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Managerial Learning in Foreign-invested Enterprises of China

Abstract

- This paper develops a model of host-country managerial learning in the foreign-invested enterprises of China. The discussion is based on an empirical study of 18 such enterprises.
- The factors affecting managerial learning originate from either organizational or individual sources. The former include the foreign partner, the Chinese partner, and the structure of an FIE, while the latter include the expatriate manager and the local manager.

Key Results

- The factors affect the managerial learning process in different ways and the model gives some ideas of what a foreign investor can do in order to facilitate learning.

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With the opening up of former socialist countries in Eastern Europe (including Russia) and of existing socialist countries such as China and Vietnam, thousands of foreign companies have flocked to set up operations in these transitional economies. Through these operations, active transfer of management knowledge from foreign companies to local business communities has taken place. The absorption of management know-how is usually one of the official objectives of attracting foreign direct investments. For instance, during the early stage of China's economic reforms, the government learned from the experience of restructuring thousands of loss-making state enterprises that modern management techniques were sorely needed for the country's continued economic development:

> We must consciously sum up China's historical experience and study the concrete conditions and requirements for the economic growth. In addition, we must draw upon the world's advanced methods of management, including those of capitalist countries, that conform to the laws of socialized production (Central Committee of the Communist Party of China, 1984).

This phenomenon of management knowledge transfer has attracted the attention of some researchers since the early 1990s (e.g., Child/Markóczy 1993, Markóczy 1993). A 1996 special issue of *Organization Studies* was devoted to the discussion of managerial learning in the transformation of Eastern Europe. A caveat is that the nature of this managerial learning should be distinguished from that occurring in strategic alliances formed by partners from developed countries (cf. Dodgson 1993, Hamel 1991, Inkpen/Crossan 1995). In the former case, managers of a transitional economy learn to run a company according to the rules of a market economy; in the latter case, managers of an alliance partner try to acquire certain skills possessed by the other partner(s).

Previous studies of host-country managerial learning have enriched the existing literature and have made inroads on building a solid empirical foundation in this area of research. Drawing upon the insights provided by these studies and using China as an example, the objective of this paper is to propose a model which systematically incorporates the key factors affecting host-country managerial learning. Since there are many factors that can affect a learning process, such as firm size and corporate culture, the factors included in the model are by no means exhaustive. This paper provides a more comprehensive understanding of host-country managerial learning than previous studies.

Overview of Previous Studies

Table 1 lists the major empirical studies of host-country managerial learning from foreign investors in transitional economies. Owing to limitation of space, this sec-

Table 1. Major Empirical Studies of Host-country Managerial Learning

Study	Country of Investigation	Research method	Key aspects of managerial learning investigated
Child and Markóczy (1993)	China & Hungary	Case study	A typology of managerial learning depending on whether cognitive and/or behavioural change takes place
Markóczy (1993)	Hungary	Case study	The impact of changes in contingent factors, such as decrease in dependence on authorities and the simultaneous increase in dependence on the foreign partners, on organizational routines and procedures
Cyr and Schneider (1996)	Czech Republic, Hungary & Poland	Interview & questionnaire survey	How human resource management activities contribute to the learning of new values and behaviours, especially for local managers and employees
Geppert (1996)	East Germany	Case study	How the processes of learning in organizations are tied to specific institutional conditions
Lyles and Salk (1996)	Hungary	Questionnaire survey	The influence of organizational characteristics, structural mechanisms and contextual factors on knowledge acquisition from the foreign parent in joint ventures
Nilsson (1996)	East Germany	Longitudinal case study	How the myths and theories for change held by Western acquiring companies are relevant for managerial learning in Eastern Europe
Villinger (1996)	Czech Republic, Hungary, Poland & Slovakia	Questionnaire survey	Key skill requirements for and major barriers to successful managerial learning
Lyles and Steensma (1997)	Hungary	Longitudinal questionnaire survey	The influence of managerial and technical support provided by the foreign parent on IJV learning and the impact of learning on IJV survival

tion does not intend to analyze these studies. Rather, it gives a rough idea of what aspects of managerial learning have been investigated, and some of their limitations. Some of these studies will be referred to in the following sections when their results are relevant to this study.

Somewhat surprisingly, Hungary has been the most researched country although her political and economic influence is much smaller than that of China. Research on management in China has been proliferating since the mid 1980s. Yet research on Chinese managerial learning is still in its infancy despite the obvious importance of the topic.

As argued by Bryman (1989, p. 173), 'Case studies are often useful for providing an understanding of areas of organizational functioning that are not well documented and which are not amenable to investigation through fleeting contact with organizations.' The fuzzy nature of managerial learning suggests that case studies are an appropriate research method, and half of the empirical studies shown in Table 1 do employ a case study approach.

The studies investigate various aspects of host-country managerial learning. The cases under study are usually either foreign acquisitions of local companies or foreign-invested joint ventures. The case of wholly owned subsidiaries set up by foreign companies on greenfield sites has been neglected. The studies also fail to examine the impact of different governance structures on managerial learning. With the exception of Lyles and Salk (1996), all the studies focus on a rather narrow scope of the phenomenon. Lyles and Salk (1996) try to develop a model of knowledge acquisition from the foreign parent in joint ventures by incorporating organizational characteristics, structural mechanisms and contextual factors. Being constrained by the nature of the research method employed, their study gives little information on the nuances and the more complicated aspects of managerial learning.

