Localization Reform of Multinational Enterprises in China-based on Human Resource Management, Cross-cultural Management and Talent Localization Strategy

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Abstract: Against the backdrop of the intertwined processes of globalisation and localisation, the Chinese market entry rate of multinational enterprises has risen significantly, further highlighting the importance of the Chinese market on a global scale. By 2023, MNEs' investments in China will account for around 20 per cent of total global MNE investments. In recent years, more and more multinationals have chosen to set up regional headquarters or R&D centres in China. This phenomenon not only promotes China's sustained economic growth, but also makes the demand for MNEs' localisation reforms stronger. Focusing on the localisation reform of multinational enterprises, this study analyses the strategies and practices of human resource management, cross-cultural management and talent localisation. In cross-cultural management, it applies Kurt Lewin's Unfreeze-Change-Refreeze Model to explore how to effectively adjust the power structure to adapt to the local market. In today's market landscape, MNEs in China suffer from HQ dominance in these three areas: high talent mobility, culture clash, insufficient local talent development, and over-reliance on expatriate management. Through modeling and theoretical analysis, MNEs must focus on the balance between global and local, cultural adaptation and integration, and the improvement of the localization of key positions.

Keywords: Human resources management, corporate culture, Cross-cultural management, Talent localisation strategy, Globalisation and counter-globalisation.

1. Introduction

Entering the Chinese market presents a number of difficulties for international corporations due to the interwoven processes of localization and globalization. In order to enter the market and adapt to the characteristic market environment, firms need to make adjustments in their management strategies, especially in the areas of human resource management, cross-cultural management and talent localisation strategies. This study aims to explore the strategic adjustment of multinational enterprises in localisation reform through a layered analysis. Firstly, the paper delves into the impact of corporate culture and Chinese-foreign cultural differences on training methods and contents, revealing how effective human resource management can help companies adapt to the local market. Next, the paper analyses the adjustment of power distance and hierarchical structure in cross-cultural management, and applies the change model to provide guidance for corporate decision-making and management

processes. Finally, in the section on talent localisation strategies, this study analyses the local talent market and educational background, combines social and market changes, especially the impact of globalisation and anti-globalisation, to forecast future trends, and put forward targeted recommendations for multinational enterprises' long-term development in the Chinese market.

2. Human resources management

2.1. Definition of corporate culture

Ouchi, William G. shows that the concept of corporate culture is one in which people are motivated by a sense of belonging and feel part of the corporate family, not just as employees [1].

Charles Hill and Gareth Jones state in their book Strategic Management, "Corporate culture is the set of values, beliefs, and norms that are shared by all members of an organization and that influence their behavior and decision-making."[2] Hill and Jones look at the impact of culture on behaviour and decision-making.

Edgar Schein mentioned that "Organizational culture is the basic assumptions—created, discovered, and developed by an organization as it adapts to its external environment and integrates internally—that are considered valid and are therefore passed on to new members as the correct way to perceive, think, and feel in relation to those problems."[3] Schein focuses on the underlying assumptions of culture and its role in organisational adaptation and integration.

Ultimately, corporate culture is all about focusing on enhancing employees' sense of belonging and building shared values.

MNEs usually bring the corporate culture of the parent company into the new market, which may clash or merge with the local culture. This leads to adjustments in the localisation strategy to cater for the local market, which includes adjustments to the differences in the content and methods of employee training between Chinese and foreign firms.

MNCs usually regard innovation as a core competency, so they focus on technology iteration and global strategy in their training. In contrast, training for companies in China needs to be more standardized and customized to meet the needs of the local market. Localisation reform requires balancing global strategy training with local market-focused training.

Many multinational enterprises advocate a flat corporate culture, favouring workshops and team discussions in training. Local Chinese companies, however, often adopt lecture-based and centralised training due to their hierarchical culture. The shift in training approach after localisation reforms may focus more on cross-cultural training to enhance local market adaptability and cultural sensitivity.

