

## **Early Global Trotters and their Entrepreneurial Employment Practices. A Case Study of the Colonial Hong Kong Government, 1845–1850.**

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### **Objective of the Case**

With globalisation becoming an increasingly common phenomenon, almost any firm can now be called a multinational enterprise (MNEs). However, the truly entrepreneurial ones are the early movers, those who make the move before the latecomers crowding out the market. These enterprises adapt to an environment that is unknown to them, often facing serious resources and manpower constraints, but overcoming these barriers by undertaking serious learning of the market as well as the people, and improvise and bricolage wherever they go. It is such entrepreneurial spirit and willingness to adapt and learn that enables some to make a handsome profit, before the entries of the latecomers squeezing out the margins. However, questions have often been asked of their ethicality with the conducts of many being classified as exploitative. This is particularly in the internal context, where MNEs are often reluctant to employ host country nations at important positions, and treat their host and parent countries employees differently. This led to many accusing the MNEs being ignorance, arrogant, or even racist. However, is the differences in wages really evident, and, if so, are there likely to be any reasonable justification?

Utilising statistics that were made available through historical sources, the objectives of the teaching case are as follows:

- To enable students to understand some of the key rationales behind an ethnocentric recruitment approach by MNEs.
- To enable students to appreciate the empirical difficulties in implementing a pure ethnocentric approach
- To explore how an ethnocentric approach to recruitment may be adopted with the help of third country nationals.

### **The Teaching Case**

This short case study examines whether the locals are really getting the raw end of the deal, through the experience of the British government when they first taken over Hong Kong as their colony. The British first entered Hong Kong in 1842, through winning the rather 'unethical' war of the Opium a year earlier. The main objective of the Colonial Government was not for territorial gain, as with North America earlier, but rather to establish a safe haven in the south of China to facilitate bi-lateral trade with China, and reduce their reliance of the Portuguese and their sleepy colony of Macau a short boat ride away. Therefore the purpose of the colonial government was in no different to any early-moving MNEs entering a country of relative unknown. Ironically Hong Kong was then a barren land, with little existing economic activity, and as far away from the capital of Peking (now Beijing) as one can geographically be within China, and also away from Shanghai, Nanking (now

Nanjing) and Hanchow (now Hanzhou) in the east, arguably the most prosperous region of China at the time.

One can imagine that finding relevant personnel filling in the vacancies can be a challenge. Britain is thousands of miles from China which, at the time, would take 6 months to reach. Hong Kong was also a place ridden with deadly diseases, with unpredictable torrential rain and typhoon most commonly occur in the spring and summer seasons. This creates a highly unfavourable environment for parent country nationals to enter. On the other hand, as a backwater harbour with little going on, locals are unsurprisingly relatively limited educated and, even amongst the more educated ones, were educated in the traditional Chinese system with little understanding of the British culture and language. The British government also worried about the loyalty of these newly neutralised subjects. Staffing unsurprisingly caused a great headache to the colonial government at the time. In the end, both groups, as well as others from third countries, were employed.

Now thanks to a unique source, we now also know how their positions and salary are distributed in the early years of the colonial establishment.

### **The data**

Utilising a unique record book that is available about the employment details of civil servants in Hong Kong, also known as the blue book, this short research case study intends to examine whether first-moving multinational organisations are treating their local employees in an ethical and reasonable manner. The blue book is a government document that is published annually, from 1845 up until 1945, regarding all aspects of the government's operations. We focus on the employment details of the civil servants. The information contains names of the employee, their department, the date of entering service, current position and current salary. By going longitudinally we also able to find out the year of their last entry into the blue book, which gives us the information of their final position as well as salary. We can then calculate the annual salary increase that the civil servant experienced over the period. In total, we collected all the entries of civil servant that first appear in the blue book between the period of 1845 and 1850. In total 120 civil servants with all information provided are recorded. We have deliberate taken out entries that do not have all the information that we need for all of the analysis. Most notably, a number of entries without name have been excluded, as we are unable to determine how long these employees have stayed within the organisation.

### **The findings**

We first conduct a simple descriptive analysis for the data in terms of nationality and grade (Table 1). The largest group of employees are British (n=76), followed by Chinese (n=25), Europeans (n=16), then Indian (n=3). In terms of grade distribution, all of the officers are British, as well as almost all the clerical supervisors as well as the majority of clerical workers. The Chinese on the other hand, occupy only non-supervisory position, and spread between clerical (n=11, 44%) and manual (n=14, 56%).

