HRM practices in China: does ownership structure matter? Evidence from the transitional economy in China

SHAOZHUANG MA E VIRGÍNIA TRIGO

ABSTRACT: This paper examines Chinese managers' perceptions on HRM practices followed by enterprises of different capital origin; it then compares and discusses the differences of the perceived HRM outcomes adopted by the firm categories in question. The study reveals that firms of different capital origin (including US, European and Japanese MNC subsidiaries, Chinese SOEs and POEs) have varied and distinct approaches to HRM. When compared to local Chinese firms, there is strong evidence of the perceived superiority of the HRM practices followed by foreign-owned establishments in China.

Key words: HRM in China, Chinese Private Enterprises, Chinese State Owned Enterprises, MNCs in China

TÍTULO: Propriedade das empresas e gestão de recursos humanos na China: Evidências de uma economia em transição

RESUMO: Este artigo estuda as percepções de gestores chineses relativamente às práticas de Gestão de Recursos Humanos seguidas por empresas de diferentes origens de capital, discutindo e comparando os resultados dessas percepções com as práticas adoptadas. O estudo revela: (i) que as empresas com diferentes origens de capital (norte-americanas, europeias, japonesas, empresas chinesas estatais e privadas) têm práticas de GRH diversificadas entre si, mas consistentes dentro do mesmo grupo; e (ii) que existe a percepção de que as empresas de capital estrangeiro têm práticas de GRH superiores às seguidas por empresas de capital chinês.

Palavras-chave: GRH na China, Empresas Privadas Chinesas, Empresas Estatais Chinesas, Multinacionais na China

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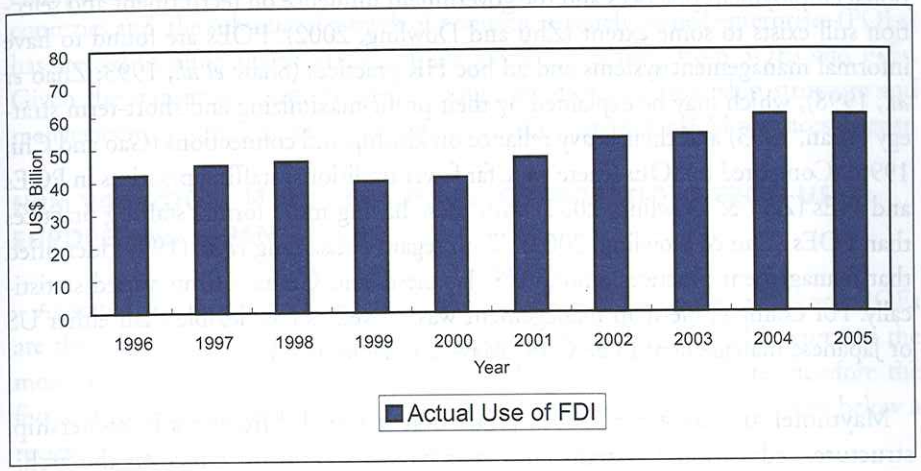
ees in larger numbers as they strive to localize their management operations in China. Conversely, domestic companies that are undergoing a reform process are increasingly competing against MNCs for the same group of talented people who have been well educated and are knowledgeable about modern management techniques. Managers are probably the most important resource of business organization and it is even more so in a transitional economy like China. What are the perceptions of these talented managers towards HRM practices followed by firms with different types of ownership? Answering this question may help the firms in question to maintain a stable and motivated pool of managers and to create a solid foundation for sustainable business growth. By focusing on this particular group we assume that the achievement of a post-graduate education will have prepared these managers to provide sounder feedback on the HRM practices researched.

In sum, the purpose of this research is threefold. First, we seek to present a thorough study of current HRM practices in China according to different ownership structures. Secondly, we aim to examine whether national origins of ownership do influence HRM practices in the country. Finally, this study compares the variation of HRM outcomes followed by different types of company and examines whether FIEs outperform their Chinese counterparts in HRM practices. The study may contribute to current knowledge in the following ways: (1) by presenting a review of the status quo of HRM performance in China; (2) by helping both researchers and practitioners to understand if and how HRM practices in China vary with employers of different ownership structure; (3) by helping those companies using less effective HRM practices to identify their gaps *vis-a-vis* companies employing more effective ones and then enable these companies to seek improvements by adopting «best practices»; and, finally (4) by providing some hints for localization strategies for MNCs, which depend heavily on local talent.

A SYNOPSIS OF CHINA'S ECONOMY

Official statistics show that China's economic growth has averaged 9.5% over the past two and a half decades and will continue at that pace for some time ahead. In 2004 and 2005 China's actual use of FDI was over 60 billion US dollar each year (see Figure 1 - Actual Use of FDI in China 1996-2005). A survey report conducted by the American Chamber of Commerce in Guangdong reveals that two thirds of the US companies surveyed in Pearl River Delta area report having each invested up to an additional USD 10 million or more in 2005 and more than 60% of the surveyed firms each plan to invest up to an additional USD 10 million or more in 2006 (American Chamber of Commerce in Guangdong Special Report, 2006). The report states that this investment trend will continue for the next three years.

FIGURE
China's actual use of FDI 1996-2005



FDI has a significant influence on the changing patterns of human resource management practices in China as foreign-invested enterprises (FIEs) have not only brought investment and technology into China, but also advanced management expertise and human resource management systems and practices (Ding and Akhtar, 2001). These authors also argue that the human resource management practices in FIEs have set the precedent for SOEs to reform their traditional people management practices.

DIFFERENT TYPES OF HRM PRACTICES IN CHINA

Ownership is a key variable in explaining an organization's choice of HRM practices (Ding and Akhtar, 2001). This is well illustrated in China where the variation in these practices has been found to reflect the impact of ownership to a great extent (Zhu & Dowling, 2002; Chow, 2004). Tsui *et al.* (2002) note that SOEs, FIEs, and POEs demonstrate different employment relationship approaches and, even among FIEs, there is considerable evidence that the country of origin exerts a significant influence on their HRM practices (Edwards & Ferner, 2002; Ferner, 1997; Yang *et al.*, 1999). These differences can be explained by tradition as well as by deliberate management choices. Edwards and Ferner (2002) point out that sources of national influence include the overwhelming presence of nationals from the home country in the management board of MNCs, the majority of financial resources from home country, and the concentration of key strategic activities and headquarters of MNCs in the home base.

As for domestic companies, SOEs have generally more complete HR infrastructures than enterprises in the private sector. They have also maintained more traditional employment practices and the government influence on recruitment and selection still exists to some extent (Zhu and Dowling, 2002). POEs are found to have informal management systems and ad hoc HR practices (Shaw *et al.*, 1993; Zhao *et al.*, 1998), which may be explained by their profit-maximizing and short-term strategy (Yuan, 1993) and their heavy reliance on kinship and connections (Gao and Chi, 1996). Compared to SOEs, there were far fewer traditional staffing practices in POEs and FIEs (Zhu & Dowling, 2002) with these having more formal staffing practices than POEs (Zhu & Dowling, 2002). With regard FIEs, Yang *et al.* (1999) identified that management practices among US, Japanese, and German firms varied statistically. For example, German management was viewed as less flexible than either US or Japanese management (The CBR, May-June 1998, p. 54).