Compared with the above studies, the present study provides a broader analysis of the key factors affecting managerial learning. Some of these factors have not been covered by previous studies and others have not been adequately discussed.

The Research Study

The study was conducted by the author in 1995 and early 1996. A total of 33 large manufacturing companies in Singapore were invited to participate in the research, and 16 of them agreed to participate. The sample of companies was selected according to the logic of literal and theoretical replication (Yin 1994) subject to the constraint of research access. The research procedure was that semi-structured interviews were first conducted in Singapore with managers who were in charge of their companies' operations in China. Through their introductions, some of these China operations were visited, and the expatriate and local managers there were interviewed. This paper reports the results of 18 such visits (Table 2).

The 18 operations were located in three main regions, namely Beijing-Tianjin, Shanghai and Guangdong Province. These were the better-developed regions of China. 12 of the operations were in the form of Sino-foreign joint ventures and five were wholly foreign-owned subsidiaries. There were foreign partners from countries other than Singapore in four of the joint ventures (Cases A, G, K and R). The remaining operation was an acquisition of a Chinese enterprise by a Singapore company. This was a result of the shareholding system reform in China (cf. Ma 1995, Mun 1990). The equity of the original Chinese enterprise was divided into shares, just like any joint-stock companies in capitalist economies. In 1994, the Singapore company bought into the enterprise and acquired 51 per cent of the shares. The 18 operations are collectively known as foreign-invested enterprises (FIEs). They spanned several industries including electronics, beverages, plastics, construction materials, poultry, and so on. The number of employees ranged from 15 to 1,700, with half of them having 500 or more employees. Case E had 15 employees because it was only a marketing and sales office. The Singapore parent planned to expand its operation to include some manufacturing activities. All the other 17 cases were manufacturing operations.

A total of 54 managers, of whom 35 were Chinese managers, were interviewed. (This number does not include the interviews carried out in the Singapore headquarters.) The questions centred on various aspects of managerial learning taking place in the FIEs. The interviews were conducted in either English, Mandarin or Cantonese (a Chinese dialect). The author, who is bilingual in English and Chinese, handled all the interviews, and managed to establish a good rapport with the respondents by communicating in their languages and by assuring confidentiality and anonymity. Since some of the interviews were in Chinese, every attempt was made to maintain the richness of the Chinese expressions in the translation process.

The steps of analyzing case study data recommended by Eisenhardt (1989) and Yin (1994) were followed. The first step was presenting and organizing the data. All the interview tapes were transcribed and write-ups were completed. For non-taped interviews, write-ups were based on detailed interview notes, which were written within 24 hours after the respective interviews. The second step was coding, which refers to conceptualizing the data (Strauss 1987). The data were coded according to the nature of their impacts on managerial learning. The third step was within-case analysis. All the interview write-ups and the codes related to a case were analyzed at the same time. Idiosyncrasies of the case were taken into consideration. This process allowed the unique patterns of each case to emerge from the huge volume of data. The overall idea was to become intimately famil-

Table 2. List of Case Companies

Case company	Main product	Governance structure	Total employees	Managerial learning situation	Learning outcome
A	Beverages	Joint venture (Acquisition)	860	One of the foreign partners had a wealth of relevant industrial experience and a high commitment of human resources to the joint venture. The Chinese was very cooperative and eager to learn.	Good
B*	Cans	Joint venture (Greenfield)	100	The foreign partner had a wealth of relevant industrial experience and a moderate commitment of human resources. The Chinese partner was not impressed by the technology brought in by the foreign partner and therefore did not have a strong intent to learn.	Fair
C*	Cans	Joint venture (Acquisition)	500	The foreign partner had a moderate commitment of human resources. The Chinese partner was moderately cooperative and not very eager to learn. Moreover, the foreign partner had to deal with local managers' resistance to change.	Fair
D	Cans	Joint venture (Greenfield)	70	Although the foreign partner was experienced in the industry, it had a low commitment of human resources. The Chinese partner was cooperative, but did not learn much from its foreign counterpart.	Fair
E	Computer peripherals	Joint venture (Greenfield)	15	The Chinese partner was silent and the joint venture was run solely by the foreign partner. The joint venture hired young and well educated local managers.	Good
F	Construction materials	Joint venture (Acquisition)	1,000	The foreign partner had a wealth of relevant industrial experience and a high commitment of human resources. The Chinese partner was open minded and very eager to learn from its foreign counterpart.	Good
G	Construction materials	Joint venture (Acquisition)	1,500	The two foreign partners which were involved in managing the joint venture did not have the relevant industrial experience and only had a low commitment of human resources. The Chinese partner was not cooperative and did not believe that there was anything to be learned from the two active foreign partners.	Poor
H	Electronics	Wholly owned subsidiary	1,200	The foreign investor was experienced in the industry and in China. It had a high commitment of human resources to the subsidiary. Both expatriate and local managers could get along well.	Good
I	Electronics	Joint-stock company	1,700	The foreign investor had little relevant industrial experience. The expatriate manager who was in charge of operation did not possess relevant experience as well. Moreover, local managers tended to resist the change initiated by the foreign investor.	Poor