3. Cross-cultural management

As mentioned in the Human Resource Management section, there are major differences between Chinese and Western cultures. Therefore, in localising and reforming cross-cultural management, there is a need to focus on improving decision-making and hierarchical structures.

3.1. Power distance and hierarchical structure

"Power distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally."[4] That was same in business. Employees accept the fact that each level of authority is different, but at the same time, the difference in power distance can have a significant impact on management and decision-making. A higher power distance means that management is hierarchical, which means that employees are rarely involved in decision-making and are less motivated to feel part of the "company family". It also means that superiors have a strong grip on their subordinates, which can lead to

information asymmetry and inefficiency, as well as the inability of subordinates to provide innovative thinking. "In cultures with low power distance, organizations are more decentralized, and there is a greater emphasis on equality and empowerment. Subordinates are more likely to question authority, and the gap between the powerful and the less powerful is less pronounced."[5] This means that employees have fewer gaps in communication with management and the decision-making process is more democratic. Employees in such an environment will feel at home in their own environment, increase their sense of responsibility, and will be more efficient and innovative, leading to increased job satisfaction and productivity.

There is a clear difference between Western and Chinese organisations. The West prefers a flatter management structure, which results in shorter power distances and a higher level of employee involvement in decision-making. In contrast, most Chinese companies are hierarchical and emphasise hierarchical relationships, leading to a greater power distance. This helps to maintain organisational order and stability to a certain extent. Therefore, in the localisation reform of MNEs, there is a need to balance maintaining innovation and participation while respecting the local authority culture. This requires adjusting management levels and power distribution appropriately according to the power distance characteristics of the local Chinese culture to ensure that the decision-making process meets the expectations of local employees.

In the face of such challenges, the Lewin Change Model provides an effective framework to guide the localisation reform process. According to the Lewin Change Model, organisations can manage this change through three phases: unfreezing, transforming and freezing. "Unfreezing involves finding a method of making it possible for people to let go of an old pattern that was counterproductive in some way."[6] This means that during the Unfreezing Stage, companies need to conduct comprehensive market research in order to adjust existing problematic business processes. By understanding the needs of the local Chinese market, the competitive environment and consumer behaviour, companies can better adapt to the market. The key to this phase is to identify user needs and pain points in the market so that business models can be effectively adapted. For example, IBM adjusted its business strategy in this phase through in-depth analysis of the target market. IBM has greatly improved market responsiveness and operational efficiency by aligning its business model with local market needs.[7] This adjustment has not only helped IBM improve market responsiveness, but also optimise operational efficiency. The effects of this adaptation are obvious. "This alignment has led to increased customer satisfaction and a stronger market presence in key regions."[7]

The moving stage, the process of change, is a process of fulfilling new behaviours and attitudes, which is very important for the implementation of new strategies and measures.[6] Which is an indispensable process for organisations implementing a new strategy and involves the adoption of new behaviours and ways of thinking, and the introduction of new processes to ensure the actual implementation of the change.

Using IBM as an example, "Our local market adaptation strategy has allowed us to build stronger relationships with customers and enhance our global collaboration. This approach has not only improved our regional market performance but also contributed to our overall corporate growth."[7] This means that IBM is using insightful ways of thinking and processes to build closer customer relationships in local markets during the moving stage, and to enhance global collaboration and improve performance in regional markets.

Refreezing is the process of crystallizing the new state after the change is implemented, to ensure that it sticks and does not revert to the previous state."[6] The Refreezing Stage emphasises the consolidation of the new state. After a change is implemented, in order to make it sustainable, the organisation needs to focus not only on the implementation of new processes and policies, but also on ensuring that employees are able to adapt perfectly to these changes. This often requires

adjustments to culture, systems and other aspects of the organisation. In addition, training is provided where necessary to ensure that the changes are integrated into the future operations of the organisation.

