

Commonwealth of Independent States (CIS). According to UNCTAD (2005), Asia reached a new FDI record of USD 148 billion in 2004 (46 % increase from 2003), and the top-four recipients, China (including Hong Kong), Singapore and South Korea, accounted for almost 80 % of FDI inflows to the region. Latin America that has recovered from the economic stagnation received FDI flows worth of USD 68 billion in 2004 (44 % increase from 2003), the major recipients being Brazil, Mexico and Chile. Also Eastern Europe and the CIS received record high FDI flows in 2004, totally USD 35 billion, the main recipient being the Russian Federation and the EU candidate country Romania.

Recently, especially China has become a popular destination for FDI by European and Japanese companies (e.g. Nakamura et al., 2005). Among European firms, also Finnish companies are increasingly operating abroad; in the forefront are large multinationals such as the telecommunications giant Nokia. While the European Union is the main destination of Finnish direct investment, the stock of Finnish FDI has grown rapidly also in the emerging markets since the mid-1990s. Here, Finnish investments are motivated mainly by labour cost reduction. Finnish operations have been established especially in North-West Russia, the Baltic states and the East Asian emerging economies. According to the Confederation of Finnish Industries (2003), the largest investment stock of Finnish companies in the emerging countries can be found in China, Russia, Brazil, and South Korea. These countries have attracted companies in specific industries: China has received Finnish manufacturing industries especially in engineering and electronics; Russia has become a destination for the Finnish food industry and forest sector; Brazil has attracted considerable forestry investments from Finland, and South Korea has received manufacturing investments mainly in electronics, chemicals and paper.

This paper focuses on Finnish companies' labour relations in Russia, China and South Korea, all of which are examples of rapidly developing emerging markets that have recently attracted a number of Finnish companies in various manufacturing industries (in contrast to Brazil where Finnish firms have focused on forestry). What is common to the three countries from the Finnish perspective is that they are important export targets to Finnish companies, where direct investments have been preceded by foreign trade. Russia, in particular, has been among the most important trading partners to Finland, while China and South Korea have been important trade targets in the developing world receiving preferential treatment in their exports to Finland (Kettunen 2004). They have grown to compete for international investments in various industrial sectors. The three countries also share certain economic characteristics and have experienced major changes in the role of the state in business: Russia has transformed from socialism to market economy, China from socialism to socialist market economy, and South Korea from strong state direction to free market economy. Furthermore, all are characterized by rapid economic growth (e.g. in 2004, the GDP growth was 9.5 % in China, 7.2 % in Russia, and 4.6 % in South Korea) and relatively inexpensive labour costs.

Indeed, labour cost reduction has been a key reason for Finnish companies to establish production in these three countries.

Regarding companies' social relations in the host countries, it appears that their labour relations share some characteristics, while they also seem to differ markedly in some respects. In Russia and China, market reforms have brought major changes also in the labour market (Kosonen 2002; Kolmonen 2006). South Korea has undergone a labour market transition along with the general economic restructuring in the aftermath of the Asian financial crisis (Korhonen 2005). Related to this, our aim is to identify the challenges in employee relations of Finnish companies and the solutions to these challenges in Russia, China and South Korea, and to compare between the findings from these three host economies. In particular, we seek to answer the following questions:

- Are there differences and similarities between the mechanisms of governance in employee relations in the various market areas?
- Does the analysis provide suggestions for a more general way of managing employee relations in rapidly developing markets?

This is done by analysing the governance (Jessop 1997) of foreign companies' employee relations in the host economies. Regarding locations, the analysis focuses on regions where the operations of Finnish companies are concentrated, i.e. the core areas of the host economies. These are St. Petersburg and the surrounding Leningrad province in North-West Russia; Shanghai and its surroundings, the Beijing-Bohai area and Hong Kong in China; Seoul and the surrounding Gyeonggi province and the South-Eastern coastline around Busan in South Korea. While recognizing that our results are not necessarily generalized to these countries as a whole, for practical reasons in the remaining of the paper we refer to Russia, China and South Korea instead of the exact locations when describing our empirical findings.

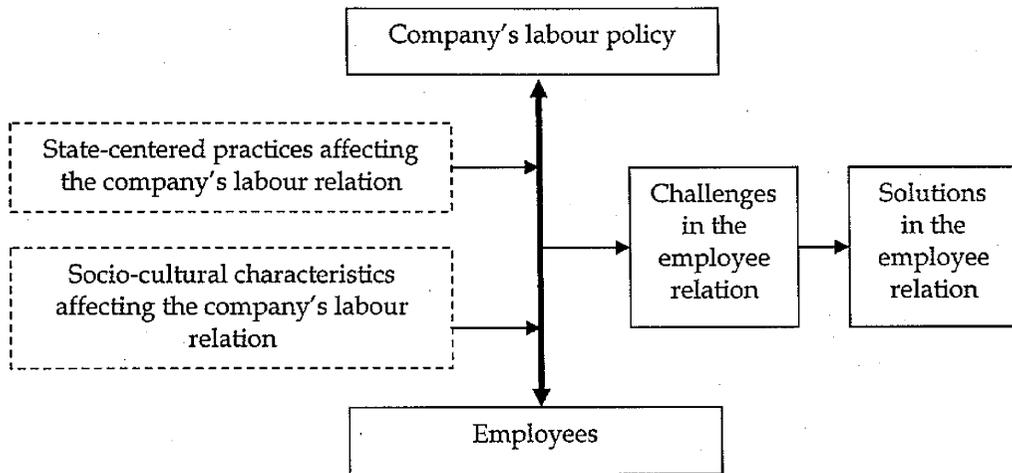
The paper is structured as follows: after introducing the topic, we discuss the theoretical framework and earlier literature related to the concept of governance (in section 2), as well as the empirical data and methods of the study (section 3). In line with our theoretical framework, we discuss the formal and informal institutions affecting the governance of Finnish firms' labour relations in Russia, China and South Korea (section 4). Based on the interview data, we then describe the challenges of employee relations in the three host countries (section 5). This is followed by a description of the solutions to these challenges (section 6). In conclusion, we summarize and discuss the differences and similarities in the challenges and solutions, and elaborate on the reasons for the differences (section 7). While the three economies share many similarities, a closer analysis of foreign companies' employee relations reveals certain differences that are related to the socio-cultural and political environments in these countries.

2. Theoretical Approach

We use the governance approach for our study on foreign firms' challenges and solutions in organising their relations to the labour force in Russia, China and South Korea. The governance approach (Jessop 1995; 1997; Kosonen 2002; 2005) focuses on the various coordinating practices between persons and organizations, and between the various subsystems in societies, such as the political and economic domains and civil society. Therefore, governance is an umbrella term for all forms of institutional design capable of affecting structural change (Jessop 1997; Amin and Hausner 1997; Jessop 1995). It refers to the various coordination mechanisms that actors use in order to mitigate problems in mutual relations, and to create shared understanding and joint practices in cooperation. In other words, governance is a process where disparate, but interdependent agencies are coordinated to achieve specific economic, social and political objectives. When analysing governance in economic action, attention is focused on the various problems that undermine relations between actors, as well as the problem solving practices that actors develop in order to alleviate the problems. In our study on foreign firms' employee relations in diverse host countries, we focus on Finnish firms' country-specific practices that characterise the labour relation, and especially on the problems and challenges that Finnish managers identify in the companies' employee relations. Also, we depict their ways of solving these problems. Successful governance of labour relations depends on the ability to solve the problems: governance fails when problems remain intact, and it succeeds when problems are solved.