Table 2. List of Case Companies (continued)

Case company	Main product	Governance structure	Total employees	Managerial learning situation	Learning outcome
J	Fusion materials	Joint venture (Greenfield)	500	The foreign partner just treated the joint venture as a pure investment and did not involve in management.	N. A.
K	Gears	Joint venture (Greenfield)	160	The foreign partners just treated the joint venture as a pure investment and did not involve in management.	N. A.
L	Industrial equipment	Joint venture (Acquisition)	100	Although the foreign partner was experienced in the industry, it had a very low commitment of human resources. The joint venture was virtually run by the Chinese partner alone, which therefore learned little from its foreign counterpart.	Poor
M	Industrial equipment	Joint venture (Acquisition)	360	Although the foreign partner was experienced in the industry, it had a low commitment of human resources. The Chinese partner was not impressed by the technical expertise of the foreign partner and did not have any intent to learn. Moreover, the foreign partner had to deal with local managers' strong resistance to change.	Poor
N	Machines	Wholly owned subsidiary	150	The foreign investor was experienced in the industry and had a moderate commitment of human resources to the subsidiary. It hired young and educated local managers.	Good
O#	Plastics	Wholly owned subsidiary	1,000	The foreign investor was experienced in the industry and in China. It had a moderate commitment of human resources.	Fair
P#	Plastics	Wholly owned subsidiary	210	The subsidiary was managed by two Chinese managers who had been well trained by the foreign investor through local and overseas attachments. So the issue of cultural barrier between expatriate and local managers did not exist.	Good
Q	Plastics	Wholly owned subsidiary	250	The foreign investor was experienced in the industry and had a high commitment of human resources. Both expatriate and local managers could get along well.	Good
R	Poultry	Joint venture (Greenfield)	1,200	The foreign partner which was running the joint venture was not experienced in the industry, whereas the Chinese partner was very experienced. Thus the latter did not agree to many of the management practices implemented by the former.	Poor

*, #: Each pair of operations belonged to the same foreign investor.

iar with each case as a stand-alone entity before attempting to generalize across cases (Eisenhardt 1989). The final step was searching for cross-case patterns. The tactic used was to select dimensions for classifying the cases, and then to look for within-group similarities coupled with inter-group differences (Eisenhardt 1989). The author alone completed the whole task of data analysis.

Before discussing the model of managerial learning developed in this paper, the next section covers the topic of the levels of learning, which provides a backdrop for the rest of the paper.

Levels of Learning

Following Simon and Davies (1996, p. 270), managerial learning is defined as 'a process of learning about management and how to manage.' Researchers have attempted to classify learning into different levels. The most famous classification is Argyris and Schön's (1978) single-loop, double-loop and deutero-learning in ascending order of complexity. The classification adopted in this study follows the one used by Child (1994) in discussing changes introduced in Sino-foreign joint venture management. The three levels in ascending order of managerial awareness and cognitive change required are technical, systemic and strategic. The technical level refers to the acquisition of new, specific techniques, such as market research analysis. The systemic level refers to learning to work with new organizational systems and procedures, such as performance appraisal. Finally, the strategic level involves changes in the mind-sets of senior managers. It refers primarily to a new way of thinking about business objectives and how these objectives can be realized.

Child's (1994) study found that in Sino-foreign joint ventures, new techniques and systems could be introduced without much difficulty and resistance. The major challenge for expatriate managers was to implement the strategic level of learning. That is, the real difficulty was to change the mentality of senior Chinese managers. In the former centrally planned economy, managers of state enterprises in China performed the role of implementing instructions imposed from supervising authorities. The enterprises were under state protection and subsidy. Enterprise managers did not have any chance of making strategic decisions. Under the present economic transformation, enterprise managers need to understand the nature of operating in a competitive environment (Child 1993). They have to develop a more market-oriented way of thinking, and it takes time to achieve the required cognitive change.

The present study has confirmed the findings of Child's (1994). For instance, accounting systems that were in line with international accounting standards and practices were set up in the FIEs. These accounting systems were rather different from the existing ones used in China. However, none of the cases reported any major difficulties in this area, which involved mostly technical and systemic learning on the part of the Chinese. Local accounting staff were motivated to learn partly because they knew that the knowledge was a well sought after asset in the local labour market.

The teaching of strategic thinking was found to be causing the greatest problems. One joint venture, which was not visited by the author, produced cables. The manager in the Singapore parent company who was in charge of the venture commented on the thinking of the Chinese partner: 'For them (the Chinese), you know, as long as they produce a piece of wire and you can connect it from one end to the other, it is good enough.... They think the way to do business is just to produce and to sell as cheap as you can.' In the case of joint ventures, an additional complication was that partner conflicts usually arose from strategic matters such as basic business philosophy, selection of target markets, product quality and use of profits. For instance, Case B aimed to produce top quality products catering for multinational customers in China. The softening of the local market adversely affected their sales, and their products were too expensive for local enterprises. The Chinese partner, on the other hand, thought that initially the joint venture should also consider low-end products targeting at local enterprises. In another example, the expatriate general manager of Case A said that the Chinese partner did not understand why they kept on investing money in upgrading the joint venture's plant and machinery. The Chinese preferred to distribute the profits as dividends. Patience and skills were required for explaining to the Chinese. It is not the intention of this paper to say that the strategies upheld by the foreign partner must be right. The above examples are just used to illustrate that the strategic level of learning is usually more problematic than the other two levels.