However, it is important to note that, for tracking purpose, our data only included named employees within the organisation. This affects mostly low level manual work, where only the job and other related information are entered. This significantly underestimates the number of Chinese within the organisation, as those who fill these positions are presumably filled by Chinese. Therefore, in reality a large majority of Chinese are in manual work position.

### **Table 1. Descriptive statistics of the nationality and grade within the sample.**

	Officer	Clerk (supervisory)	Clerk	Manual
British (N=76)	13	16	38	9
European (N=16)	0	1	12	3
Indian (N=3)	0	0	1	2
Chinese (N=25)	0	0	11	14

We then move onto the relationship between nationality and salary (Table 2). The table clearly indicates that the British earned over 20 times the salary of an average Chinese, suggesting considerable wage discrepancy.

**Table 2. Descriptive statistics of the nationality and salary within the sample.**

	Salary (£)
British	593.36
European	155.90
Indian	20.43
Chinese	28.76
Total	405.16

However, this only gives us a partial picture as salary is also determined by grades, which are unevenly distributed. We therefore move onto the relation between grades and starting salary (Table 3). Those in officer position (£2225) earned about 5 times of that of clerical supervisor (£481.00), and the latter three times more than clerical (£164.57). The manual workers took in the least, around £46.93 on average.

We then compare the salary by both grade and nationality. It is apparent that despite taking different grades into the account, the difference in salary between host and parent countries nationalities remains, although not as considerable. In non-supervisory clerical and manual positions, British were earning roughly 4 times over their Chinese counterparts.

**Table 3. Descriptive statistics of the nationality, grade and salary within the sample.**

	Officer	Clerk (supervisory)	Clerk	Manual	Average
British	2225	481.56	200.86	92.50	593.36
Chinese	-	-	58.87	22.95	28.76
All groups average	2225	481.00	164.57	46.93	405.16

Once the difference in salary has been established, we move onto examine whether longitudinally, the gap of salary has increased or decreased. Here the picture is more complex. Whilst British Officer's wages have increased only by less than 1% per annum (p.a.) and clerical supervisor 2.28% p.a., both with non-supervisory clerical and manual jobs had seen their income increased considerably (8.84% p.a. and 10.33% p.a. respectively). On the other hand, Chinese non-supervisory clerical employees experienced a minor decrease in salary (-0.69% p.a.), whilst those engaged in manual work saw their salary increased by 6.75%, still below the increase of their British counterparts. It could be that the British are finding it easier to gain promotion, for instance from clerical onto clerical supervisory role than their Chinese counterpart.

**Table 4. Descriptive statistics of the nationality, grade and salary increase within the sample.**

	Officer	Clerk (supervisory)	Clerk	Manual	Average
British	0.87	2.28	8.84	10.33	6.27
Chinese	-	-	-0.69	6.75	3.48
All groups average	0.87	2.28	5.92	6.9	5.08

It may be argued that those who remained in service longer may attain promotion which further increase their salary. Table 5 takes into account of year in service, and suggested that this may be the case for administrative role. However for for manual role, the length of service of the Chinese are in fact longer, suggesting that the salary increase difference is not down to short length of service amongst the Chinese employees.

**Table 5. Descriptive statistics of the nationality, grade and total years in service within the sample.**

	Officer	Clerk (supervisory)	Clerk	Manual	Average
British	9.54	7.19	7.55	3.33	7.32
Chinese	-	-	4.00	10.57	7.68
All groups average	9,54	8.59	7.31	6.9	8.94

This suggests that the Chinese manual workers may experience a glass ceiling, which prohibited them from gaining a salary increase or promotion.

### Conclusion

We provided some quantitative data to shed light on the question: 'Are the natives getting the raw end of a deal under the colonial rulings?' The answer to this is complex and for this we do not have a quick and precise answer. There are many factors that determined the salary for both host and parent country nationals, and not necessarily down to pure favouritism. Our data suggests that overall host country nationals earn much less than the British, but also those from third countries. Moreover, parent country nationals were placed at important officer and supervisory roles, as oppose to host country nationals at the bottom, forming a typically ethnocentric governance structure (Perlmutter, 1969). Furthermore, even divided by grade, the starting salary difference between host and parent country nationals remain considerable. Although this can be explained by a number reasons other than favouritism, this certainly cannot be ruled out. Similarly, we found differences in terms of annual salary increase. Although the difference between host and parent for clerical worker can possibly be explained by the different years of remaining in service, same cannot be said for manual worker.