Mayrhofer and Brewster (2005) argue that national differences in ownership, structures, educational systems, and laws have a significant effect on the architecture and the practices of employing organizations, and cultural differences mean that the management of organizations and particularly of people is fundamentally different from country to country. Many researchers (Adler, 2002; Schuler & Huber, 1993) believe that human resource management is one of the areas where organizations are most likely to maintain a 'national flavor'. For instance, Alder (1986, 1991) argues that the corporate culture of US multinationals will invariably reflect American values, beliefs, and management tactics. Though in the literature it is sometimes debated whether one can speak of a specific «management model» when referring to management practices within a given country, Pudelko (2004) asserts that such distinctions among countries could be made and that the terms «management model» or «HRM model» are thus justified, especially for such contrasting countries as Japan, USA and European countries like Germany.

In an early comparative study of American, European, and Japanese multinationals, Negandhi and Baliga (1979) found the following suggestive trends in management practices: U.S. MNC's were discovered to be highly reactive to changes in host countries. «Instead of negotiating discretely, they preferred to overreact and ignore diplomacy»; Japanese MNCs, in contrast, assumed a very low profile at times of conflict in host countries and waited for the tension to dissipate. Later on, Pudelko (2004) demonstrated that American HRM is rated partly better (by the Japanese), and partly less favorably (by the Germans). In general, American HRM is perceived as most attractive, with Japanese HRM far less appealing, and German HRM the least desirable by a wide margin (Pudelko, 2004).

In summary, SOEs have diverged from the traditional practice of lifetime employment and begun to move to market-driven management practices; foreign-invested enterprises (FIEs) have transferred and introduced HRM practices from their home countries and the substantial growth of domestic privately owned enterprises (POEs) has started to build up an HRM infrastructure by learning from SOEs and FIEs. Given the transitional context and the huge variations in ownership structure and management among enterprises, we can expect differences in HRM practices to exist.

HRM VARIATION IN MULTINATIONAL CORPORATIONS FROM US, EUROPE AND JAPAN

As stated above, foreign companies from US, Europe and Japan, SOEs and POEs are the major employers of Chinese professional managers. They also represent the most compelling and distinctive models of HRM in China and are therefore the focus of this study. For a better understanding of these models, we present below a review of the different approaches.

The US Approach to HRM

As a discipline, Human Resource Management (HRM) first emerged in the USA in the 1980s (Beer *et al.*, 1985; Kochan *et al.*, 1986). In 1980 Harvard introduced HRM as a new course for its MBA (Guest, 1990). Many HRM practices like merit-pay and promotion, performance appraisal, employment-at-will originate in America (Zhuang, 1992). Researchers argue that the American HRM system is based on the ideology of enterprise labor market model (Yuan & Kee, 1993). Therefore, it is the labor market that serves as a mechanism for labor mobility. Along with the labor market background, US human resource departments have evolved into legalistic bureaucracies characterized by high levels of formalization and standardization (Yuan & Kee, 1993). The detailed division of labor is considered the basis of the professionalism of US firms because it helps to increase efficiency and reduce costs. US firms are well-known for their various kinds of incentive systems practiced to motivate different employees. The flexible and effective pay for performance incentive system plays an important role in attracting, retaining and utilizing employees in US companies. US firms hold the principle of pay for performance and US employees believe that pay for performance is equitable and fair (Lawler, 1990).

Obviously, there is a clear stereotype of the US approach to HRM. How many of their HRM features are retained by US MNCs subsidiaries abroad? Edwards and Ferner (2002) argue that US MNCs have demonstrated clearly detectable country-of-origin influence by commonly employing performance-related pay (PRP), formalized performance appraisal systems and employee involvement in their foreign

subsidiaries. Dunning (1998) found that: (i) the majority of US MNCs adopted parent company wage policy or principles and inherited merit-based pay systems with pay above market rates; (ii) pursued internal labor market policy; and (iii) showed a «marked paternalistic attitude» to personnel. Studies also show that US MNCs are more likely to use profit-sharing and to have employee involvement (Innes and Morris, 1995; Geary and Roche, 2001). In a comparative study of management practices among firms from US, Germany and Japan in Shanghai, Yang *et al.* (1999) found that merit-based employment is mostly common in US firms. They also argue that the emphasis on performance by US FIEs in China may symbolize the influence of typical US management practices. Therefore, there is a good reason to expect the presence of a distinctive American HRM approach by US subsidiaries in China.

The European HRM Approach

The «European Model of Human Resource Management» was developed largely due to the fact that «there is an identifiable difference between the way in which HRM is conducted in Europe and the situation in the USA» (Brewster, 1993). Therefore, Brewster (1994, 1995a, 2005) states that European HRM as a whole is different from that of the United States, though there are substantial differences between the way HRM is understood and made operational in each European country. The differences that lead to a European model of HRM include the legal environment relevant for HRM, the role of trade unions and employers' associations, specific aspects of HRM like skill-level and available types of qualifications in the work force, and managerial attitude towards employees' participation in decision making and, lastly, the views on HRM (Mayrhofer & Brewster, 2005). Brewster and his colleagues point out that in Europe, organizations are less autonomous as their autonomy is constrained at national level by culture and legislation; at the organizational level, by patterns of ownership; and at the HRM level by trade union involvement and consultative arrangements (Brewster, 1993; Mayrhofer & Brewster, 2005). Thus, Brewster (1993) suggests that a new 'European' model of HRM emerges with the following features: first, European countries are more heavily unionized than the United States and than most other countries, because in many European countries the law requires union recognition for collective bargaining; secondly, European HRM is more influenced and determined by State regulations; thirdly, the European tradition of employee involvement is widely practiced in many European countries. Moreover, Mayrhofer and Brewster (2005) referred that there are important differences in the specific aspects of HRM between Europe and the US, such as in skill-level and available types of qualifications in the work force (Mason & Finegold 1997); in the role of human resource development professionals (Nijhof & de Rijk 1997); and in managerial attitudes towards employees' participation in decision making (McFarlin *et al.*,

1992). Thurley and Wirdenius (1991) proposed a specific European HR pattern that consists of a degree of pluralism and a balance of stakeholder and social partnership.

However, other researchers (Claus, 2003; Mayrofer *et al.*, 2004; Clark, Pugh, 1999, 2000) oppose that, saying although there is a common context in European HR that distinguishes it from the US, there is no European model of HR due to the lack of harmonization of labor legislation and the cultural diversity in Europe. Even the most popular advocate of European HRM model, Brewster (Mayrhofer & Brewster, 2005) admitted that the latest major trends constituting important characteristics of the evolving picture or HRM in Europe indicate that - «European HRM is different» and «there is great variety of HR practices in European countries». Based on the above discussion, it would be safe to conclude that at the current stage it is not possible to make a clear definition of the European HR model. It is recognized though that HR practices across Europe have their own common features and the «European HRM model» is believed to be at a developing stage with a future of increasing convergence.