A Model of Managerial Learning

Figure 1 presents a model of Chinese managerial learning whereby management knowledge is transferred from the expatriate manager to the local manager. It should be noted that expatriate managers also learn from their experience of working in China, but this type of learning is beyond the scope of this paper. Therefore Figure 1 shows that knowledge only flows from the expatriate manager to the local manager. The model is developed from the results of the empirical study and from insights drawn on existing literature. It portrays a picture which is more complicated than the one presented by existing literature. Each of the five arrows pointing from the organizational level to the individual level represents a major factor which affects managerial learning. For instance, the foreign investor decides on the amount of human resources to be committed to the FIE. This affects the quantity and quality of expatriate managers working in the FIE, and these managers are supposed to be responsible for knowledge transfer. At the individual level, there are other factors associated with the roles played by the expatriate and local managers in the learning process. It should be noted that some of the factors, such as the learning intent and effort of the Chinese partner and organizational unlearning, have been neglected by previous studies. For those studies that have some overlaps with the present one, they mainly focus on factors relating to human resource management and the interaction between expatriate and local managers.

Figure 1. A Model of Managerial Learning in China

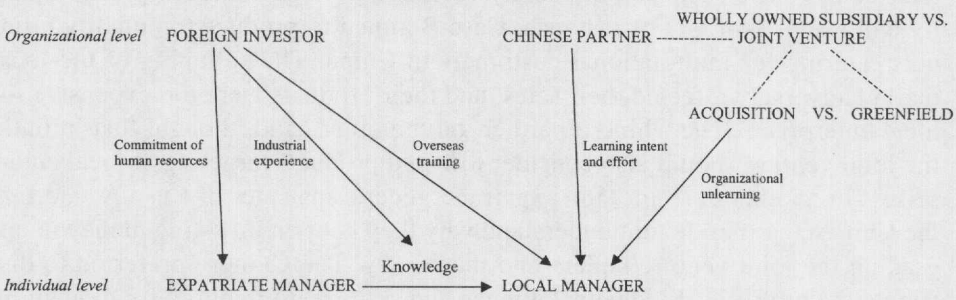

Table 2 summarizes the salient features of the managerial learning situation in each case. The last column of the table lists the foreign investors' assessment of the learning outcomes. The following sections discuss each of the factors in our model. Owing to the number of factors involved and space limit, some of the discussions below may appear to be shorter than what they should be. Let us start with the factors associated with the foreign investor.

Foreign Investor

The foreign investor is unquestionably the source of knowledge in the context of a transitional economy and its industrial experience, to a large extent, determines the nature of knowledge transferred. Foreign parents of joint ventures often provide technology, and are viewed as possessing management know-how that has been sorely lacking among managers of host countries (Child/Markóczy 1993). In a study examining the relationship between knowledge possessed by foreign companies investing in China and its performance effects, Luo (1999) found that the knowledge did enhance financial returns and overall performance. Some of the Singapore companies in this study did not intend to transfer their technology or management systems to China. This was usually the case when the operations in China were not in their core businesses and they treated the operations as pure investments. Among the 18 FIEs, Cases J and K were in this category. They were joint ventures with the Singapore partners holding majority shares. However, the Chinese partners, instead of the Singapore partners, were in the same industries as the ventures. The ventures were managed by the Chinese partners alone. The Chinese partners provided the technology as well. In these particular cases, the extent of managerial learning from the foreign partners was minimal. The source of Western management knowledge possessed by the top Chinese managers mainly came from trade journals and overseas factory visits.

The foreign investors of Cases G and R tried to transfer their management systems to China in spite of the fact that they were not in the same industries as the FIEs. Here we have to examine the nature of knowledge that is transferred by a company to its overseas operation. For the purpose of discussion, the knowledge is divided into two types, namely physical and organizational technologies. Some researchers choose to label the two as hard and soft technologies respectively (e.g., Morgan 1991, Von Glinow/Teagarden 1988). Physical technologies correspond to ordinary people's concept of the term 'technology,' which is associated with engineering, machinery, production processes and other technical matters. The term 'organizational technologies' refer to the knowledge of organizational structures and processes that do not involve physical technologies, or involve them only peripherally (Westney 1991). In general, physical technologies are more tangible and well defined than organizational technologies. The distinction between physical and organizational technologies is related to the three levels of learning discussed in the previous section – organizational technologies are more likely than physical ones to be associated with systemic and strategic learning.

For Cases G and R mentioned earlier, the foreign investors mainly replicated their organizational technologies in the operations while letting the Chinese deal with the physical technologies. A problem with this arrangement is that the dividing line between organizational and physical technologies is vague. Sometimes when the foreign investor tries to introduce a new organizational technology, the Chinese may feel that their technical expertise is challenged. For instance, in Case G, the foreign partners wanted to change the existing shift schedule of factory workers in order to better utilize the human resources. The Chinese partner opposed, saying that the change would affect their efficient production procedures, which were originally designed by the Chinese engineers. Another problem is that Chinese tend to place more emphasis on technical rather than management expertise. A person without a relevant technical background is regarded as a layman (or, *waihang* in Chinese), no matter how much management experience the person has. In China, *waihang* leading people who are experts in the trade (*neihang*) is not considered as an appropriate arrangement. 'Some of their (the expatriate managers') suggestions are not realistic. They simply don't know the tricks of the trade,' said one Chinese manager of Case R. Similar comments on those expatriate managers who did not possess relevant technical knowledge were quite frequently made by their Chinese counterparts. In these cases, the Chinese were less motivated to learn from the expatriate managers.