Being embedded in the local socioeconomic and political setting (Granovetter 1985; Grabher 1993), foreign firms' labour relations are subject not only to the company labour policy, but are also connected to the various subsystems of the host country. Hence, our study on foreign firms' employee relations is based on a conceptual framework that portrays these subsystems (Figure 1). The coordination of the company's labour relation is affected by both formal institutions (state-centered practices) and informal institutions (socio-cultural characteristics) that are specific to each host country. As depicted in Figure 1, both the 'state-centered practices' and the 'socio-cultural characteristics' have an impact on the practical coordination of the foreign firms' employee relation. These practices and problems induced by the state and the socio-cultural features of the host economy give rise to challenges in the labour relations that are specific to each business environment.

Figure 1. The Governance of Employee Relation in the Host Economy



Source: Modified after Kosonen (2002) and Kolmonen (2006).

In our empirical analysis, the dimensions of the above conceptual model are discussed to the extent that they were pointed at in the interviews of the representatives of the Finnish firms. Therefore this paper sheds light to the most relevant factors in the firms' labour issues in these emerging markets, rather than provides a full account of all the dimensions of the conceptual model. For example, the level of unionization is low in all three economies under investigation, and labour unions were thus not considered a challenge by the interviewed companies. Also, practices, problems and problem solving are depicted with sensitivity to the time dimension. Thus our empirical analysis includes not only information on the current state-of-the-art in the host countries' employee relations, but also pays attention to the previous (e.g. socialist) practices. This is necessary for the comparative analysis to be able to draw conclusions about the pervasiveness of country-specific features. As Figure 1 shows, the relation between the company and its employees is affected by the state-centered practices and socio-cultural characteristics, and in the end, these result in both challenges and possible solutions in the company's employee relation that this study focuses on. The framework is applicable to the selected three countries, since Russia and China are pure transition economies, and South Korea represents an authoritarian state with considerable economic restructuring after the Asian financial crisis.

3. Research Design

The study draws on a longitudinal qualitative analysis of mainly interview data. A qualitative analysis is made to point out the aspects that Finnish companies have found most challenging in their employee relations when operating in reforming Russia, China and South Korea. The

primary data consists of interview records from the database of the Helsinki School of Economics/Center for Markets in Transition, in Finland. While the original interviews dealt mainly with the challenges that companies faced in their relations with the state, employees and other companies in the host country, the present study discusses empirical data regarding only the employee relations. This study yields data from altogether 106 Finnish companies of which 51 were operating in Russia, 37 in China and 18 in South Korea. While the companies represented various ownership structures and industry branches (see Appendix), the aim of this paper is not to elaborate on sectoral differences but on host country specific issues. The data collection was performed by interviewing respondents between 1995 and 2003 with semi-structured open-ended questions. The open in-depth interview was chosen as the data collection method to allow the respondents themselves to identify the key problems and solutions in governing the employee relations. The data was handled anonymously. In addition, secondary data such as companies' annual reports, and articles in newspapers and magazines were used as supplementary information.

As in qualitative analysis in general, the data reduction process involved the coding of the interview material. In this study, data that referred to problems and solutions in employee relations were picked out from the empirical database. The relevant data was coded, i.e. broken down into discrete chunks (Malhotra & Birks 2005), and analytical categories were produced from the respondents' statements. Findings were grouped according to relevant categories related to challenges and solutions, and were then compared between Russia, China and South Korea. In the following sections, the empirical findings of the study are discussed. We begin by depicting the local state-centered practices and socio-cultural characteristics and their effects on the Finnish companies' employee relations in the host economies.

4. State-centered Practices and Socio-cultural Characteristics Affecting the Employee Relations in Russia, China and South Korea

During the period under investigation, the three countries were in the midst of economic transition and reforms. The transition in Russia and China in particular, but also in South Korea, produced various outcomes in the way that the formal and informal institutions affected foreign companies' labour relations. Especially, state-centered practices changed quite dramatically in Russia and China, while South Korea experienced a less profound change, mainly in the liberalization of its investment policies. In contrast, socio-cultural characteristics were prone to be more constant and slow to change, albeit globalization was putting pressure on all the three economies in this respect as well.

In Russia, the transition from central planning to market economy considerably changed the position of labour in enterprises. In the Soviet economy, labour was considered as a factor of production, which was supplied to enterprises by the central planning system. Moreover, the Soviet ideology stressed full employment and lifelong employment. Labour mobility was

restricted by state regulation, and training took place mainly on the job. Wages were in general low, but they were in part compensated with a range of social benefits (housing, day care, health care, recreation), the provision of which was delegated to enterprises. Also, trade unions were an integral part of the socialist economy and thus their role in enterprises was rather strong. When central planning was abandoned, these state-centered practices changed dramatically. Decision-making power over recruitment, most social benefits offered and other issues in labour policy were shifted from state to the enterprise level. Also, the role of labour unions decreased as the old structures were abolished. The transition weakened the bargaining position of workers in comparison to the socialist period when there was practically no threat of losing one's job irrespective of work performance. However, the privatisation of state enterprises via voucher privatisation provided workers an opportunity to become owners in their employer enterprises. This somewhat improved workers' bargaining position as they were able to participate in decision-making in the enterprise. During the early years of post-socialist transition, the state had little to offer to secure full employment or to provide social security to unemployed workers. The position of employees *vis à vis* foreign employers was weakened by the relative cheapness of labour in Russia and the surplus of qualified labour resulting from economic restructuring (Kosonen 2002; 2004, Karhunen et al 2004). This was underlined by the footloose nature of foreign investments that are made to cut production costs. In the constant search for a decrease in production costs, manufacturing operations are easily transferred to other locations.

As transition proceeded in Russia, also some of the socio-cultural characteristics started to change. The recent economic growth in Russia brought signs of emerging shortage of qualified labour, which improved the bargaining power of employees. Also, the 1998 financial crisis resulted in the increasing inward investments to Russia (especially North-West Russia). Workers had more alternative jobs to choose from. While also labour union activity seemed to gradually pick up particularly in foreign-owned enterprises, striking remained a relatively marginal phenomenon. Although the Russian legislation recognises the right to strike, most strikes are in practice declared illegal by courts. Also the power of employees as enterprise owners diminished, as in the turmoil of the transition ownership was consolidated in hands of enterprise managers or other private investors. Unemployment figures remained relatively high at 8 %, in addition to which the Russian economy suffers from underemployment, i.e. skilled workers working in low-wage jobs that do not allow them to use their talents. Other problems caused by the informal sector included grey employment by competitors that deteriorated the transparently operating Finnish investors' competitiveness in Russia.

