDs'
satisfaction, expectation for future partnership and willingness to invest (Table 5.7, Chapter 5). The relational network supports more and in-depth knowledge transfer in the SC. Our study provided further support to the prerequisites of effective knowledge transfer in organisational design, reward systems and available time (Goh, 2002, Table 2.10, Chapter 2). Companies with commitment to relational SC normally have dedicated resources such as a full-time team to develop SC partners. In line with its aim to make the transition to a relational network with WDs, Company J for a short time period did add the factor ‘how good its sales representative was at developing WDs’ team’ into its sales performance measurement system in 2014 (Session 5.4.2, Chapter 5), but the effort was short lived. Relational-network-oriented manufacturers may also have additional financial rewards to encourage SC partners to establish HRM systems in the recommended way, including goal setting, performance management, compensation, benefits and organisation. Manufacturers may even incentivise SC partners to join their offered training schemes and pay for expected behaviour and results due to the application of knowledge transferred (detailed in Chapter 5).

7.2.2 Trust as a differentiator in SC relationship

Our study found that trust is a precondition for all kinds of business relations, transactional or relational. In fact, WDs are not willing to do business with any manufacturers whom they do not trust since some business counterparts may be able to escape legal liability as China lacks an effective legal infrastructure and credibility system. WDs do not want to get hurt. For dealerships in distribution, the business is long-term and building a network between manufacturers and WDs can take years or decades. The business normally demands early investment and yields returns only in the long term. All these business features result in uncertainty. This study supports the proposition that supply chain relationships built on trust deal better with uncertainty (Golicic, Davis, McCarthy and Mentzer, 2002), and reduce transaction costs (Dyer and Chu, 2003; Willette, Teng and Singh, 2016) much better than less trust-based relationships (Chapter 6). The trust level defines the amount of commitment to invest in the long-term SC partnership.

7.2.3 The need for HRM knowledge transfer and integration to fit the SC environment

This research has explored differences among the focal MNC manufacturers and their SME WDs in the same type of SCs. WDs’ different ownership, size, organisation set-up, resources, business nature, development stage, workforce profile, embedded societal culture, leadership and challenges demand HRM systems and practices that fit their business reality. It is not simply a case of transferring what the MNCs are themselves practicing (Section 5.6.1, Chapter 5). The MNCs with better SC HRM integration have more authority to make local decisions which are close to the Chinese culture and market. They are more competent in SC HRM, developing, customising and integrating the HRM solutions that ‘fit’ the supply chain. The Supply Chain-Fit (SC-Fit) HRM is considered to be the type of HRM systems and practices that can be learned and applied effectively by SC partners.

7.2.4 Alignment of strategy in a dynamic business context
Strategic alignment calls for partners' joint efforts towards one common direction. How far and how long the alignment can last determines how much commitment there is to invest in the supply chain. There are different kinds of market uncertainties affecting the SC alignment. Some uncertainties may challenge the whole supply chain affecting all or most members, such as some newly-introduced unfavourable governmental policies. This kind of uncertainty may drive SC partnerships closer in order to manage the SC external changes together. Another kind of uncertainty originates within the SC and could fundamentally reshape the relationship and value positioning in the SC. This kind of scenario has been specifically explored in our study (Chapter 6). The new business model alternatives, flattening the distribution channel, have affected and will continue to affect the SC relationship. When manufacturers have been shifting their focus from their WDs to franchised retailers, their strategic relational network with WDs may be dramatically weakened or eliminated. The commitment to transfer and integrate HRM in SC will change subsequently. Meanwhile, HRM may have different strategic importance to WDs and much smaller retailers. The practice of an integrated SC HRM may need to be reviewed to identify whether it can still offer a differentiated competitive advantage. Another evolving market dynamic in the supply chain is the distribution of bargaining power. This study has clearly identified the increasing power of local SME WDs. They have more choices in business model, product line and manufacturer partner, which increases the difficulty in establishing and maintaining the strategic alignment. The changes within SC dynamics and shifting bargaining power among SC members are affecting SC relations and eventually the SC HRM knowledge transfer and integration.

7.2.5 Integrated SC HRM knowledge transfer and integration model

HRM knowledge transfer and integration in SCs can be considered a comprehensive process, achieved through blended channels and moderated by factors within SCs and by external forces in the market. The influential factors are integrated in the model (Figure 7-2). The focal companies need to make a strategic business decision whether or not to commit to develop and leverage the integrated SC HRM to give them a competitive edge. Though the studied traditional automotive aftermarket distribution channel provides evidence of the value of the SC HR integration, different supply chains and different focal companies in the chain may need to justify whether the integrated SC HRM can be the differentiator and whether the focal company is ready to go for that SC strategy (Chapter 6). Trust is crucial to establishing the SC relational network and a prerequisite to transfer and integrate HRM. ‘SC-Fit’ HRM, based on the insights of local supply chain, SC HRM competence and authority at the local level to make decisions, affects how effectively the transferred HRM can be embedded in the chain. The SC relationship is being evaluated and adjusted by SC members in a dynamic environment. The fast-changing speed challenges the featured stable, long-term and win–win relational SC network.
Figure 7-2 Key Influential Factors in SC HRM Knowledge Transfer and Integration

7.3 Theory Contribution

Besides the identified mechanism of SC HRM knowledge transfer and integration, this study has clear implications for academic research on SCM (relationship) and knowledge transfer, trust in supply chain, ‘fit’ vs ‘best’ practice HRM in the supply chain, and strategy and HRM alignment in a dynamic market.

7.3.1 Implications for research on relationship-oriented SC, tacit/explicit knowledge transfer and business impact

Knowledge management has been widely studied. Different from current theories classifying knowledge (tacit vs. explicit) mainly by transfer channels (system-formal vs. interpersonal-informal) (Table 2.10, Chapter 2), our finding is that most of the knowledge researched is both tacit and explicit in nature and is transferred through blended media involving both less-structured interpersonal interactions and structured systems. The Figure 7-3 maps out the overall types of knowledge transferred and the transfer media leveraged in the supply chain in this study. The typical media on the left side takes much more effort and a longer time. However, their effectiveness is perceived by the knowledge recipients, the WDs in our research, as providing the most value-added (Section 5.4.2, Chapter 5).
Our research found that the stronger the relationship commitment the better the knowledge transfer practice in both tacit and explicit knowledge. This is in contrast to Wei et al. (2016)’s finding that relationship commitment has significant and positive impact only on the transfer of tacit knowledge and on cooperative performance, but not on explicit knowledge transfer (Session 2.4.3, Chapter 2). The more relationship-committed companies, M and S, have much more commitment and investment in both types of media, interpersonal and system, facilitating the knowledge transfer (Session 5.4, Chapter 5). They have detailed documents, rich coverage of eLearning resources and ERP IT system to enable the sharing of product and technology information, standards, working procedures and visualised performance results. They have more face to face channels to facilitate the application of knowledge through best practices and the sharing of lessons, supported by coaching, mentoring and role modelling. The engagement is both widespread, across multi-functions and involving leaders at different levels, but is also supported and organised by a dedicated team of full-time employees. They also incentivise WDs to engage in learning, behaviour change and culture immersion through financial rewards. The not-so-well performing firms tend to commit less to the SC relationship and focus more on short-term wins. They, therefore, mainly transfer the minimum necessary business knowledge on product, marketing and technology relevant for sales and in the fastest possible approach. To all types of firms, this kind of knowledge is the essential foundation for business networks, both transactional and relational. The major differences are the scope and depth of the knowledge transferred. Better performing companies have much more advanced HRM practices and business operations, standardised and coded into working documents and training materials, (Figure 5-5, Chapter 5) and transferred through multi-channels especially using media on the left of the Figure 7-3. The not-so-well performing firms may not have standardised and well-documented procedures. They influence SC members’ operations and management through a less structured informal approach, relying on the varying quality of individual sales professionals on a case by case basis. Furthermore, better performing firms have customised knowledge and HRM practices to fit SC members, and try to convert
some knowledge of a tacit nature into more explicit knowledge to enable transferability using a standardised systematic approach such as check lists.

Our study implies that the knowledge transferred should not be differentiated by the tacit or explicit dimension only as all knowledge is a combination of explicit and tacit. The knowledge could be categorised into two new types, that which is fundamental for business networks i.e. that which must be learnt to enable the business transactions to occur (such as the product, technology and marketing knowledge for distribution), and knowledge which can be considered to offer a basis for competitive differentiation, (such as expertise in managing business and managing people), to enable long-term competitiveness and synergy along the SC. The transactional-oriented manufacturers may limit their transfer and stay within the fundamental type but the transfer media may still be able to leverage the blended approach for better transfer effectiveness. This study finds that all the three manufacturers offer face to face training, eLearning and documents on products and have dedicated customer service teams to support WDs on the product and technology. However, the two relational-oriented companies provide both good fundamental knowledge transfer and strong differential knowledge transfer. The difference is not the media of knowledge transfer, but the scope and depth of the knowledge transfer. The differential knowledge should be able to generate competitive advantage. It should add value by reducing cost or by enabling premium prices to be charged. It should be rare in the market and hard to imitate. Meanwhile, the organisation should be able to install the systems and embrace the practices. Sustainable competitive advantage from HRM specifically comes from a team not from an individual, and from HR systems more than from single HR practices (Session 2.3.3, Chapter 2, Barney and Wright, 1997). This differential knowledge transfer is likely to involve more tacit elements, while the direct business-relevant fundamental knowledge may be composed of various combinations of tacit and explicit (Figure 7-4). What may constitute the significant differential knowledge may vary between different industries and different organisations. HRM is the one studied in our auto aftermarket industry across the traditional distribution channel. It may be dynamic, as the required core competences may change due to uncertainty in the external market environment or the organisation’s evolving positioning and strategy. This will relate to the discussion on the SC ‘fit’ HRM (detailed in Session 7.3.4).

![Figure 7-4 Knowledge Category and Composition of Tacit and Explicit Nature](image)
7.3.2 Implications for research on trust, the differentiator in the supply chain competition

Trust takes time to establish and is hard to copy, which makes it a possible differentiator in the supply chain driving partners’ decision to take a collaborative, win–win and long-term approach, that is to develop a relational partnership. Our research has found that the reputation-based, computational trust and relational trust all play a big part in competition in all stages of the supply chain researched here.

First, when manufacturers were selecting and adding WDs to their distribution network, WDs were only willing to enter the candidate pool if they trusted the manufacturer. Besides the attraction of industry and investment requirements, WD candidates make a judgement based on reputation-based trust. The newly recruited WDs came on board because of their trust in manufacturers’ brand reputation, MNC status, expected profitability, sustainability and organisational growth through learning from MNCs (Figure 4-5, Chapter 4). The more reputational trust attached to a manufacturer, the more competent WDs they can attract and engage. If the most competitive members join the game, the chances of enhancing the overall capability and efficiency of the total supply chain should improve.

Second, trust is dynamic and may be increasingly strengthened or weakened in the daily operations after the initial engagement and honeymoon period in the first stage (Figure 5-8 and Figure 5-9, Chapter 5). Consistent practices, delivered commitment and win–win results keep building trust in a virtuous cycle, and vice versa in a vicious cycle (Chapter 5). With learning motivation, WDs collaborate in absorbing and applying the newly learned knowledge and skills to convert the knowledge into behaviours and eventually into benefits gained through better SC performance. The return stimulates further growth in trust and generates stronger confidence in expectations. This kind of learning opportunity is rare in the market and hard to imitate or develop in the short-term. The enhancing trust enables more and more in-depth knowledge transfer and is enforced through the process. However, weakening trust demotivates knowledge sharing and learning, and diminishes future expectations. The trust in partnership enables the commitment in investment, joint efforts and confidence to pursue new business models or directions. The degree of trust does differentiate the SC strategy execution and efficiency. Less trusting SC partners hold a wait-and-see attitude and offer lip-service commitment without follow-up actions. SC strategy is hard to implement in the market because of the weak trust which leads to poor results, and poor results lead to strategy change which further weakens trust. This supports findings by Huang et al. (2014) on the positive relationship between integrated SC with typical evidence being better collaboration and joint efforts and better supplier performance (Chapter 2).

Third, the business environment is dynamic, and the supply chain is changing (Chapter 6). Both sides of the trust relationship see each other as long-term partners and are relational-oriented in the partnership. They make decisions from a long-term and win–win perspective. They take care of each other's interests when something new is piloted with big uncertainties. This relational trust-based partnership offers innovative SC strategic initiatives a better opportunity to take off and succeed, as these by their nature involve a high degree of uncertainty and do not offer guaranteed payback. The computational-trust-featured transactional network will hardly embrace the ‘risky’ business innovations
as both sides have doubts about each other’s accountability and commitment to take care of each other. This empirical study supports Poppo, Zhou and Li’s recent findings (2015) in the context of buyer (manufacturer) and supplier that relational trust has a stronger effect on supplier performance in the presence of market uncertainty in supply side than calculative trust. The trust in the overall long-term benefits seems to be a key factor in retaining the WDs when there are market distractions such as competitors’ better financial terms or new products. Otherwise, WDs may have a high possibility of behaving opportunistically and manufacturers have to invest in monitoring and control, which increases the transactional costs. The study has shown that partners in trust relationships remain within the core business, while the ones in low trust relations have introduced competitive products and diversified their product portfolio due to worry about the risks of relying on one non-trustworthy SC member.

Fourth, this research has supported and further enriched the framework drawn up on secondary data to capture trust dynamics (Daudi, Hauge and Thoben, 2016, Figure 2-7, Chapter 2) with first-hand exploration. All five aspects constituting trust dynamics were found in this study. i) The SC partners had their business objectives to achieve from supply chains (Figure 4-5, Chapter 4) and when they grew, they adjusted their objectives. The attractions from the SC changed from time to time due to the varying expectations of SC members. The misalignment in their changing goals affected the trust within the supply chain. ii) The interaction styles – cooperative or competitive – were evidenced in the virtuous cycle (Figure 5-1, Chapter 5) and vicious cycle (Figure 5-2, Chapter 5). iii) Changing of organisational structures strengthened or weakened efforts to establish collaboration and trust in SC. The establishment of the Channel Excellence department in Company S to develop WDs enabled the development of a relational network and interfirm trust, while the down-sized Channel Excellence department in Company J impeded the creation of SC collaboration (Session 5.4). iv) The changes of partner organisations and their representatives or contacts in the supply chain, entering or leaving, is one kind of dynamics. The new WD entrants from current or adjacent markets (different product distributors in the automotive industry) (Figure 6-10, Chapter VI), and the frequent changes in key leaders who were interacting in supply chains (Session 4.3, Chapter 4) further challenge the trust in the SC. v) The life-cycle of supply chain – preparation to establish network, creation of network, operation to execute tasks and decomposition – is another factor also identified as affecting the interfirm trust. The old or new partners (Figure 4-5, Chapter 4) had different expectations/goals from the SC partner and trust varied in different SC development phases.

The model of Daudi etc. (2016) is more focused on the internal SC. Two new dynamics aspects from outside of the chain affecting the SC trust were identified in this study. One aspect is the available choices for partners outside the current SC in the same product category or diversified categories (Session 4.6, Chapter 4). The other aspect is the disruptive business model such as franchise distribution (Session 4.8, Chapter 4) or solution provider (Session 6.4, Chapter 6) enabled by technology. These distraction factors could affect the commitment to the current supply chain and then the trust.
In conclusion, trust in supply chain is a pre-request for all kind of business, while the long-term relational partnership requires a much higher level of trust relating to the higher commitment required and the greater uncertainty involved in a longer-term relationship compared to transactional one. Relational trust in the relational-oriented SC network differentiates the SC competition due to differences in the composition of SC members, as there will be more SC-synergised competence built through knowledge transfer and business innovation. However, it becomes more difficult to establish the SC trust due to the environmental dynamics.

7.3.3 Implication for research on the ‘fit’ of HRM: the need for a mix of paternalistic and transactional HRM practices in supply chains in China

HRM in China is affected by the societal culture including Confucianism, ‘middle way’ thinking, hierarchy, perseverance, thrift, harmony, Guanxi, care for disadvantaged employees and care for employees’ family, trust, (Yeung, Warner and Rowley, 2008; Jackson, 2002; Kim and Gao, 2010; Warner, 2010; Yuan and Chia, 2011; Fu and Kamenou, 2011; Zhang, Farh and Wang, 2012; Han and Han, 2009; Zhang, Tsui, Song and Jia, 2008; Lin and Ho, 2009; Paik, Vance and Stage, 1996; Haar, Russo, Sune and Malaterre, 2014). The Chinese subsidiaries of foreign headquartered (US and EU) MNCs in this study have applied HRM differently to their home countries. In better HRM integrated SCs, the local or overseas Chinese in the focal MNC manufacturers are managing companies with more internal promotion and lower management turnover rate, higher level of employee trust and a stronger long-term commitment to the China market compared to less integrated SCs (Chapter 5, session 5.6.1, item 2 - WDs’ HRM challenges; Chapter 6, Appendix 6.11).

