

IMPROVING THE INTEGRATION OF INTERNATIONAL CONTRACTORS IN CHINA

Tianji Xu¹, N. J. Smith, D. A. Bower

School of Civil Engineering, University of Leeds, LS2 9JT, UK

Many international contractors have entered the Chinese construction market but few of them have been successful in localising and integrating staff. The cultural differences and local social and business systems have a larger influence on staff behaviour than international contractors expect. In order to become established in the Chinese market, a good understanding of localisation issues is essential. This paper presents a profile of Chinese construction managers and professionals. It then goes onto analyse the current strategies for human resource management utilised by international contractors who operate in China, and highlights those that have made effective adaptations to suit Chinese customs and institutional requirements. A two step localisation approach is proposed for the future, that is, collaboration between Chinese Design Institutes and international contractors and a more localised approach to recruitment.

Keywords: Chinese design institute, human resource localisation, international contractor.

INTRODUCTION

Construction has contributed some 6.6 percent of China's GDP in recent years (NBS 2000). With this continuous growth the construction industry has experienced dramatic change. The gross output value was 15,151.46 Billion Yuan in 1999(NBS 2000). China's construction spending is ranked number 4 in the world according to Engineering News Record (2000).

Recently, China made a commitment to the World Trade Organisation (WTO) that foreign design firms will be allowed to form joint-ventures with Chinese design institutes, and they will be able to register as wholly foreign owned design firms in 5 years time. The same principle applies to foreign contractors, they will be able to register as wholly foreign owned construction companies in 5 years time (Working Party on the Accession of China 2001). The Chinese construction market is currently in a transition period. Many international contractors have entered the Chinese construction market by joint venturing with local partners, on a project by project basis and now intend to collaborate. Staff localisation is the next step if growth is to be sustained. Work experience in China and the theoretical training of cross-cultural management is an insufficient basis for expatriates to deliver effective human resources management in China. This paper proposes a two step approach for more effective integration in the future.

¹ centx@leeds.ac.uk

GLOBALISATION VS LOCALISATION

Globalisation

Business growth and risk diversification put pressure on contractors to pursue globalisation. Classic market penetration strategies have been summarised as follows: green-field; joint venture with local contractors; and mergers and acquisition with local contractors.

Construction joint ventures in China have been discussed by Tiong *et al.* (1998), Luo (2001), and Shen *et al.* (2001), and many risks were reported. Though mergers and acquisitions have been attempted by some international contractors, the ambiguous ownership of local design institutes and construction enterprises has hindered negotiations because they were State Owned Enterprises (Xu and Wang 2001). Green-field globalisation in the form of Wholly Foreign Owned Enterprise has been proposed as a better way to enter the Chinese market (Vanhonacker 1997), although licensing problems may be encountered. The convergence or divergence of multinational corporation human resources management has been the subject of debate (Hannon *et al.* 1995). In practice, many international contractors adhere to divergence (or localisation) strategies in China largely because of the institutional and cultural differences.

Localisation

According to The New Oxford Dictionary of English (1999, P1083), localisation is the noun of localise, localise: restrict (something) to a particular place, make (something) local in character, assign (something) to a particular place.

Localisation can be divided into two parts:

implementing local human resources management practices compared with company standards (Rosenzweig and Nohria 1993; Hannon *et al.* 1995; Lu and Bjorkman 1997), that is, adopting local practices and policies; and

replacing expatriates, partly or all, by local professionals and managers.

International contractors might encounter a number of difficulties when they enter the Chinese market. Vanhonacker (1997) mentioned the problems relating to cultural and economic sovereignty, which are raised by wholly foreign owned enterprise entering China. He suggested two approaches to solving the problem, that is, purchasing locally and engaging Chinese managers. For international contractors, purchasing local products and employing local engineers, architects, and managers will make them more readily accepted by local authorities and communities in China.