Very similar to Russia, also China's shift from socialism to socialist market economy led to changes in the state-centered practices and a dramatic transition of labour market. The reforming of the economy since 1978 under the leadership of the Communist Party of China

(CPC) had the objective of generating sufficient surplus to finance the modernization of the national economy. Massive lay-offs of state workers, huge labour migration from countryside to cities, rapidly increasing wage level, and new economic incentives were characteristic to the change. Similar to Russia, the formal social security system was ill-developed and there was no retirement pension system (Kolmonen 2006). The earlier fixed wage system with lifetime employment and the inflexibility of the workers to change jobs (i.e. the so-called *iron wage*, *iron rice bowl* and *iron chair*) started to change and to become more market-oriented. For the government, the challenge was to motivate workers and farmers to produce a larger surplus and to eliminate economic imbalances that are common in state-run economies. A full retirement pension system is under planning, covering also the rural areas. Labour mobility has also gained momentum, even if it is still far from that in Russia. The restricting *danwei* system² is being replaced by a more allowing household registration system. Concerning labour, the reforms have decreased the amount of government planning and CPC involvement in foreign companies' relations with the employees, especially in the main urban areas (Ibid.).

As to socio-cultural characteristics, the Chinese society is strongly based on a tradition of personal networking in economic life. The systems of *guānxì* (relationship) and *guānxìwǎng* (net of interconnected relationships) are built on strong mutual interdependence. In the absence of stable or reliable formal rules, business is run based on networks which are essential for success in China and for gaining information and influence (Ibid.). All the major success stories involve the building of *guānxìwǎng* of the foreign company before proceeding with business. In addition, it is a type of informal social security for the employees and is prone to remain important in spite of various reforms, such as improvements in social security. Also employment is becoming more transparent since workers are increasingly recruited based on contracts. The unemployment rates are high in urban areas (about 10 %), in addition to which underemployment is common since a considerable amount of workers are not fully occupied because of legal, social and cultural restrictions to lay off employees in times of difficulty.

Similarly, the South Korean economy was led by strong state direction until the late 1990s. The economy had characteristics typical of socialist planning mechanisms: significant state equity participation and multi-year plans in which specific sectors were targeted. The political leaders set the major economic goals for the future and the specific planning agency, the Economic Planning Board, managed the information on the national resource endowments. This structure helped the Korean government for years to intervene directly in all sectors of the society in order to prevent the problems that might hinder economic growth. As to labour

² *Danwei* is a specific Chinese work unit that is responsible for the care and control of its members from housing to food coupons. Workers may remain in the same *danwei* for a lifetime. The *danwei* will give or deny permission to marry, move, travel, and bear children, and it is the front line of the Chinese justice system. (Helms, 2000)

relations, *chaebols*, or Korean conglomerates, maintained a stable structure of lifelong employment, internal labour market, and on-the-job learning, which increased the wage level and made the labour market inflexible. Full employment prevailed in the country for decades. Recently, the democratisation and the large-scale economic restructuring processes have undermined the strong state intervention. Market openness, especially foreign direct investment, played a major part in South Korea's recovery from the Asian financial crisis. The Asian financial crisis in 1998 can be defined as a turning point in the Korean economic policies, and also in labour market transition (e.g. Dent 2002, Korhonen 2001; 2005, Stoeber 2002, Shin 2003). During the crisis, unemployment hit almost 8 % in 1998, forming one of the most serious influences for the country. With restructuring, the unemployment rate in South Korea declined back to the pre-crisis level of about 3 % in 2002. However, the structure of unemployment changed: a totally new phenomenon was the white-collar unemployment caused by the bankruptcies and firm restructurings. Also the number of part-time workers increased and job security became weak. Altogether, the lifetime employment practise eroded and the labour market flexibility enhanced in South Korea. Therefore, the government is now strengthening social security and the welfare system, which are needed in order to tackle the problems caused by the flexible labour market.

Similar to China, the Korean economy is characterized by extremely strong networks and also, a discriminatory attitude towards foreigners (e.g. Lasserre and Probert 1994; KEW 20.6.1998). Network building is even more important than in other East Asian countries, and relationships based on trust are very difficult and time-consuming to build. The Asian financial crisis with the subsequent restructuring process created increasing pressures for local workers and managers to adopt a new, more international way of thinking. However, due to the rapid increase of foreign ownership in the aftermath of the crisis, the Korean public attitude turned against foreign capital again. Therefore, the Korean government introduced events and schemes, such as the Foreign Company Day, to build confidence between the Koreans and foreigners.

In sum, the changing state-centered practices in Russia, China and South Korea have had the effect of transforming these economies more market oriented as regards labour relations. Hence the business environments have become more similar to the Western type, but at the same time, the turbulent environment during the transition has made it challenging for the foreign companies to operate especially in Russia but also in China and South Korea. In contrast, as the level of unionization of workers is somewhat low in all three countries, their collective actions, such as striking, have been directed mainly against political conditions rather than foreign companies. In Russia, this has caused some tensions in foreign companies, however, while in China, the government has been somewhat suspicious against the real motives of lay offs. Otherwise the socio-cultural characteristics in the three countries have changed relatively slowly and less profoundly, and the importance of local networks has

remained high. This illustrates the need for foreign companies to adapt to the fairly traditional local socio-economic systems. These specific challenges faced by Finnish firms in Russia, China and South Korea regarding labour relations will be further discussed in the following section.

5. Challenges in Governing the Employee Relations

As to the coordination of employee relations, our analysis indicates that there is a range of similar challenges that Finnish investors face in Russia, China and South Korea. Next, we will outline, based on the interview data, the most frequently addressed issues related to problems with labour in the three countries. The first issue was related to the supply of labour and the quality of labour force. The availability of skilled labour is important for good performance since many of the firms have invested in North-West Russia, coastal China and South Korea in labour-intensive industries. The second repeatedly expressed concern was connected with the overall costs of employment, as the relatively low wage level had been one of the motivations to start production especially in Russia and China, but recruiting often induced relatively high extra costs in addition to basic wages. The third problem had to do with the differences between the Finnish and the local work cultures which created challenges in managing the foreign operations. Thus, to sum up, the main challenges in governing the employee relations in the host economies were related to three issues:

- a) availability of qualified labour,
- b) indirect labour costs, and
- c) local work culture.

These common problems manifested themselves in somewhat varied country-specific forms, however. In other words, the challenges were related to similar issues, but due to different reasons in the three host countries. Thus we will make comparisons between Russia, China and South Korea, in order to identify the state-centered practices and the socio-cultural characteristics affecting the employee relations. Let us now depict the challenges one at a time.

a) Availability of Qualified Labour

As pointed out above, one challenge repeatedly commented by the interviewees was related to the labour supply and the quality of labour force. Many Finnish firms have invested in North-West Russia, coastal China and South Korea in functions that are labour-intensive. Hence the availability of skilled labour is critical for the success of operations. In this respect, the three host countries are characterised by quite specific labour markets, however.

In Russia, the recruitment problems of the Finnish enterprises changed along with the transition. In the early years of post-socialism, it was relatively easy to find workers with basic technical skills, as local enterprises were laying off labour due to their restructuring process. The main problem in hiring blue-collar workers was associated with their "Soviet"

working attitude. In addition, qualified local managers were scarce, as the “red executives” were not practised to operate in a market environment. The structure of labour supply in the market has recently turned upside down, however. Due to the collapse of the Soviet professional education system and a lack of interest among the younger generation in industrial work, a shortage of skilled blue-collar workers has emerged. In contrast, a new generation of managers has been educated under the market economy conditions, which makes it easier for foreign companies to hire local managers to replace the expatriates.