Though these three MNCs practice internal HRM differently, they do share more commonalities as one group compared to their Chinese WDs – the SME private business. The major difference is between transactional HRM and paternalistic HRM (Zhu, Zhang and Shen, 2012) (Table 2.6, Chapter 2). HRM in WDs is typically paternalistic in nature, and in MNC companies is more transactional in nature (Chapter 5). SME WDs are private businesses. Their HRM is positioned from a long-term perspective and a familialistic relationship. Due to the limited resources, weak attraction and seniority-based pay, WDs focus on building human capital especially the management team. The commitment of employees to the organisation and owner with citizenship behaviours are strongly evidenced in the researched WDs. Both owners and employees perceive the emotional liability to take care of each other more like family members. In hard times, WDs normally do not choose downsizing. WDs offer financial and emotional support to employees when they or families have private challenges such as sickness. There is not a clear-cut dividing line between company and private from both sides, owner and employee. It is an open-ended social exchange rather than work-related economic exchange in WDs. Owners may lend money to employees when they buy apartments or cars. Some WDs, especially in Tier I cities, offer accommodation and meals. However, there are some transactional HRM features embedded such as the mixed hiring from market and personal introduction channels, and seniority, position and performance mixed pay system. These findings have extended Zhu and his team’s study on paternalistic and transitional HRM from SOE cases to private enterprises and
MNCs. All the researched MNCs have more transactional HRM in their Chinese subsidiaries. Their basic HRM assumption is marketisation. They have contractual relationships with their employees and work-related economic exchange. The focus of HRM is on efficiency and keeping costs down. Employees are paid based on position and contribution. Together with Zhu and his team’s study, our research lays out a continuum (Figure 7-5) of the mix of the paternalistic and transactional HRM. SME private business is close to the paternalistic HRM end and MNC is close to the transactional end with SOE in the middle. Joint ventures between China and US/Europe MNCs could be somewhere between SOE and US/Europe MNCs, though there is no direct reference information.

Figure 7-5 Paternalistic and Transactional HRM Continuum

‘Best practice’ vs ‘best fit’ HRM has been debated by researchers over years (Luthans and his colleagues, 1997; Hou, Huang and Napier, 2002). Early research focused more on one dimension such as ownership (Zhu, Zhang and Shen, 2012), size (Goodall and Warner, 1997; Cunningham 2010; Newman and Sheikh, 2012; Kim and Gao, 2010), ‘country-of-origin effect’ (Ma and Trigo, 2012; Walsh and Zhu, 2007), societal cultural context (Yeung, Warner and Rowley, 2008; Jackson, 2002; Warner, 2010; Yuan and Chia, 2011), and the nature of market or industry (Wang and Wang, 2008; Zhang and Li, 2009; Froese and Xiao, 2012). This in-depth case study has consolidated variances of ownership, company size and societal culture in a comprehensive supply chain context. The early research found evidence of convergence (Frear, Cao and Zhao, 2012), divergence (Kuruvilla, 1996; Benson and Zhu, 1999; Paik, Vance and Stage, 1996; Björkman and Lu, 1999) and hybrid practices (Cooke, 2004; Gamble and Huang, 2009). Our research findings support the ‘best fit’ theory (Bowen, Galang and Pillai, 2002; Chow, Huang and Liu, 2008; Samnani and Singh, 2013) in a SC context. HRM should be matched to strategies and context. In the better HRM integrated SC studied, the HRM system and practices support the focal manufacturers’ channel strategies and fit their supply chain context. However, their own HRM systems are different from their WDs. WDs’ strategy, business context and organisational nature define different ‘Fit-to-WD’ HRM. The manufacturers with better HRM SC integration do not export their comprehensive internal HRM system and practices to channel partners. Instead, they have customised and transferred a matching HRM system to WDs and also allow flexibilities to allow WDs to carry on their practical and unique advantages, such as paternalistic practices which MNCs may not be able to copy. WDs integrate the imported HRM such as organisation design, hiring, learning and development, and performance appraisal within their own unique system based on agility and family caring.
This study found support for the proposition that there is no one-size-fits-all HRM best solutions. The HRM system should fit organisational and environmental conditions. The organisation size, resources, business nature (industry and skill requirement), strategy, societal environment and supply chain context all shape the best-fit HRM. Since HRM for different partners in the same supply chain should be customised to maximise synergy along the total supply chain, the dominating member in the chain has to leverage their HRM expertise, local business insights and local decision authority to design, develop and transfer appropriate HRM to the other members to develop holistic supply chain competitiveness. This could be a fundamental question in SC HRM knowledge transfer – what useful/fit knowledge can be offered before the manufacturers can decide how to transfer? Some good practice identified in this research is learning by doing (as real WD general managers in WD operations), enhancing, customising and standardising. When manufacturers have a complete system and expertise in running WD business, including managing HR, it could start to transfer knowledge to most of its channel members in a standard approach.

7.3.4 Implications for research on strategy, HRM alignment and HRM knowledge transfer in a dynamic market

The sources of environmental uncertainty, such as changes in demand, supply and technology, have been studied earlier (Fynes, Búrca and Marshall, 2004). There are debates on research results that investigate the relationship between market uncertainty and the value of supply chain relationship or supply chain integration to SC performance (Fynes, Búrca and Marshall, 2004; Huang, Yen and Liu, 2014). Our research has enriched the very limited research on the relationship between market uncertainty and the SC relationship. The market uncertainties outside the specific SC is the context most frequently considered in early studies. For instance, demand changes could be due to the unexpected change of customer needs or new product entry. This kind of uncertainty may have an impact on the whole supply chain. SC members may work closer together facing the common challenge. This study has addressed the uncertainties within SCs. The changes, or prospected future changes, for the new business models, franchisee and potentially Online to Offline without the traditional ‘distributor’ in the distribution, have been challenging the status quo of the current SC relationship. WDs may have to transform from the position of a distributor (selling) to the logistics function (storing and shipping). The SC relationship is evolving with reshuffled members since some current members may or may not follow the focal manufacturers. This kind of change does not necessarily come from only the manufacturers in the channel. Distributors also have choices. For example, in the researched automotive aftermarket industry, a new business model, that of the integrated auto solution provider, is emerging. It is a platform offering comprehensive automotive parts and services. In the new model, the now dominating manufacturer could become one, not necessarily the dominating one, of many suppliers. These new and different strategic options will challenge the sustainability of the strategic alignment, relationship and commitment in the traditional supply chain.

The rebalanced or reduced bargaining power in a dynamic market will limit MNCs’ power to force their partners to install SC HRM. It is a clearly identified trend that WDs are diversifying their product
portfolio from one brand to more brands and/or from product line to multi-product lines (Chapter 6). The power of WDs is to decide whether and to what extent to continue the current business with the MNC now they have other alternatives. This change limits the MNCs’ capability to push their suppliers by threatening to give up the business and instead it is the pull from the potential for added value to the WD’s business that becomes more critical in establishing or maintaining the partnership. The development and transfer of knowledge (SC-Fit knowledge) may become more critical as a differentiator to sustain key channel partners.

Both kinds of uncertainties from within the SC or outside the SC lead to a shorter life cycle for the SC relationship. The partnership life may become shorter due to diversifying strategic directions. Meanwhile, the consistency of the strategy pursued by each individual company affects the life of partnership. For instance, an inconsistent and trial-and-error approach on the wholesale or the retail side appears to shorten the partnership cycle time. From a static perspective, Lambe and his team (2000) have categorised the exchange relationship continuum into discrete exchange, repeated transactions, ‘interimistic’ (close, collaborative, fast-developing, and short-lived) exchange and enduring exchange (Figure 2-6, Chapter 2). From a dynamic perspective, the implication of this study is that some traditional Enduring Relational Exchange (ERE) is shifting to interimistic exchange. This shifting of the nature of exchange will shorten the expected life cycle of relational-oriented SC relationships. Organisational and SC culture takes a long time to establish and to turn it into a competitive edge. Without a relatively consistent SC environment, the SC culture will become more difficult to achieve and it will be less attractive to make the effort.

HRM alignment is hard to achieve if participating organisations have conflicting (Marchington, Rubery and Grimshaw, 2011) and varying goals. This phenomenon has been explored in this study. When a WD is pursuing a transformation from traditional WD to a solution provider on an electronic platform, it most probably will not hire a traditional sales force to visit the retailers as manufacturers would wish and request. The WD may invest in people who can set up the electronic platform, sourcing from different manufacturers and servicing users with blended product knowledge and skills. The values offered to manufacturers such as how to manage retailers and undertake market visits, as in the old model, may no longer count. The strategic misalignment will reshuffle the partners eventually. From the manufacturer’s perspective, they will not invest in irrelevant WDs’ competences in their own new models. Time is another dynamic dimension. When the ERE shifts to the IRE side, manufacturers will have less time to build trust. Manufacturers who have not already established trust relations may have difficulties in establishing new relations. This could constitute an entry barrier that benefits those who already have a trusted relational network.

In summary, the uncertainties or future market dynamics have impacted the SC relationship in the range of transactional to relational (Figure 6-10, Chapter 6), which drives the changing value-added from the partnership approach and the feasible ways to build the partnership in the shortening time available. The nature of the relationship affects the HRM transfer and integration but the effects are reciprocal with market uncertainties affecting the SC relationship. When the SC HRM could be valued
as the ‘differential’ knowledge enhancing unique competitiveness, the development of SC relationships is worth the investment. The speed at building the interfirm trust seems to have become more critical in a dynamic environment. However, whenever SC trust is established, the relational network could still be very valuable to manage changes, especially those caused by external uncertainties in the SC. Establishing in the shortest cycle time and maintaining trust-based SC relationship could be a competitive advantage and act as one entry barrier for competitors.

7.4. Conclusion

This study has identified the key influential factors that are likely to result in effective HRM knowledge transfer and integration from manufacturers to WDs in the SC. Such transfer benefits the focal manufacturers as they gain from the WDs’ success. The relational SC network could be a deliberate and strategic choice to differentiate market competition under the conditions of i) the relationship and network are crucial in the current institutional environment; ii) the foreseeable market dynamics can allow the time to establish sustainable relational SC network with trust; iii) the organisation to integrate HRM in SC should be able to build SC-Fit HRM solutions enabled by its competent HRM, strong bargaining power in the SC, and sufficient authority to make agile decisions in the local market. The level of trust in the SC and the extent of SC-Fit HRM can distinguish whether and how effective HRM can be when transferred and integrated in the SC.

This study has extended the search focus from the relationship between manufacturers and their suppliers to the one between manufacturers and distributors in the SC. It contributes to several theories. i) The traditional classification of knowledge, tacit or explicit, which are mainly based on the transfer media, inter-person or codified process respectively, can be redefined as differential vs fundamental based on the business impact. This research finds that all HR knowledge is both tacit and explicit in nature and is transferred through both system channels and inter-person channels for a more effective and efficient transfer. Transfer channel should not be the criteria to differentiate knowledge, while, the impact to the business could be the criteria to categorize knowledge.

ii) Trust impacts the SC in different stages of the life cycle. WDs select manufacturers to partner based on reputational trust. The on-going collaboration is maintained, weakened or enhanced by the changes in the SC trust through virtuous or vicious cycles. Relational trust in the SC helps to retain WDs and improve performance in a dynamic business context. This study refined the model of SC trust in a dynamic environment (Daudi, Hauge and Thoben, 2016). The SC partners’ alignment in goals will affect the SC trust and defines the value of SC integration. The SC internal factors (for example, interaction style, organisational structure and development phases), and SC external factors (i.e. options for partners outside the SC and business model, and new market entrants) affect the alignment of the partners on goals. iii) HRM has been explored in a complex SC context featured with EU/US headquartered MNC manufacturers and local Chinese private SMEs. The need for HRM to fit the supply chain rather than best practice-HRM has been supported. This study also expanded the theory on the influence of ownership on the transactional versus paternalistic HRM divide in China. A full
The spectrum of paternalistic and transactional HRM has been mapped out with ownerships of SME, SOE, JV and MNC. iv) The relationship between market uncertainty and SC relationship has been researched further from the currently very few studies. The evolving business model, shifting bargaining power, shorter partnership cycle, and feasibility of strategy all challenge the SC alignment in business objectives, supporting SC strategies and then the values and effectiveness of HRM integration in the SC.
Chapter 8 Conclusion

8.1 Chapter Introduction

This chapter summarises the academic contribution and returns to the question which led to this research, that is what could be Company J's route to overcome its problems in the distribution channel. Some concrete but strategic suggestions are made as to what Company J's possible path could be to becoming an industrial leader in the automotive channel business, together with some further consideration on how this could be achieved, including what the prerequisites might be to start off on such a path. More general guides on the industry implications are also offered on what could be the strategies and approaches taken towards managing the human resources aspects of the supply chain. This chapter also reviews the limitation of the cases selected, of the qualitative research methodology adopted and the future research directions.

8.2 Contribution to Research

This study has supplemented a less researched arena, that is the transfer and integration of HRM knowledge in the supply chain between members of local subsidiaries of the overseas headquartered MNC manufacturers (local company) and their local SME WDs in China. It successfully expanded the current research focus from the general knowledge to HRM specific knowledge, from intracompany transfer to intercompany transfer in the supply chain context, and from manufacturer-to-supplier backward direction transfer to manufacturer-to-distributor forward direction transfer.

From the perspective of a Resource Based View of the firm Barney and Wright, 1997 (Chapter 2), this study provided the evidence that the relational network with trust in the typical traditional distribution channel through WD, sub-WD and retailer, could offer sustained competitive advantage with much better business results. It takes huge effort in both money and time to build the SC trust and lay down the relation-oriented SC. The competence of core partners, WDs, has been enhanced through the knowledge, including HRM transferred and integrated by the focal manufacturers. The trust-based relational network is rare in the market and hard to imitate or be substituted.

The SC relationship model for distribution should be a deliberate strategic choice. The SC position as a relational network with trust may not apply to all manufacturers. This study has explored the prerequisites for this option. The key factors to evaluate the feasibility of the relational SC strategy include the bargaining power strength of the manufacturer in relation to the chain partners, the market reputation of the brand and the company (reputation-based trust), the extent to which the company has superior expertise to manage business and operations in the local SC context, which has, according to this study, a critical effect on how knowledge such as HRM is transferred, and the patience of its own top management in waiting for payback on its investment. In a longitudinal view, this study researched the impact of market dynamics on the relational network and trust between distribution channel partners. The refined template of dynamic factors for SC trust revealed two supplementary additional factors to the old model of Daudi, Hauge and Thoben (2016). One factor is the options for other partners outside the current chain, and the other one is the option to run the business using other
The new template also streamlined the seven factors into a better logical connection. The three within-SC factors (development phases, organisational structures and interaction style) and another three (alliance composition, options for new business model and options for partners outside current SC) external to SC, all lead to the challenge of goal alignment of SC members. The dynamic factors lead to a shorter life cycle of business model, strategy and even SC partnership, which increases the bar to establish and maintain the relational network in the SC. The currently established competitive advantage in the SC relationship will be difficult to copy for the new entrants unless the competition is redefined, which is one key dynamic factor: options for a new business model.

HRM was the core knowledge to transfer and integrate in the SC as part of SC competitive differentiator in this study. The knowledge category, tacit or explicit, has been reviewed and redefined. The previous criteria to classify knowledge, the way to transfer (personal involvement vs. standardised procedures) or the format of existing (skills and experiences vs. documents, codes and tools) were challenged. Taking HRM as a deep-dive exemplar, all HRM knowledge can be transferred in a blended approach through the informal inter-person channel and formal, structured systems with standard coding. Both inter-person and systems can be the media used to transfer both types of knowledge and should not be assumed to be used for only one category, tacit or explicit. The same type of knowledge such as managing employee performance can be transferred by inter-person, such as teaching, coaching and mentoring. It can also be transferred through self-paced eLearning and standard operation procedures (document). Or it can be transferred through documents (procedures and tool kits) and coaching blended together. The way to transfer will impact the effectiveness and efficiency of the knowledge transfer process. From the aspect of business impact, this research re-classified knowledge as fundamental or differential. Fundamental knowledge is essential for business transactions, such as product information for WDs to sell. Differential knowledge offers core competitive advantage. If the HRM knowledge is not classed as the differential knowledge and cannot support to a sustainable competitiveness, the transfer and integration may be limited to the level of enabling essential business transactions only. This echoed the finding that the relational SC network with trust is a choice. HRM knowledge transfer in SC is also a choice. The knowledge transferred and integrated in the SC should be the differential knowledge.

This study also explored and answered the question of whether there is a ‘best’ type of HRM in the SC. In these three comparative supply chains, with views taken from multi-dimensions, it was clear that there was no ‘best’ HRM but instead a need for the HRM to be transferred to ‘fit’ the SC, taking into account organisation size, ownership, business nature, resources and challenges etc. All these factors increase the difficulty to transfer HRM knowledge. The focal manufacturers should have the capability to build SC-fit HRM before they transfer. The HRM could be different from the practices of each member, including the manufacturers themselves. In China, one of the major HRM differences between local and MNC firms is the paternalistic compared to the transactional practices. This study enriched the full continuum of different ownerships of local SME, China SOE, Sino joint venture with Europe/US MNC, and MNC.
Besides the above contributions to specific theories, our research has mapped out the comprehensive mechanisms of HRM knowledge and integration in the supply chain (Figure 6-12). The relational SC is a choice based on the institutional context and future market dynamics. The HRM knowledge is transferred through blended channels, inter-person and system. The trust between SC members and relative bargaining powers are the motivation moderators to initiate the transfer. The efficiency of transfer process is moderated by the fitness of the SC HRM, the focal company’s HRM expertise, its local authority to respond to the dynamics of markets and the knowledge receivers’ learning agility. Though the study is focused on the HRM knowledge transfer, the mechanisms should be applicable or a practical reference for other kinds of knowledge transfer and integration in a supply chain context.