4. Talent localisation strategy

4.1. Impression factor analysis

4.1.1. Local talent market

When exploring talent localisation strategies, it is first necessary to analyse the situation of the local talent market. In the process of localising in the Chinese market, multinationals should carefully study the supply and demand of local talent, skill levels, salary levels and employment trends. For example, when McDonald's entered the Chinese market, it adjusted its human resource strategy by recruiting local employees to better meet the needs of the Chinese market.

It is crucial for multinationals to thoroughly analyse the local talent market's supply and demand, skill levels and employment trends when undertaking localisation reforms. China's local talent market suffers from a surplus of talent, especially as a large number of graduates enter the market every year, leading to fierce competition among job seekers. Such a market environment provides companies with more room for choice, which is a great opportunity for them to screen out potential talent. This not only creates an opportunity for companies to identify high-quality talent, but also reduces their labour costs to a certain extent, as the initial salary level of employees is relatively low, which is particularly noticeable among fresh graduates and inexperienced employees.

However, it is not just the cost factor that companies should focus on when recruiting local talent. The advantage of localising talent is that they have a clear understanding of the structure of the local market and consumer preferences. This internal perspective can help companies develop market strategies and product positioning more effectively. McDonald's employs a large number of local staff in China.[8] This not only helps them to better adapt to the business environment in China, but also makes their products and services more relevant to the local culture.

This is also one of the key reasons why McDonald's has been able to improve their local menu, for example, they have added local Chinese products such as buns and doughnuts to their breakfast menu.

Therefore, local talents are not just employees of the company, they are consumers themselves. They can provide real consumer feedback to help enterprises better adapt to market demand and enhance their core competitiveness. Therefore, multinational enterprises should make full use of the advantages of localised talent to create products and services that are closer to users' pain points in the localisation reform. This will not only help multinational enterprises gain a foothold in the local market, but also bring them a long-term competitive advantage.

4.1.2. Educational background

Educational background is also an important factor affecting the localisation of talents. As the largest developing country in the world, the regional inequality is still a major obstacle to the equitable development of higher education in China."[9] This means that there are horizontal differences in China's local educational background, which leads to the fact that the level of education, professional settings and degree of internationalisation in different regions will affect the performance of local talents in multinational enterprises. Therefore, companies can try to tailor their training programmes in the process of talent localisation. For example, Capgemini tried to solve this problem by launching the Jump Programme for Talent. The JPT is structured to provide targeted development pathways for different levels of employees, ensuring a smooth transition to a more localized business model. [10] The implementation of this programme will go a long way towards overcoming the horizontal

disparities in China's local talent market and optimising the localisation reform process of multinational companies.

4.2. Future Trends

4.2.1. Social changes and market changes in the Chinese domestic market

In China and Globalization, Guo points out that by bringing in foreign expertise and global initiatives, the Chinese government is focusing on developing local talent that can operate effectively in the global marketplace.[11] In other words, this is a very good sign for multinationals, as their own rich experience in global operations and extensive international networks make it easy to match local talent with the needs of the global market, thus enhancing the ability of local talent to adapt to the global market and improve their competitiveness.

Zeng also mentioned in China's Role in Global Supply Chains that as China is gradually joining the global supply chain, the development of the domestic labour force is facilitated in the process and is more in line with international standards and practices.[12] Therefore, for multinational enterprises, the process of talent localisation strategy can show deeper long-term commitment to the Chinese market and enhance the sense of social responsibility and brand image of multinational enterprises in the Chinese local market.

Furthermore, multinational companies need to pay more attention to deepening the localised talent development mechanism and focusing on local social responsibility and sustainable development in their deeper development in China. By establishing localised leadership development programs through specific training and practical processes, multinationals can accelerate the refinement of local talent's skills so that they are not only able to meet the needs of the local market, but also have a global perspective and cross-cultural management skills. This not only strengthens cross-cultural communication and integration so as to maintain a high degree of flexibility to cope with the rapid changes in the local market environment in China, but is also an important step for multinational enterprises to fulfill their social responsibility. This targets the macro development of the local market, thus allowing companies to build a good social reputation, and it also attracts and retains local talents who have a sense of social responsibility and sustainable development.