Similarly in China, the interviewees reported of a lack of both qualified workers and managers. Challenges emerged in joint ventures with the existing staff that was used to working in traditional state-led organizations. In addition, the recruitment of new employees was difficult, expensive and time consuming. Finding specialists or managers, such as accounting managers, financial directors, or certain technical experts, was especially complicated (Kolmonen 2006; Kaislaniemi 2003). This was because the scarcity of talent led to competition between local and international companies. Recruiting qualified experts also included risk in the company’s intellectual property rights (IPR). The Chinese managers are hungry for learning and good at adopting business models and products, and it is not rare that workers copy the foreign company’s models and products in order to establish their own competing businesses. Problems related to IPR were reported both in Finnish green-field investments and in mergers and acquisitions.

In South Korea, in contrast, the Finnish companies had plenty of qualified personnel available, but recruiting was difficult due to some unique features of the local labour market. First, there is no public market for labour, since *chaebols* are characterised by internal labour markets and lifelong jobs, which has made it unnecessary to change jobs in the Korean society. After the Asian financial crisis and the increase in unemployment, the Korean government created an infrastructure of public employment support. However, it is not commonly used yet. Second, hiring people based on merit only is not enough, as the candidate has to be accepted also by his new colleagues in the shop floor, i.e. the work unit where teams of workers and their foremen make hour-by-hour decisions about production procedures and processes. The existing personnel may, for example, refuse to work for the manager who appears to be their younger alumnus. Third, hiring expatriates has been harmed by government imposed restrictions favouring Korean labour. The discriminating practises have been, however, abolished along with the general restructuring of the Korean economy after the Asian crisis. Along with the increasing labour market flexibility, it has recently become common to job-hop for a higher pay. Similar to China, there is a risk related to intellectual property rights as the local competitors somewhat openly lure the personnel away from the foreign company.

b) Indirect Labour Costs

The second challenge reported by the companies had to do with the ultimate costs of employment. The relatively low wage level has been the major driving force for Finnish companies to establish production facilities especially in Russia and China. In fact, this has led to the term 'China phenomenon', commonly used in the Finnish media to refer to the relocation of manufacturing functions to low cost countries.

In Russia, the transition from socialism to market economy created an increasing differentiation in the wages of workers and managers. The wage level of industrial workers may have been a tenth of that in Finland, but salaries of middle and top management were often on the same level and even above. Also, there were considerable differences between regions and industries, ranging from the export-oriented natural resource industries on the top to the struggling light industry on the bottom. Due to Russia's highly uneven regional development, wages are regionally polarized and are highest in the most prominent metropolises, such as Moscow and St. Petersburg. Although the basic wage level is low, Finnish managers reported of indirect costs that increased the total labour cost burden in Russia. First, there were compulsory social payments, such as the social tax and insurance payments. While enterprises were not obliged to provide a full range of social benefits any more, some benefits are still stipulated in the legislation. Many firms also voluntarily continued the tradition of additional social benefits to workers. Second, the lower wage level was accompanied with lower productivity, which, in turn, was reflected in higher training costs. Finally, additional costs were incurred by the turnover of labour. In the transition period workers and managers were mainly motivated by money and were thus frequently job-hopping to better paid jobs.

Similar to Russia, wages in China were for a long time directly controlled by the state, including differentials and the size and type of bonuses paid (Gao 1996, 72). Along with the reform, the wage level was linked to the skills and position of the employees in order to motivate for bigger production and increased responsibility-taking (Kolmonen 2006). This has made it challenging to define the real cost level. The basic wage level is still low; however, the direct wages only account for a minor part of the ultimate costs. Training personnel formed the biggest additional expense to wages for Finnish companies. It was seen as a reward and a way of committing the employees to their jobs. As training is often long-lasting (up to one year), the 'value' of the employee increases substantially in the labour market and he or she is apt to leave the job for another one (Ibid.; Kaislaniemi 2003). Thus the recruiting process becomes expensive as it is common for the Chinese personnel, especially specialists, to change jobs for a better wage and benefits, and consequently, foreign companies have to repeatedly hire and train new personnel. According to the respondents, the level of desired salaries varied significantly between prospective employees, and often the wage demands included substantial negotiation possibilities. Also regional variation was

considerable: the wage level in inland China was only about a quarter of that in the coastal areas, and in manufacturing, the differences were even bigger than in other operation modes. The age of workers also had a role, as older employees were more willing to stay inland and work for smaller pay, while younger ones were more likely to move to coastal areas in search for higher salaries (Ibid.).

With regard to wage issues, South Korea somewhat differed from Russia and China. The country was known for its qualified and inexpensive manpower in manufacturing until the mid-1970s; however, the average annual wages started to increase rapidly since then. In the early 1990s, along with the shift from labour-intensive to knowledge-intensive industries in the domestic economy, wages in South Korea increased even faster than in its closest competitors, such as Taiwan or China (Torres 2001, 24). Still, wages remained at the level of one-third of that in Japan, for example. Thus for Finnish companies, labour cost advantage existed in South Korea until the mid-1990s. The wage level was frequently higher in foreign companies than in local companies. Monthly salaries may have been rather low, but it was normal to pay altogether 16-20 months in a year because the Korean compensation system includes basic wages, bonuses and allowances. The bonuses included severance pays, holiday bonus, profit sharing, and allowances for meals, housing and transportation. It was also typical to pay allowances for children's education and for family-related events like birth, death or marriage, and female employees were allowed for one day paid menstruation leave every month. For the Finnish investors, however, the biggest wage-related problem in South Korea was that the wage system is based on seniority rather than productivity, a mode of compensating the rather weak social security of older employees who are close to their retirement age.

c) Local Work Culture

The third challenge faced by the Finnish companies was related to the differences in the local work culture. In Finland, employees can in general be characterised as highly skilled, initiative-taking and used to team-work in relatively flat organisations. This is markedly different from what Finns experienced in Russia, China and South Korea. Another challenge was to cope with language problems particularly in China and South Korea.

In Russia, the work culture and managerial thinking characteristic to post-socialist transition posed additional challenges to foreign companies. Some challenges, such as problems in worker motivation date from the Soviet era; others are outcomes of the post-socialist restructuring. Local workers and managers had to adopt a new attitude towards work and to adapt to new management models introduced by the foreign owners. Particularly during the early years of restructuring, the attitudes of workers were often in conflict with the needs of profitable business which was illustrated by absenteeism, drinking on the job, and using company property for personal purposes. Such problems were a legacy of state socialism,

where using company property was not always considered a crime. In addition to the malfunctioning Soviet legacies, the performance of workers was undermined by factors characteristic of the present. The post-socialist economic uncertainty forced employees to acquire several jobs and rotate in them even within the same day, which was bound to lower the performance of workers per job. Moreover, older generation of workers and managers used to work in hierarchically-managed enterprises with little room for individual initiative and decision-making. Thus, workers had difficulties in adapting to the flat hierarchy and requests for self-organising that are typical for Finnish enterprises.