8.3 Industry Implication

This study originates from a concern for business challenges as well as an interest in exploring and contributing to filling literature gaps. The automotive aftermarket business of Company J, the focal researched MNC manufacturer, was losing market share, money, and trust and the business of its core competent SC partners in the distribution channel. Its heavily invested manufacturing facilities were idle and depreciating. The detailed structured comparison of the better performing SCs and less well performing SC offers tangible insights on what, in particular, Company J could try to do to solve its business challenges and what the prerequisites might be for Company J to achieve a successful business result through HRM integration in its distribution channel (Appendix 8.1). Meanwhile, the example chosen, that of the automotive aftermarket distribution channel, is one of the most common and typical distribution channels through distributors. Therefore, the findings from the three supply chains should have broad implication to similar industries or business models.

Big manufacturers have been integrating their distributor’s HRM in a trial and error approach. There has been no specific guidance as to whether they should integrate, when to integrate and how to integrate. This study has systematically explored the successful manufacturers’ practices of HRM integration in their WDs in the traditional distribution channel.

There are some pre-requisites for successful HRM integration from manufacturers to WDs. Manufacturers should have stronger bargaining powers than the WDs for integration to occur. The revenue or profit share in the WDs’ business could be one key indicator demonstrating the bargaining power. Manufacturers’ HRM should be more mature than the WDs, but manufacturers should be able to customise HRM solutions to fit the SC channel based on their expertise in distribution, local market knowledge and HRM capability. It is not simply a copy and paste exercise. There is no one-fits-all best HRM system in the SC for all members. The HRM practices of MNC manufacturers need customisation before being suitable for transfer into SME WDs. HRM knowledge transfer and integration thus occurs along a spectrum and can be expected to be limited the more that manufacturers focus on the quick wins and struggle for survival. For MNCs, local decision autonomy is needed to invest in WD development. When the market is changing dramatically at a fast speed, with the risk that the value
added from HRM integration may not be leveraged after change, deep HRM integration may not be recommended, considering the likely return of investment.

Both inter-person and structured, standardised processes or documentation could provide the media to facilitate the knowledge transfer as far as they are effective and affordable. They can and should be blended. When manufacturers have committed to the relational-oriented SC network and the leveraging of HRM knowledge transfer as one differentiator, manufacturers may define the responsible function to integrate the channel partners’ HRM. It could be through a business function such as sales and marketing in the beginning to keep it close to the market, with the option to migrate it later to the HR function, thereby ensuring HRM expertise and synergy in HR systematic efforts. It is suggested that there could be a matrix of reporting lines. The actual integration should start from WD selection, if there is a choice, with reputation-based trust. It makes integration easier if you have picked the right WDs, which is similar to the need to hire the right employees first and then develop them. If manufacturers would like to stand apart from the competition, they need to consider transferring the knowledge such as HRM that provides for competitive differentiation in addition to the fundamental business transaction required knowledge. Manufacturers should embed the knowledge and skills in WDs, designing organisational structure and job description and allocating HR resources through training, mentoring or job aids. The performance management system, including incentive design, should be aligned to performance goals which are suggested covering business results, behaviours and skill certification. Manufacturers can tie this performance evaluation up to its WD’s overall measurement and commission.

Integrated learning and development is a big portion of the HRM integration. The development can target the owner/GM level first, then move to sales managers, and eventually cover frontline sales and other functions in WDs. The training contents can start from fundamental business knowledge for general management, and then move on to the company culture and vision. Manufacturers can add value to WDs in hiring. The supply-chain and trading schools’ partnership for talent development and hiring led by manufacturers is one good practice identified to benefit from economies of scale.

Manufacturers can establish multi-communication channels across organisations between manufacturers and WDs. The interactions should be comprehensive with all functions through management levels to enable the knowledge transfer. In the initial stage, manufacturers may financially incentivise channel partners’ learning and application to speed up the trust building process to initiate the momentum.

8.4 Research Limitation and Future Research

The MNC manufacturer and SME WD set-up in this study is only one of the combinations by scale or bargaining power. However, there are other business combinations such as the huge hyper or supermarket group like Walmart and multi-small suppliers/manufacturers. The different SC set-up scenarios may, most probably, affect the HRM integration directions. The huge distributors may backward integrate small manufacturers. For big manufacturers and WDs, there could be two-way
integration or no integration at all. There could be no or very limited HRM integration between small manufacturers and small WDs as they may not have solid HRM practices and resources to transfer.

The other limitation is the researched distribution channel itself which is traditional without a heavy component of modern e-commerce. If the distribution business model is mainly through third-party shopping platforms like Amazon and Alibaba, and the products may not need additional service, which is different from the research automotive aftermarket industry, the HRM and HRM integration may not be as valuable as the traditional channels since the platform distributors and manufacturers/suppliers may offer different values to each other, and HRM competence development may not be as strategically relevant as in the researched traditional channel. Future studies can explore the non-traditional distribution model and compare with the traditional one, which could be insightful to identify the conditions under which the HRM SC integration can be the SC competitive differentiator. HRM can be one kind of the differential knowledge (Figure 7-4), but may not be always the case.

The sample size is another limitation for qualitative research. This study has included three supply chains, including three manufacturers and their 19 WDs. However, the 63 interviews are still analysed to explore the cases rather than quantitatively demonstrating correlations. Further research can test the correlations of mediators and moderators quantitatively, from which findings could help industry to manage the influential factors in a more targeted and efficient way and enabling HRM transfer and integration in the SC.

8.5 Conclusion

Findings from this thesis have formulated the mechanisms of HRM knowledge transfer and integration in the supply chain and how to turn it into a competitive edge in the market. In the traditional distribution channel, from WD to sub-WDs and retailers, the relational network between the focal manufacturers and WDs ensures a long-term partnership. HRM is one sort of differential knowledge in this distribution model. The high and increasing level of trust in between enhances the relationship and enables this highly invested HRM knowledge transfer and integration. Supply chain is a complex environment with variable members in different business scales (MNC vs. SME), ownership (private vs. public), nationality (overseas headquartered vs. local) and life-cycle stages. There are no ‘best’ HRM solutions for all in the SC. The effective HRM to transfer and integrate should fit to the SC and be feasibly adopted by channel members. In order to build and transfer the SC-fit HRM, the MNCs (focal manufacturers) should be able to develop local expertise in business and SC HRM, allow local decision-making authority, and establish appropriate transfer media that match WDs’ ability to learn and adopt the knowledge.

In order to become a market leader, Company J can learn from this study in relation to both the benefits from and mechanisms of establishing a long-term relational partnership with its WDs. Before Company J can transfer its HRM in the supply chain, it is necessary to gain more authorisation from its global headquarters and also to expand and develop its internal HRM competence to facilitate the development and transfer of SC HRM competence. Meanwhile, Company J may need to embed the
foreseeable new business trend such as franchisee and Online (shopping) to Offline (delivery) into its model to ensure the sustainability of its strategy and allow sufficient time to achieve the SC relational network. No matter what the progress of the HRM knowledge transfer, whether of the fundamental or differential form, the system and inter-personal channels can be blended to drive up the efficiency and effectiveness of the transfer. The use of inter-personal channels helps to embed the learning, which is of importance given WDs’ weak learning ability.

In general, when focal manufacturers decide to transfer HRM in the supply chain as their SC strategy, they need to pay attention to the prerequisites for such transfer within the supply chain. These include initial trust among SC members, stronger bargaining power, and competence in HRM to allow for the building and transfer of what we have labelled SC-Fit HRM. Again, a blended set of transfer channels could be utilised.

This type of study could be extended further, both to the non-traditional IT-enabled distribution systems where HRM may or may not play a strategic role in the competition, or to traditional distribution channels with different levels of bargaining power between manufacturers and WDs where the HRM transfer and integration could vary in complicated directions or with different dynamics.
Appendix

Appendix 3.1 Participant Information Sheet

Title of Research 研究课题

Key Factors in Human Resources Management Interactions between Manufacturers and Distributors in Sales Channel for Total Supply Chain Effectiveness 以整体供应链有效性为目标，影响销售分销渠道中厂家与代理商间人力资源管理互动的关键要素

Participant Information Sheet 参与人信息表

You are being invited to take part in a research study as part of a DBA student degree 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 for reading this.

Who will conduct the research? 谁做此课题研究？

Tiecheng (Tom) Yu 子铁成 (Tom)

DBA Participant from Manchester Business School of University of Manchester 曼彻斯特大学商学院工商管理博士研究生

Director, Leadership Development, Asia Pacific, Johnson Controls 江森自控亚太区领导力发展总监

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School Phone 电话: +44 161 275 6333

Title of the Research 研究课题

Key Factors in Human Resources Management Interactions between Manufacturers and Distributors in Sales Channel for Total Supply Chain Effectiveness

以整体供应链有效性为目标，影响销售分销渠道中厂家与代理商间人力资源管理互动的关键要素

What is the aim of the research? 研究目的？

I am hoping to answer the following questions by the doctoral degree research 我希望通过博士课题研究回答以下问题:

- Are there business impacts on manufactures and distributors’ performance from Supply Chain’s HRM? 供应链管理中人力资源管理对厂家和代理商业绩有无影响?
- Are there any HRM interactions between manufactures and distributors? 厂家与代理商之间有无人力资源管理的互动？
- How are manufacturers and distributors interacting on HRM across organisations? 厂家与代理商人力资源管理在跨组织间的互动是如何进行的？
What are the mediating and moderating factors in the subject interactions? 在相关互动中的中介和调节因素是什么？

Why have I been chosen? 为何选择我?

You are a great expert in distribution management with insights the interactions between manufacturer and wholesale distributor. There will be some other distribution management to be interviewed as well as the owners and management from wholesale distributors and manufacturer.

在分销管理中，对厂家与代理商的互动方面是有见解的资深人士。此研究也会访谈其他一些代理商的老板或管理人员及厂家。

What would I be asked to do if I took part? 我将如何参与?

I plan to conduct qualitative and quantitative analysis on the HRM interactions between manufacturers and WDs from a Supply Chain’s perspective. The interview and survey will be leveraged for the study. I will conduct the interview with you to get your insights on this area.

本课题将采用定性和定量的方法研究厂家和代理商从供应链的视角研究人力资源管理的互动，采用访谈和问卷的方法。我将在相关领域对您进行访谈。

What happens to the data collected? 收集的数据如何处理？

The data collected from individual interviewees will be consolidated and analysed for the academic research purpose. Any original data from each individual interviewee will only be utilised in the research team and will not be shared in industry for specific business purpose of companies with individual identity.

从个人访谈中收集的信息将汇总，并以学术研究为目的进行分析。任何个人访谈中收集的原始数据只会在课题组中使用，不会在行业中为特定公司的商业目的分享能够识别被访者个体的信息。

How is confidentiality maintained? 如何保密？

The record of interviews and original documents including data will be stored and kept secure in private search computer. Video will be destroyed when the DBA dissertation is completed and Manchester Business School does not require further video record.

访谈记录和原始资料包括数据将在个人研究电脑中保存。视频将在博士论文答辩完成时，曼大商学院不在需要视频记录后销毁。

What happens if I do not want to take part or if I change my mind? 如何我不想参与了或我改主意了会怎样？

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.

参加与否由您个人决定。如果您决定参与，您将会保留此份信息表并签署同意书。如果您决定参加，您仍然能够随时退出，不需要任何原因，对您无损害。

Will I be paid for participating in the research? 参与此研究是否有偿？

For this academic research, there is not pay for the participation. Appreciate your contribution for the research.

此学术研究是无偿参与的。感谢您对此研究的贡献。

What is the duration of the research? 此研究的时间是多久？

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The interview will be around 90 minutes. Appreciate if there could be some further follow-up clarification when it is necessary. 访谈大概需要90分钟。如果在未来需要时可以有进一步澄清信息的可能，不胜感激。

Where will the research be conducted? 访谈的地点。

Your office or appointed place 您的办公室或约定的地点

Will the outcomes of the research be published? 研究结果是否发表？

The research is expected to be published but without interviewees' individual identity without permission. Provide details of anticipated outcomes in respect of publication of findings. 本研究计划发表，但是未经被访者同意，不会有个体访谈者在文中被识别。

Contact for further information 进一步信息的联系人

Tiecheng (Tom) Yu 于 铁 成，Phone 电话 86 137 6430 2108, Email 电子邮件: tiecheng.yu@postgrad.manchester.ac.uk

What if something goes wrong? 如果有错误

If a participant wants to make a formal complaint about the conduct of the research they should contact the Head of the Research Office, Christie Building, University of Manchester, Oxford Road, Manchester, M13 9PL.作为参与者，如果您希望对于研究中的行为进行正式投诉，您可以联系研究办公室主管：the Head of the Research Office, Christie Building, University of Manchester, Oxford Road, Manchester, M13 9PL
Appendix 3.2 Consent Form for Interviews

Title of Research 研究课题

Key Factors in Human Resources Management Interactions between Manufacturers and Distributors in Sales Channel for Total Supply Chain Effectiveness

以整体供应链有效性为目标，影响销售分销渠道中厂家与代理商间人力资源管理互动的关键要素

CONSENT FORM 同意书

If you are happy to participate please complete and sign the consent form below
如果您高兴参与，请完成下表并签字同意

1. I confirm that I have read the attached information sheet on the above project and have had the opportunity to consider the information and ask questions and had these answered satisfactorily. 我确认已阅读有关上述项目的所附信息，并有由机会考虑上述信息、提问，并得到满意回答。

2. I understand that my participation in the study is voluntary and that I am free to withdraw at any time without giving a reason and without detriment to any treatment/service 我明白参与此项研究是自愿的，可以随时退出，无需提供原因，对于待遇、服务等无损害。

I agree to take part in the above project 我同意参与上述项目

Name of participant 姓名 
Date 日期 
Signature 签字 

Name of person taking consent 获得同意书的人员姓名 
Date 日期 
Signature 签字
Appendix 3.3 Interview Guide

1. Relationships between manufacturers and WDs

1.1. What kind of relationships do you think there should be between manufacturers and WDs? Why do you think so? How do you understand the trust and components of trust? How a trusting relationship might benefit two sides or just their own side? What are the examples?

1.2. What factors are the most important in shaping your view of the relationship? Which factors determine your relationship with the WDs?

1.3. How do you define the relationship between Manufacturer (J, S or M) and WDs? Can you give some examples as to why you say this?

1.4. How important is trust between manufacturers and WDs in a scale of 1 to 10? What are the reasons?

1.5. What is the trust level between Manufacturer (J, S or M) and WDs in a scale of 1 to 10? Why do you say that - give examples?

1.6. How has the relationship evolved? Were trust levels higher or lower in the past? What happened to change trust levels? Can you give some examples?

2. Cross societal cultures (countries of headquarters/operation), MNCs’ Chinese cultural awareness

2.1. How do you describe Country Y culture and Manufacturer (J, S or M) culture? Can you give some specific examples?

2.2. How much Chinese cultural awareness does Manufacturer (J, S or M) China have? What are they specifically demonstrated?

2.3. Is there any Country Y/Chinese culture integration in Manufacturer (J, S or M) practices? What are they if there are? What are the specific impacts they have?

2.4. What is your organisational structure? Your workforce profile in term of education, experiences and expatriate from other city/province or not, and tenure? Will you introduce how do (does) you (your company) manage your HRM including hiring, training, compensation and benefits, and retention etc.? What is the employee turnover rate? How do you attract, hire, develop, and retain people? What are your challenges in HRM and business? For example?

2.5. Synergisation is a process of leveraging the best practices, information and resources etc. across different stakeholders and create more values than the total sum of each individual stakeholder. Is there any synergisation in HRM between Manufacturer (J, S or M) and WDs? For example?