This study assumes that HRM practices followed by European MNCs in China have their own common characteristics and does not attempt to endorse or disapprove the existence of a European HRM model. It is by contrasting it with HRM practices of MNCs from other origins that the common features of European MNCs can best be distinguished.

The Japanese Approach to HRM

It has long been argued in the literature on Japanese management that Japan's success has largely been a matter of its unique ways of managing human resources (Ouchi, 1981; Takeuchi, Wakabayashi, Chen, 2003). Therefore, the stereotypical Japanese HRM approach has been well-documented in literature. Its features include lifetime employment, the nenko system of promotion and seniority-based pay, an elaborate welfare system, team-working, flexibility, on-the-job training and extensive systems of communication, including some form of in-house union or company council (Trevor and White, 1983; Lincoln & Kalleberg, 1990; Guest & Hoque, 1996). Among them, the «lifetime employment, seniority-based reward system and collaborative enterprise labor unions» have been widely recognized as the three backbones of Japanese-style management (Baba, 2004; Keys & Miller, 1984; Watanabe, 2003; Yang *et al.*, 1992).

Modern HRM in Japan has been greatly affected by rapid changes in the country's social and economic environment (Satow, Wang, 1994). With the bursting of the economic bubble in late 1980s and early 1990s, the Japanese economy entered a

period of sustained decline and unemployment rose from 2.1% in 1991 to 5.3% in 2003 (Benson & Debroux, 2004). The slow economic growth accompanied by increased competition from other countries, together with the increasing westernization of the new generations account for the change in the social and economic environment (Sethi, Namiki & Swanson, 1984). Japanese employees' attitudes are changing from loyalty to the employers towards identification with their profession (Mroczkowski & Hanaoka, 1998) and it is claimed that traditional Japanese collectivism is being replaced by individualistic values (Hill, 1994; Hofstede, 1983; Triandis, 1995). A recent study suggested that, among Japanese managers, there is a rising discontent with their own HRM system and that the Japanese want to increase their orientation towards the American HRM model (Pudelko, 2004). Mroczkowski and Hanaoka (1998) predicted that the Japanese management system would most likely dissolve and transform into a 'universalist' one around the year 2010.

Therefore, although there are distinctive characteristics in Japanese human resource management, the traditional features may be fading out due to the economic and social environmental changes Japanese firms have been facing for the past two decades. The extent to which the traditional Japanese management style changes to cope with the external environment and how Japanese MNCs in China are adapting to the local business context are interesting subjects worthy of further research endeavors. This research will look at the practices Japanese MNCs follow in China and their effectiveness in the eyes of Chinese professional managers. The answers to be found may be of great help in understanding the latest development of Japanese human resource management and in getting inputs for Japanese MNCs to get the most out of their Chinese employees who are supposed to be managed differently from Japanese nationals.

The SOEs Approach to HRM

As China moves from a centrally planned economy to a «socialist market economy with Chinese characteristics»[1], the HRM approach in SOEs has also been experiencing challenges and changes in the period of the economic transition. Prior to the economic reforms beginning in 1978, SOEs were the dominant organizational form. However, the number of SOEs has decreased dramatically, while non-SOEs, including POEs and FIEs have grown steadily and substantially during the past 20 years (Sabin, 1994; Anderson *et al.*, 2003). During the 1980s, the importance of state firms began to decrease and enterprises with a variety of ownership forms increased their shares of output and employment (Dong & Putterman, 2002). The 1990s were marked by growing labor redundancy in the SOE sector. Many state-owned enterprises were reported to have employed more workers than they should on economic grounds (Dong & Putterman, 2002). The number of state-controlled industrial

enterprises fell by over one half in the following five years from 1998 and their payroll dropped by over 14 million (Herd & Dougherty, 2005). The restructuring was accompanied by a rise in unemployment. In 1996, the redundancy in SOEs was up to 24 million people (Economy Yearbook 1997) and, by 2001, the accumulated *xiagang*[2] (unemployment) rate reached «70 percent in pure SOEs whereas it was 30 percent in restructured firms» (Yang, 2005). This may explain why the employed workforce in SOEs dropped 41% from 109 million in 1996 to 64 million in 2004 (China Statistical Year Book 2005).

The Maladies of HRM in SOEs

SOEs face many HRM problems such as lack of human resource strategy, seniority-based pay, arbitrarily designed performance appraisal system, ambiguous job responsibilities and autocratic leadership styles (Sun, 2000). The function of the HR department in many state enterprises was found to be administrative not strategic (Child, 1994; Lewis, 2003). It was responsible for collecting data on attendance, lateness, pay bonuses or the like, for maintaining employees' personnel records and for performing administration work for governments, such as by guaranteeing that married employees were complying with the family planning policy, etc. Although SOEs began using employment contracts in 1980s, the adoption of new practices has been very slow due to the legacy of traditional employment practices (Ding *et al.*, 2000; Heller, 1999; Goodall &Warner, 1997). In addition, Lewis (2003) argues that there is a lack of HR expertise in state enterprises, which leads to the absence of a personnel management infrastructure. The different HRM functions in SOEs may be characterized as follows:

Recruitment, selection and staffing

Before reforms started at the end of the 1970s, recruitment and selection were of little significance in China as employees were assigned to SOEs under the state-controlled employment system (Lewis, 2003). The recruitment, job allocation to firms, issue of employment permits, transferal and dismissal of employees were all subject to the official approval of the state labor administration under the «iron rice bowl» system (Zhu, 1995). An employment contract system was introduced for new employees in SOEs in 1986 and was extended to all enterprises in 1995 under the principles of a free labor market (Lewis, 2003). However, we have to recognize that HR practices in China are in transition from a highly centralized allocation process to a more market-driven and merit-oriented system (Chow, 2004). On the one hand, staffing practices are becoming more decentralized and selection criteria focusing more on job-specific information like technical skills and proven work experience. On the other hand, SOEs continue to use traditional HRM practices, such as nepotism in staffing, and lending weight to political background in recruiting and evaluating performance.

Compensation and Benefits

Ding *et al.* (1997) recognized that compensation levels in SOEs were determined by seniority, political orientation and nepotism. Confucian values place an important emphasis on seniority (Chow, 2004) and egalitarianism is a popular philosophy in Chinese culture and Communist logic. Therefore, seniority and group-based pay systems are used to a large extent in China. Pay differences in different professions and at different levels of responsibility were minimized under the «iron rice bowl» employment (Lewis, 2003). The «iron rice bowl» system promised permanent employment, job security and cradle-to-grave welfare coverage in SOEs (Lewis, 2003). Providing social benefits to the whole working-age population was a key function held by SOEs (Chen *et al.*, 2005). This started to change in the course of reform as the government applied the principle of «to each according to his work»[3] (Easterby-Smith *et al.*, 1995). Dong and Putterman (2002) suggest that performance-linked bonus payments have been introduced to inject more monetary incentives into the compensation system of SOEs. This is consistent with Lewis' findings (2003) that many Chinese enterprises are moving from a predominantly egalitarian wage payment system to one that is more individualized to reward employees according to their contribution to the enterprise, though in many cases, bonuses have often been distributed on an egalitarian basis within work units (Chen *et al.*, 2005).