The differences in work and managerial culture also showed on the managerial level. Finnish managers criticized Russian managers for lacking responsibility and avoiding decision-making. Also, Finns suffered from the Russian managers' hierarchical thinking and tradition of information hoarding which made them reluctant to share their ideas and work in teams. A Russian CEO was used to giving orders, not to discuss them. As a consequence, Finns tried to force the Russians in team work and the Russians, in turn, characterized Finns as arrogant and insensitive to the local context. In contrast, language problems seemed not to be overwhelming in Russia. Many Finns were fluent in Russian since they had originally been educated as interpreters, which was the case especially earlier in the 1990s. Later, as competition in Russia became more severe, business professionals replaced the interpreters, and also the mix of languages in Finnish operations in Russia became more varied. Simple instructions for labour-intensive tasks, such as assembly work were in general written in Finnish, which workers learned to adopt. Very often, Finns nominated a local assistant manager who learned the most important specific technical terminology in Finnish; in addition, Russian managers were capable of speaking English. It was also common that Finns learned practical Russian and thus the working language was a mixture of English, Finnish and Russian.

In China, in comparison, Finnish companies had difficulties both with the local work culture and cross-cultural communication. Chinese organisations were traditionally very hierarchical and workers were used to taking orders from their superiors. Therefore, local employees had difficulties in adapting to Finnish flat organisation structures. It also seemed that the reasons for lacking initiative-taking in China are rooted deeper in the socio-cultural context than in Russia. According to the respondents, employees tended to hide their uncertainty and pretended to know what they were doing even if they did not, in a danger of losing one's face (Kolmonen 2006). All this increased the need to have Finns controlling local operations. Irrespective of control, Finns also felt that the Chinese employees were double-faced having personal goals that were in conflict with the company interests, which made the control of local operations difficult. In addition, the respondents especially criticised the communication skills of the Chinese employees. While most of the Finns themselves lacked Chinese language skills, the local workers (especially outside the main urban agglomerations of Beijing,

Shanghai and Hong Kong) were generally unable to speak and understand English. Midlevel managers, instead, usually had better English skills than regular employees.

In South Korea, in the era of strong state direction, the local work culture was traditional and stable. While Finnish companies regarded the country an exotic and interesting place to do business, they also had problems with the local business culture mainly due to the extensive personal networks of the Korean society. In general, Koreans are blamed for their xenophobia, or discriminatory attitude towards foreigners, which has appeared on two levels. First, there were restrictions imposed by the government and directed to foreign companies only that set them in a weaker position than local companies. An example is the discrimination against expatriates, which is manifested in the difficulty of getting work permissions. Second, foreign companies have had difficulties to enter the Korean networks of trust due to the general investment-hostile atmosphere. The Asian financial crisis and the subsequent restructuring process, however, created pressures for local managers and workers to adopt a new, globally accepted way of thinking and business practise. As a result, legal discrimination against foreigners and foreign-invested companies was abolished. This led to rapid increase in foreign ownership, which, however, had the effect of turning the public attitude against foreign capital again.

Finnish managers also criticised that the Korean business culture was difficult and very different from that of Finland. They argued that the Koreans had only little experience in other cultures and in working with foreigners. The lack of English language skills among the Korean workers, combined with the fact that Finnish expatriates usually could not speak Korean, created challenges in communication. However, just as in Russia and somewhat also in China, the Korean top management working with international tasks usually had degrees in higher education and good English skills. One challenge repeatedly faced by the Finns in South Korea was linked with gender discrimination. Problems emerged in cases when Finns nominated female Koreans in top management which was against the local business culture that considers male gender and seniority as superior. In these cases the local personnel continued to work according to the traditional informal hierarchy, ignoring the formal position of the female directors, and consequently, the pressures forced the female directors to leave the company.

Summarizing, we have in the above section discussed the challenges that Finnish firms faced in their employee relations in Russia, China and South Korea. It was found that problems emerged especially concerning the availability of qualified labour, indirect labour costs, and local work culture. In the next section, we draw attention to the solutions that the companies found in tackling these challenges in the three host countries.

6. Solutions to Challenges in Employee Relations

Based on the interview data of Finnish companies, the specific challenges in their employee relations in Russia, China and South Korea were solved in various ways. In what follows, we categorise these successful mechanisms of governance based on the solutions identified by the firms themselves. The major solutions to the existing problems in the three emerging markets were related to:

- a) finding qualified labour,
- b) defining the true cost level, and
- c) adapting to the local work culture.

These solutions were, however, somewhat different in each host country, which will be further discussed in the following.

a) Finding qualified labour

Generally, the recruiting of employees in Russia, China and South Korea is strongly based on the local networks in each host country. In order to successfully manage the recruitment process, foreign companies need to use both formal and informal channels of finding and recruiting employees.

In Russian units, Finns solved the problems related to the professional skills of employees by careful selection and training. Western investors, in general, attempted to raise the occupational level of employees through training. Employees were trained both in Russia and in Finland. Moreover, Finnish investors solved the problems of coordinating labour relations in Russia by hiring Russians as local managers. Russians were hired either as local executive managers (working alone or as a partner to a foreign manager) or as managers responsible for labour relations. Often, local managers had extensive social networks in the local business community, which helped them to find qualified workers. Hence, informal recruitment channels, such as word of mouth and personal recommendations, were used in parallel with the official ones, such as newspaper advertisements. Finnish respondents also recognised the risks associated with such informal recruiting practices. In the Soviet times it was fairly common to get a job *po blatu*, i.e. based on a reciprocal system of personal relations and exchange of favours. Finnish managers thus needed to exercise control in the recruitment decisions of local managers to secure that workers were hired on the basis of their qualifications rather than by acquaintance. Furthermore, the progress in economic transition also changed the role of expatriate managers in Russia. In the early years of transition such managers were usually "Russia specialists" with Russian language skills and an extensive experience in the local culture and East-West business. More recently, they were typically replaced with younger managers with no necessary knowledge of the host country or the language, but solid professional qualifications and international experience in general. Often the presence of Finnish expatriates in the management teams of Finnish business units in Russia was limited to the CEO and financial manager.

In China, all companies had to compete hard for qualified workers and managers. Finnish firms preferred to hire personnel with the help of local (or at least Asian) executives. The advantage was that the locals were acquainted with the recruiting system and the wage level, and could use their *guānxiwang* in recruiting. Often, the key personnel brought some of their own colleagues with them; thus finding one good employee or manager could lead into getting many; however, this could take place at the risk of nepotism (Kolmonen 2006). The recruiting methods varied according to the intended role and responsibilities of the potential employee. Usually, companies resorted to head hunters and fairs when recruiting managers, whereas in blue-collar recruiting, advertisements and employment agencies were most commonly used. Younger employees were often recruited straight from the universities due to the lower wage demands and the possibility to train them “from scratch” (Ibid.). As Chinese workers tended to be highly motivated in learning, Finnish-owned firms in general provided relatively good career development paths. The possibility to advance inside the organisation seemed to be very important for the potential employees, and career development was usually discussed already during the recruiting interviews (cf. Kaislaniemi 2003). Some Finnish firms also got personnel through acquisitions or from their Chinese partner. Views on recruiting through acquisitions were, however, relatively negative. Excess and unsuitable workers in joint ventures were difficult to lay off after the operation had started; thus it was necessary to negotiate about the future of the partner’s employees before the official beginning of the co-operation. Furthermore, as the Chinese investment legislation was characterised by region-specific and industry-specific restrictions and conditions, companies found it useful to unite forces with other Western firms in the region. (Ibid.)