Another important factor affecting managerial learning is the commitment of human resources made by the foreign investor. The commitment can be evaluated in terms of the quantity and quality of expatriate managers assigned to China. Expatriate managers in China often assume the teacher role. Obviously learning can hardly take place without the teacher's presence. This is especially the case when strategic learning is involved. The substantial cognitive change for this level of learning requires intensive coaching. In a few cases (e.g., D, G and M), the Singapore companies assigned their managers to China on a part-time basis such as working two weeks a month in China. The problem of using part-time expatriate managers is that most of these managers do not have a proper title in a joint venture. Consequently, they may have difficulties in passing their knowledge on to local staff. In an empirical study of Sino-Swedish joint ventures, Sharma and Wallström-Pan (1997, p. 377) quoted one expatriate manager as saying that 'Experts who sit on the side to help production but are not actually supervisor do not get any respect from the Chinese.... No one goes to them for advice, unless they have some kind of position or title.' The above comments receive some support from this study.

Assigning a sufficient number of expatriate managers to China, especially at the initial stage of operation, seems to be necessary for facilitating learning among Chinese managers. Case A kept on maintaining a relatively large number of expatriate managers. After six years of operation, the venture still had seven expatriate managers in charge of all major aspects of general management including production. The main objective was to train up the Chinese managers so that they could gradually replace the expatriate managers. The expatriate general manager said that he saw his local subordinates readily pick up new skills and improve day-by-day. He expected that the localization plan would be on schedule.

The second aspect of human resource commitment by the foreign investor is the quality of expatriate managers. Lyles and Salk's (1996) study supports the idea that expatriate managers are an effective vehicle for knowledge acquisition from foreign parent companies. The Singapore companies did prefer to assign their internal staff to China because these staff understood the system and culture of the company. However, the general reluctance of Singaporeans to work overseas sometimes rendered this preference not feasible. Some cases had to recruit people specifically for the China assignment. Some of these people did not have the relevant industrial experience and had difficulties in gaining respect from their Chinese colleagues. As discussed earlier, Chinese tend to emphasize technical more than management experience. For instance, the Singapore parent of Case I assigned a newly recruited manager with a background in accounting and finance to be in charge of its large manufacturing operation in China. A senior Chinese manager commented that the manager's background was a serious handicap. This would affect learning at the strategic level, because without a relevant technical background, the strategies proposed by the expatriate manager were not convincing in the eyes of his Chinese counterparts. Worse still, the expatriate manager was younger than all of his immediate subordinates. As Chinese respect seniority in terms of age, the age differential was another barrier to learning; 'What can we learn from this inexperienced young guy?' asked one Chinese manager of Case I.

In addition to the usual types of training conducted in FIEs, overseas training provided by the foreign investor is an important component of managerial learning. About 60 per cent of the cases selected their promising local staff for overseas training, which offered the staff a chance of experiencing operational and management styles in different countries. As the opportunity of travelling overseas was a considerable perk for many local Chinese, the training served as an important incentive. The more advanced operations overseas had the effect of motivating learning. For example, the Singapore partner of Case A sent a Chinese manager to its plants in Singapore and Malaysia for one and a half weeks. The manager was astonished by the highly automated production systems there, and realized that there was a lot to be learned. Overseas training also served a socialization purpose. One manager of Case O said that through knowing more about the company, the trainees would develop a sense of belonging and better integrate into the company.

Wholly Owned Subsidiary vs. Joint Venture

Over the years, China has made available a variety of channels, ranging from wholly owned subsidiaries to licensing, for attracting the inflow of foreign capital. Judging from the attention paid by the government in terms of legislation and promotion efforts, joint ventures appear to be the most preferred channel. This is understandable. In a joint venture set-up, expatriate and local managers work together on a long-term basis and the venture offers an excellent environment for the Chinese to acquire both physical and organizational technologies from the foreign partner (Tsang 1995). However, many problems experienced by foreign investors in running Sino-foreign joint ventures have gradually surfaced (cf. Aiello 1991, Davidson 1987, Hendryx 1986, Shenkar 1990). To avoid these problems, many foreign investors have started to choose the option of wholly owned subsidiaries (Vanhonacker 1997). Today joint ventures and wholly owned subsidiaries remain to be two major foreign direct investment options in China. The two options have different implications for managerial learning, an issue that has been neglected by previous studies. Geppert (1996) argues that managerial learning is embedded in a specific social context. The two investment options constitute somewhat different social contexts in which learning takes place.