Performance Appraisal

Due to the importance of 'face' in a collective culture, and having an egalitarian pay system, there has been a far weaker tradition of evaluating performance in China (Chow, 1994). Chow (2004) further explains that Chinese emphasis on harmony, face, non-confrontation and egalitarian collective culture presents the real challenge for conducting performance evaluation, as pay incentives will have a negative effect on outcome measures and employees feel upset and threatened by negative feedback and by the exposure of their weaknesses. As a result, performance appraisal may become part of the formalities of «face saving» on both sides. The performance evaluation system in the state organizations normally includes four dimensions[4]: virtue (*de*), capability (*neng*), diligence (*qing*), performance (*ji*). These four abstract elements are very difficult to measure in an objective and quantitative way. Under this system, political consciousness and loyalty were given much weight while performance is not much valued. Chow (2004) recognizes that promotions have been largely based on seniority rather than performance in China's state-owned enterprises for decades.

In summary, as Chow (2004) concludes, HR management in China is still in the early stages of the diffusion process. The HR departments in SOEs are still busy with administrative work and services. HR is playing a supporting function in state firms

and HR practices have exhibited reactive and highly operationally oriented characteristics (Chow, 2004). Although the transformation from the traditional operative focus to becoming a strategic partner is slow, we have good reason to believe that as China is moving toward a more market-oriented economy, it is catching up rapidly with developing HR systems (Chow, 2004).

The POEs Approach to HRM

After the founding of People's Republic of China, China established and implemented the planned economic system, and private enterprise was restricted, then remade, then finally eliminated. It was resurrected in 1979 with the advent of reform and open-door policy initiated by Deng Xiaoping. At that time, private business was recognized as «existing within a certain scale as a complement» to the planned economy by Chinese government (Trigo, 1995). Given the Chinese government's insistence on the primacy of the socialist system of public ownership, private enterprise only played a supplementary role in the national economy. It only really began to take off in 1992, when Deng Xiaoping gave his «Southern Tour»[5] speeches and the Fourteenth Party Congress approved the policy of long-term co-development of a multiplicity of economic elements (Trigo, 2003). Since then, China has stridden towards market economy reforms. After more than 28 years, private businesses have started contributing the same economically as the State-owned enterprises in China (Liu, 2005). Herd and Dougherty (2005) report that the private sector accounted for as much as 57% of the value-added produced in China by the non-farm business sector in 2003. There were 2.03 million registered private enterprises till the end of 2001 and the total value of their production accounted for 60% of that of all enterprises with various ownership backgrounds (Zhu, 2005). J.P. Morgan Chase's study of gross industrial output by ownership showed that the private sector accounted for 5.5 trillion yuan[6], against 3.8 trillion for state owned industry (Redding, 2002). In 2005, regulations that prevented privately-owned enterprises from entering economic sectors like infrastructures, public utilities and financial services were removed and these changes have encouraged the growth of a powerful private sector in China's economy (Herd & Dougherty, 2005). In short, the private sector is the fastest growing, most efficient, and most vibrant part of the economy in China (Smyth, Wang & Kiang, 2001).

The POEs are already a major source of jobs, now employing close to 50 million workers and more and more people today are finding work in private firms rather than state-owned ones. The leading professional on-line job agency (www.51job.com) published a nationwide survey, saying that private firms would recruit more Chinese university graduates in 2006 than the multinationals (*First Financial Daily*, January 26, 2006). In addition to employment absorption, Yang (2005) argues that privati-

zation helps improve wage growth. The on-line job agency's survey also indicates that pay does not differ much between private firms and multinational firms.

However, POEs face the problem of a shortage of talent and high turnover. Private firms are not popular employers for professional managers partly because of the performance pressure as well as the low social standing of this type of firm (McNally *et al.*, 2003; Trigo, 1995; Sabin, 1994). Also most private firms are family businesses and, as such, they are hesitant to employ outsiders (of the family circle) in higher position to avoid divulging business secrets. In addition, usually private firms are not able to offer generous incentives because of their uncertain performance outlook (Wang *et al.*, 2003) and relatively small business scale. It is difficult, or even impossible, for POEs to have long-term obligations to their managers (Wang *et al.*, 2003). A nationwide survey among private enterprises by China Academy of Social Science (2005) indicated that the primary barrier for the enhancement of private firms' competence is the shortage of talented managers. The study also showed that private enterprises have been aware of the problem and have put staff development plans on their agenda (76.77% respondents indicated that they had staff training plans). In a survey on Chinese private enterprises, 66.8% respondents considered «shortage of talented managers» as the main barrier to growth after funding which was their «biggest difficulty» (Chinese enterprise survey, 2005).

However, a survey conducted on employment of professional managers in private enterprises in 2002 showed that only 6.4% respondents believed «it is the time to employ professional managers» while 49.2% believed «it is too early to employ professional managers»; the other 44.4% said they «already employed professional manager, but there was lots of room for improvement» (Zhang & Liu, 2005). These figures indicate that on one hand private enterprise proprietors expect to employ professional managers to enhance the management and performance of their enterprises; but, on the other hand, they are cautious about using professional managers due there is little trust between the business owner and managers because in some cases managers pursue personal interests at the expense of the employers (Zhang & Liu, 2005). In addition to the lack of talented managers for business growth and increasing competitiveness, managerial turnover is much higher in POEs than in their MNCs and SOEs counterparts. The turnover rate in private enterprises is over 30% and the middle and senior management executives and technical specialists account for most of that turnover (Zhang & Liu, 2005). This is a big threat for the private domestic firms (Wang *et al.*, 2003).

It is hard to say whether there is a distinctive POE approach to HRM, given the short period of time for the development of this kind of ownership structure. By tradition, China is a collectivist society and people tend to distinguish between «in-

groups» and «out-groups». They expect their «in-groups» to look after them in exchange for absolute loyalty to the group (Guest & Hoque, 1996). This is exactly the case, given that most private firms grow from family businesses. The employment of relatives, especially in key positions like finance and accounting, is consistent with the culture. Nepotism is reflected in almost every part of HR activity, from recruitment, appraisal, pay and promotion. Local entrepreneurs are reluctant to invest in training and development as they tend to believe training will only enhance «out-group» employees' bargaining power for rewards and increase the possibility of volunteer turnover. The boundary of «in-groups» and «out-groups» has led to the little trust between «out-group» employees and entrepreneurs and lack of trust has become a barrier in the building of human resource infrastructure. As a result, there is little expertise and no real system in human resource management in most private firms. We have to recognize though that some leading private companies in China are copying and/or adapting management techniques from multinational corporations although they may still keep some features of traditional practices such as nepotism. Just as in SOEs, HRM in POEs may be described as mainly 'hybrid' and indeed 'nascent'.