In addition, it was common to nominate a Finnish CEO in their Chinese subsidiary. Also upper management and specialists were usually Finns, while employees and middle management were Chinese. Finns considered themselves to be more qualified in management, technological skills, and efficient decision making, and therefore, sending expatriates to China was usually preferred to having Chinese personnel trained in Finland. If operations started successfully, some tasks were later “localised” to the Chinese employees (Ibid.). However, Finns underlined the necessity of control, especially the need to keep the business, payments, and prizing in Finnish hands. Financial control was particularly emphasised due to the observation that Chinese workers had a blurred idea about the difference between company and personal assets, since among them it was necessarily not considered dishonest to use company money for one’s own or family expenses. Conversely, Chinese managers were handed the control and decision making over product development, material management, purchases, human resources and logistics. Especially sales personnel should be Chinese, and preferably also male since the customers were male, while many companies found female workers most suitable as office workers. (Ibid.)

In South Korea where local network building was essential, Finnish units were typically run

by local CEOs. This was due their extensive personal networks within local industries and authorities. Indeed, there were several Finnish units with no expatriates at all, and many companies were run by Korean managers from the very beginning. Therefore it was vital to build trust between the parent company and the Korean managers. Before the Asian financial crisis, recruiting local managers was favoured also by government policies. When foreign firms applied work permits for expatriates, they needed to assure that no Korean alternatives were available. For example, if Finns wished to have their own man on site, they usually claimed that Finnish language skills were needed in the assignment. Permits were sometimes also speeded up by attaching bank notes in the application. These government policies were relaxed in 1998, but after that, the use of slush funds even increased in the administrative procedures. Furthermore, Finns underlined that in order to succeed in South Korea, expatriates should either live on site for several years or at least have earlier experience in other Asian countries. In addition, they should be supported by local key persons, especially lawyers who are educated abroad, usually in the United States.

As to local recruitment in South Korea, Finnish managers pointed out that there was plenty of suitable labour available, but recruiting was difficult in the absence of job referral services. Thus informal recommendation was generally used in recruiting. Just as in China, young personnel were often recruited directly from local technical high schools, polytechnics and colleges located close to Finnish plant. The local units of joint ventures, in comparison, were generally staffed by the Korean partner's existing personnel. In contrast to experiences in China, existing personnel made it possible to start operations fast and in a profitable way. When more personnel were needed, the Korean partners hired them through their local networks. In addition, when recruiting managers, negotiating at the shop floor was critical to prevent a situation where the existing staff could perceive the new manager as a threat to their position. In these cases, the title of the candidate was often the major point of negotiation.

b) Defining the Real Cost Level

The second critical issue and its solution had to do with the eventual costs of employment. This was related to having competitive wages and benefits as a motivator for the staff. In addition, training employees often formed a considerable cost to the companies.

In Russia, the real cost level was increased by the fact that Finnish firms usually paid quite competitive wages to their Russian workers. Foreign enterprises in general had a good reputation of regular and relatively generous compensation. This was particularly important in the early 1990s when wage arrears were common. In those days, some foreign enterprises also offered their workers with trips abroad and with packages of Western goods. The latter form of motivation has, however, become redundant as the assortment in regular shops meets Western standards. More recently, wages have more often been linked to personal factors such as education, professional experience and the quality of work. At some Finnish-owned

factories, wages were connected to consumer prices and agreed collectively at the enterprise level. Some companies still resorted to socialist forms of competition among groups of workers (*sochsorevnovanie*) and hence attempted to increase labour productivity through the donation of material prizes. Even if companies in general handed their social infrastructure over to the municipality, some social benefits were still used as a means of motivating employees. Finnish firms, for example, provided their workers with daily lunches and medical insurance, as well as organized parties and gifts to employees and their families. Some also paid bonuses by various campaigns, such as non-smoking. The social benefits provided by Finnish firms sometimes had considerable local importance, and for instance, a Finnish-owned plant was reported in local press to be “more socialist than the original socialist enterprises”. Furthermore, the emerging shortage of blue-collar workers may actually prolong paternalistic practices, and the provision of social infrastructure may become a means to attach workers to companies.

In China, foreign companies generally paid their employees better than average, and there was plenty of room to reconsider wages. First, while the Chinese salary system took into account the skills and achievements of employees, it left room for negotiation for the Finnish employers. Second, as in rapidly developing markets in general, it was difficult to estimate the actual employment costs including all the benefits and training needed. Therefore it was vital to reconsider wages on an annual basis. In order to mitigate problems caused by the high turnover of foot-loose workers, some Finnish companies asked their employees to sign a contract of committing to continue working for the company for certain years after being trained or alternatively pay back the training costs (Kolmonen 2006). This worked for some companies; others reported that the Chinese employees just ignored such contracts when leaving the firm. Basically, Finns noticed that the Chinese workers considered long work contracts a sign of employer’s commitment and therefore increased loyalty. In addition to competitive wages, Chinese workers were motivated both by the provision of social infrastructure (housing and loans) and by providing avenues for career development (Ibid.; Kaislaniemi 2003). Finnish organisations in China were therefore more hierarchical than those in Finland. Hierarchy made it possible to at least nominally promote employees every now and then.

Also in South Korea, foreign enterprises usually paid higher wages than local firms. It was also very critical to follow the local practices in paying for personnel’s family-related events. This was a general Korean custom that enhances cohesion within the organisation. As the Korean business culture was characterised by long working hours and intimate involvement in all company affairs as well as in civic activities, it was advisable to support the employees to spend time together also after the working hours, even if only for drinking parties. Just as in China, the Korean workers were motivated by reconsidering wages and titles frequently. For the Korean managers, the titles may matter even more than the pay cheque. In-house training

also played a role in motivating workers especially in large Korean companies, but not so in SMEs. Similarly, large Finnish companies with a global network had the practice of sending their Korean staff to Europe or America for training, and accordingly, engineers from their European or American units were sent to Korea for training and trial runs. In small Finnish companies, local managers took care of in-house training which was used for enhancing loyalty and teamwork rather than job skills per se.

c) Adapting to the Local Work Culture

As discussed earlier, the third challenge was related to the differences in the parent firm's and the local work culture, and as a solution, firms had to find various ways to adapt to the local environment. At the same time, local personnel adopted some elements of the Western business culture. The eventual adaptation differed, however, according to the size of the Finnish company and also across countries.

In Russia, Finnish enterprises used both "stick and carrot" in managing their labour force. Workers were dismissed immediately for misbehaviour, such as drinking-on-the-job or misuse of company facilities, and these were quite common in Finnish-Russian joint ventures especially in the 1990s. On the "carrot" side, Finns tended to pay relatively good wages to prevent workers' foot-loose behaviour and the need for second jobs. Workers and local management were trained intensively to adopt the company's work culture and practices. However, in most cases also the Finnish organization needed to adapt to the local conditions, and for example, Finnish managers became more hierarchical and authoritarian in Russia. The local blue-collar workers, who were relatively unwilling to take initiative and responsibility, expected authoritarian human resource management. Consequently, Finns received more respect and better work performance when using authority. Tight control was also used as regards the local management; however, this was due to totally opposite reasons. While Russian CEOs in joint ventures and in Finnish subsidiaries wished to operate with a lot of room of manoeuvre and not always willing to negotiate decisions, Finns' general response was to increase control over local management. Overall, however, cases where the Finnish organisational blueprints were planted as such in Russia were quite few, indicating a strong need for local adaptation.