The FIEs under this study included both joint ventures and wholly owned subsidiaries. Child and Rodrigues (1996) discuss the role of social identity, which in turn affects the perceived social distance between the parties involved, in the transfer of knowledge in international joint ventures. If the perceived social distance is high, the transfer is likely to be impeded. It was found in this study that compared with wholly owned subsidiaries, the presence of a Chinese partner in a joint venture generally increased the distance between expatriate and local managers. This was reflected in daily communications. In the joint ventures visited by the author, the terms 'the Chinese side' (or, *Zhongfang* in Chinese) and 'the foreign side' (*waifang*) were frequently used by both local and expatriate managers when they described the situations in the ventures. The distinction between the Chinese and the foreign sides was particularly prominent when inter-partner relationships were having problems. For example, in Case R, the Chinese deputy general manager had conflicts with the expatriate general manager. Both were appointed to the joint venture by their parent companies. The other Chinese managers supported the former and the management team was clearly divided into two camps. Under such a situation, transfer of knowledge was impeded. The impact on strategic learning is particularly damaging. In order that local managers are able to gain from the strategic thinking of expatriate managers, both groups of managers have to work closely together and actively participate in policy discussions. A cordial atmosphere is essential.

In the joint ventures of this study, local managers tended to identify themselves with the Chinese partners even if they themselves were recruited into the ventures by the foreign partners. It appears that the Chinese partner naturally becomes a reference group for local managers to identify with. (The role played by the Chinese partner in managerial learning is discussed in detail in the next section.) In contrast to the joint ventures, local managers of the wholly owned subsidiaries were more likely to regard themselves as members of the foreign parent companies, particularly if the managers had received overseas training in the parent companies. This sense of belonging would motivate the local managers to learn from their expatriate counterparts.

Another factor associated with joint ventures is how they are established. Many Sino-foreign joint ventures are set up by acquiring existing state enterprises. Under this arrangement, the Chinese partner usually contributes its factory and machinery while the foreign partner injects funds and new machinery into the venture. The original staff employed by the Chinese partner continue to work in the factory though the number of staff is often substantially reduced. This arrangement is in contrast with a greenfield investment whereby the joint venture is based on a new operation built from scratch and new staff are recruited. This distinction between greenfield and acquisition joint ventures is important so far as managerial learning is concerned because the issue of organizational unlearning arises in the latter case. Simply put, organizational unlearning refers to the process of discarding old organizational routines to make way for new ones (cf. Nystrom/Starbuck 1984, Starbuck 1996). Old routines will become a barrier to the transfer of knowledge from expatriate to local managers if the latter resist the change.

Cases A, C, F, G, L and M belonged to the acquisition type of joint ventures. With the exception of Case L, which did not have any expatriate managers, the expatriate managers in the other five cases were responsible for restructuring the ventures. Compared with a greenfield joint venture, the problem of unlearning present in an acquisition joint venture implies that the foreign partner needs to take more time in transferring its knowledge to the venture. Expatriate managers working in the five joint ventures generally expressed that the effort required for restructuring the ventures was much greater than they had expected. Local staff often used their old practices as benchmarks for judging the new ones introduced into the ventures by the foreign partners. The transfer of organizational technologies was more problematic than that of physical technologies because it was usually difficult for the foreign partner to demonstrate conclusively that a given organizational technology was unquestionably more effective and efficient than its alternative (Westney 1991). For instance, one expatriate manager of Case C mentioned that when he tried to implement a certain procedure, the local staff resisted, saying that they had been working under the old procedure for many years and there had been no problems. The expatriate manager had to explain in detail the benefits of the new procedure but the local staff were still not convinced. In short, more efforts had to be spent by the foreign investors on systemic and strategic learning.

Chinese Partner

The Chinese partner of a joint venture usually appoints several managers to the venture unless it chooses to be a silent partner. The loyalty of these appointees is obviously with the Chinese partner and they tend to regard their jobs in the venture as short-term assignments. This may affect their motivation to learn from their expatriate counterparts. One expatriate manager of Case G commented that some of these appointees cared more about protecting the interest of the Chinese partner than learning new skills.

As mentioned earlier, local managers usually identify themselves with the Chinese partner. Whether the Chinese partner itself is motivated to learn from its foreign counterpart is an important factor affecting the learning atmosphere. The Chinese partner's learning intent may be curtailed when the quality of technologies, physical or organizational, brought in by the foreign partner is below its expectation. The Chinese partner of Case B was a well known state enterprise in a related industry. The employees of the joint venture were mostly recruited from the Chinese partner and some of them were very experienced in the industry. The joint venture's head of human resource and administration, who was appointed by the Chinese side, said that the Chinese originally wanted to gain some technical know-how, in addition to management expertise, from the foreign partner. Nonetheless, their experienced staff found that the technology used in the venture was not as advanced as they expected. This disappointment adversely affected the motivation of local managers to learn from their expatriate colleagues other expertise as well.

Generally speaking, the Chinese partners of the joint ventures in this study mentioned acquiring advanced technology and learning modern management skills as two of the major objectives of forming the ventures. Such learning intent is not good enough for ensuring that learning takes place. Learning intent has to be accompanied by learning effort. Responsibility for learning should be clearly specified for those who are assigned to the joint venture and those in the Chinese parent company:

> In order to create a climate receptive to learning, a specific responsibility for learning should be written into business plans for managers transferred into the partnership operations as well as those in the receiving units. It should be made clear who is responsible that the information actually flows as intended, in necessary quality and speed, and what supporting mechanisms are needed to be put in place (Pucik 1988a, p. 91).