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2.6 What is the impact of societal culture (Country Y and Chinese) integration on across organisation HRM synergisation? How? 中国和Y国家跨社会文化的整合对于跨组织人力资源管理协同化有何影响？如何影响？

3. The macro context: legal, contract, fairness, consistency and trust

3.1 What macro context factors are affecting the HRM synergy between MNC manufacturers and WDs, such as legal, labour law, and employees’ expectation on fairness etc.? How? 影响MNC厂家和经销商在人力资源管理协调效应上的外部宏观因素有哪些？比如说法律、劳动法和员工对于公平等方面的期望？如何影响？

3.2 What are the impacts of the legal environment including the legal system and execution on the HRM synergisation? For example? 法律环境，包括法律体系和法律执行力，对于人力资源管理协同化上的影响有哪些？举例说明？

3.3 What are the impacts of employment contract on the HRM synergisation? How do the commercial terms in business contract affect the HRM synergisation? 劳务合同对人力资源管理协同化的影响有哪些？商务合同条款如何是影响人力资源管理协同化的？

3.4 What are your or your team’s expectations on fairness, consistency within HR policy and practices, and trust? How important is it from 1 to 10? 对于公平性、人力资源政策和实践的一致性和信任方面你和你的团队的期望是什么？1到10之间，有多重要？

3.5 How do you perceive the fairness, consistency and trust in your working environment? 在你的工作环境里，你对于公平性、一致性和信任方面的自身感受是什么？

3.6 How do you perceive the fairness, consistency and trust in Manufacturer X when comparing to WDs? 相对经销商，厂家X内部对于公平性、一致性和信任方面的感受是什么？

3.7 How the expectations and perceptions of fairness, consistency and trust affect the HRM synergisation? 在公平性、一致性和信任方面的期望和感受是如何影响人力资源管理的协同化的？

3.8 How does the relationship between Manufacturer (J, S or M) and WDs affect the HRM synergisation? 厂家(J, S或M)和经销商的关系如何影响人力资源管理协同化的？

4. Ownership, strategy, relationship orientation, business bargaining power, workforce profile, HRM competence and absorptive capability

4.1 Can you comment on the fit between Manufacturer (J, S or M) and WDs’ business strategies? Are there any clashes? For example? What are the impacts on the HRM synergisation? 在业务战略上，厂家(J, S或M)和经销商的契合度你怎样评价？是否有冲突？比如说？对人力资源管理的协同化有何影响？

4.2 What organisational factors are affecting the HRM synergisation between MNC manufacturers and WDs? 影响MNC厂家和经销商在人力资源管理协同化的组织自身因素有哪些？

4.3 What do you think of your internal HRM management competence level when comparing to WDs in a 1 to 10 scale? What are the strengths or weaknesses specifically in both sides? What can be synergized? 相对于经销商而言，1到10的范围，你认为自身内部人力资源管理水平如何？双方的优、缺点具体有哪些？哪些可以协同化？

4.4 What is the power distribution (ratio) between Manufacturer (J, S or M) and WDs in a 1 to 10 scale in general? What are the impacts on the HRM synergisation? 在1到10的范围，从整体上说厂家(J, S或M)与经销商在议价能力上相比如何？厂家(J, S或M)和经销商(J, S或M)的议价能力（话语权或讨价还价的能力）相比如何？举例说明？对HRM协同化的影响是什么？

4.5 How does the relationship positioning between MNC manufacturers and WDs affect the HRM synergisation? 厂家和经销商彼此关系的定位如何影响人力资源管理的协同化？

4.6 What are the learning willingness and absorptive capacity of your employees when comparing to WDs in 1 to 10 scale? How does it affect the HRM synergisation? 在1至10的范围，与经销商的人员比，你的员工学习意愿度和吸收能力是如何的？如何影响人力资源管理的协同化？

4.7 What are your suggestions on HRM synergisation between MNC manufacturers and WDs? 对于MNC厂家和经销商在人力资源管理协同化上，有何建议？
## Appendix 3.4 Thematic Coding Frame

<table>
<thead>
<tr>
<th>Category</th>
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<th>Next-level category</th>
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<td>Responsiveness</td>
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<td>Bargaining power</td>
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<td>Learning ability</td>
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Appendix 4.1 Education Profile of WD Employees

<table>
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<th>WDs</th>
<th>Education profile</th>
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| Company J WDs (cores business from Company J’s industry) | - JWD03: Majority graduated from middle schools and high schools, and some are with associate degrees in finance;  
- JWD04: All graduated from high schools;  
- JWD05: Majority graduated from high schools, and some are with associate degrees;  
- JWD07: Some are with associate degrees, and others graduated from trading schools, high schools and even below;  
- JWD08: All are with associate degrees;  
- JWD09: Majority graduated from high schools, and none graduated from universities;  
- JWD10: Graduated with associate degrees, or from high schools and trading schools; |
| Company S WDs | - SWD01: Most current new hires with associate degree and bachelor degree from not famous universities. Very few graduated from high schools;  
- SWD02: Most young employees are associated degrees and several have bachelor degrees;  
- SWD03: Employees joined in early days graduated from trading schools and some are with associate degrees. In recent two years, there are some bachelors in operations. The bachelors started to join from five years ago. |
| Company M WDs | - MWD01: Majority are with associate degrees and bachelor degrees. Stopped hiring high-school graduates in sales. The senior leaders are mainly bachelor graduates.  
- MWD02: Most are with bachelor degrees in sales team. The logistical and warehousing employees have lower education.  
- MWD03: Sales representatives have associate degrees or above. The warehousing and logistics employees have lower education. |

Appendix 4.2 Rationales of Employees’ Education Background in WDs

- Owner/GM of JWD09 (JWH05): ‘University graduates have not been trained. The work is too (physically) heavy for them to handle. A university student cannot work as well as the less educated but (more) experienced employees who are familiar with the job’.  
- Sales Manager of MWD01 (MWM01): ‘The industry does not attract highly educated people’.  
- Owner/GM of JWD01 (JWH01): ‘The most useful quality [of employee] is down-to-the-earth execution’.  
- Owner/GM of SWD01 (SWH03): ‘Less educated employee can work well if they are responsible and follow us’.  
- Sales manager of MWD01 (MWM01): ‘Education is one perspective. Hard-working is the key’.  
- Sales director of MWD03 (MWH06) commented that some retailers used to be farmers. They need good attitudes, good service and enough financial power, which does not mean advanced education necessarily.

Appendix 4.3 WDs’ Attractions to Manufacturers

- Manufacturers and WDs come together in one distribution channel for various reasons. What makes a WD attractive to manufacturers is very consistent across the three cases: WDs’ financial capability, distribution networks, local market intelligence, access to the local market, low cost operation models, and high flexibility and agility in managing ambiguity.  
- J’s ex-WD sales director (JJH07): ‘It is too expensive to build their (manufacturers’) direct sales channels… Distributors are needed when consumers’ (brand) awareness and their consuming habits are not mature’.  
- J’s frontline sales representative (JJJ11): ‘Company J may not be able to fit to the local market’.

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• J’s ex-sales director (JJH01): ‘WDs have local resources, sales distribution networks, organisation, financial power, and matching strategies’.
• Managing director of JWD01 (JWH01): ‘Manufacturers have difficulty in managing directly in the market, and the investment will be [much] higher outside their home locations’.
• S’s marketing manager (SSM02): ‘WDs take the cost of people and financial capital, and spend time to develop the distribution channel… They also feedback [market information] to the manufacturers’.
• M’s training manager for WDs (MMM01): ‘We need WDs in China because WDs can take the financial risks, and play the role in logistics. They are local, and have strong local logistics capability. Another reason is that the China market is geographically big’.
• M’s ex-area sales manager (MMM03): ‘In the early days, manufacturers did not have the networks and [distribution] channel to access customers, and did not have operations managed by qualified people… WDs acted in this role’.

Appendix 4.4 Manufacturer’s Attraction Driver by WD Categorisation in Old/New and Core/Mixed Grid - Box I - Old, Core

• Owner/GM of JWD07 (JWH14): JWD07 carries on 100% business with Company J because of Company J’s ‘international brand…with market influence…and the [expected] future profitability’.
• J’s sales representative (JJH14) in charge of JWD07: ‘The [business] momentum (habit) and few choices [for better manufacturers]’ are the reasons why JWD07 sticks to Company J.
• JWD05 is Company J’s old WD in the west China, managing Company J and another competition brand, and sharing the city market with other three new WDs. Its business leader (JWH03) shared the reason why keeping Company J’s business even if they lose money. ‘What we care about is Company J’s global brand, advanced sales and marketing concept, …advanced management, …and support in the aftermarket promotion. …The trainings are good’.
• Owner/GM of JWD10 (JWH06): ‘It will be my problem when my company fails for one product. I do not manage the risk well… The wholesale business does not take much weighting in my business… Its profit is too low… The online business is promising, and will change our lifestyle… Distributors as agency will die. Distributors with own brands will survive… We need to become a solution provider’.
• Owner/GM of SWD01 (SWH03): ‘Company S is considering how to make WDs profitable, and is trying to avoid the situation that WDs meet the sales targets but at a loss… Company S cares WDs, and does not want us to lose money. They are sponsoring us through subsidy… Their regional sales managers visit me period by period, checking our challenges, analyzing and advising’.
• Sales director of SWD01 (SWH02): ‘Company S is a well-known international brand. We will not give it up, but will do something else, such as auto parts, which we do not do before… We cannot make much money in Company S’s products…I care about Company S’s brand. I built my customers by relying on it. I still depend upon it’. If SWD01 would like to switch brands or add new product lines, it takes much effort to convince the repair stores, meanwhile WDs need more capital, warehouse and people for new products.
• Managing director of SWD03 (SWH07): ‘Partnering with Company S is beyond business itself. The accompanying growth and enhancement are more impressive’.

Appendix 4.5 Manufacturer’s Attraction Driver by WD Categorisation in Old/New and Core/Mixed Grid - Box II- Old, Non-Core

• Owner/GM of JWD02 (JWH18): ‘We try to maximize the profit with lower risk’.
• Sales manager of JWD12 (JWM17): ‘There were no profits in the last three or four years [in the business] with Company J. There should be profit’.
• Marketing manager of MWD03 (MWM07): ‘Company M and Company SQ (MWD03’s local manufacturer supplier) have different target customers, and there is no conflict’.

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• Deputy GM of MWD02 (MWH05): ‘We partnered with Company M since 1997… because of its global brand… In the beginning, we did not want to make much money. We would like to learn from a global big brand… We did learn from Company M a lot and managed the market well’.

• Sales director of MWD03 (MWH06): ‘There was big demand in the market for Company M. Company M has good market branding. Its quality is good… We value the market and its company culture… For example, Company M has good management… with good market support. Our sales representatives do not need to make much effort to promote [its products]… Their company culture is to provide WDs conveniences…, developing market, promoting, and serving customers’.

• Owner/GM of MWD01 (MWH03): ‘Company M is very good at management… Company M has OEM business in Mercedes Benz and BMW which other local brands do not have yet’.

Appendix 4.6 Manufacturer’s Attraction Driver by WD Categorisation in Old/New and Core/Mixed Grid - Box III - New, Non-Core

• Owner/GM of JWD01 (JWH01) from an adjacent market: ‘We are redundant [in the distribution channel]… We consider changing our business models… Based on my past experiences…, the very few companies that survived out of hundreds are the key competitive brands. There could be many new players joining the competition in the booming market, but there will be on day when government focus on the environmental protection laws and regulations, many brands will be made obsolete except for the most sustainable and strongest brands, so I choose Company J’.

• Owner/GM of JWD09 (JWH05): ‘My son would like to try [because of]… its (Company J’s) international brand which is different from SOE and private businesses’.

• Owner/GM of JWD04 (JWH09): ‘It is easier to do business if there are more OEM customers… I hope that Company J’s sales representatives manage [my] business … and Company J can hire one sales representative for me in the name of Company J’.

• Owner/GM of JWD06 (JWH15): ‘Its international brand…and promising future market are my major considerations. … It has more and more OEM customers, and its market share will be larger and larger… [The international brand] means good product quality and insured after sales [service]… I do not choose small brands because they may not survive as long as I will. Now, the government controls environment protection tightly. I need to partner with the companies which can meet national standard. … I experienced that some small plants disappeared when their products had massive [quality] issues’.

• Owner/GM of JWD11 (JWH12): ‘Company J’s brand matches my future business…, and … it is grounded with long-term view, and I can expect [more] for the future’.

Appendix 4.7 Manufacturer’s Attraction Driver by WD Categorisation in Old/New and Core/Mixed Grid - Box IV - New, Core

• Managing director of JWD08 (JWH08): ‘I know that this brand [Company J] will add value to our image in the early stage … [Though] there is no profit so far..., making money is a matter of sooner or later… Only Company J, a famous brand, has not taken a big market share, and has potentials… Its background and competence promise the future successes’.

• GM of SWD02 (SWH04): ‘Company S is one of the top companies in the world Fortune 500. WDs do not need to put effort into branding… Company S has provided strong support… It has advanced management and continuously trained my sales managers and key staff… with updated product knowledge… Company S has enhanced my staff’s capability’.

Appendix 5.1 Key Words on Relations Expected between Manufacturers and WDs

<table>
<thead>
<tr>
<th>Organisation of interviewees</th>
<th>Key terms of expected relations between manufacturers and WDs</th>
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<tbody>
<tr>
<td>Company J</td>
<td>Win-win; strategic partnership; support each other; one family with manufacturers as parents and WDs as kids;</td>
</tr>
<tr>
<td>WDs of Company J</td>
<td>Win-win; partner; together and on the same pace; harmonious;</td>
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</table>
Appendix 5.2 Direct Quotations on the Expected Relations from Manufacturers and WDs

**Partnership relations expected by Company J and its WDs:**
- J’s ex-trade marketing manager (JJM13): ‘The best relationship between manufacturers and WDs should be a win-win, strategic partnership’.
- J’s senior talent management manager (JJM13): ‘Manufacturers and WDs support each other’.
- J’s area sales manager (JJM12): ‘Manufacturers and WDs’ relationship is like folks in one family. There are parents. Folks help each. They are united and unselfish’.
- J’s channel excellence director (JJH02): ‘WD, acting as water, can support a ship (Company J) or upset it down. The future focus is to enhance WD’s competence rather than to pursue pure transaction relationship’.
- J’s WD sales director (JJH07): ‘Long-term wise, the relationship between manufacturers and WDs should be more and more in a partnership’.
- J’s frontline sales representative (JJJ05): ‘There must be win-win for a sustainable growth. One-win business cannot sustain the business for another 3-4 years or longer’.
- Sales manager of JWD01 (JWM02): ‘Manufacturers and WDs move forward or backward together’.
- Owner/GM of JWD11 (JWH12): ‘WDs’ relationship with manufacturers, largely, is a harmonious relation’.
- Owner/GM of JWD06 (JWH15): ‘It is a cooperation relationship… I expect Company J’s support on [my market] promotion…, [and] I will put all our effort in this brand. We will invest all our [financial] capital in this business… This is the cooperation. In the short-term, Company J cannot afford without me and vice versa. It is a win-win’.

**Partnership relations expected by Company S and its WDs:**
- Managing director of SWD03 (SWH07) who also runs Company J’s business as its WD: ‘We wish Company J as our partner not only in business for [direct financial] return, but also in the innovated business operations and management, offering support in the market development and other resources’.
- S’s ex-commercial director/J’s ex-China GM (SSH08): ‘The partnership is necessary if both manufacturers and WDs would like to have a sustainable growth. The relationship should be mutually beneficial’.
- S’s area sales manager (SSM04): ‘From a manufacturer’s perspective, it emphasises the strategic partnership. Some companies may believe it as a competition relationship in the chain of interest. I believe that it is a partner relationship in the long-term’.
- S’s ex-area sales manager and ex-channel excellence manager/J’s ex-senior channel excellence manager (SSM05): ‘It is a kind of partnership… with many common interests… WDs need to sell products with profit for its own growth. Manufacturers care about the sales of its [own] products. Promotion needs to have joint effort between manufacturers and WDs. The branding helps both manufacturers and WDs for easy selling. Most WDs sell products and services. The common interests drive WDs to develop WDs’.
- S’s sales manager (SSM07): ‘Company S called for a strategic partnership which has been clearly communicated… Firstly, all [manufacturers and WDs] need to be open; share and align the commercial targets and vision… Secondly, Company S has been helping WDs’ business operations, enhancing their competence. Thirdly, WDs will be listened and respected… Company S has been always consistent in two things which shape the market [leading] position today. One is the competence development plan for its WDs, and the other one is its branding’.
- S’s sales manager (SSM07): ‘It should be a partnership, but fundamentally, it is for mutual benefits… WDs care about the profit and financial data, and we, manufacturers, care about the business development - more sales revenue’.
- GM of SWD02 (SWH04): ‘The ideal model is to share the prosperity and loss on the same boat. The reality is that Company S tempts WDs with all kind of market promotions which we are not comfortable with… China is adjusting. We are building a solid foundation and preparing for good
Managing director of SWD03/S’s ex-channel excellence department head (SWH07): ‘The relationship is to share resources between WDs and manufacturers. It is a partnership. The core is to share resources... WDs want the product, brand, information and management capability from manufacturers. WDs share low cost and agile resources, channel, and swift logistics support, which manufacturers do not have. Both sides need each other. The partnership won’t be balanced if missing one side. Many brands push WDs for more inventory, which is not sustainable. The impact of sharing resources will be limited within products and brands only, but without involving the management capability, market development methodology and sales business models.’

Sales director of SWD01 (SWH02): ‘The relationship should be fair to each other. WDs develop market, and manufacturers provide products. Manufacturers are more insightful and helpful in shaping the mind-set of sales representatives, [people] development..., and [market] promotion’.