In China, problems with the local work culture, such as the lack of initiative or cross-cultural communication, were generally avoided by the careful selection of both expatriates and local employees. Finnish firms were of the view that the subsidiary should be run by an expatriate, and some larger companies had as many as 30 Finns in China in the starting phase (Kolmonen 2006). While it took time and effort for an expatriate to adapt to the Chinese way of working, living, building the *guànxìwang* and getting to know the important authorities, it was advisable to build even a modest network. This reflected a sustained stand of company operations and intentions, as authorities preferred long-term cooperation with the expatriate

over short work visits. To succeed in *guànxìwàng*, people sent to China should be open-minded, interested in Chinese culture, and capable of adapting their behaviour when at the same time pursuing to plant Western models. As regards cross-cultural communication problems with the employees, Finnish companies found it important to have as the accountant a Chinese person with fluent English skills (Ibid.; Kaislaniemi 2003). However, the localising in general should be done with careful planning and under strict supervision, and many companies preferred to recruit Chinese who had previous experience from Western companies.

In South Korea, there was considerable variation in the need for local adaptation according to company size. Small Finnish companies were forced to cope with the local practices even in cases when they were in conflict with Finnish values. Small firms did not possess the bargaining power needed to change the prevailing conditions. For example, there were cases when corruption was needed to cope with the bureaucracy, or when discrimination against female managers could not be stopped. In contrast, large Finnish firms who were considerable investors in South Korea, managed to operate according to their global business culture. They had integrated the Korean units with their global network, sharing the values of the parent company and operating under the global business strategy. Occasionally this resulted in the suppressing of some local practices, such as the informal organisational hierarchies or local authorities corruption. Finnish companies were in principle satisfied with the effectiveness and the high work ethic of the Korean personnel, and several Finnish firms were surprised by the Koreans' willingness to cooperate and to share responsibility. Mutual learning also resulted in organisational renovations: for example, when local employees became frustrated over excess reporting and committee work, the Finnish parent company decided to cancel most reporting procedures. It also seemed that Finnish expatriates adopted the tradition of informal networking within firms and devoted some of their leisure time to colleagues. Finally, it was found advisable to take advantage of the common misunderstanding of the linguistic relationship between the Finnish and Korean languages (e.g. Yang 2001). Several Finnish managers underlined having benefited from this belief, even if linguists have proved the relationship false. Nevertheless, Finns seemed to enjoy some preferential treatment and attitude in South Korea, and they did not suffer from the xenophobic investment-hostile atmosphere as the Americans did, for example.

In sum, the solutions found by the Finnish firms were an indication of successful mechanisms of governance in the three main challenges, i.e. finding qualified labour, defining the true cost level, and adapting to the local work culture. These included specific features some of which were unique to each host country while others were similar across the three countries. We will draw together these differences and similarities below in the final section where we summarize and elaborate on the findings of this study.

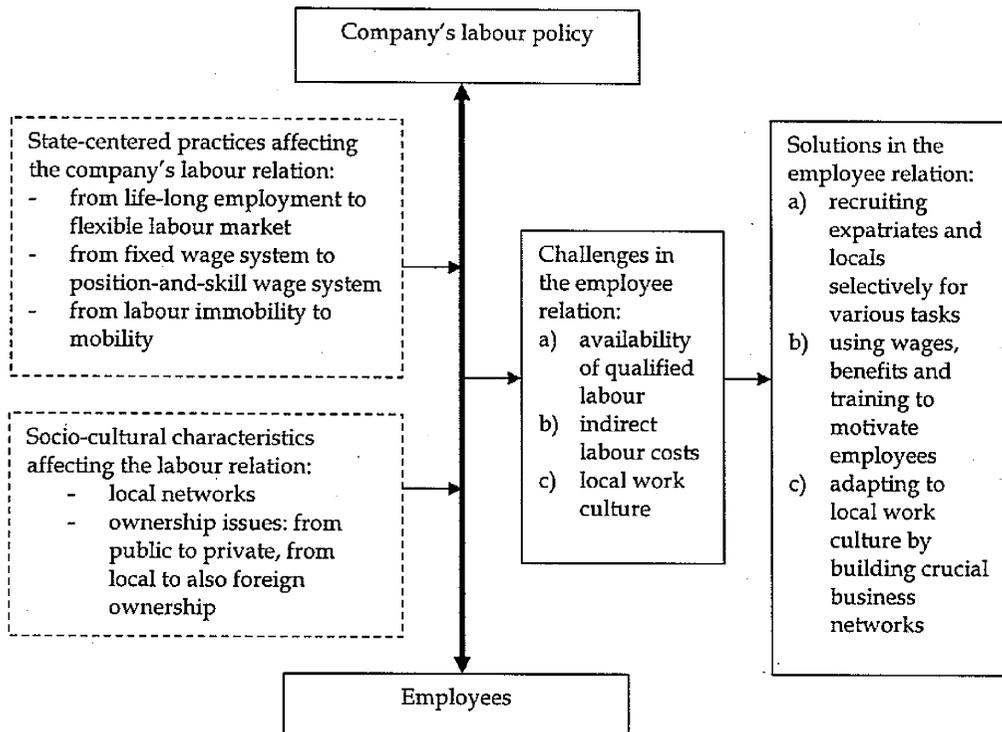
7. Discussion

In this paper, we have analysed the employee relations of international companies operating in the rapidly changing markets in Russia, China, and South Korea. The aim has been to identify the challenges and problems in labour relations, and to compare between the three countries in this respect. Theoretically, the study has discussed the governance (Jessop 1995; 1997; Kosonen 2002; 2005) of social relations, particularly the state-related and socio-cultural practices in the coordination of foreign companies' employee relations in host countries. The empirical analysis has been founded on a database of interviews with Finnish multinational companies operating in North-West Russia, coastal China and South Korea. Based on the interview data, we have described the various challenges in the companies' employee relations and solutions to these challenges in the three host countries. Figure 2 below summarizes the findings of the study based on the theoretical framework presented on the governance of employee relations in the host economy. The company's labour relation is affected by two sets of local influences depicted on the left side of the figure, i.e. the state-centered practices and the socio-cultural characteristics of the host economy.

The state-centered practices (i.e. formal institutions) of the host country include life-long employment, fixed wage system and labour immobility. These were legacies of the earlier socialist system of both Russia and China, and typical also for the state-led capitalist South Korea, before and during the transition. While they are still partly in place and thus also affect the operations of foreign companies, the recent labour market transition has somewhat changed these practices towards Western conventions of flexible employment and wage systems. At the same time, however, the turbulent business environment due to changes in legislation and government interventions has made the business environment extremely challenging for foreign companies, particularly in Russia but also in China and somewhat in South Korea.