4.2.2. Globalisation and counter-globalisation

Globalisation and counter-globalisation trends will also affect talent localisation strategies. Globalisation has led to a freer flow of talent, while the trend of counter-globalisation may lead to a restricted flow of talent, and multinationals need to find a balance between these two trends. Google has successfully met this challenge by setting up localisation teams in various locations and facilitating collaboration between employees in different parts of the world.

Zeng and Zhou point out that the process of globalisation has had a positive impact on China's local labour market, bringing in a large amount of foreign direct investment and leading to a large number of multinationals moving into the Chinese market.[13] This has led to an increase in the market competitiveness of the domestic labour force, but, at the same time, there are significant challenges. Because of the geographical differences in the local market and the uneven distribution of educational resources, increased globalisation will further lead to an oversupply in the labour market, all of which will result in a large wage gap and affect employment stability. Witt points out that counter-globalisation, marked by the decoupling of the Chinese and Western economies, could lead to a return of jobs to China. This suggests that reverse globalisation will largely lead to less international cooperation in the Chinese labour market and a decline in innovation.[14] Therefore, in order to offset or mitigate the effects of globalisation and counter-globalisation, MNEs need to strengthen local R&D and innovation capabilities, develop strategies to attract and retain highly

skilled personnel, reduce pay gaps, and ensure long-term employment stability. In terms of strategic deployment, multinationals can set up local R&D centres in China, not only to enhance their social responsibility, but also to meet the needs of the local market. Secondly, they can collaborate with local universities and research institutes to conduct joint R&D projects, which not only allow the company to access the latest research results and technologies, but also provide opportunities to reach out to and attract talent. In terms of personnel management, provide market-competitive salaries for highly skilled personnel and welfare programs, including healthcare and sustainable education resources. Moreover, there is an independent training and promotion system for highly skilled local personnel to enhance the sense of belonging and responsibility of local employees. In the process of implementing these strategies, multinational enterprises can better attract and retain highly skilled personnel, and reduce the impact of globalisation and anti-globalisation to a certain extent, in order to ensure the smooth progress of localisation reform.

With regard to future trends in globalisation and counter-globalisation, Jones and Giacomin noted that the process of globalisation is moving towards de-globalisation and is transitioning to a phase of regionalisation, where economic activity is increasingly concentrated in regions centred on major economies.[15] This means more cooperation and trade between regional economies, but fewer linkages between regions, i.e. economies. This will exacerbate the decline in innovation capacity and international cooperation, so that multinational enterprises can be more inclined to enhance local innovation capacity and regional talent needs when developing their long-term corporate strategic objectives and strategies.

5. Conclusion

In the long-term development of multinational enterprises, the process of localization reform is indispensable. Multinational enterprises should shift the focus of training to China 's domestic market, and should focus on cross-cultural communication, including tailor-made leadership training programs and practical opportunities. At the same time, it is necessary to adjust the organizational culture and system, and carry out targeted training to ensure that these changes are fully integrated. And make full use of local talent feedback, which will make multinational companies more adapted to local needs. With the transformation of globalization to regionalization and decoupling, multinational enterprises need to pay attention to the intensification of competition in the local labor market and the potential oversupply. Emphasis should be placed on enhancing local innovation capabilities and aligning long-term strategies with regional talent needs to effectively respond to these trends. In this way, multinational enterprises can have greater sustainable development capabilities in China. This paper only conducts corresponding research on the Chinese market, which has certain geographical limitations. However, cultural conflicts and cross-cultural phenomena exist in other countries. In the future research, we can refer to the research structure and method of this paper to analyze the strategies of localization reform of multinational enterprises in other countries.

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