Variation of HRM Practices

As Warner (1996) notes, human resource management in China is moving towards a hybrid form of labor-management relations and different HRM systems coexist under different ownership structures. While recognizing the differences among HRM practices followed by firms of different ownership structure, do Chinese managers' perceptions of different HRM practices vary? Shao (2005) notes, for example, that Chinese employees' job satisfaction varies according to the firm's category. In his study, he finds that foreign-invested enterprises (FIEs) generally offer competitive salaries, pay attention to employees' training and development, adopt a participative management style, respect individuals, encourage open and direct communication and create a safe and healthy working environment, while in SOEs employees complain about the low pay, lack of training and autonomy, autocratic leadership, limited communication channels and poor working environment. Therefore, FIEs employees enjoy better job satisfaction than their counterparts in SOEs. Shao also recognizes that the HRM policy may even differ among the FIEs as he particularly points out that European FIEs practice very conservative HRM policies and seldom lay off employees, even in economic down turns. Zhao (1998) presented a similar finding to Shao's and argued that the HRM practices of FIEs are better than those of private firms which, in turn, are only marginally better than those of SOEs.

Proposed Hypotheses

Based on the above review, we may now propose the following hypotheses:

- US, Japanese and European firms, as well as SOEs and POEs, will each display a

distinctive HRM approach in their operations, reflecting ownership structure influences on their HR practices;
- HRM practices by MNC subsidiaries produce better performance than those of their Chinese counterparts (either SOEs or POEs).

RESEARCH PROCESS

This paper is part of a study in progress that evaluates the impact of ownership structure in HRM practices in China. The main research strategy consists of a survey that, in the larger study, is comprised of six parts of which the current paper will deal with three. The first part concerns background information on the respondent; the second covers the management practices/processes of the respondent's current employer; and the third examines the performance of the key HR functions of the different HRM practices.

A sensible way of examining the relationship between economic ownership and the HRM approach is to employ the Human Resource Index (HRI) developed by Frederick Schuster which is believed to be a quite practical means of analyzing the management of an organization's human resources. It contains 15 items about the organization for which the participant is asked to indicate a level of agreement. Scores on the 15 factors will be used to analyze and compare results from one category of HRM system to another. The HRI's original 15 items include: reward system; communication; organization effectiveness; concern for people; organizational objectives; cooperation; intrinsic satisfaction; structure; relationships; climate; participation; first level supervision; quality of management; work group; and inter-group competence. Given the difference between the business context in China and the west, the last two items, i.e., work group and inter-group competence, have been replaced by two others: promotion policy and shared values which are believed to be of more concern to professional managers in China today. In a comparative study of HRM practices of FIEs, SOEs and POEs in China, Zhao (1998) found that the overall human resource index of the HRM practices followed by FIEs is better than those of SOEs and POEs.

The 15 HRI variables were measured on a six-point scale[7] (1= extremely dissatisfied and 6 = extremely satisfied). Questionnaires were originally developed in English, and translated into Chinese by a standard procedure of translation and reverse translation (Brislin, 1980). The survey was conducted from December 2005 to March 2006. A pre-pilot questionnaire was conducted in April 2005 on 50 professional managers with MBA education and its design and contents were then discussed with the participants and thesis advisors for improvements. The final questionnaires were collected from a number of sources, including MBA classes (applicable to part-time MBAs), MBA alumni reunions, MBA graduation ceremonies, email and faxes. A total of 1 000 questionnaires were administered and 312 have been returned with a return rate of 31%. After excluding incomplete or inappropriate returns, there were 305 valid questionnaires. Of these, 57 were related to American companies, 23 to Japanese, 51 to European, 80 to SOEs and 64 to POEs. The remainder came from firms with other ownership such as, Korea, Hong Kong or Taiwan. In-depth interviews were made to provide more insight and understanding of the survey data.

Presentation of the Results

To better discuss our results they will be presented in terms of the hypotheses earlier outlined.

Ownership influences on the HR practices

The first hypothesis stated that US, Japanese and European firms, as well as SOEs and POEs, will each display their distinctive HRM approach in their operations and reflect ownership influences on HR practices. The data used to test this hypothesis are presented in Tables 1 (p. 22) and 2 (p. 23). Results of the multivariate analysis comparing the mean scores of HRI by foreign establishments and local Chinese firms are presented in Table 1. The first column shows the 15 HRI variables on which information was collected in the survey, followed by the mean scores and standard deviation of five categories of firms with different economic ownership. In exploring discrepancies between FIEs from US, Europe, Japan, and SOEs and POEs, the information on Table 1 confirms that they do exist.

Table 2 presents the descriptive data comparing the use of a range of specific practices by US, EU and Japanese foreign-owned establishments and SOEs and POEs. Table 2 includes 10 yes or no questions to issues like «top-down decision making path?». The mean scores of the first eight items give an indication of how each practice is adopted. For example, the first item examines whether the firm employs a top-down decision making practice and the mean scores show that there is no significant difference among Japanese FIEs, SOEs and POEs in which top-down decision making prevails. European FIEs tend to be more consultative in decision making than other firm categories. The last two items on Table 2 show the availability of the HR practices adopted in two areas: communication channels and support to employees. For these two items, the higher mean scores indicate a higher frequency of these HR practices. These two items show that there are significant differences in the communication channels and support to employees across firms of different ownership. We are going to discuss the results that can be generated from Table 1 and Table 2 for different firm categories in the following sessions.

First, the general comparison for all firms shows that the HRM practices followed by US-owned establishments are perceived to be the most satisfactory because the mean scores of US firms are well ahead of those of other firms in 14 out of 15 HR functions, including communication; organizational effectiveness; concern for employees; organizational objectives; cooperation; intrinsic satisfaction; structure; management quality; promotion policy; and shared values among employees.

TABLE 1

HR1 of US, European and Japanese FIEs and CSOEs anc CPOEs

	US=57		EU=51		JP=23		CSOE=80		CPOE=64	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Reward system	3.93	0.81	3.80	0.96	3.57	0.79	3.75	0.98	3.75	1.03
Communication	4.02	1.05	3.76	1.24	3.30	1.06	3.35	0.95	3.34	1.12
Organization effectiveness	4.33	0.87	3.78	1.08	3.61	0.99	3.47	1.00	3.52	1.11
Concern for people	4.13	1.03	3.84	1.00	3.57	1.08	3.46	0.98	3.59	1.22
Organizational objective	4.13	1.01	3.67	1.18	3.70	1.22	3.41	1.10	3.63	1.36
Cooperation	4.17	0.93	3.82	1.13	3.35	1.07	3.51	1.05	3.69	1.28
Intrinsic satisfaction	4.00	0.95	3.75	1.11	3.57	1.04	3.58	1.02	3.78	1.23
Structure	4.06	0.88	3.69	1.03	3.57	0.95	3.53	1.09	3.55	1.10
Relationships	4.33	1.15	4.39	0.94	4.30	0.93	4.11	0.99	4.06	1.01
Climate	4.22	1.13	4.18	0.99	3.74	1.21	3.80	1.10	3.73	1.21
Participation	4.11	1.04	4.06	1.17	3.52	1.04	3.61	1.23	3.98	1.41
First level supervision	3.94	0.79	3.80	0.83	3.57	0.99	3.75	0.99	3.59	1.11
Management quality	4.24	0.87	3.84	0.95	3.74	0.86	3.71	1.06	3.89	1.18
Promotion policy	3.91	0.98	3.51	1.01	3.30	0.93	3.14	1.09	3.48	1.15
Values	4.11	0.90	3.78	1.15	3.43	0.90	3.33	1.22	3.58	1.21

Table 2 also suggests that US firms provide more communication channels and more support to employees than firms of other categories. This indicates that US firms are more likely to use performance-oriented policy for pay and promotion, open and direct communication, formal job evaluation and more comprehensive HR infrastructure and systems. Therefore: (i) HRM systems of US firms in China have their own distinctive features and (ii) as the standard deviation figures support, they are more favored by Chinese professional managers. Nine standard deviation figures out of 15 are below 1.00 and the average of the 15 figures is 0.96, the lowest among the five firm categories. This clearly indicates that the HRM systems of US owned establishments in China are quite distinct.