**Partnership relations expected by Company M and its WDs:**

- **M’s regional sales manager (MMM02):** ‘The relationship must be a partnership... with long-term mutual support... If it is a pure transaction relation, it won’t be good for a long-term development... From a manufacturer’s perspective, it should care about the WDs’ long-term development and have a win-win [partnership]... The relationship between manufacturers and WDs is to benefit each other... WDs need good quality products, competitive commercial policies, and technical and sales support from Company M... The major functions of WDs are logistics, including warehousing, and [business] development of the next-layer distribution networks.’

- **Owner/GM of MWD01 (MWH03):** ‘The cooperation likes brothers... Companies in a brotherhood relationship have the same targets and same [business] processes of developing market... However, the essential is still the business transaction [nature]... So, the difference between the brotherhood and transaction is whether we build affection in processes’.

- **Marketing manager of MWD03 (MWM07):** ‘It should be a win-win relationship between manufacturers and WDs... WDs choose manufacturers because they trust the brand, collaboration and practices. Manufacturers choose WDs because they believe our capabilities in sales and marketing’.

- **Sales director of MWD03 (MWH06):** ‘Manufacturers and WDs are in the same chain of interest... The life cycle of the business networks will become shorter if the relationship is transactional’.

**Appendix 5.3 Comments on Importance of Trust in the Supply Chain**

- **J’s frontline sales representative (JJJ05):** ‘People will not do business until they trust you’.

- **J’s channel excellence director (JJH02):** ‘The real trust is that WDs will follow your company’s pace without hesitation’.

- **Owner/GM of JWD10 (JWH06):** ‘The trust with Company J is very important which decides how I allocate my resources’.

- **S’s sales manager (SSM07):** ‘Trust is the foundation of all business. It is a pre-request for sustainable business’.

- **S’s area sales manager (SSM04):** ‘The trust level affects business in market planning and execution. The higher the trust, the better the execution is... Everything is built on trust. It is difficult to drive business with financial benefits alone in this industry because the business is not very high profitable and takes time to grow’.

- **M’s regional sales manager (MMM02):** ‘Trust is very important. Without [trust], it is hard to achieve mid-term and long-term projects. No one knows the future. Only trust can drive to move ahead’.

- **Owner/GM of MWD01 (MWH03):** ‘There is no cooperation without trust. The contract is the second [and] sometimes is... not important. Legal wise, it is important... [but] it is not important in [daily] operations and communications... Integrity is more important than the contract. The contract is more important in short-term, and the integrity is more important for long-term’.

**Appendix 5.4 Trust-Building in the Supply Chain**
J’s area sales manager (JJM12): ‘Trust is accumulated from previous [small] details’.
J’s frontline sales representative (JJJ05): ‘Trust is affected by sales representatives, product quality, lead time, after sales service, the future vision and strategy’.
S’s sales manager (SSM07): ‘The factor affecting trust is open to share (transparent)’;
S’s ex-commercial director/J’s ex-China GM (SSH08): ‘The affecting factors (for trust) are commercial terms, capital, cost of financing, sales target, sales representative’s competence, integrity behaviours, and mind-set’.
S’s marketing manager (SSM02): ‘Trust will be there when WDs’ benefits have been well taken care of in the process for a long time. Some leaders’ good personal networks help to build one team. It helps for trust. The confidence on the long-term future partnership drives stability, which leads to trust’.
Managing director of SWD03/S’s ex-channel excellence department head (SWH07): ‘Trust is important but not sufficient. There must be mutual benefits as commercial cooperation. It will be extremely good if there are trust with mutual benefits’.
S’s sales manager (SSM07): ‘The core [of the trust] is that you can get something done for them (WDs) and increase their sales number and profit … The core factor driving the relationship is the profitability now and the sustainable future profitability’.
S’s ex-commercial director/J’s ex-China GM (SSH08): ‘Trust is built upon support and understanding of each other and thinking from each other’s perspective’.
S’s area sales manager (SSM04): ‘The workforce competence of WDs and manufacturers are critical factors affecting the relationship between manufacturers and WDs … The partnership is how much power and resources companies have invested to enhance WDs’ capability and make them stronger’.
Managing director of SWD03/S’s ex-channel excellence department head (SWH07): ‘The trust is based on the historic partnership, commonly recognized culture and mutual understanding… The factors effecting the relation is the core [financial] interest… It shakes the foundation if there is no profit… S’s sales representative plays a very big role establishing the trust between Company S and WDs in my region’.
J’s channel excellence developer/M ex-sales representative and franchisee consultant (MMM05): ‘The factors affecting relationships is the market. In a healthy market, the partnership could be good… If the market is tough, there could be conflicts in capital, manufacturers’ operations, and branding in the channel… The relationships depend on the balance of mutual interest and benefits’.

Appendix 5.5 Bargaining Power of Manufacturers

- Owner/GM of JWD13 (JWH20): ‘Manufacturers are powerful, and WDs are weak. It is not equal. WDs are very small’.
- Owner/GM of JWD10 (JWH06): ‘The contract between Company J and me is the most unfair and unreasonable one… Company J has no liabilities, and all problems are our WDs’. Company J can stop supply, change technical parameters, and I cannot disagree with it. Company J can increase the price and I cannot say no… WDs have not much bargaining power’.
- Owner/GM of JWD01 (JWH01): ‘There is a high pressure [from Company J]. We have [much] inventory in the distribution channel and our warehouse, tying up our cash’.
- J’s channel excellence developer/M ex-sales representative and franchisee consultant (MMM05): ‘Company J’s bargaining power with WDs is very weak, especially when we recruit some new WDs who are doing business with the current market leaders… Company J’s share of brand in the same product category is very low. No single WD could have 20% [share for Company J] nation wide… WDs have many choices. The products are very similar to each other. There is little differentiation when comparing to competitors’.
- S’s ex-marketing and ex-commercial manager/J’s senior marketing manager (SSM06): ‘The attachment is weak between Company J and its WDs. They can replace each other easily’.
- Sales director of SWD01 (SWH02): ‘We almost do not have any bargaining power… We had some when we developed the market. Now the market has been developed, and we do not have anymore… If we do not carry on the business with Company S, it does not matter to the manufacturer [Company S]. Because the brand is well known and all retailers’ information is
transparent in the [IT] system. Company S has all my customers’ information and the [transaction] prices... The [brand] image in the retailers is [also] theirs [S's].

- M’s regional sales manager (MMM02): ‘The only bargaining power for WDs is to quit [Company M’s business]. It may affect me for one month’s sales. WDs will balance to use this power. In the end, they do not have power... Company M’s brand means more than its [direct] profit to WDs’.
- M’s training manager (MMM04): ‘From 1998, WDs have almost no bargaining power and absolutely follow Company M. In the future, WDs will have more bargaining power after the 20 years of growth’.

Appendix 5.6 Learning Motivation of WDs

- S’s marketing manager (SSM02): ‘WD owners are facing the pressure from market... So, they have to learn and adjust, otherwise, they will fail their business... They own the earnings directly’.
- S’s ex-marketing and ex-commercial manager/J’s senior marketing manager (SSM06): ‘Normally, the bigger the business is, the stronger the owner’s learning willingness is. The team’s learning willingness is positively correlated [to the owners]’.
- S’s sales manager (SSM07): ‘WDs' employees do not want to learn... They feel that learning is a burden... WD owners would like to learn and encourage others to learn... They make money for themselves... Employees can sell without learning... and still take the same job after learning... employees of Company S will be pushed to learn’.
- Managing director of SWD03/S’s ex-commercial excellence head (SWH07): ‘We need to force people to the training. We sponsor half of the tuition [in the beginning] for external trainings and reimburse the other half if they pass [the examination]. Many people do not want to go for it. Considering WD’s low-profile workforce, we need to force people [to learn]’.
- Owner/GM of SWD01 (SWH03): He wants to learn very much because of needs in business and team management.
- M’s training manager for WD and Franchisee (MMM01): ‘They (WD owners) have good learning willingness... because they can learn business concepts’.
- M’s regional sales manager (MMM02): ‘WDs’ owners are very different from their employees, better than others in learning motivation’.
- M’s regional sales manager (MMM06): ‘They (WD owners) know the market dynamics. They need to learn new things to manage the changes’.
- M’s sales manager of MWD01 (MWM01): ‘Our boss (WD owner) sent key staff to MBA programs... Employee development is fundamental’.
- Deputy GM of MWD02 (MWH05): ‘Company M’s employees have to learn. They have many [learning] assignments. We do not have many. There is a gap’.

Appendix 5.7 Learning Willingness of WDs' Workforce at Different Age

- Owner/GM of JWD06 (JWH15): ‘The people under 35 would like to learn and want to have some good development..., while employees at 50s-60s do not want to learn... Their learning motivation is zero. They have older folks and young kids at home to support. They [have to] cook after work’.
- Owner/GM of JWD01 (JWH01): ‘Below the age of 35, the employees’ learning willingness is 8 (out of 10)... They have strong learning willingness. Above the age of 35..., they do not care about [learning]’.

Appendix 5.8 HRM Integration from WDs to Manufacturers

Manufacturers’ perspective:

- J’s channel excellence development trainer (JJM10): ‘There is less possibility that WDs can influence Company J, as they are too small’.
- M’s WD training manager (MMM01): ‘We are directing totally. We are influencing their (WDs’) HRM and they are not influencing ours at all’.

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• M’s sales regional manager (MMM02): ‘There is almost no impact [from WDs on Company M]. At most, they complain about some unpleasant cooperation with certain persons. It can be ignored. Company M won’t change the persons complained unless the relevant persons are truly not capable’.

• S’s marketing manager (SSM02)/area sales manager (SSM04): ‘WDs have no impact on Company S’ HRM… The integration is one-way direction from Company S to WDs’.

WDs’ perspective:
• Owner/GM (JWH06) of JWD10: ‘We do not have the hope to influence Company J. It is a too big mission for us to influence Company J’.

• Managing director of JWD08 (JWH08): ‘There could be a very little possibility [that I can influence Company J’s HRM policy and practices]. When the decision-making chain is long [in Company J], my influence is almost impossible… Very few people dare to express themselves [negatively] directly, as the voice cannot be heard by the decision-makers in a very long decision-making chain’.

• Owner/GM of SWD01 (SWH03): ‘There is no impact from me on Company S’.

• Managing director of SWD03 (SWH07) (a WD of both Companies S and J) who used to be Company S’s Channel Excellence Department Head: ‘…my (WD’s) influence to Company J is little. There is no contact with Company J’s top management. In the last two years, the regional manager is the most senior leader I met… Marketing does not visit us in the last two years’.

• Owner/GM of MWD01 (MWH03): ‘I have no impact [on Company M’s HRM]’.

• Deputy GM of MWD01 (MWH02): ‘We, WDs, cannot influence any decisions of the manufacturers. We totally follow the manufacturers… It is absolutely impossible [to influence Company M’s organisation structure and people]’.

• Deputy GM of MWD02 (MWH05): ‘We cannot influence Company M. They won’t allow WDs to influence them.’

Appendix 5.9 Company J’s HR Function in Its Supply Chain

• J’s senior HR manager (JJM08): ‘HR is the manufacturer’s internal department. It should not involve in the channel business until there is a problem’.

• J’s senior talent management manager (JJM03): ‘HR is internally focused’.

• J’s frontline sales (JJJ11): ‘HR does not visit market site’.

• J’s WD sales director (JJH07): ‘There is little or almost no interaction between WDs and Company J’s HR department’.

Appendix 5.10 Company J’s Involvement in WD’s Performance Management and Compensation and Benefits

• J’s WD sales director (JJH07): ‘It (Company J’s influence on performance management) depends on sales representatives’ individual capability and the trust gained from WDs. In the future, Company J will involve in WDs’ incentive, for example, using part of the rebate (commission) to incentivise WDs’ sales’.

• J’s sales support director (JJH04): ‘Company J will evaluate the behaviour and performance of WD employees based on the information from the integrated IT system, including logistics information, WDs’ customer information, and business transaction frequency’.

• J’s aftermarket sales VP/S’s ex-commercial director (SSH03): ‘We guide WDs in incentive. We hope that their incentive aligns to ours. When we focus on the end market, we wish them to incentivise their sales to develop more retailers, move to the high-end product and optimise portfolio… We may have a complete WD evaluation system and evaluate them regularly [in the future]. The result will be based on their (WDs’) capability, strategic thinking and execution… There are three components for people management. Are they aligned with us in strategy? Do they have strategic thinking? Can they execute the plan? … The evaluation will be based on many perimeters. There is no commission on these [components] now. We intend to have [relevant commission]. We are in the beginning stage. The current incentive is based on sales volume and we will consider the behaviours and operations [inside WDs]’.

Appendix 5.11 Comments on People Exchange in the Supply Chain
• J’s aftermarket sales VP/S’s ex-commercial director (SSH03): ‘There are applicants from WDs, but they (the applicants) are different’.
• J’s frontline sales (JJJ05): ‘It is hard for WD staff to work for Company J due to the differences in mindset, disciplines to follow rules, and approach to win businesses’.
• J’s senior HR manager (JJM08): ‘English, reporting, learning, working through system and ethics [are required differently in Company J]’.
• J’s frontline sales (JJJ05): ‘The living pressure for WDs’ employees drives employees’ ownership, and the survival pressure for WDs (daily expense) makes WD owner a super sales… Company J’s employees live with less pressure… In Company J, the top priority for employees is not to make mistakes, the second priority is to focus on the personal future career, and the third one is to focus on their own positions… Company J’s business is not theirs… Company J’s employees are challenged to work for WDs’.
• Managing director of SWD03 (SWH07): ‘Among the more than 20 cases (Company S’s employees joining WDs) in the past years in Company S, the success rate is less than 30%. It increases the management difficulty in Company S. Company S does not prefer such cases. For WDs, Company S’s staff do not work well… In the recent two years, I have not heard such cases. In several years (some time ago), there were such cases in each month. Now it is very few. Ex-S employees who are working for WDs know Company S very well, which is good. The bad thing is that Company S may feel themselves at disadvantage when Company S is playing game with its WDs, as they (WDs) know you (Company S) too much. The current policy [of Company S] is neither supporting nor against (its people joining WDs). Sometimes, there could be even some barriers preventing such cases. Several years ago, Company S hired from its WDs. I think that it is good. … Some WD employees joined Company S. It was hard for them to adopt. They need better English, and process too many emails. There are too many meetings. Many of them did not get used to it. [For example,] the one hired in Shenzhen went back to WD’.
• S’s ex-area sales manager and ex-channel excellence manager/J’s ex-senior channel excellence manager (SSM05): ‘There are cases that Company S staff joined WDs and came back, and cases that Company S staff joined WDs and did not come back… Once in a year, there were 7 or 8 Company S employees who joined WDs among 250 sales representatives and supervisors… There are such cases every year… There are very few cases, total 5 or 6 persons, hiring WDs’ staff to Company S’. SSM05 also commented that from the business’ perspective, it is good that the persons hired are familiar. From HR’s perspective, it is not encouraged. There is certain risk. The person joined WDs from Company S know too much [about Company S] and Company S will have difficulty in negotiating with the WDs. However, it is better than joining competitors. HR is not against this practice.
• J’s aftermarket sales VP/S’s ex-commercial director (SSH03): ‘One employee (S’s ex-leader in Channel Excellence) had career ceiling in Company S. WD prefers him much. The business is growing healthy. They need one person in charge. They paid better… I encourage it personally. Company S needs to consider how to retain talented people. Company S does not encourage this practice but respects personal choice. It is good for the industry with people exchange between manufacturers and WDs. The management mindset will be dispersed when people move’. M’s ex-area sales manager (MMM03): ‘Company M employees left for business platform, such as the fast repair chain or the (trading) platform for multi-manufacturers. It is rare that the employees of Company M become its WDs’ sales managers or GMs. Company M’s employees believe that they do not match WDs, no matter how high the positions offered... It is also very rare that Company M hires from WDs with few expectable cases for frontline sales positions with recommendations. There are almost no cases hiring WD sales managers in Company M’s mid-level or senior-level management team... WDs have been in the second or third generations as successors. It is common that WD sales managers are not competent as the senior management in Company M. The first generation owners fought out in the business and succeeded. They were very hands-on. Employees from Company M to WDs could be one trend in the future. If the second generation (of WDs) cannot succeed and there is not right [internal] candidate to promote, the external hiring is a must. For external hiring, they need to hire someone trusted’.
• M’s training manager for WD development (MMM01): ‘Company M won’t hire from WDs or retailers. Company M hires sales from other industries. Company M pays more attention to the process and believes that results will follow [the right processes]. In the early time, sales in other companies may believe that it will be fine if they have good customer relations and are able to
convince customers and sell. We are not satisfied even if they can sell but not in the right process or not with right tools... We do not prefer industrial experienced sales. Their practices are very different from Company M. They cannot work well here'.

- J’s WD sales director (JJH07): ‘In the industry of Companies M and S, WDs hire manufacturers’ sales representatives or managers, as they are capable and know the industry, manufacturer’s culture, and have good relationships’.