Did the Chinese partners give any learning instructions to their managers posted to joint ventures? Did they ask the managers to share their experience with other colleagues? Did they systematically rotate the managers in order to increase their exposure? These were the questions that the appointees of the Chinese partners were asked. The answers were normally negative. The most frequently cited instructions from the Chinese partner were to cooperate with the foreign partner and to implement the objectives set by the board of directors. Although most of the Chinese partners intended to learn from their foreign counterparts, they rarely considered how to achieve this objective effectively. This is in sharp contrast with Japanese companies, which are well known for their meticulous efforts to learn from their Western alliance partners (Hamel 1991, Pucik 1988b, Reich/Mankin 1986).

Expatriate Manager

The factors discussed above originate from organizational sources. This section and the next will consider factors at the individual level. More often than not, expatriate managers play the trainer role in China. When summarizing the training experience of foreign firms in China, Melvin (1996, p. 22) distinguishes between hard-skills and soft-skills, which to some extent correspond to physical and organizational technologies respectively:

> Hard-skills training is relatively straightforward; many expatriate trainers are generally impressed with the ability of Chinese trainees to learn new concepts quickly. But soft-skills training, which involves breaking down long-held attitudes, is often more difficult to implement. To keep operations running smoothly, Chinese managers and employees must understand *why* it is important to do something a certain way, not just what to do or how to do it (emphasis in original).

The expatriate general manager of Case A stressed the importance of personal coaching in inculcating local managers the correct way of doing things. Daily encounters on the job were used by many expatriate managers to change the mentality of local staff. Case C was building a new factory. The floor was of the Western standard of thickness, which was well above the Chinese standard. The purpose was to make the factory more flexible for future expansion. The local staff in the project team could not understand why the floor needed to be so thick, because they did not need that thickness to put all the machines on. The Chinese were used to building a factory for the present without making any allowance for future needs. After much explanation by the project manager, the staff began to understand what flexibility meant. 'It's an educational process,' said the project manager. Another example concerns decision making, which is a key component of strategic learning. Chinese and Hungarian managers are reluctant to make decisions and accept responsibility for their actions (Child/Markóczy 1993). The above mentioned project manager worked out a way to encourage his team members to make decisions. When making important decisions such as buying equipment, he used a chart listing the key dimensions (e.g., price and after sale service) for consideration. Then he asked each team member to give his scores on the dimensions with respect to each brand. At the end, total scores were calculated and the purchase decision depended on the scores.

The intensive interactions with local staff demanded on the part of expatriate managers implies that the latter should possess language capability and be culturally sensitive. The importance of speaking the local language in a multinational work environment is widely recognized in the literature. In a study of post-acquisition managerial learning in Central East Europe, Villinger (1996) found that language problems were the most frequently cited main barrier to successful learning by both expatriate and local managers. Cases A, B and C had several expatriate managers who were Westerners. One Chinese deputy general manager of Case C said that he felt a communication barrier with the Western managers because quite frequently his ideas could not be accurately translated into English by interpreters. A related issue is cultural distance. One Chinese manager of Case A, who had been an interpreter in the past, mentioned that he had difficulties of communicating with some of the Western managers although he himself could speak fluent English. Some scholars label this problem as cultural communication gap (Sensenbrenner/Sensenbrenner 1994). The above manager also felt that he was looked down upon by these Westerners. In short, both language and cultural differences would increase the perceived social distance between expatriate and local managers.

However, culturally sensitive expatriate managers can reduce the social distance through their own effort. An excellent example is provided by the project manager of Case C, who had worked in foreign countries such as Malaysia and Taiwan before coming to China. On his first day of work, he wrote on the board 'we, us, our' and the words were translated by his secretary. 'I want to create an atmosphere that we are a team,' he said. When he had meetings with his staff, all of them sat in a circle. The arrangement of desks in his department aimed at facilitating communication and did not follow the Chinese concept of hierarchy. He also explained that because Westerners were generally taller and bigger than the Chinese, physically speaking they looked down on the Chinese. They might give an impression that they were towering over and overpowering the Chinese. Therefore, he preferred to sit down when having discussions. Moreover, he slanted his body so that his eyes were at the same level as those of the person he was talking to. He found that his attention to these minor things had shortened the social distance between him and his Chinese colleagues.

Another issue is the huge salary differential between expatriate and local managers. Simon and Davies (1996, p. 281) argue that the differential 'can further reinforce the differences and distance between "they" and "we."' About one-third of the Chinese managers in this study commented that the salary gap was not fair because both Chinese and expatriate managers put in the same amount of effort and some expatriate managers did not seem to possess superior expertise. Many of the expatriate managers were aware that the locals were not happy with what the expatriates could get, but they seldom faced the issue directly. An exception was the culturally sensitive project manager mentioned earlier. His staff were jealous of his pay and his accommodation, which was located in an exclusive expatriate area of the city. He explained to them in terms of the cost of living and salary level in his home country. In addition, he showed them a photo of his own house, which was bigger and better renovated than the one he was living in. After such explanations, the staff agreed that his remuneration was not really excessive. He maintained that the alienation caused by the remuneration gap would be detrimental to his role as team leader.