Taking the same approach, it is easy to conclude that the HRM performance of European MNC subsidiaries is perceived to be the second best after US FIEs because

TABLE 2

Descriptive statistics of organizational process comparison

	US=57		EU=51		JP=23		SOE=80		POE=64	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
top-down decision making path*	1.08	0.27	1.11	0.31	1.04	0.21	1.04	0.19	1.03	0.18
decision making speed**	1.31	0.47	1.50	0.51	1.57	0.51	1.70	0.46	1.40	0.49
implementation of decision**	1.30	0.46	1.38	0.49	1.39	0.50	1.48	0.50	1.29	0.46
internal communication***	1.17	0.38	1.16	0.37	1.13	0.34	1.19	0.48	1.41	0.50
clear strategy *	1.15	0.36	1.26	0.44	1.22	0.42	1.38	0.49	1.35	0.48
participation in strategy formulation*	1.74	0.45	1.74	0.44	1.73	0.46	1.63	0.49	1.32	0.47
many rules in the company*	1.20	0.40	1.27	0.45	1.04	0.21	1.05	0.22	1.25	0.44
the rules are negotiable*	1.79	0.41	1.56	0.50	1.65	0.49	1.70	0.46	1.54	0.50
communication channels****	3.22	0.82	3.16	1.17	3.22	1.04	2.98	1.01	2.54	1.18
support for people****	3.47	1.46	3.20	1.39	2.26	1.48	2.19	1.43	2.79	1.43

Remark: SD = standard deviation

** In these items, the answer is either 1 = yes or 2 = no. The higher the mean, the more negative the answer implies*

*** In these items, the answer is 1 = fast or 2 = slow.*

**** In the item, the answer is 1 = formal or 2 = informal.*

***** In these items, we list 4 and 5 practices reflecting the communication channels and support for employee respectively, and the respondents indicate the specific practices in their organizations. We then take the number of the practices into account. For example, the mean score of 3.22 in US indicate the US firm provides 3.22 out of 4 communication channels.*

European-owned establishments are rated better than their Japanese and Chinese counterparts (including SOEs and POEs) in the 15 HRI items. Although the survey indicates that the outcomes of HRM practices in European owned FIEs are good overall, the results call for caution in assuming that European FIEs employ distinctive HRM practices because, when looking at the standard deviation, only the mean scores of five items are below 1.00 and the average standard deviation figure is 1.05. This indicates that the survey respondents hold varying opinions when commenting on the tested items.

The following remarkable figures deserve particular attention. First, as mentioned earlier, the mean score on decision-making path («top-down») in Table 1 indicates that European owned firms are most likely to adopt a consultative decision making approach. Secondly, the mean score and standard deviation on relationships in Table 2 indicates that European FIEs managers have the best relationships with colleagues. Thirdly, looking at the mean score of Japanese FIEs, it is surprising to note how badly the Japanese HRM practices are perceived. As indicated in Table 1, 6 out of the 15 items are rated as the lowest, i.e., reward system; communication; cooperation,

intrinsic satisfaction; participation; and first level supervision. The mean score on «support to employees» in Table 2 also suggests that, according to the respondents, Japanese FIEs provide less support to employees than US or EU companies and even than POEs. Looking at the standard deviation figure it is safe to conclude that Japanese owned FIEs are perceived as having strongly distinctive HRM practices. Similarly to US FIEs, more than half of the standard deviation of the tested items is below 1.00 and the average figure is just 1.00. This indicates that most survey respondents share similar views on the performance of the HRM practices followed by Japanese MNCs subsidiaries in China.

As expected, the HRM performance of SOEs was perceived to be the poorest among the five categories of firms. Table 1 shows that 7 out of the 15 items are rated the lowest. They are: organization effectiveness; concern for people; organizational objectives; structure; management quality; promotion policy; and shared values. Table 2 shows that SOEs are the slowest in decision making (mean=1.7), they are perceived to have a vague strategy and give the least support to employees. This may be explained by the maladies of SOEs' traditional personnel practices, such as a highly hierarchical and bureaucratic structure; low efficiency; poor management system; nepotism in appraisal and promotion; lack of strategy and of shared organizational values. It should be noted that there are only five standard deviation figures below 1.00, showing there is little consistency in HRM practices in SOEs. This clearly reflects that the progress made by SOEs in the enhancement of their HRM systems is dissimilar. As a result, it is still safe to conclude that many HRM maladies in SOEs remain unchanged and that SOEs demonstrate varying HRM outcomes.

Lastly, the standard deviation figures of POEs demonstrate that there is little consistency among HRM practices followed by POEs as all standard deviation figures are above 1.00. This simply means that POEs possess few similar features across their group. From another perspective, we may say that the lack of similarity in HRM practices in POEs is just a feature of their HRM status. However, Table 2 suggests two common features of POE management style. First, they employ very informal communication style and provide the fewest channels for communication. That may be explained by the dominance of family members in the operation of POEs. Secondly, professional managers are more likely to participate in strategy formulation in POEs than in any other ownership structures. This will be discussed later for more insight.

In short, on one hand, results of the HRI analysis for the five types of firm categories show that US, Japanese owned establishments and SOEs have quite distinctive

HRM practices, although there are some differences in the scope of such distinctiveness. On the other hand, results show that European MNC subsidiaries and POEs do not demonstrate very distinctive HRM features for their category. Therefore, the first hypothesis that US, Japanese and European firms, as well as SOEs and POEs, will each display its distinctive HRM approach in its operation and reflect ownership influences on the HR practices is only partially confirmed.