- M’s training manager (MMM04): ‘The WDs of Company M hire very few professionals. They appoint their children or folks who grow with them through ups and downs as GMs. The external hiring is not successful. They do not survive long. This industry is not high-end and does not need very formal operations. ...They are very practical in operations...which cannot learn from books. The high-level [senior] people from manufacturers do not work well, neither the low-level employees who understand operations but weak in management. His or her competence and image in the market cannot support. Almost all Company M’s sales representatives who joined WDs as sales manager reporting to owners are not successful. (Most) Company M’s sales managers won’t be employed by WDs [as pure employees without company share]. They will take some ownership share and run business independently... There are successful and failed cases. There are 7 or 8 survived cases among 20 to 30 cases in the past years. The long-time survived cases are those WDs whose owners become investors in the end and Company M’s ex-employees run the business. The cases of pure employment all failed. The seven or eight survived cases are very similar. The [relevant] business is independent in management and finance... There won’t be more people flow from manufacturers to WDs. Manufacturers’ employees [prefer] joining competitive (MNC) manufacturers [in the same market] or other auto aftermarket, and then private companies. Private companies are not financially strong and operate differently from Company M’s model with huge financial power. There is a suffering transition period in the early stage. Some cannot adopt. The one who can adopt is competent and hard to be second to the owner... The WD business model is not promising when the distribution becomes shorter in the process. The uncertainty may limit the people flow. In the survived seven to eight cases, they wish to run some new business models which cannot be copied. They are still in the traditional models. There is no breakthrough. The employees, who left Company M, may have their own limitation. They are sales or sales managers. They do not have a macro or holistic view... They will follow their early practices and experiences... Company M does not hire directly from its competitors... It ensures its pure blood in the organisation. You are a piece of white paper. You can sell any product categories expect Company M’s before. Company M ensures its new hires’ loyalty and respect to Company M... Company M has some suspended plan to enable employees who want to run their own business with Company M... The proposal has been completed with operational details, such as supporting equipment and [brand] image. There are pros and cons. Management may not be sure. They need time to review further. It has been suspended for two years’.

- M’s regional sales manager (MMM02): ‘Company M does not like losing talented people. From WDs' perspective, it is a good thing. If it is our WDs, the cooperation will be much smoother... I do not consider joining WDs or running my own business. I have career development future in Company M, and my next step is on how to develop better. Company M is good and there is no need to join others in the same industry. Sales representatives may consider joining WDs or retailers as GMs one day’.

Appendix 5.12 HR Function, Workforce Education Profile and Organisational Formality

- M’s region sales manager (MMM02): ‘The WDs’ HRM is not very professional, and even they do not have such an organisation to manage HRM. Company M has such organisation.

- S’s ex-marketing and ex-commercial manager/J’s senior marketing manager (SSM06): The WDs of Company S may not have a dedicated HRM department.

- S’s sales manager (SSM07): HRM is not structured in the WDs of Company S. There is no system.

- Owner/GM (JWH06) of JWJD10: ‘We hire people without high profile who are easily satisfied’.

- M’s training manager for internal sales (MMM04): M hires bachelor mainly and few very competitive associate degree candidates. Before, WD employees did not have the bachelor
degree, but now, they have also. There is huge supply of university graduates in the market without high cost.

- Owner/GM of MWD01 (MWH03): ‘They (Company M and another local competitive manufacturer) hire graduates from tier I universities, and we cannot attract’.
- Owner/GM of JWD10 (JWH06): ‘We do not have comprehensive policies… I need to be formal. The bigger the company, the more formal it should be. Formal does not mean formality (in format). It means to meet legal requirements, fit for the company’s reality and industry situation, and be profitable. It does not work if everything is formal but not profitable’.
- J’s sales director (JJH07): ‘WDs are less formal than MNCs’.
- Deputy GM of MWD02 (MWH05): ‘We cannot compare with Company M. They are too formal. I can learn 50%-60%. Company M is too formal to be agile in sales and other areas. It is hard to operate then. Our private companies cannot be too formal in our current size. Big organisations need to be formal. Now, we appreciate agility and people caring. In the future state, we may not see the business owner [as often as now] because the professional management team will be in place. Professional manager is a form of formalisation. Now, the owner is hands on in operations’.
- S’s marketing manager (SSM02): ‘HRM is very comprehensive in Company S. Its WDs cannot use Company S’s HRM system. It is too much for WDs which are very small organisations. Big organisations rely on systems such as ERP system, while WDs reply on people management. WDs are more direct and results oriented’.
- M’s region sales manager (MMM02) believes that Company M’s total compensation is good in the industry. He appreciates the working environment and simple relations. Company M is not result oriented. The process is paid high attention, though the business result is also important to them. It is different from the US companies, which focus on results. This kind of business stress is low. Most private business normally cares about business performance only.

### Appendix 5.13 Value Proposition of WDs’ Employees

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<td></td>
<td>MWH06</td>
</tr>
<tr>
<td></td>
<td>Middle management and frontline employees</td>
<td>JWM16</td>
<td>SWM05, SWM06, SWJ08</td>
<td>MWM01, MWM04, MWM07</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Top management</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5.14 Leadership and Culture in WDs

<table>
<thead>
<tr>
<th>WD interviewee</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WD top management of Company J</strong></td>
<td>Sales manager of JWD05 (JWH03): ‘The most important factor in retaining people is our harmonised environment… We have simple relationships and we are harmonised to work together’.</td>
</tr>
<tr>
<td><strong>WD middle management and staff of Company J</strong></td>
<td>Sales manager of JWD01 (JWM02): ‘The company should give employees a feeling of family, and we all live and make money together in the same family. When employees feel company a home, he will make effort… The company’s policies should be people oriented… It is a feeling of belonging’.</td>
</tr>
<tr>
<td></td>
<td>Logistics staff of JWD08 (JWJ07) likes the company culture which is ‘united… For all things, we work together’.</td>
</tr>
<tr>
<td></td>
<td>Sales manager of JWD07 (JWM16) prefers ‘authority, flexibility… and trust’.</td>
</tr>
<tr>
<td><strong>WD top management of Company S</strong></td>
<td>GM of SWD02 (SWH04) believes that his company culture is caring, respect and comfort.</td>
</tr>
<tr>
<td></td>
<td>Owner/GM of SWD01 (SWH03) believes that his company atmosphere is ‘good team-work and happiness’.</td>
</tr>
<tr>
<td></td>
<td>Sales director of SWD01 (SWH02): ‘Our boss (owner) trusts us and delegates us. It is a harmonised working relation with peers’.</td>
</tr>
<tr>
<td><strong>WD middle management and staff of Company S</strong></td>
<td>Sales Manager of SWD03 (SWM06): ‘Our internal culture is that there is competition but no [political] fight. All are harmonised… Team spirit is high… All see company as home and see job as own things’.</td>
</tr>
<tr>
<td></td>
<td>Sales Manager of SWD03 (SWM06): our GM is very engaging and supervisors/managers are inclusive.</td>
</tr>
<tr>
<td></td>
<td>HR/Administration manager of SWD2 (SWM05): ‘SWD02 is very humane. We promote working with heart, and happy life. Our boss hopes that we can learn and increase income. Most employees care about the ownership’.</td>
</tr>
<tr>
<td></td>
<td>Logistics staff of SWD01 (SWJ01): ‘What attracts me is the owner’s humanity. The compensation and benefits are mediocre when comparing to others’.</td>
</tr>
<tr>
<td></td>
<td>Logistics staff of SWD01 (SWJ01): ‘The owner is inclusive, and cares employees. He encourages innovation… Because our owner is very humane, I would like to work for him even overtime without pay’.</td>
</tr>
<tr>
<td><strong>WD top management of Company M</strong></td>
<td>Deputy GM of MWD01 (MWH02): ‘Money may not be much, but I must be happy… Happiness means collaborative colleagues, boss’ trust and delegation, my power to implement my ideas, and my team’s following’.</td>
</tr>
<tr>
<td><strong>WD middle management and staff of Company M</strong></td>
<td>Sales manager of MWD02 (MWM04) commented that the owner brings cohesion to the organisation. MWD02’s company culture is team work, and business growth. There is a good working atmosphere. The company culture and leadership of managers are attractive and sustainable.</td>
</tr>
</tbody>
</table>

Appendix 5.15 Comparison of WDs’ Compensation and Benefits across the Three Chains

<table>
<thead>
<tr>
<th>Compensation and Benefits category</th>
<th>WDs of Company J</th>
<th>WDs of Company S</th>
<th>WDs of Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall salary</td>
<td>Basic pay and commission</td>
<td>Annual increase</td>
<td>Annual bonus</td>
</tr>
<tr>
<td></td>
<td>The 13th-month pay (some)</td>
<td>Profit sharing (MWD01 only)</td>
<td>Competitiveness in the market (not lower than the average)</td>
</tr>
<tr>
<td></td>
<td>Yes:</td>
<td>Yes:</td>
<td>Yes:</td>
</tr>
</tbody>
</table>
### Government required social benefits

- JWD01, JWD05, JWD06, JWD07, JWD08
- SWD01, SWD02, SWD03
- MWD01, MWD02, MWD03

No: JWD02, JWD04, JWD09

### Other benefits

- Annual tour
- Employee party
- Family day
- Dormitory or accommodation subsidiary
- Food subsidiary
- Phone subsidiary
- Car or transportation subsidiary
- Gifts for festivals
- Additional accident insurance (JWD01 and JWD08)

### Company share or company's investment scheme with fixed return

- SWD03

### Appendix 5.16 Comments on WDs’ Compensation and Benefits

- **Owner/GM of JWD03 (JWH19):** ‘The salary is reasonably positioned’.
- **Sales manager of JWD01 (JWM02):** ‘The pay is reasonable …, and I am satisfied with my base pay’.
- **Owner/GM of JWD01 (JWH01):** ‘The salary increase… is higher than national requirement [on the minimum pay]. Our salary is low when people is just hired, but it increases annually’.
- **Owner/GM of JWD09 (JWH05):** Our salary structure is stable. Monthly pay, annual pay and year-end guaranteed bonus are consistent…For long-tenure employees, their salary is O.K… They have good financial return…and are paid for their effort’.
- **Owner/GM of JWD01 (JW01):** ‘There is annual bonus…and the 13th-month pay. There could be 14 or 15 months’ pay, which depends on individuals’.
- **Owner/GM of MWD01 (MWH03):** ‘When you are in the core management team, there is an internal sub-contracting practice. There is [also] profit sharing after a year. You become shareholders, even though you do not have [real] share… When we are fine in business as normal, they can get 300,000 to 400,000 RMB… There are three to four core members in the core team’.

### Appendix 5.17 Career Aspiration of WD Employees

- **Owner/GM of JWD04 (JWH09):** ‘The sales folks may want to run their own business in the future’.
- **Marketing manager of MWD03 (MWM07):** ‘Some employees want to run their own business after they learn. We encourage them. In recent years, there have been some employees running their own business. We have developed many good bosses. 100% of our employees have the idea to become their own bosses, but their actions depend. Most of them who are entrepreneurs become our retailers, though they may not be 100% focused on our business. We have scheme to support them in working capital, products and services’.
- **Sales manager of JWD07 (JWM16):** ‘I build up my resources (networks). I can run my business selling some products [in the same distribution channel]… There are many transferrable skills, as far as you know the [right] people… In the future, when I shift to other products, it is very easy to sell. [My networks] is very useful’.
- **Logistics staff of SWD01 (SWJ01):** ‘Being own boss or being a sales are the normal careers for us’.
- **Sales Manager of MWD01 (MWM01):** ‘Learn to be a professional manager or become a boss of my own business’.
Appendix 5.18 HRM Challenges in WDs

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Interviewee level</th>
<th>Company J</th>
<th>Company S</th>
<th>Company M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiring attraction</td>
<td>Top management</td>
<td>JWH01, JWH03, JWH08, JWH09, JWH12, JWH14, JWH15</td>
<td>SWH03</td>
<td>MWH02, MWH03</td>
</tr>
<tr>
<td></td>
<td>Middle management/staff</td>
<td>JWM13, JWM16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>Top management</td>
<td>JWH20</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Middle management/staff</td>
<td></td>
<td>SSM02</td>
<td></td>
</tr>
<tr>
<td>Performance management/motivation</td>
<td>Top management</td>
<td>JWH06, JWH09, JWH12</td>
<td>SWH04</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Middle management/staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development/career opportunity</td>
<td>Top management</td>
<td>JWH03, JWH06</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Middle management/staff</td>
<td>JWM16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vision/mind-set</td>
<td>Top management</td>
<td>JWH06, JWH12</td>
<td>SWH07</td>
<td>MWM07</td>
</tr>
<tr>
<td></td>
<td>Middle management/staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System and structure</td>
<td>Top management</td>
<td>JWH03, JWH14, JWH15, JWH20</td>
<td></td>
<td>MWH05</td>
</tr>
<tr>
<td></td>
<td>Middle management/staff</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Appendix 5.19 WDs’ Challenges in Hiring

- Owner/GM of JWD06 (JWH15): ‘It is hard to hire… There are many people, but very few you can hire, even much fewer to retain… Capable persons look down upon our industry..., and I do not have confidence on some applicants who would like to apply’.
- Sales manager of JWD07 (JWM16): ‘Hiring in this industry is a big issue. The performance-based pay cannot attract capable people. The low [fixed] pay cannot attract people who prefer stable’.
- Owner/GM of JWD07 (JWH14): ‘It is hard to hire bachelors in our industry. This industry cannot afford for top-end talented people’.
- Sales manager of JWD05 (JWH03): ‘We do not have systematic hiring’.
- Owner/GM of JWD08 (JWH08): ‘It is hard to hire… It costs money’.
- Owner/GM of JWD04 (JWH09): ‘It is difficult to hire. We cannot afford for capable people. Incapable people cannot perform and are useless’.
- Owner/GM of JWD11 (JWH12): ‘It is hard to accept to pay new hires much more than the current team’.
- Deputy GM of MWD01 (MWH02): ‘We are weak in hiring. There are very few candidates in the interviews and fewer succeed in the interviews. There are very few candidates, 50%, succeed the three-month probation period. The survived applicants are good’.
- Owner/GM of SWD01 (SWH03): ‘It is difficult to hire a useful people… [Many university graduates] aim high, but are not capable. We have two openings. It costs much when we go for the hiring event. It takes 500 RMB for hiring site and we did not hire anyone in the whole day. Some people is not preferred from our perspective. Some favourable ones do not want to be a sales representative for its hardship… People prefer high base pay and low incentive’.
- Owner/GM of MWD01 (MWH03): ‘HR is most challenging… New hires … need to meet boss (WD owner) and managers’ direction. Very frequently, some new hires leave in 4 or 5 months or even within one month… People are selfish. They (department heads) do not want hire too smart people… Company’s problem is the succession’.
- Owner/GM of SWD01 (SWH03): ‘It is hard to hire someone who can work’.

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Appendix 5.20 WDs’ Challenges in Employee Career Opportunities and Development

- Owner/GM of JWD10 (JWH06): ‘Career opportunities are limited. The cost is too high to open [more] stores in Shanghai [for more employees’ opportunities].
- S’s marketing manager (SSM02): ‘They (WDs) do not consider much on employees’ development’.
- M’s regional sales manager (MMM02): ‘The WDs’ biggest challenge is to develop their people… For example, manufacturers have dedicated training organisations, taking care of people development. Our WDs are not good at it’.
- M’s ex-sales area manager/J’s ex-area sales manager (MMM03): ‘WDs need to enhance their work force’s quality and competitiveness. Their sales managers are taken care of by Company M, and they are fine. There are big gaps in frontline sales’.

Appendix 5.21 WDs’ Challenges in Vision Management

- Owner/GM of JWD10 (JWH06): ‘Managing vision…is a challenge’.
- Owner/GM of JWD11 (JWH12): ‘It is most difficult to manage people’s heart. It is useless to manage the formality’.
- Marketing manager of MWD03 (MWM07): ‘It is challenging to convince employees the whole company’s growth direction and vision, and make company’s practices and market concept acceptable… Now sales team mainly focus on the sales target…without long-term planning… They may pay over attention to the current customers and care less potential customer development’.
- Managing director of SWD03 (SWH07): ‘The big challenge is to manage vision and discipline. For example, we established a vision and encourage employees to work [with passion] from their hearts, but employees…won’t keep [this practice] long, so we need to enforce our disciplines which lead to resistance’.

Appendix 5.22 WDs’ Challenges in Informal Organisation

- Sales manager of JWD05 (JWH03): ‘There is no formal HR department and dedicated HR professionals. The HR function is managed by administration…which is informal. There is no systematic hiring’.
- Owner/GM of JWD07 (JWH14): ‘The policy is important to a company. [We] need to improve management’.
- Owner/GM of JWD13 (JWH20): ‘I am small and can manage [details]. When I have many employees, I may have the same challenge as Company J does, 2/3 or ½ working hours of their home-based employees may not be for my business. When the business is in a large scale, the management should rely on the policies. It is easy to say, but the reality is tough… Company J is formal and policy governed. WDs are much less [formal]. We need to be more formal in our working style, capability (development), team (structure) and (organisational) spirit’.
- Owner/GM of JWD06 (JWH15): ‘Sub-WDs only have buy-in on me not others… Sales cannot talk much to the sub-WDs…, as [only] I know the price we buy… Customers talk to me for all other things…, and it becomes too much [load] for me gradually’.
- Deputy GM of MWD02 (MWH05): ‘The problem in HRM is the lack of formal management in HR’.