A heavy reliance on expatriates is extremely expensive (Hofstede 1994). As expatriates' repatriation might result in many problems to the parent company (Hendry 1995). Luo (2001) stated that the high wages paid to expatriates and daily managerial expenditure are considered by Chinese partners as a heavy burden on the joint venture company during periods when no projects are being managed. The more expatriates that can be replaced by local professionals, the lower the operational cost will be.

International contractors position themselves as knowledge-based companies who could provide their expertise in construction to foreign investors and local clients (Xu and Wang 2001). The human resource the foreign contractors rely on is therefore professionals and managers mostly. On the other hand, local professionals are familiar with the local design codes and construction standards. By localising, the risks of

inappropriate design and construction management, from unfamiliarity with local conditions and technical requirements, are minimised. Therefore, a balance needs to be attained between international experts and local staff.

Overtly or covertly, the authorities in any country tend to show favour to their local companies, even if they are WTO member countries. Through localising, foreign contractors contribute to the local economy through tax contributions, offering improved employment opportunities, acting as a role model to local contractors, and stimulating quality services from the local supply chain. This in turn creates harmony between foreign contractors and local authorities and communities in China.

Some international companies have policies that a subsidiary in foreign country must be fully localised within 5 years, which means that subsidiary shall have no expatriates at the end of the fifth year of its operation in that foreign country. However, in China, a complete decline in expatriate presence in client-contractor meetings might cause a decline of the business because some clients prefer to deal with expatriates.

THE PROFILE OF CHINESE CONSTRUCTION MANAGERS AND PROFESSIONALS

A typical construction related university education in China consists of a 5-year degree programme for Architecture (4 years in some universities), and 4- year degree programme for Civil Engineering, Master Planning, Cost Estimates and Contracts Management, Mechanical Engineering, Electrical Engineering, and Water Supply and Discharge Engineering respectively.

Structural engineers are capable of designing any challenging structures. For example, the Yang Pu bridge in Shanghai, designed by local engineers, is one of the longest span bridges in the world. Chinese structural engineers are qualified to deliver their work to comply with local codes with adequate consideration of cost effectiveness. The senior structural engineers are the people that should not be ignored by international contractors as their capacities are positively correlated to their working experience. International contractors can face difficulties if they replace local structural engineers with expertise in terms of complying with Chinese structural codes.

Master planners are capable of producing city, rural, and residential planning in the context of transition from a planned economy to socialist market economy, and their planning concept is advancing through interaction with international planners. The master planning of Singapore-Suzhou Industry Park by Jurong Town Corporation, the biggest industry landlord in Singapore, has had a positive impact on local planners' concept of industry park planning. Architects have undertaken many monument projects, but they have less effective in communication with foreign clients and colleagues (Wang 2000). Mechanical & Electrical engineers are generally familiar with local codes but might not have the experience to design or construct state-of-art mechanical and electrical engineering systems, such as systems for intelligent building. As far as advanced technology is concerned, young Mechanical & Electrical engineers should be able to fit the foreign contractors' need, provided appropriate training were arranged. Cost estimators and contracts managers are largely trained to handle local projects, while few of the them have expertise in international standard condition of contracts such as FIDICs and ICE. Capable project managers are sufficiently available, though the latest project management techniques and computer-based tools are rarely used by them (Yang *et al.* 1997).

The ACFTU (All China Federation of Trade Unions) is the only union in China, and is under the leadership of the Communist Party. Every enterprise must have a union (Flanagan and Li 1997). As yet there have been no strikes on international enterprises.

THE FIRST STEP TOWARDS LOCALISATION

Chinese Design Institutes

Chinese Design Institute services areas have traditionally been: Project Feasibility Study, Master Planning, Building or Infrastructure Design, Environmental Evaluation, Quantity Surveying, Soil Investigation, with a core business in Building or Infrastructure design. Recently, in line with the market demand, some Design Institutes have extended their services to Project Management, Jian Li (Construction Supervision) and Design and Build. For each service activity they have to have a license approved by the Ministry of Construction. There are grades for each particular type of license, Grade A, Grade B, Grade C, where Grade A gives the greatest scope for development.