HR practices in FIEs produce better performance than those of their Chinese counterparts

The data used to test this hypothesis are presented in Table 3 (p. 27), showing comparisons of the Chinese firms against other foreign-owned establishments. Comparison results show strong support for this hypothesis. Table 3 demonstrates that there are consistent differences between firms owned by other countries and those owned by the Chinese on all the variables with the exception of reward system. In the list of 26 items in Table 3, there are significant differences at the 5% level or above on up to 17 items, with a clear and consistent tendency to support the hypothesis that the combined foreign-owned establishments generally report more positive outcomes. There are highly significant variations in the items of decision-making speed (11%); communication channels (12%); strategy participation (14%); support of employees (21%); communication (12%); organization effectiveness (13%); and shared values (11%). All the differences reveal positive HR outcomes for FIEs with the only exception of strategy participation that indicates that professional managers working in Chinese firms have more opportunities to participate in strategy formulation. We can take the comparison of foreign-owned establishments and Chinese firms further by examining the specific items in the survey. Table 3 shows that FIEs differ significantly from their Chinese counterparts in faster decision-making and decision implementation; more communication channels; clearer strategy and organization objectives; more support and concern for employees; better communication mechanisms; better cooperation and structure; better work climate and management quality; better promotion system; and, as a result, higher organization effectiveness. It is worth noting that there is little difference between Chinese firms and their foreign counterparts in reward system, which may well illustrate that the competition for talent and market power in the labor market have narrowed the gap in the reward policy between Chinese firms and MNCs. Comparison of the standard deviation of FIEs and Chinese firms shows that FIEs have more coherent HRM systems than Chinese firms.

To summarise, the pattern of the results suggests that MNC subsidiaries employ more coherent HRM systems and demonstrate better HRM performance than local Chinese firms. We can conclude therefore that there is strong support for this hypothesis.

TABLE 3-1
Organizational process

	FIEs=161		Chinese Firms=144		Variation Percentage
	Mean	Std. Deviation	Mean	Std. Deviation	
Top-down decision making path*	1.07	0.26	1.03	0.18	4%
Decision making speed**	1.40	0.49	1.58	0.50	-11%
Implementation of decision**	1.35	0.48	1.39	0.49	-3%
Internal communication***	1.18	0.38	1.29	0.50	-9%
Clear strategy*	3.13	1.02	2.78	1.10	12%
Participation in strategy formulation*	1.24	0.43	1.37	0.48	-9%
Many rules in company*	1.70	0.46	1.50	0.50	14%
The rules are negotiable*	1.19	0.39	1.14	0.35	4%
Communication channels****	1.66	0.48	1.63	0.48	2%
Support for people****	2.98	1.50	2.45	1.46	21%

Notes

** In these items, the answer is either 1 = yes or 2 = no. The bigger the mean, the more negative the answer implies*

*** In these items, the answer is 1 = fast or 2 = slow.*

**** In the item, the answer is 1 = formal or 2 = informal.*

***** In these items, we list 4 and 5 practices reflecting the communication channels and support for employee respectively, and the respondents indicate the specific practices in their organizations. We then take the number of the practices into account. For example, the mean score of 3.22 in US indicate the US firm provides 3.22 out of 4 communication channels.*

TABLE 3-2
HRI Comparison

	FIEs=161		Chinese Firms=144		Variation in Percentage
	Mean	Std. Deviation	Mean	Std. Deviation	
Reward	3.74	0.89	3.75	1.00	0%
Communication	3.77	1.11	3.35	1.02	12%
Organization effectiveness	3.94	1.02	3.49	1.05	13%
Concern for people	3.83	1.04	3.52	1.09	9%
Organizational objective	3.81	1.15	3.50	1.23	9%
Cooperation	3.83	1.07	3.59	1.16	7%
Intrinsic satisfaction	3.80	1.06	3.67	1.12	3%
Structure	3.80	0.98	3.54	1.09	7%
Relationships	4.28	0.99	4.09	0.99	5%
Climate	4.03	1.10	3.77	1.15	7%
Participation	3.94	1.07	3.78	1.32	4%
First level supervision	3.75	0.88	3.68	1.05	2%
Management quality	3.99	0.94	3.79	1.12	5%
Promotion policy	3.56	1.04	3.30	1.13	8%
Values	3.81	1.04	3.44	1.21	11%

Discussion of the results

The key findings of this study are that there is a strong and positive impact of foreign ownership on HRM outcomes. US-owned establishments are perceived by the respondents to have more positive HRM outcomes than all other ownership categories with the exception of the relationship aspect. In contrast, Chinese state-owned companies generally report the poorest HRM outcomes according to the respondents. The European FIEs report poorer HRM outcomes than American, but better than the Japanese and Chinese establishments. Japanese FIEs fail to show any foreign-ownership advantage and report poorer HRM performance than POEs which are not significantly different from the second best, that is, European firms. Overall, comparing the Chinese firms with the combined foreign-owned establishments, there is strong evidence of foreign-ownership advantage in HRM outcomes. This may indicate that national ownership does appear to exert influence on the adoption of HRM practices.

US establishments present a distinctive national approach and report the most satisfactory HRM outcomes. Obviously, the US approach to HRM is perceived to be the best by the professional Chinese managers. Why is it so appealing? If we look closer, there is a match between the strong features of US subsidiaries, such as open communication; individual performance-based appraisal; cooperation and concern for people; and the strong fulfillment needs of the Chinese managers. The young professional managers are smart, highly ambitious, energetic and goal-oriented with reasonable working experience in the market economy, which only started in 1992 in China. These talented managers have a strong desire for career progression and personal fulfillment. Compared with other HRM approaches, the US approach provides the best platform for them to demonstrate their talents, passion and capabilities. Also, most importantly, Chinese managers are most likely to be rewarded and recognized financially and psychologically under the performance oriented system provided by US subsidiaries.

There is little support for the existence of a distinctive European HRM approach, although the European FIEs report overall better HRM outcomes than all other categories except US firms. It is worth emphasizing that our findings fit with the literature that there is not a unified European model of HR due to the lack of harmonization of labor legislation and the cultural diversity in Europe as mentioned above. However, looking at the specific items of the survey, European firms tend to share two common management features: (i) a more consultative decision-making process and (ii) the 'best' perceived work relationships.

The most intriguing results are those for Japanese-owned establishments whose HR outcomes are reported as poorer than those of POEs, European and US FIEs.

These findings support the popular stereotype of overseas Japanese MNC subsidiaries as discussed in the literature, since they rely heavily on Japanese national expatriates and leave little room for local managers' career development. In addition, Japanese MNCs subsidiaries practice top down communication and decision-making policy, below market average pay and an informal performance appraisal system. Chinese managers are also unhappy with the inter-group of Japanese nationals and the existing communication mechanism which is very hierarchical. For example, the reward system is to some extent group-based and seniority oriented. Personal contribution and performance are not well recognized in Japanese firms. This tendency leads to the frustration of professional managers, as they love to work hard and be paid well. Contrary to the US approach, there is a mismatch between the Japanese approach and the Chinese managers' fulfillment expectations. Therefore, it is not surprising that Japanese firms fail to win the hearts of local managers.