Appendix 5.23 Hiring Channels

<table>
<thead>
<tr>
<th>Hiring channel</th>
<th>WDs applied</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction/referral</td>
<td>JWD01*, JWD03*, JWD05, JWD07, JWD08, MWD03, SWD01, SWD03, MWD01</td>
<td></td>
</tr>
<tr>
<td>Media (online)</td>
<td>JWD07, JWD06, JWD03, JWD08, SWD01, MWD03, SWD01, SWD03, MWD01</td>
<td>51job.com</td>
</tr>
<tr>
<td></td>
<td></td>
<td>58.com</td>
</tr>
<tr>
<td>Labor market</td>
<td>JWD05, JWD06, MWD03,</td>
<td></td>
</tr>
<tr>
<td>Campus</td>
<td>SWD03</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5.24 Hiring Preference: Local vs. None-local Employees

Appendix 5.25 Family Members and Relatives in WDs

<table>
<thead>
<tr>
<th>With family members/relatives</th>
<th>Without family members/relatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>JWD03, JWD04, JWD06, JWD07, JWD09,</td>
<td>JWD1, JWD02, JWD05, JWD11</td>
</tr>
<tr>
<td>JWD10, JWD12, JWD13</td>
<td></td>
</tr>
<tr>
<td>SWD01</td>
<td>SWD02, SWD03</td>
</tr>
<tr>
<td>MWD02, MWD03</td>
<td>MWD01</td>
</tr>
</tbody>
</table>

Appendix 5.26 Pros and Cons of Hiring Family Members and Relatives in WDs

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Owner/GM of JWD06 (JWH15): ‘I won’t feel safe if I use external</td>
<td>• Owner/GM of JWD11 (JWH12): ‘What the family members and relatives</td>
</tr>
<tr>
<td>people..., [because] there are cash transactions’.</td>
<td>say may become policies, which is troublesome... Many companies die</td>
</tr>
<tr>
<td>• Owner/GM of JWD07 (JWH14): ‘It is hard to avoid [hiring relatives]</td>
<td>• Owner/GM of MWD01 (MWH03): ‘The relatives can argue with the owner</td>
</tr>
<tr>
<td>when we are not big, we need some familial affection. I feel them</td>
<td>for what they have achieved. They are the trouble makers... Employees</td>
</tr>
<tr>
<td>accountable... and my employees can understand’.</td>
<td>do not know whom to listen, the boss (owner) or his wife. His wife</td>
</tr>
<tr>
<td></td>
<td>may not have big title, but have huge power. In many firms, the</td>
</tr>
<tr>
<td></td>
<td>owner is the chairman and his wife is the Corporate Executive Officer</td>
</tr>
<tr>
<td></td>
<td>Boss’ wife manages HR or finance... The relatives or friends are</td>
</tr>
<tr>
<td></td>
<td>normally taking critical roles, no matter they are qualified or not...</td>
</tr>
<tr>
<td></td>
<td>The persons report to the unqualified managers do not feel</td>
</tr>
<tr>
<td></td>
<td>comfortable... The professional managers are tied up’.</td>
</tr>
<tr>
<td>• Marketing manager of MWD03 (MWM07): ‘There is influence from</td>
<td>• Marketing manager of MWD03 (MWM07): ‘There is influence from</td>
</tr>
<tr>
<td>relations when some correction in the management is needed... People</td>
<td>relations when some correction in the management is needed... People</td>
</tr>
<tr>
<td>can overtake governance’.</td>
<td>can overtake governance’.</td>
</tr>
</tbody>
</table>
Appendix 5.27 Learning and Development Approaches in WDs

<table>
<thead>
<tr>
<th>Learning category</th>
<th>WD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal training</td>
<td>JWD11, JWD03, SWD01, SWD02, SWD03, MWD02, MWD03</td>
</tr>
<tr>
<td>Learning from manufacturers</td>
<td>JWD11, JWD03, SWD03, SWD01, MWD03</td>
</tr>
<tr>
<td>External public course/education</td>
<td>JWD11, JWD09</td>
</tr>
<tr>
<td>Learning from experiences</td>
<td>JWD07, JWD03</td>
</tr>
<tr>
<td>Mentor</td>
<td>JWD05</td>
</tr>
</tbody>
</table>

Appendix 5.28 Learning Approaches and Practices in WDs

<table>
<thead>
<tr>
<th>Learning category</th>
<th>WD</th>
<th>Detailed practices</th>
</tr>
</thead>
</table>
| Internal training | JWD11, JWD03, SWD01, SWD02, SWD03, MWD02, MWD03 | • Owner/GM of JWD01 (JW01): 'We offer new things, including internal trainings... such as etiquette training'.
• Owner/GM of JWD08 (JWH08): ‘I provide technical training for each brand we are running. I must train them the brand history, pros and cons, cases with customers, and expectations from customers’.  
• Sales director of SWD01 (SWH02): One marketing professional is in charge of employee training. There are regular trainings on every Wednesday.
• HR/Administration manager of SWD2 (SWM05): There are new employee orientation training, middle-term review and supervisor’s coaching.
• Managing director of SWD03/S’s ex-channel excellence department head (SWH07): ‘We integrate our learning with Company S’s online university’.  
• Sales manager of MWD02 (MWM04): Quality assurance department and sales managers offer trainings. Company M trains MWD02. In recent two years, new employees are trained from period to period.
• Marketing manager of MWD03 (MWM07): There is on-boarding training to new hires on products, business, finance, payment terms, documents and invoices, and risk prevention. There are ad-hoc trainings on the switched brand and new products. All trainings are interactive communication or discussion around some questions.
• Deputy GM of MWD03 (MWH05): ‘We have on-boarding training. Experienced sales will mentor new hires after three months, and later on the new hires will be on their own’.  
| Manufacturer | JWD11, JWD03, SWD03, SWD01, MWD03 | • Owner/GM of JWD03 (JWH19): ‘Manufacturers have their professional knowledge and offer [us] trainings on their business models’.  
• Logistics staff of SWD01 (SWJ01): ‘We basically follow Company S’s trainings. We learn from Company S’s online university, including the owner... Every role has specific (learning) assignments’.  
• Managing director of SWD03/S’s ex-channel excellence department head (SWH07): ‘We rely on Company S’s training system and also have some trainings in our meetings. We integrate our learning with Company S’s online university. There is much improvement. We ask employees to complete one course per
month and there are at least twelve courses a year... We have a score card this year. Learning is the number one. For other performance indicators, you gain score. For learning, if you do not learn, you will lose score. If they (employees) fail with score under pass line 60, they will be fined RMB 300 or 500. There is no fine or incentive for the mark between 60 and 80. There is a reward of RMB 500 for marks at 80 and above, and RMB 1,000 for the mark 100 (full). We leverage financial approach to push for learning’.

- Marketing manager of MWD03 (MWM07): There are trainings on the new requirements from the company (manufacturer) on operations.

<table>
<thead>
<tr>
<th>External public course/education</th>
<th>JWD11</th>
<th>JWD09</th>
</tr>
</thead>
</table>
| Owner/GM of JWD11 (JWH12): We offered our finance supervisor and two sales managers to seek external public trainings last year. The budget is 5,000 RMB (per person) for 3 or 4 offsite trainings’.

<table>
<thead>
<tr>
<th>Learning from experiences</th>
<th>JWD07</th>
<th>JWD03</th>
</tr>
</thead>
</table>
| Sales manager of JWD07 (JWM16): ‘We do not have sales trainings. It depends on yourself... There is no specific career planning’.
| Sales manager of JWD12 (JWM17): Employees join the customer visit and learn naturally without pressure.
| Owner/GM of JWD03 (JWH19): ‘He may … learn… in a learning by doing approach’.

<table>
<thead>
<tr>
<th>Learning from networks</th>
<th>JWD06</th>
</tr>
</thead>
</table>
| Owner/GM of JWD06 (JWH15): The owner/GM learns from other WDs or friends in business.
| Owner/GM of JWD11 (JWH12): He believes that there are influences in his management from his wife who works for a Fortune 500 US company.

<table>
<thead>
<tr>
<th>Mentor</th>
<th>JWD05</th>
</tr>
</thead>
</table>
| Sales manager of JWD05 (JWH03): ‘Our experienced employees mentor new hires’.

Appendix 5.29 Employee Retention in WDs

| JWD03: No turnover in the last two years; |
| JWD05: One voluntary turnover among the ten employees in the last year; |
| JWD08: No one left in last several years; |
| JWD09: One of twenty employees left in the last year for family reason; |
| JWD10: The turnover is less than 5%; |
| JWD11: Two of twenty-seven employees left after probation in the last five years; |
| JWD12: Zero turnover currently; |
| JWD06/JWD13: Both owners of the two WDs believe that they have good stability; |
| SWD01: The turnover rate is around 5%; |
| SWD02: Logistics operators and drivers have higher turnover than sales. They may feel that the work is hard. If they are not satisfied with compensation and benefits, they leave. Their turnover rate is around 30% and other functions turnover is more than 10%. The retention key is the company culture or direct supervisors; |
| SWD03: The turnover rate is around 10%; |
| MWD01: Its turnover rate is low in the industry. It was around 5% in the last two years; |
| MWD02: Very low turnover. The turnover rate of its mid and top-management team is almost zero. Only one or two sales representatives left due to the high work stress. The relative higher turnover position is in the logistics function; |
| MWD03: The employee turnover rate is low. It is almost zero for middle and high-level management. There were two or three turnover cases after the probation period in the last year. There are one or two sales turnover cases among the 60 sales employees; |
Appendix 5.30 People-Oriented Family-like Working Environment in WDs

- Owner/GM of JWD01 (JW01): 'I care their (employees’) families. We offer support proactively if our young employees need to buy car or apartment. We increase their salary if they buy apartments or have new babies. They feel different and valued, and would like to stay. Employees introduce others to the company. They feel warm [in heart] here. It is a simple working relationship without politics'.
- Owner/GM of JWD03 (JWH19): 'We are good at people-oriented management as a small company. It is a harmonious environment... We understand that we add product line and enhance probability, aiming to live more comfortable together. They (employees) share the same goals and do not want to leave... We are like a family'.
- Owner/GM of JWD06 (JWH15): 'I am people-oriented... I call them (employees) uncle and aunt'.
- Owner/GM of JWD07 (JWH14): 'I see my employees my friends... When you care your employees as friends, they naturally see company their home... As a leader..., you should help them when they have difficulties... For instance, our company helps on employees’ family challenges and sickness spiritually and financially'.
- Owner/GM of JWD08 (JWH08): ‘People-orientation means...giving employees’ space and freedom... If you have too many frames, it is hard to be people-oriented’.
- Owner/GM of JWD09 (JWH05): ‘I do not criticize my people... My employees work hard... I help them when I see them tired at the site... I walk the talk... I have one principle in management, people-oriented. I do not see employees as employees, I see them my family members... When employees have difficulties and seek for my help, I will help... We are trying to convince that our company and individuals are one integrated... Our current employees have strong belonging and responsibility... We do not need to monitor our core staff who manage themselves’.
- Owner/GM of JWD11 (JWH12): ‘What employees are pursuing spiritually is our family atmosphere... I encourage them to buy apartment..., and lend money to some employees for the down-payment... I manage people’s heart and mindset... When my employees ask for leave because of their children’s sickness, I will let them go [to take care of the kids], and the job is considered secondary’.
- Owner/GM of JWD13 (JWH12): ‘As a boss, you must be a decent person, caring employees as brothers and fighting for the market together... [For example,] we celebrate birthday with cakes and parties...together with their families... This is a kind of belonging... Management should be through respect, but not through instruction’.

Appendix 5.31 High-Flexible Work Environment in WDs

- Owner/GM of JWD06 (JWH15): ‘I do not have many requirements. You can take a rest and walk around, as far as you get your job done’.
- Owner/GM of JWD07 (JWH14): ‘Not every job requires strictly on-time show-up, such as driver and sales except finance... Too tightly control may not be good for all [positions]. It depends on the responsibilities’.
- Owner/GM of JWD03 (JWH19): ‘Unlike big companies, we do not have strict management. Till now, we do not have check in/out clock card’.
- Sales manager of JWD01 (JWM02): ‘We do not have a strict process and do not need a leave application note when we ask for leave. We can come back to work after we settle down family urgencies or get better from sickness’.
- Sales manager of JWD11 (JWM11): 'We are very agile, not like big companies which strictly follow rules’.

Appendix 5.32 Importance of Trust in WDs

- Deputy GM of MWD03 (MWH05): ‘Trust is absolutely important’.
- GM of SWD02 (SWH04): ‘Mid-level management and employees... are energetic with trust from boss. To me, trust is very important... With trust, employees have good attitudes, and work beyond job description proactively’.

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Sales manager of SWD03 (SWM06): ‘If there is no trust from company to supervisors, from supervisors to frontline sales, there won’t be [any] chance to communicate and work together [well].

Owner/GM of JWD09 (JWH05): ‘It is hard for employees to work if there is no trust from supervisors’.

Logistics staff of JWD08 (JWJ07): ‘[Without trust], I won’t work here’.

Sales representative of JWD06 (JWJ13): ‘If boss trusts you very much, you can use more your potentials’.

Sales manager of JWD01 (JWM02): ‘If you do not trust the company, why do you stay here? If there is no trust to each other, it is meaningless to work here, no matter how much the pay is’.

Logistics staff of SWD01 (SWJ01): ‘I work here because of the boss’ trust and recognition… He trusts in the results delivered by me 100%’.

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**Appendix 5.33 Trust Drivers in WDs**

- Sales manager of MWD02 (MWM04): ‘Our boss employs us with trust and without doubt’.
- Owner/GM of JWD01 (JW01): ‘They (employees) care about the quality of boss. The boss should not be doubtable on many things… Take charge of what you are responsible’.
- Deputy GM of MWD01 (MWH02): ‘The owner does not interfere my department operations at all. I am in charge’.
- Sales manager of JWD11 (JWM11): ‘My supervisor talks to me when my subordinates make mistakes, and does not discipline them directly’.
- Sales manager of MWD01 (MWM01): ‘The trust is demonstrated to award the business authority in accounts receivable. Our frontline sales representatives may manage millions of RMB accounts receivable’.
- Sales director of SWD01 (SWH02): ‘We are in charge of payment even in cash when we buy’.
- Sales manager of JWD07 (JWM16): ‘When you collect money from customers, if your boss follows up you many things without trust…, it will be so hard to work’.
- Owner/GM of JWD03 (JWH19): ‘Leaders should walk the talk… For example, employees make 5,000 or 10,000 [RMB] more than the promised 80,000 annual income’.
- GM of SWD02 (SWH04): ‘To develop trust is to offer trust first. As a manager, I gain trust by caring. When employees marry, I join the wedding ceremony, and give gifts’.
- Owner/GM of JWD08 (JWH08): ‘The mindset of open, fair, justice, logical, reasonable, and legal has been mentioned in every meeting’.

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**Appendix 5.34 HRM Matching between Manufacturers and WDs**

- J’s commercial excellence manager (JJM06): ‘The HRM of Company J does not match WDs’ situation’.
- J’s senior HR manager (JJM08): ‘HRM supports business in the [specific] context’.
- J’s WD sales director (JJH07): ‘The common managerial principles should be applicable (in WDs) rather than the specific HRM practices of Company J since Company J and its WDs are different in development stage, environment, size of workforce, and resources… WDs may need the HRM practices which you used in five or ten years ago. Now you (manufacturers) may have lost that capability’.
- J’s WD sales director (JJH07): ‘WDs are sales organizations. Owners manage many things, including sales and finance. Company J is a true comprehensive company. Its leaders need to manage through authorisation and delegation. However, the person in the specific position is in charge. Small company cannot afford to do as Company J does. The owners of WDs are the real owners with ownership. We (Company J’s employees) are professional managers. We are not the same. In big companies, the policies need to be fair and can incentivise and develop employees. In private companies, simplicity, effectiveness and efficiency are key. In private companies, requirements should not be complicated and should be processed quickly. Many approval processes are not needed. Maximized results are must. Company J is too formal, and many things cannot be done in it, but can in small companies’.
• Owner/GM of JWD10 (JWH06): ‘Company J is bigger than me... There are many things we cannot compare’.

• Owner/GM of JWD11 (JWH12): ‘The FDI experienced senior management apply their values and their scenarios to WDs. There are big gaps in WDs’ finance power and compensation affordability…. I do not see the values to use theirs... WDs cannot do what manufacturers request’.

• Managing director of SWD03/S’s ex-channel excellence department head (SWH07): ‘We wish to have one assessment system to measure competence. We are not professional in scientific assessment now. Company S has shared some experiences, but it is hard to apply and there are still some gaps’.

Appendix 5.35 Manufacturers’ Expertise in China Business and Local Decision-Making Authority

• J’s senior talent management manager (JJM03): ‘The Global HQ sent many leaders to China in short-term assignments. The management team changes so fast. The policy is not consistent. They blamed to each other, and did not perform’.