All in all, as agents of knowledge transfer, expatriate managers can work towards reducing their distance with local managers in order to facilitate the transfer process.

Local Manager

This section concerns the capacity of local managers to absorb new knowledge. There are three major sources of local managers. The first source is fresh university graduates. The second one is employees of the Chinese partner (for the joint venture cases) and the third is employees of other state enterprises. The issue of unlearning at the individual level is involved here. The implication of employees' previous job experience for a firm's routines has been described by Cyert and March (1992, pp. 124–125) as follows:

> Through recruitment and selection, many employees come to a firm with established task performance rules. Their 'craft' specifies how a job is to be performed (whether it is wiring a switch or scheduling production). Although some obvious examples of such pretraining can be found in the case of employees working in the standard craft areas, such a phenomenon is not limited to what are commonly called 'blue collar' activities. When a business firm hires an accountant, a dietician, a doctor, or a sanitary engineer, it hires not only an individual but also a large number of standard operating procedures that have been trained into the new member of the organization by outside agencies.

In China, state enterprises comprise the biggest group of these outside agencies. Those recruits who have worked in state enterprises for a long time may have formed some bad habits such as smoking in the work place, reading newspapers during office hours, taking afternoon naps, and so on. They also get used to the state enterprise's way of doing things and the slow pace of work. Many managers mentioned that according to their experience, it was difficult for older staff to get rid of bad habits and to integrate into their systems. Moreover, some managers said that it was much easier to teach an employee new skills than to change his or her mind-set. Therefore, about two-thirds of the cases preferred recruiting fresh graduates or young people, saying that they were more flexible and learned faster. 'The fresh graduates are like a piece of white paper,' said the general manager of Case Q. In comparing between the young and old staff, one expatriate manager offered a good summary of the situation:

> We can see people changing, particularly among the younger people. The younger people are very much ready to accept Western ideas and practices. The older ones are more difficult. They are more entrenched. So you have to talk to them privately. They went through the Cultural Revolution. That wasn't

> very long ago in their memory.... It's easier for young graduates to accept; they will accept things straightaway and follow through. The people who are the worst are the older people with experience, because they may have done that and they don't like me to say what they are doing now is wrong.

This emphasis on hiring young employees, in order to minimize the task of dealing with individual unlearning, is also reported in other empirical studies of FIEs in transitional economies (e.g., Barnowe/Yager/Wu 1994, Björkman 1994, Cyr/Schneider 1996). In particular, part of the early employment policy of Chaparral Steel, a well known learning organization in the US steel industry, was to avoid taking in staff who 'had worked in the steel industry and thus might have learned practices antithetical to the ones Chaparral was using' (Dixon 1994, p. 49).

Concluding Remarks

As there is a paucity of empirical research on host-country managerial learning in transitional economies, this study is an important addition to the literature and contributes to establishing a solid foundation in this area of research. Child and Markóczy (1993) found in their research close similarities in the behavior exhibited by host-country managers in Chinese and Hungarian joint ventures. Similarly, the results of this study are generally consistent with observations from other transitional economies. This gives support to the generalizability of certain results of the previous studies. Nevertheless, the unique characteristics of China should also be appreciated. For instance, Chinese culture respects seniority in terms of age. This implies that a foreign investor should avoid sending young expatriates to China to assume very senior managerial positions.

Compared with existing empirical studies of a similar topic, this study provides a more comprehensive analysis of the key factors affecting the managerial learning process. Some of the factors have been neglected by previous studies. The model arranges the factors in a systematic manner according to their sources and indicates the relationships between the factors. By so doing, it helps to understand the learning process. This is a major strength of the study over the past ones. The model also gives some ideas of what a foreign investor can do in order to facilitate learning. For example, the pitfall of organizational unlearning can be avoided by establishing a joint venture on a greenfield site.

The exploratory nature of the model implies that refinements through further research are required. A major limitation of the study is that it was based on 18 FIEs only with Singapore being the dominant home country of the foreign investors. Extending the empirical base to include FIEs formed by investors from other countries points to a promising research direction. The model is likely to be applicable to other transitional economies with suitable modifications. Nonetheless, this conjecture should be tested empirically.

Another research direction is to study the evolution of host-country managerial learning. The relative importance of the factors affecting a learning process may change over time. For instance, after an international joint venture has been established for a certain period of time, it may become more independent of its parent companies (cf. Lyles/Reger 1993). In that case, the influence of the parents on how and what host-country managers learn will decrease.

As mentioned earlier, the factors included in the model are by no means exhaustive. The model can be enriched by including other relevant factors, two excellent examples of which are bargaining power and management control. These two variables have been found to have important impacts on the performance of Sino-US joint ventures (Yan/Gray 1994). They have also been argued to be crucial factors affecting learning and knowledge transfer in joint ventures (cf. Inkpen/Beamish 1997, Makhija/Ganesh 1997).

The Chinese partners of the joint ventures in this study intended to acquire technology and management skills from their foreign counterparts. Nevertheless, they did not have a systematic learning method. Since the issue is not the focus of this paper, the discussion has been sketchy. The learning behaviour of Chinese partners and more generally, joint venture partners of developing countries is a research topic that deserves more attention. The topic has important implications for the economic development of these countries.

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