The socio-cultural characteristics (the informal institutions) of the host country depicted in the lower left part of Figure 2 reflect the importance of local networks, as well as changes in the ownership of companies in the host country (most notably, public/private ownership and local/foreign ownership). The local networks such as the system of *po blatu* in Russia, *guānxìwǎng* in China and the Korean business networks have proved to be decisive in the way foreign companies succeed in these emerging markets. In addition, the company's labour relation is affected by ownership issues that are typical of transforming economies where public ownership is being replaced by a private one, and local possessions are complemented by the foreign ownership of companies. These naturally bring opportunities to foreign companies for operating in the market.

Figure 2. The Governance of Employee Relation in Russia, China and South Korea



The company's labour relation is affected by the above characteristics of the local environment, which brings about three types of challenges identified by the Finnish companies operating in Russia, China and South Korea. These include the availability of qualified labour, indirect labour costs, and local work culture. The challenges, or problems in the employee relation, have been solved in various ways in the interviewed companies. (Figure 2) The differences and similarities in the challenges and solutions in Russia, China and South Korea can be summarized as follows.

As to challenges, the availability of qualified labour was typical for Russia and China, but not for South Korea. In Russia, also the attitude of labour to work, turnover of labour, and ownership issues were identified as problems for the foreign company. In China and South Korea, the recruitment process itself was seen as difficult, expensive and time consuming. In China, this was mainly due to job hopping, while the absence of public job referral services was the major challenge in South Korea. In Russia, during the Soviet times it was fairly common to get a job *po blatu*, i.e. based on a reciprocal system of personal relations and exchange of favours. This was similar to China where based on *guanxiwang*, the key personnel often brought some of their earlier colleagues to the company. The relatively low

wage level in Russia, China and South Korea was accompanied with many indirect costs. In Russia, there were a range of compulsory social payments to be paid, while in China, extra costs were due to training and motivating, which increased the total labour costs sometimes significantly. In South Korea the compensation system included various bonuses and allowances that do not exist in Finland. Moreover, the salaries of middle and top management in Russia and South Korea were often on the same level or higher than in Finland. In all three countries, Finnish companies had some difficulties to bring the flat hierarchy and the requests for self-organising to the local employees, and in this respect, Russia and China were the most challenging environments. Companies in China and South Korea also reported of problems in communication due to language difficulties. A specific challenge in South Korea was the local business networking and the hierarchical systems within companies.

With regard to the solutions of Finnish companies to these challenges, our analysis showed that due to distinct contexts, somewhat different practices were adopted in each country. In Russia and China, Finns solved the problems of the professional skills of employees by careful selection and training, even if it increased the costs significantly. Efforts were made to increase the motivation and cut the job hopping by paying better salaries than local companies and by offering various social benefits. As to recruitment, informal recommendation formed an important channel to find qualified personnel in all three countries. The recruitment process was usually given to the hands of local managers who had extensive social networks in the local business community. Many Finnish units in South Korea were led by local managers since the very beginning, and also in Russia, expatriates were recently replaced by local young managers with international experience. Differently in China, the use of expatriates was still wide, because their management and technological skills as well as rapid decision making skills were seen to be better than those of local managers, while at the same time, the sales people should be both Chinese and male thus matching the customers. In Russia, China and South Korea, the management and organization of Finnish enterprises had to be adapted to the local conditions. Efforts were made to employ a more hierarchical and authoritarian management style, as well as tighter control measures. In China, the careful selection of expatriates was emphasised, and longer contracts with a lot of perseverance were practised.

Thus, to answer the questions posed for the study, we point to the differences and similarities between the mechanisms of governance in the three countries:

- In Russia and China, the mechanisms of governance in employee relations were based on the control by the Finnish company. In contrast, South Korea proved to be relatively different, as the operations had to be tightly integrated into the local business environment.
- As regards the management of employee relations, the general governance pattern identified above calls for understanding of the specific state-related and socio-cultural

features of each host country related to the transition phase. Foreign companies must gradually amend the governance mechanisms in host countries where formal and informal institutions change in the course of time.

The solutions to the specific challenges that companies face vary by regions due to the distinct nature of the socioeconomic and political contexts. Here, Russia and China are rather similar in terms of the solutions for recruiting, labour costs and the need for control. The careful selection of employees and motivating them through wages and various benefits is crucial for work performance in Russia and China. In South Korea, the local business networks are decisive in the whole recruiting process, including the selection of employees and in integrating the Finnish unit into the local business environment. Although the need of restructuring in South Korea culminated in the Asian financial crisis, the process had started already earlier, and thus the labour force had gradually adapted to the requirements of the market economy.

The findings contribute to advancing our understanding of the governance of foreign companies' employee relations in specific host countries. According to earlier theorizing (Jessop 1997; Amin and Hausner 1997; Jessop 1995; Kosonen 2005), governance refers to the various coordination mechanisms that actors use to create shared understanding and joint practices in cooperation. Based on the study at hand, foreign presence was needed in solving labour issues in the two transitional economies, Russia and China, while local actors were necessary in South Korean operations. Thus for foreign companies in general, sensitivity is needed in order to be able to modify governance according to the institutional development of the host country, and according to the life circle of institutional legacies, in particular.

APPENDIX

Table A1. Ownership structure of the Finnish companies in the study.

Ownership structure	Russia (n=51)	China (n=37)	South Korea (n=18)
Wholly-Owned Foreign Enterprise	51 %	55 %	55 %
Majority of Finnish ownership	14 %	17 %	17 %
50:50 Joint Venture	10 %	10 %	11 %
Minority of Finnish ownership	6 %	10 %	17 %
Representative office / technology transfer	19 %	8 %	0 %
Total	100 %	100 %	100 %

Source: Databank of the HSE/CEMAT.

Table A2. Industry branches of the Finnish companies in the study.

Industry branch	Russia (n=51)	China (n=37)	South Korea (n=18)
ICT, electronics, software	14 %	39 %	22 %
Engineering technology	8 %	39 %	22 %
Chemistry, forestry, energy	16 %	16 %	50 %
Retail trade and services	20 %	3 %	6 %
Food industry	12 %	0 %	0 %
Construction & construction materials	12 %	0 %	0 %
Textile and clothing industries	9 %	0 %	0 %
Other	9 %	3 %	0 %
Total	100 %	100 %	100 %

Source: Databank of the HSE/CEMAT.

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[2007年3月2日受理]

編集後記

「横浜経営研究」第27巻第3・4号をお届けいたします。本号では、6本の非常に質の高い論文を掲載しております。学会評議員からは、馬奈木俊介先生、高橋賢先生、および前山政之先生にご執筆いただきました。また、平成17年12月15日から平成18年12月14日まで本学経営学部の客員研究員であられた陸根孝先生による投稿論文が掲載されております。さらに、ヘルシンキ大学（フィンランド）の研究者4名による共著論文が掲載されております。外国からの投稿は今回が初めてであり、その意味で本号は大変記念すべき号になったと思います。本誌が外国の大学に在籍する研究者による論文の投稿先として選択されたことを心より嬉しく思います。

執筆された先生方および投稿論文の審査を担当していただいた先生方のご協力に感謝するとともに、今後も内外の研究者の方々が本誌を研究成果の発表の機会として積極的にご利用いただけることを期待しております。本誌の発展はわが大学の発展につながるものであり、さらなる発展を心より願う次第であります。勿論私自身、少しでも貢献できるよう努力したいと思います。

(白井 美由里)