Collaboration with Design Institutes

As a first step towards localisation, a green-field contractor might form a strategic alliance with a Design Institute for mutual benefit. It would be of benefit to the international contractor because it would reduce overhead and improve understanding of regulations. The international contractors would secure the work and complete the preliminary design then their local partner Design Institute would produce the detailed design, complying with local codes. Partnering could either be project specific or long-term and strategic. The biggest gains would be made from the long-term arrangements. Partnering would be of benefit to the international contractors because joint design would offer the opportunity for them to utilise the resources of design institutes at a reasonable price and solve the problem of not having licenses.

Though local contractors could be the other party that international contractors could collaborate with, the Design Institutes have more qualified professionals and better financial standing (Xu and Wang 2001).

Integrated Localisation

International contractors are gradually being allowed to have design and construction licenses in China. As pioneer international contractors in China, some of international contractors have obtained Jianli licenses at local level as well as project-based design and build licenses. As the business expands, the company size needs to increase. Cross-cultural management, local staff recruitment, and local staff retention become more critical for effective integrated and sustained growth.

Cross-cultural management

Pheng and Leong (2000) defined cross-cultural management as the control and organisation of two or more cultures. Misunderstanding will occur if cultural differences are not carefully ascertained.

Though the Great Cultural Revolution (1966-1976) disturbed Chinese people's beliefs, Confucianism and Taoism still largely influence Chinese people's values. They want to acquire skills and education and they are hard working and thrifty. In the construction industry, the cultural disadvantage caused by the Cultural Revolution and the planned economy is a lack of care regarding quality of service. Organisational structure, policies, incentive schemes and training, have an influence on organisational

culture and group norms. A customer care culture should be promoted, and a lack of care of quality and services should be discouraged.

Hendry (1995) discussed whether corporate culture should be a culture exported from the parent company. He pointed out that national differences within the organisation should be ascertained while an organisation is transferring the home system to its overseas wholly owned company.

Ensuring every employee thoroughly understands the company mission statement is a critical aim of training. The design of a company's goals affects organisational culture and vice versa (Pheng and Leong, 2000). An appropriate mission statement is able to lead a foreign contractor to establish its cultural advantages.

Recruitment

There are a number of channels available for foreign contractors to recruit local professionals and managers. Both local and international human resources consultants are becoming popular in China. Most of them have wide human resources data bank. To contact Local Center of Human Resources Exchange or Foreign Enterprise Service Corp is the common way of getting applicants for foreign contractors, but the latter might charge a higher rate.

Burstein (1999) suggested that some successful firms negotiate an annual agreement with one or more professional society publications to run recruiting advertisements in every issue to ensure a steady supply of experienced professionals. In China, the *Journal of Civil Engineering* is the most prestigious civil engineering journal, while *Journal of China Optimization of Capital Construction* is the most popular journal for construction management.

Internal employees' recommendation is a workable channel to source talent. A certain amount of cash reward could be given if the internal employee's friend were recruited. Also, if an international contractor was a good reputation for staff care, it will be much easier to attract the "cream of the cream".

Although there are no outsourcing agencies for professionals in China yet, it is possible for foreign contractors working in China, especially for design work, to be engaged on a free lance basis. It can be hard to predict how many staff are needed due to fluctuations of the market, so foreign contractors can outsource when design work is at a peak. There are also retired professionals and part-time working professionals available. In this case, team leaders could be empowered to outsource work to professionals because team leaders know who they need.

Retention of Local Staff

Few managers deny that better compensation packages and more career advancement opportunities than average will enable the company to maintain the highest quality human resources (Bailey 1993).

Working hours

An employee is entitled at least one day off per week, and not excess 44 hours working per week with not excess 8 hours working per day according to the Labour Law of the Peoples' Republic of China (1995). Given the workload nature of construction, longer working hours may be compensated by the overtime pay or time off. However, if the work demanding is constantly high, the company should consider hiring new staff.