However, the results fails to answer some of the more important questions. Most importantly, whether the differential treatments in terms of salary and grade are down to practicality, ignorance, arrogance or racism, is up for debate. International business and human resource theories point to the practicality of such arrangement, including the need of control, lack of know possess at the locally, and lack of understanding of the parent culture, all plays a part (Perlmutter, 1969). Ignorance may also have a role for their wage decision. At that time the British was still learning about their new place, the new culture and its people. It is still uncertain to them how best to operate a business and utilise the local people. Not offering host country nationals the higher positions at such sensitive time is understandable. Nevertheless, most qualitative information elsewhere tend to point to the lack of competencies amongst the locals. In terms of arrogance, it is certainly possible but our data does not provide any performance indicators on the respective groups. One important question

that we cannot answer is whether qualified host country nationals have been overlooked and incompetent parent country nationals favored, we do not know. Qualitative studies elsewhere do indeed suggest the latter although little evidence suggest that, with few exceptions, of the former. Arguably the latter did become a problem in the subsequent periods, especially from around 1870s onwards. At the time, British rule had entered the second generation. A group of locally born and bred elite, whose families had benefitted from trade with the British earlier, began to emerge. These elite were educated under the British system and proficient in its language. However, their involvements within the colonial government, as well as the wider British dominated societies, remained suppressed. It was not until almost a century later, around the 1970s, that localisation of the colonial government reached its climax. Facing with the host country nationals of much higher calibre, the accusation of racism can then be tested.

The finding perhaps explain the dilemma faced by the early-movers. The British certainly feels the strong need of adopting an ethnocentric approach, which can be extremely costly as a result of the large wage differential. A balance needs to be strike between this and utilising host country nationals, which may not necessarily possess all the essential quality, but may be cheaper. One could draw similarities between the British colonial government and modern days first-moving MNEs. For instance, a MNE moves into North Korea in present day would probably be facing some of the above challenges. Arguably as the colonial master, the British did have a lot more control, and the North Korean government would certainly not be pleased to see the enormous wage difference between host and foreign nationals, given their supposed socialist ideology. However, early entries do have very strong bargaining power, as the host country and its people are often dependent on their inwards investments and jobs. The South Korean companies invested in the Kaesong National Park in North Korea indeed had strong bargain power, as do many Chinese and Russian firms in its capital Pyongyang. With little competition, these entrepreneurial firms prosper as they could utilise the unique resources that no other firms could. As recent tensions between the two Koreas and the closing of the Kaesong National Park demonstrate, entering as first movers entails considerable risk. Nevertheless one could argue that these difficulties are precisely the same political instability that the colonial British government was facing at the time. People resourcing pose the same challenge as they did with the British all those years ago, with knowledge, loyalty and cultural understanding all become serious barriers for employing host country nationals. Similarly, without significant incentive, few parent country nationals, albeit the most adventurous and entrepreneurial ones, would be willing sacrifice the comfort of their own home to enter a position that sometimes feels like another world.

#### **Potential discussion questions for students**

- Are there clear evidence that the local (Chinese) were being discriminated? Were there any potential non-discriminatory factors that result in their comparative low wages and lack of presence in the high levels of the hierarchy?
- Why do you think the Europeans were being used to fill in the middle vacuum?
- How would you expect the composition of British, European and Chinese within the organisational hierarchy changed over time? A number of the factual information below may help you will your discussion
  - Hong Kong's territory has expanded in 1860 and 1897 owing to two further warfare successes by the British.
  - The population of Hong Kong continued to grow, from 7500 in 1841, to 283,978 by the turn of the last century.

- A large number of government secondary schools were established by the British government from the 1850s onwards.
- Do you think that the British government will continue to adopt a largely ethnocentric approach of recruitment over time?
- Do you expect other privately-owned MNEs to face the same challenge over the same period of time?
- Can you relate the experience within this episode to the expansion plan of any modern MNE?

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### **Reference**

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