There is strong evidence that SOEs still keep many of their former management features unchanged. Naturally, their HR outcomes are perceived to be the poorest. SOEs are claimed to be slow in executing decisions, not to have a clear strategy and fail to achieve organizational objectives. Also, by having the lowest mean score in promotion policy, it seems that the popularity of nepotism in promotion among SOEs may be stifling for ambitious managers. It is interesting to note that although SOEs traditionally stress the values of Marxism and the Chinese Communist Party and make political loyalty part of the appraisal system, as the study shows, they lack shared organizational values. This may be explained by the conflict and frustration that the particular group of managers surveyed experience in SOEs. On one hand, they are taught to follow the rules of the party and the state in numerous «empty talk» meetings in which the leadership (normally the party members) stress the party's values and morals. On the other hand, they find that the leadership of their *danwei* (work unit), while talking about rules, takes advantage of its position and abuses organizational resources for personal interest, in most cases at the expense of the company. People are not surprised to read the news about corruption stories of senior SOEs executives who had been reported as heroes not long ago. Moreover, the emerging market economy makes those who are not following 'rules' rich overnight. All this make it hard to believe the rules and values and may be at the core of SOEs demonstrating few shared values according to the respondents' perception. In addition, there is evidence that HRM in SOEs is still in the early stage and has not come to the stage of establishing the 'soft' and 'orgware' of HRM of which shared values and mission statements are just an example.

Although it is hard to conclude that POEs have a consistently distinctive approach to HRM due to the fact that they might be in different development stages, the study

highlights a few common features that form a certain pattern. First, many POEs keep the characteristics of family business in which the business owners have the say for everything. The dominance of the business owners results in a lack of communication mechanisms. However, there are 'advantages' in this utmost authority of leadership too: (i) fast decision making and (ii) the negotiable and changeable nature of the 'rules'. There is evidence that POEs are taking a positive approach to the use of professional managers even though many POEs originate from family businesses. For example, the mean score on participation in strategy formulation in Tble 2 indicates that POEs are the most likely to involve the professional managers in strategy design. The mean score on participation in Table 1 is consistent with the above observation. It is also encouraging that POEs have better shared values than Japanese FIEs and SOEs. This may be explained by the fact that business owners of POEs are well aware of the importance of establishing shared values among their employees, especially among managers to reduce monitoring costs, given the fact there is low trust between business owners and managers, and POEs often do not have a comprehensive management system to 'monitor' managers' behavior. The most relevant indication from the survey is the assertion that POEs are very dynamic and diverse in their approach to HRM practices and, as they are growing very fast, it is probably too early to find a strong pattern of distinctive HRM practices.

Comparing the Chinese firms with the combined foreign firms, there is strong evidence of the superiority of HRM practice in foreign-owned establishments in China at the eyes of the particular group surveyed: young MBA graduates in management positions. Given the course of economic development in China and the evolution of HRM in Chinese firms so far, this is not surprising at all. HRM is a new concept for the Chinese organization and it will take time for the SOEs to change from traditional personnel management (*renshi guanli*) to modern human resource management given the heavy 'chains' around their necks: backward corporate governance, political interference and cultural factors (e.g., the over reliance on *guanxi*).

Meanwhile, POEs are fighting hard to maintain or expand market share against local and international competitors and have no time to think about the management of human resources. But they are increasingly aware of their importance. Though Chinese firms still lag behind their foreign counterparts in almost all HRM outcomes, there are two exceptions. First, professional managers are more likely to participate in strategy formulation in Chinese firms than in foreign MNCs because the strategy in MNCs is normally formulated in the parent company or by senior executives while, in Chinese firms, the well-educated new generation of managers who have grown up in market economy has the management expertise that is needed and valued by their employers. Secondly, there is little difference in the reward system

between foreign enterprises and Chinese firms. This is a remarkable finding as there used to be a huge gap in pay between these two categories. It seems that the competition for talented managers and the development of the labor market contributes to the convergence of reward systems between different firms. This may be the first and easiest step Chinese firms can take to catch up with their international competitors in HRM practices.

In conclusion, the study shows that ownership has a considerable influence on HRM practices across different firm categories, although the influence is not consistent for all the ownership structures examined. It also uncovers the complexity of the HRM practices in the transitional economy in China and makes it a challenging and valuable research area worthy of continued endeavors.

NOTES

1. Since the People's Republic of China was founded by Chinese Communist Party (CPC) in 1949, China used to treat market economy as a typology of capitalism that was considered to be the rival of socialism, and was reluctant to accept market economy. The expression «Socialist Market Economy with Chinese Characteristics» coined by Deng Xiao Ping in the early 1990's advocated the development of the market economy in China, waiving the conflict between capitalism and socialism.

2. *Xiagang* literally means «leaving the post/position». It is an administrative term to softly designate unemployment.

3. «To each according to his work» is a policy in the planned economy. Under this principle, the state arranged the wage in accordance with the amount of work the employee contributed to. In reality, it turned out to be empty words in government documents only as the SOEs adopted egalitarian pay policy.

4. Both Confucius and Chinese Communist Party (CPC) value the virtue of a person. Naturally, CPC expects a good cadre to have both ability and moral integrity which explain the two elements of *de* (virtue) and *neng* (capability). Hard working is always encouraged by the government and CPC. In terms of performance, it normally not only refers to the core business, but also the non-business related issues such as the working relationship of colleagues and political stability in the state enterprises. The four elements indicate that the performance appraisal system of SOEs is very much process oriented rather than result oriented.

5. Deng Xiaoping visited South China, especially the Shenzhen Special Economy Zone in 1992 in his late 80s and during the visits he made a famous speech in which he encouraged the development of the market economy in China. That was a breakthrough in the CPC ideology which used to reject the idea of the market economy and it also made it possible for the market economy to be officially accepted by the Chinese since then.

6. Chinese currency: 1 USD equivalent to 7.5 yuan.

7. A six-point scale is adopted rather than five-point scale or seven-point scale, because Chinese normally tend to take a middle position due to the influence of the «golden mean» tradition and culture. The even six-point scale makes the respondent take a clear position when doing the survey.

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Gestão nos países sob influência de Confúcio: implicações culturais

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RESUMO: O desenvolvimento das trocas internacionais e, de um modo mais lato, a globalização da economia destacam a importância crescente dos problemas inerentes à diversidade das culturas envolvidas. Deste modo, decidir à escala mundial implica o encontro de diferentes comportamentos, diferentes mentalidades e diferentes regras de jogo. O contexto contemporâneo é marcado por uma grande diversidade de mentalidades e de expectativas, tanto ao nível dos clientes como dos parceiros ou dos colaboradores da empresa, todo ele inscrito em contextos culturais diferentes. As implicações desta diversidade, que não permitem mais a aplicação uniforme de um modelo de gestão considerada universal, e em particular os países de tradição cultural confucionista, são o tema do presente artigo.

Palavras-chave: Cultura Organizacional, Filosofia Confucionista, Valores Confucionistas, Taoismo

TITLE: Management in countries of Confucian Philosophy: cultural implications

ABSTRACT: The continuous development of international exchanges and, more broadly, the globalization of the economy have brought about the growing importance of problems arising from the diversity of cultures involved. To decide at a world scale necessarily implies the encounter of different behaviors, different mindsets, and different rules of the game. Current business environment is characterized by a large diversity of mentalities and of expectations at customers', at partners' or at employees' level each one of them embedded in a different cultural context. The implications of such diversity do not allow the uniform application of one universal management model. The present paper examines this phenomenon considering as subjects East Asian countries of Confucian philosophy.

Key words: Organizational Culture, Confucian Philosophy, Confucian Values, Taoism

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