• J’s ex-trade marketing manager (JJM13): ‘Almost every department heads were not Chinese faces. Chinese interpreted it as no-trust though it can be interpreted as ‘teaching Chinese how to manage businesses [in the words of the global management team]. It failed... HR’s influence on management localisation is diminishing. The two communication channels, one in business function and another in HR, are blocked’.

• J’s area sales manager (JJM12): ‘[They managed] every details, such as the number of sales regions [in China], [business] focus, and annual budget. They monitored the [detailed] execution’.

• Owner/GM of JWD13 (JWH20): ‘I heard that the foreigners (in Company J) do not trust our Chinese... There is a Chinese saying- Do not use the person you do not trust. Use the person with trust’.

• Managing director of JWD01 (JWH01): ‘[The Chinese employees] cannot make decisions’.

• M’s regional sales manager (MMM02): ‘Company M knows the China market and Chinese culture completely... There is no difference with [the local] Chinese on the market judgement and customer insights. The marketing department is researching, and our company cares [their findings]...Almost all management in our product lines are Chinese [though who may not be the Chinese passport holders]. There were very few expatriates in the early days... Company M is very precise in managing the business directions, which is based on the market and country understanding’.

• Deputy GM of MWD02 (MWH05): ‘Company M knows China. All middle management and sales director are Chinese’.

• S’s area sales manager (SSM04): ‘The management localisation is executed very well... There is an absolute local decision-making authority in the China market [especially] further down the value chain’.

• S’s ex-area sales manager and ex-channel excellence manager/J’s ex-senior channel excellence manager (SSM05): ‘The executives know the China market well, and have the decision-making power... They must be Chinese (overseas and local). The managing director position has been localised for many years’.

• S’s sales manager (SSM07): ‘Company S has strong awareness of the Chinese culture...The management team has been localised. Most leaders in the region are from the region... The leaders in China know China very well. They have grown up (their careers) from the frontline. They know well what we are doing... Most of them have frontline and middle-management experiences, and some have overseas working experiences... In the own saying of Company, employees from outside China feel that Company S in China is not like Company S, but its China team has the best business results’.

• Owner/GM of SWD01 (SWH03): ‘The several persons [from Company S] whom I experienced know China. They are Chinese educated from the Chinese universities. They have worked in Company S for several years, and they know Company S’s culture and the China market... They will help, and advise what to do in the market. They can change with your feedback or cascade up to their supervisors’
Appendix 5.36 Triangulated Analysis of Learning Ability by Attached Organisations of Raters

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Appendix 6.1 Importance of Trust in the Supply Chain

- J’s channel excellence director (JJH02): ‘The real trust is that WDs will follow your company’s step without hesitation’.
- J’s area sales manager (JJM12): ‘The trust has huge influence [in business]. When there is trust, WDs will follow you. Otherwise, it (the cooperation) is only a kind of lip service. The efficiency is low’.
- Owner/GM of JW D10 (JWH06): ‘The trust with Company J is very important to me, which defines how I allocate my resources’.
- S’s ex-commercial director/J’s ex-China GM (SSH08): ‘In order to accomplish the [annual sales] target, WDs may lower the price, and invest in channel development, marketing, and customer relations. If there is no trust, WDs won’t invest. Or manufacturers won’t offer payment credit when WDs have difficulties’.
- M’s regional sales manager (MMM02): ‘Trust is very important. Without trust, it is hard to win mid-term and long-term projects. No one knows the future. Only the trust can drive for future’.
- S’s city sales manager (SSM07): ‘The benefits of trust are to work in the same pace… Otherwise, it will affect profitability negatively’.

Appendix 6.2 Trust between Company J and Its WDs

- J’s WD sales director (JJH07): ‘The WDs perceive that Company J only cares its own interests, when it handles complains on product quality and commercial policies. It does not deliver promises’.
- J’s ex-trade marketing manager (JJM13): ‘Company J’s changes in business objectives, culture, and local leadership team have been affecting WDs… WDs and their retailers were hurt when Company J changed its direction… Company J’s short-term win through sacrificing WDs [by replacing WDs very frequently] will not add values to its long-term attraction and culture expansion’.
- J’s area sales manager (JJM12): ‘Before 2010…, WDs paid high attention to Company J, as the number of WDs was small, and each WD had a big territory… In 2011-12, the trust dropped due to the poor … product quality and the supply shortage… WD felt that Company J was not with them in tough time, and some old WDs’ loyalty dropped… In 2013 to 2014, there was no loyalty to say for the 80-90% of WDs. New WDs were added to the market. The old WDs perceived that they were not recognized… They were not optimistic [for the future partnership]’.
- J’s channel excellence developer/M ex-sales representative and franchisee consultant (MMM05): ‘Company J used to hire some WDs which closed their business in three months… Company J’s sales force also changed. There were such cases back and forth… The current relation between Company J and WDs is messy… There is no collaboration between WDs and
Company J’s sales force in many locations… For example, WDs [even] won’t schedule time to meet us when we visit them’.

Appendix 6.3 Trust between Companies S and M and Their WDs

- S’s ex-commercial director/J’s ex-China GM (SSH08): ‘The trust has been treated as the first business principle… In the last ten years, the trust has been strengthened’.
- S’s area sales manager (SSM04): ‘In my 14 years of tenure, the trust is ok in my region… There is some growth in the trust. You can see from the market results’.
- S’s sales manager (SSM07): ‘Company S’s old WDs do not give up the business from Company S even when the business margin is very low… The business from Company S is WDs’ foundation. There are many loyal WDs’.
- Owner/GM of MWD01 (MWH03): ‘All knows that Company M is not bad. The target accomplishment is 80% above… The overall business direction are consistent, and people are stable, without many changes’.
- M’s regional sales manager (MMM02): ‘In the last more than 10 years, Company M’s WDs have increasing trust with Company M. [However,] there is some puzzling when the market is changing… When the market is tough, there is doubt on the partnership and the future’.

Appendix 6.4 Data of Trust between Manufacturers and Their WDs

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Appendix 6.5 Data of Bargaining Power for Triangulated Analysis

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Appendix 6.6 HRM Competence Data by Organisation

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Remarks: *items are for triangulated analysis

### Appendix 6.8 HRM Competence Comparison between Companies J, S and M

- J’s WD sales director (JHJ07) who used to work for M: ‘Company J is weak in HRM… HR department should involve more and support more on business, such as training. Company M has career planning, development, and regular communication with managers. Company J does not have many career opportunities [as Company M does].’
- J’s frontline sales representative (JHJ05) who also used to be M’s sales: ‘It took me 1.5 to 2 years to immerse into Company J… Company J is poor at onboarding. It is two days only, and I did not learn much’.
- J’s channel excellence developer/M ex-sales representative and franchisee consultant (MMM05): ‘Company J’s biggest gap is in… its culture… [and] training. Company M’s training builds team’s cohesiveness… Company J’s management team is very unstable… which leads to inconsistency in its culture’.
- J’s aftermarket VP who used to S’s commercial director: ‘Company S has better process on how to hire, retain, and incent. We (Company J) are developing sales competence model, which Company S has been using for years comprehensively. Competence is designed in the job description as criteria for hiring. Company J just starts. Company J’s employees need time to build trust with Company J… The sales target for bonus is too aggressive to achieve. Company S workforce is too stable’.
- J’s senior marketing manager (SSM06) who used to be S’s ex-marketing and ex-commercial manager: ‘Company S has good word of mouth in HRM field in the market… HRM system is complete. Company S has clear definition in roles, responsibilities, and positions. Another strength is its learning and development. There is coach or mentor… The incentive is also well. Company S has above the average, but not very high compensation and benefits among MNCs. The reason why people retains is that the overall [work] environment is good and the intangible
values are appreciated… Company J is not systematic and not sustainable in HRM. Company S is more mature in the system’.

Appendix 6.9 Expertise in Knowing China Business

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Remarks: The scale is from 1 (know the least about the China business) to 10 (know the most about the China business); If one interviewee gives a range, the average data is used here.

Appendix 6.10 Global and Local Decision-Making Authority

- J’s senior talent management manager (JJM03): ‘The global HQ sent many leaders to China in short-term assignments. The management team changes fast. The policy is not consistent. They blamed to each other and did not perform’.
- J’s ex-trade marketing manager (JJM13): ‘Almost every department heads were not Chinese faces. Chinese interpreted it as no-trust though it can be interpreted as teaching Chinese how to manage businesses [in the words of its global management team]. It failed… HR’s influence on management localisation is diminishing. The two communication channels, one in business function and another in HR, are blocked’.
- Owner/GM of JWD13 (JWH20): ‘I heard that the foreigners do not trust our Chinese (in Company J)... There is a Chinese saying- Do not use the person you do not trust. Use the person with trust’.
- Managing director of JWD01 (JWH01): ‘[Chinese employees] cannot make decisions’.
- S’s area sales manager (SSM04): ‘Company S’s localisation in distribution is very thorough. There is an absolute authority to use local people and make local decisions’.
- S’s sales manager (SSM07): ‘Company S has been very localised … For example, in overseas, Company S is loose in control of our distribution networks... In China, some WDs sales
representatives are equipped with GPS (Global Positioning System), and are required to upload photos wherever they visit. This practice was created in 2006 in China and exported to overseas. The other example is the development scheme of WDs’ competence … Company S has strong awareness of the Chinese culture… The management team has been localised. Most leaders in the region are from the region… The leaders in China know China very well. They have grown up (their careers) from frontline. They are clear what we are doing… Most of them have frontline and middle-management experiences, and some have overseas working experiences… In Company S’ own saying, employees from outside China feel that Company S China is not like Company S, but its China team has the best business results’.

- Owner/GM of SWD01 (SWH03): ‘The several persons [from Company S] whom I experienced with know China. They are Chinese educated from the Chinese universities. They have worked in Company S for several years, and they know Company S’s culture and the China market… They will help and advise us what to do in the market. They can change with your feedback or cascade up to their supervisors’.

- J’s aftermarket sales VP/S’s ex-commercial director (SSH03): ‘Company S is much better than Company J. It is not only due to the HR but also the leadership in a bigger scope. Company S has been a true global company for a long time and knows the line of authority between its global headquarters and regional organization - what should or should not be controlled by its HQ. Company J has not been a global company for a long time. Company J is struggling on how to manage. Should the global HQ manage 100% or balance at some point? Company J has not found the solutions… Company S is doing not bad. There is a strategic balance on what should and should not be controlled by its global HQ… Company S has years of experiences on this. Company J global headquarters sometimes manage what should not be managed, and does not manage what should. The global HQ of Company J has managed too much. They are not in the local market. It is hard to understand the daily operations in a growing market’.

Appendix 6.11 Manufacturers’ Expertise in China Business, and the Local Decision-Making Authority

Triangulated Comparison

- J’s ex-China GM/S’s ex-commercial director (SSH08): ‘Company J does not understand China… Company J does not respect the Chinese employees and the China market. When you do not respect, there is almost no trust’.

- S’s ex-area sales manager and ex-channel excellence manager/J’s ex-senior channel excellence manager (SSM05): ‘Company S knows China well in the industry. One judgement is whether the decisions fit for the market, which Company S’s sales representatives and WDs make the call… Overall, it is good though it is not perfect. Company J has a big gap when comparing to Company S’.

- S’s ex-marketing and ex-commercial manager/J’s senior marketing manager (SSM06): ‘When comparing to other MNCs, Company S knows China better. There are many global plans top down, but the local voice can still be heard. Its management team localisation has been pretty good from the early time. There are very few foreigners but many Chinese’.

- Managing director of SWD03 (SWH07) who is also running Company J’s business a WD: ‘Company J does not know China… It is a pity that the good product brand has been managed so poor’.

- S’s ex-area sales manager and ex-channel excellence manager/J’s ex-senior channel excellence manager (SSM05): ‘Company S trusts its local employees. It is much better than Company J. There are Chinese with decision-making authority in the senior management team. They know the local market. They are all Chinese. In the beginning, they were from Hong Kong, Taiwan, and later from Malaysia, and Singapore. The managing directors have been local for years. The most senior business leader in one business unit is also from local. Company J is not in the same case… Company J has a big gap in the decision-making authority for its local team... The descriptions of the company culture are very close in Companies S and J. Company S has executed its culture well… Company S has a strong system to influence the new hires’.

- M’s ex-area sales manager/J’s ex-area sales manager (MMM03): ‘Company M knows China well. Company M is progressing and exploring in the process… Company M knows the market and meet different layers of needs… Company M is ahead of competition for several years. It has accumulated experiences, and leads’.

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Facing the high pressure from its global headquarters for quick results and from its channel partners for sustainable business success, Company J has to find a balance between the short-term and long-term partnership. The Company still focuses on transferring only fundamental knowledge to enable the business transaction to take place in as short a time as possible. However, Company J needs to be aware that staying at this stage may not enable it to differentiate itself from the competition and may make it hard to achieve the similar success to that which Companies S and M have achieved. A relational-oriented SC network with trust can still be expected to be the differentiator as long as the distribution channel primarily operates through WDs and retailers. HRM knowledge can play a big role in this partnership. However, Company J is not ready to position in and develop the relational network with its WDs right now. It may not be able to transfer and integrate HRM in the channel immediately. This is due to a range of factors, including weakness in its SC HRM competence, limited patience among managers with the time needed to establish long-term SC partnerships, the damage caused to SC trust among current WDs and to reputation-based trust due to its market and product problems, and limited authority at the local subsidiary level to develop more global trust, and lack of authority to delegate for agile and customised SC HRM solutions (Chapter 6).

The market is undergoing changes and is full of uncertainties (Chapter 6). Company J could apply a hybrid model composed of traditional paths through WDs to retailers, the franchisee retailing model or other approaches to retailers directly without WDs’ involvement (Figure 4-1, Chapter 4). All of these represent strategies that Companies S and M are migrating towards. Company J does not have many historic, successful and loyal WDs to transform. The roles, responsibilities and profit-sharing of SC members can be redefined. In the hybrid model, most retailers, and even WDs/sub-WDs, are running businesses in a multi-product/multi-manufacturer mode (Figure 6-8, Chapter 6) across multi distribution networks. Company J’s influencing power and integration capability will be compared across industries by WDs/sub-WDs and retailers. Its value added to some well-developed WDs and retailers such as Companies S and M’s channel partners will be marginal. The relations between manufacturers and WDs can be considered driven by the tangible benefits (revenue and profits) and intangible benefits (value added to enhance WDs and retailers’ management competence, including HRM) together. When the intangible values are not well perceived, all that Company J can offer is tangible/computational values. Since the automotive aftermarket is tangled across product lines at the WD and retailer levels, Company J may be able to benefit from some free rides. It may be able to sell through Companies S and M’s distribution channels which are diversifying their product portfolios. In this case, Company J may not be able to add value or may not need to develop and integrate Companies S and M’s WDs and retailers in general management, like operations and management, including HRM, at Level 3 and organisational value and culture at Level 4 (Figure 5-6, Chapter 5). The product knowledge (Level 1) and value-based selling (Level 2) could be the focus (Figure 5-6, Chapter 5). Company J may be able to learn and export some good practices from the shared channel with Companies S and M to the rest of its distribution network. This mid-core state may serve the purpose of a short-term survival objective but will not lead to Company J becoming as competitive as Companies S and M.

If Company J pursues the franchisee retailing model or uses other direct retailers without WDs in between, Company J still needs to face similar decisions on the SC relationship positioning on knowledge transfer, including HRM knowledge, if it wants to be a true market leader. Retailers are normally much smaller private businesses than WDs. The HRM solutions that can be considered retailer-fit, including organisation set-up, job design, hiring, retention, learning and development, career progression, incentives, and employee relations, could be very different from those currently pursued by Company J and its WDs. One advantage for manufacturers such as Company M in the franchisee model is the aggregated economy of scale. Company M’s trading school partnership project is aimed at developing a talent pool from which a thousand franchisee retailers may hire. Each franchisee may not be able to afford to develop its own external talent pool and have limited resources to partner with trading schools. It is more feasible to do so as a manufacturer with a total demand of thousands of stores. The expertise to build new HRM solutions that fit the SC and the development of capability to transfer effectively will again define the market leader or follower. The business and HR competence in managing a very large number of small-sized retailers is not part of Company J’s expertise. Company J may not have the knowledge of what could be the most efficient HRM in ‘mom and pop’ retailers and what the economies of scale in the integrated distribution HRM could be. It takes
time to explore and develop appropriate practices. Referring to Company S’s successful practice of building channel expertise, Company J may be able to run some retailers’ business with hands-on experiences or hire some experienced talent from adjacent markets, like Companies S and M, to shorten the learning cycle time.

As far as there is knowledge transfer, even limited to the fundamental business knowledge, Company J can apply the blended learning approach through multi-media to enable better transfer effectiveness, since knowledge is both tacit and explicit in nature. Interactive learning, including mentoring, coaching and joint projects, to develop the knowledge and skills in practice, together with standardised and systematic documentation, procedure and eLearning to facilitate wide and easy accessibility, should be more effective and efficient. There is not a clear-cut division between transactional and relational networks in the SC, and there is no clear-cut division between tacit or explicit knowledge. They are both continuaums. The HRM knowledge transfer and integration enhance both the channel relationship and business performance.
Reference


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