Salaries

Reasonable salary rates should be applied to local employees. More importantly, an increase scheme should be prepared such that engineers, architects, and managers might have hope that their salary could reach certain level in compare with the well paid companies even in the other sectors not only for family budget itself but also for social statue. It is suggested that keeping the staff salary transparent to avoid inaccurate and misinterpreted salary information among staff.

Fresh graduates

Fresh graduates have a learning period in the first 2 or 3 years of their professional work. They might not make demands on salaries and promotions during that time. Hence, they might prefer to work for a name-branded international contractor. But as soon as they are confident in their professional job, their expectation from company may raise. If company could not satisfy or not likely to satisfy their requirement at this stage, they might choose to leave the company.

Career paths

The career path is a major concern of Chinese professionals and managers. These include four aspects as follows.

- whether the company is able to secure the sophisticated construction engineering projects and whether they have the opportunity to be involved in the challenging projects in terms of the complexity of engineering and contractual arrangement;
- whether their immediate superiors could guide junior staffs to upgrade their technical skill and give them impact when they wondering about their career path;
- whether they can be put into a more important post upon they meet the requirement; and
- whether they are encouraged to take part in the forums and conferences organised by professional associations.

Housing

Housing is a basic requirement for any employee. State Owned Enterprises compensate staff in cash as part of house purchasing costs, rather than allocating ready built house to the staff which was the case before. The Centrally Provided Fund scheme is popular in China now. The basic idea of Centrally Provided Funds is that both employer and employee contribute a certain percentage(say 20%) of the employee's salary to the local Centrally Provided Fund board. The contributed fund is the employee's money, but they can only use it for housing and medical purposes. They can not get the funds paid back until they retire. With Centrally Provided Fund membership, employees are eligible to apply for a housing loan from local banks.

MBA in construction company

Wang and Slater (2002) identified, in their recent survey, that many young managers in China are keen to acquire their MBA. It has been argued whether an MBA without relevant engineering back ground could be the Manager of the Business Development or deputy general manager. He/she could be a good deputy general manager in which he advises the strategic plan of the company, develops and maintains the relationship with relevant authorities and supervises the human resources management, whereas he/she might have disadvantage of understanding construction design and project management. As far as client communication is concerned the business development manager is supposed to have expertise in construction management and construction

technologies, such as scheduling, cost estimates, architectural design, structural design, and M&E design.

Training

Federal Express, a Fortune 500 company, is very successful in China. They reserve USD2500 per staff per year for their training, while approximately 15 first line staff are given 15 months training each year (Pen and Tian 2002). It is believed that Confucian values make staff-company relationships more important than a contract. Providing opportunity for acquisition of skill is aligned with one of core Confucian virtues. Adequate staff training increases the company's attractiveness to the local staff (Wright *et al.* 2002) and reduces the possibility of making mistake.

CONCLUSIONS AND FUTURE WORK

Effective localisation is the key to ensuring the sustainable development of international contractors in China. As a first step, international contractors might collaborate with local design institutes for reduced overhead and improved local knowledge. Then, the attraction and retention of local professionals and managers becomes critical for international contractors' continuous development in China. Institutional differences between the parent company country and China should be ascertained such that robust recruitment and retaining mechanisms can be established. Parent organisational culture should not be fully transplanted to the subsidiary in China without considering the culture of local professionals and managers. Ideally, a new organisational culture may contain both core values of the parent organisation and local culture advantages. Benchmarking the human resource management of Fortune 500 companies operating successfully in China might help international contractors when localising.

It is necessary to indicate the limitations of this research. The research has been based on theoretical analysis, literature review, and the author's direct involvement of an international contractors ongoing localisation, and interview of key persons from 3 other international contractors. Future research might incorporate a bigger pool of interviews or questionnaire surveys to test the sensitivity of each localisation policy or practice against to international contractors' short-term and long-term performance.

REFERENCES

- Bailey, T (1993) *Discretionary Effort and the Organisation of Work: Employee Participation and Work Reform since Hawthorne*. New York: Columbia University working paper.
- Burstein, D (1999) What every CEO should know about strategic planning, *Journal of Management in engineering*, **15**(5), 37-44
- Engineering News Record (2000) What the world spend on construction, **245**(22), 38-44.
- Flanagan, R and Li, S R (1997) *International construction: a perspective of China*, The Chartered Institute of Building, UK
- Hannon, J, Huang, I-C and Jaw, B S (1995) International human resource strategy and its determinants: the case of subsidiaries in Taiwan, *Journal of International Business Studies*, **26**(3), 531-554.
- Hendry, C (1995) *Human Resource Management: a strategic approach to employment*. Butterworth Heinemann, UK
- Hofstede, G (1994) *Cultures and Organizations*. London: HarperCollins Publishers,

- Lu, Y and Bjorkman, I (1997) HRM practices in China-Western joint ventures: MNC standardisation versus localisation, *International Journal of Human Resources Management*, **8(5)**, 614-628.
- Luo, J (2001) Assessing management and performance of Sino-foreign construction joint ventures, *Construction Management and Economics*, **19(1)**, 109-117
- National Bureau of Statistics (2000) *China statistical Yearbook*, China Statistics Press, Beijing.
- Pen, L and Tian, H (2002) Three wagons that lead Federal Express fast moving, *China Business*, No1393, 8th Jan 2002(in Chinese).
- Pheng, L S and Leong, C H Y (2000) Cross-cultural project management for international construction in China, *International Journal of Project Management*, **18(5)**, 307-316.
- Rosenzweig, PM and Nohria, N (1994) Influences on human resource management practices in multinational corporate, *Journal of International Business Studies*, **25(2)**, 229-251.
- Shen, L Y, Wu, G W C and Ng, C S K (2001) Risk assessment for construction joint ventures in China, *Journal of Construction Engineering and Management*, **127(1)**, 76-81
- The Labour Law of the People's Republic of China (1995) China Law Publication House, Beijing.
- The New Oxford Dictionary of English (1999) Edited by Judy Pearsall, Oxford University Press.
- Tiong, L K, Wang, S Q, Ting, S K, and Ashly, D (1998) Risk management of BOT power projects in China, Research Report, School of CSE, NTU, Singapore, June 1998.
- Vanhonacker, W (1997) Entering China: An unconventional approach, *Harvard Business Review*. **75**, March-April 1997, 130-140
- Wang, S Q, Tiong, R L K, Ting, S K, Chew, D, and Ashley, D (1998). Evaluation and competitive tendering of BOT power plant project in China, *Journal of Construction Engineering And Management*, **124(4)**, 333-339
- Wang, Y H (2000) Coordination issues in Chinese large building projects, *Journal of Management in Engineering*, **16(6)**, 54-61
- Wang, A L Y and Slater, J R (2002), Executive development in China: is there any in a Western sense? *International Journal of Human Resources Management*, **13(2)**,338-360.
- Working Party on the Accession of China (2001), Report of the Working Party on the Accession of China: Part II-Schedule of Specific Commitments on Services, WTO, 1Oct 2001.
- Wright, P, Szeto, W F and Cheng, L T W (2002) Guanxi and professional conduct in China: a management development perspective, *International Journal of Human Resources Management*, **13(1)**, 156-182
- Xu, T J and Wang, Y Q (2001) The International Linking-Up of China's Construction Industry after its WTO Entrance, *Journal of Xi'an Jiaotong University (Social Science)*, **21(1)**, 22-29 (in Chinese).
- Xu, T J, Yu, L and Wang, Y Q (2001) On Development Strategies for China's Construction Industry after Its Entrance of the WTO, *Optimization of Capital Construction*, **22(2)**, 1-5. (in Chinese)
- Yang, M L, Chuah, K B, Tummala, V M R, and Chen, E H (1997) Project management practices in Pudong, a new economic development area of Shanghai, China, *International Journal of Project Management*.